Congressional or Federal Charters: Overview and Enduring Issues

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Summary

A congressional or federal charter is a federal statute that establishes a corporation. Congress has issued charters since 1791, although most charters were issued after the start of the 20th century. Congress has used charters to create a variety of corporate entities, such as banks, government-sponsored enterprises, commercial corporations, venture capital funds, and quasi governmental entities. Congressionally chartered corporations have raised diverse issues for Congress, including (1) Title 36 corporations’ membership practices; (2) prohibitions on Title 36 corporations engaging in “political activities”; (3) confusion over which corporations are governmental and which are private; and (4) federal management of these corporations. This report will be updated annually.

Readers seeking additional information about congressionally chartered organizations may consult:

- CRS Report RL30533, The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, by Kevin R. Kosar; and
Contents

What Is a Congressional or Federal Charter? ................................................................. 1
Congress’s Use of Charters ......................................................................................... 1
Enduring Issues ........................................................................................................ 3
   Title 36 Corporations’ Membership Practices ....................................................... 3
   Title 36 Corporations and “Political Activities” .................................................... 4
   Confusion Over Which Corporations Are Governmental and Which Are Private ... 5
   The Federal Management of Corporations ............................................................ 6

Tables

Table 1. Types of Congressionally Chartered Corporations ...................................... 3

Contacts

Author Contact Information ..................................................................................... 6
What Is a Congressional or Federal Charter?

In the Anglo-American linguistic tradition, the word “charter” has been used to refer to many legal writs, including “articles of agreement,” “founding legislation,” “contracts,” “articles of incorporation,” and more. The varied uses of this term to refer to so many different legal writs may reflect the term’s etymology. “Charter” is derived from the Latin “charta” or, perhaps, the ancient Greek “chartês,” both of which mean “paper.” As used in federal statutory law, the term “charter” usually has carried a much more specific meaning. A congressional or federal charter is a federal statute that establishes a corporation. Such a charter typically provides the following characteristics for the corporation:

1. Name;
2. Purpose(s);
3. Duration of existence;
4. Governance structure (e.g., executives, board members, etc.);
5. Powers of the corporation; and
6. Federal oversight powers.

Beyond conferring the powers needed to achieve its statutorily assigned goal, a charter usually provides a corporation with a set of standard operational powers: the power to sue and be sued; to contract and be contracted with; to acquire, hold, and convey property; and so forth.

Congress’s Use of Charters

Many of the original 13 colonies were established by royal charters, and both colonies and states incorporated governmental and private entities before the United States was established. However, at the Constitutional Convention in Philadelphia in 1787, the Founders disagreed over the wisdom of giving the proposed federal government the power to charter corporations. Nevertheless, Congress chartered its first corporation—the Bank of the United States—in

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1 Examples follow. The U.S. National Archives refers to the U.S. Constitution, the Declaration of Independence, and the Bill of Rights as “the Charters of Freedom”; see http://www.archives.gov/national-archives-experience/charter/.
4 The specific objections to federal incorporation are not certain. One author has suggested that some Founders might have feared that the power to grant charters might be used to establish or convey exclusive privileges and monopolies to private businesses. Simeon E. Baldwin, “American Business Corporations Before 1789,” The American Historical Review, vol. 8, no. 3, April 1903, pp. 464-465.
February of 1791 (1 Stat. 192 Section 3). Any dispute over Congress’s power to charter corporations was effectively put to an end by the Supreme Court’s decision in *McCulloch v. Maryland* in 1819 (17 U.S. (4 Wheat.) 315). The Court ruled that incorporation could be a “necessary and proper” means for the federal government to achieve an end assigned to it by the U.S. Constitution.5

After chartering the national bank, though, for the next century, Congress issued charters mostly in its role as manager of the affairs of the District of Columbia (Article I, Section 8, clause 17). The District of Columbia, which became the seat of the federal government in 1790, had neither a general incorporation law nor a legislature that could grant charters. So it fell to Congress to incorporate the District’s corporations. Thus, Congress issued charters to establish the office of the mayor and the “Council of the City of Washington” in 1802 (2 Stat. 195-197) and to found the Washington City Orphan Asylum in 1828 (6 Stat. 381).6 Congress, however, also used charters to establish entities of national significance, such as the transcontinental Union-Pacific railroad in 1862 (12 Stat. 489).

In the 20th century, Congress began chartering a large number of corporations for diverse purposes. In part, Congress’s resort to the corporate device was a response to a host of national crises, such as the two World Wars (which required the production of an enormous number of goods) and the Great Depression (which revealed the limited power the federal government had over the national economy). Corporations, it was thought, were by nature better suited than typical government agencies to handle policy areas that required commercial-type activities (for example, selling electrical power, as the Tennessee Valley Authority does).7

While each congressionally chartered corporation is unique insofar as it is fashioned for a very particular purpose, these entities still may be sorted into rough types. An elementary division is between those chartered as nonprofit corporations versus those that are not.8 *Table 1* provides a further—but not exhaustive—typology of congressionally chartered corporations.

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5 Thus, the power to incorporate, the Court ruled, lies with both of the sovereigns in the U.S. federal system—states and the federal government.


8 While the term “not-for-profit corporation” may be more accurate than “nonprofit corporation”—the former refers to entities established for purposes other than making profits; the latter is a colloquialism that, strictly read, denotes that an entity is not bringing in more revenues than its expenditures—the latter is used because it is the preferred term of the *U.S. Code*. 
Congressional or Federal Charters: Overview and Enduring Issues

<table>
<thead>
<tr>
<th>Type</th>
<th>Purpose(s)</th>
<th>Examples</th>
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<tbody>
<tr>
<td><strong>Nonprofit Corporations</strong></td>
<td></td>
<td></td>
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<tr>
<td>Title 36 Corporations(^a)</td>
<td>Fraternal and patriotic organizations.</td>
<td>Daughters of the American Revolution</td>
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<tr>
<td>Foundations, Trusts, and Miscellaneous</td>
<td>Accept and expend government and private funds on goods and services</td>
<td>National Park Foundation, National Trust for Historic Preservation in the United States, Legal Services Corporation</td>
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<tr>
<td>Corporations Supporting Nonprofit Uses</td>
<td>that the private market may under-provide.</td>
<td></td>
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<tr>
<td><strong>Corporations</strong></td>
<td></td>
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<tr>
<td>Banks</td>
<td>Provide financial services and promote the health of the economy.</td>
<td>Export-Import Bank, Federal Reserve Banks</td>
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<tr>
<td>Commercial Corporations</td>
<td>Sell products and services.</td>
<td>Tennessee Valley Authority, U.S. Postal Service</td>
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<td>(also called “government corporations”(^b))</td>
<td></td>
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<tr>
<td>Government-Sponsored Enterprises(^c)</td>
<td>Add liquidity to secondary loan markets.</td>
<td>Fannie Mae and Freddie Mac</td>
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<td>Public Authorities and Commissions(^d)</td>
<td>Interstate bond-issuing entities that build and operate transportation</td>
<td>Washington Metropolitan Area Transit Authority, Owensboro Bridge Commission</td>
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<tr>
<td>Venture Capital Funds(^e)</td>
<td>Invest in small firms to develop technologies.</td>
<td>Telecommunications Development Fund(^f)</td>
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a. These entities are referred to as “Title 36 corporations” because they are found in Title 36 of the U.S. Code. CRS Report RL30340, Congressionally Chartered Nonprofit Organizations (“Title 36 Corporations”): What They Are and How Congress Treats Them, by Kevin R. Kosar.


f. In some instances, federal venture capital funds have been established without a charter. For more information, see ibid., pp. 24-28.

**Enduring Issues**

Congressionally chartered corporations have raised diverse issues for Congress, including (1) Title 36 corporations’ membership practices; (2) prohibitions on Title 36 corporations engaging in “political activities”; (3) confusion over which corporations are governmental and which are private; and (4) federal management of these corporations.

**Title 36 Corporations’ Membership Practices**

The membership practices of some Title 36 corporations periodically have been a subject of concern. In 2011, Congress revised the membership criteria of the Blue Star Mothers of America, Inc. (36 U.S.C. 305) by enacting a statute (P.L. 112-65; 125 Stat. 767). The change, which the
organization had advocated, liberalized the membership requirements so as to enable the organization to admit a larger number of members.9

Similarly, Congress amended the charter of the Military Order of the Purple Heart of the United States of America, Incorporated, in 2007 to make its membership requirements less stringent (P.L. 110-207; 122 Stat. 719). Some individuals had complained that the organization’s criteria for membership were too narrow.

In 2005, the congressionally chartered American Gold Star Mothers (AGSM) refused to admit to membership a non-U.S. citizen. Some individuals and members of the media called upon Congress to intervene and rectify this situation. Ultimately, the group used its own authorities to address the issue.10

Approximately 100 Title 36 corporations exist, thus Congress again may find itself having to consider legislation to contend with the membership issues of such organizations.11

Title 36 Corporations and “Political Activities”

More than half of the Title 36 corporations’ charters include prohibitions against various “political activities.”

For example, the charter of the United States Submarine Veterans of World War II, states the following: “Political Activities. The corporation or a director or officer as such may not contribute to, support, or otherwise participate in any political activity or in any manner attempt to influence legislation” (36 U.S.C. 220707(b)). Other Title 36 corporations’ charters forbid them from promoting the candidacy of an individual seeking office (e.g., The American Legion), or contributing to, supporting, or assisting a political party or candidate (e.g., AMVETS).

Congressionally chartered organizations that are subject to political activities restrictions occasionally have asked Congress to remove these restrictions from their charters. For example, on May 21, 2008, Representative James P. Moran introduced H.R. 6118 (110th Congress), which would have removed the political activities prohibition from the charter of Gold Star Wives. Representative Moran stated that this prohibition against attempting to influence legislation hurt the organizations “advocacy on behalf of military families.” He also said that the prohibition was “punitive, not practically enforceable, and potentially an unconstitutional infringement upon the [First Amendment] freedom to petition the Government.”12 The bill was referred to the


11 Some of the more well-known ones include the American Legion, Big Brothers-Big Sisters of America, Boy Scouts of America, and Veterans of Foreign Wars of the United States. Since the 1990s, Congress has chartered very few new Title 36 corporations. CRS Report RL30340, Congressionally Chartered Nonprofit Organizations (“Title 36 Corporations”): What They Are and How Congress Treats Them, by Kevin R. Kosar.


Congressional Research Service 4
Subcommittee on Immigration, Citizenship, Refugees, Border Security, and International Law, which took no action on it.

Having political activities restrictions in congressional charters raises at least three issues: (1) Should any or all Title 36 corporations be forbidden from engaging in political activities? (2) If some or all of them should be so restricted, which activities ought to be defined as political? (3) Should Title 36 corporations only have the same restrictions on their political activities as purely private sector not-for-profit corporations?13

Confusion Over Which Corporations Are Governmental and Which Are Private

Congress is free to draft corporate charters to include whatever elements it deems appropriate. So, for example, the charter of the Securities Investor Protection Corporation (15 U.S.C. 78(ccc) et seq.) looks very different from that of the American National Red Cross (36 U.S.C. 3001 et seq.).

The power to craft corporations ad hoc, however, has produced confusion when corporations are established quasi governmental entities (i.e. entities that have both governmental and private sector attributes).14 This distinction is not without consequence; governmental entities operate under different legal authorities and restrictions than do private sector corporations.15 For example, federal agencies typically must follow many or all of the federal government’s general management laws.16

Thus, confusion arose over the National Veterans’ Business Development Corporation (NVBDC; 15 U.S.C. 657(c)). The Department of Justice declared it to be a government corporation in March 2004.17 Some members of Congress disagreed. The 2004 Omnibus Appropriations Act (P.L. 108-447, Division K, Section 146) attempted to dispel the confusion by stating that the NVBDC was “a private entity” that “is not an agency, instrumentality, authority, entity, or establishment of the United States Government.” In some instances, federal courts have been asked to intervene and make a determination of a corporation’s status.18

(...continued)


13 CRS Report 96-809, Lobbying Regulations on Non-Profit Organizations, by Jack Maskell.
18 For example, see Cherry Cotton Mills v. United States (327 U.S. 536 (1946)); and Michael A. Lebron v. National Railroad Passenger Corporation (513 U.S. 374 (1995)).
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The Federal Management of Corporations

The management of government corporations has been made difficult by a few factors. First, no single federal department or office is charged with overseeing the activities of all congressionally chartered corporations. Second, many of these corporations were established independently of any department and have few, if any, federal appointees on their boards or in their executive ranks. This separation of corporations from departments may make the federal management of corporations more difficult.\(^{19}\) Third, the Government Corporation Control Act (31 U.S.C. 9101-9110) provides many tools for managing chartered corporations’ activities. However, Congress has excepted many corporations from some or all of the act’s provisions.

Finally, there is the matter of perpetual succession. In centuries past, states and municipalities often limited the duration of a charter; a corporation would expire unless the sovereign renewed its charter. This practice has fallen by the wayside; usually, Congress charters entities to have “perpetual succession.” This means that a corporation may continue to operate, whether it is effective or not, until a law is enacted to abolish it—which seldom occurs.\(^{20}\) Long-lived chartered entities have been accused of taking business from the private sector, moving into areas of business or activities outside the bounds of their charters, and developing networks of influence to protect themselves from abolition.\(^{21}\)

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\(^{19}\) This is due to the exacerbation of the principal-agent problem. In public administration theory, this problem refers to the difficulty that the principal (in this case, the government) has in directing the activities of the agent (here, the corporation). Arguably, the more closely a corporation is tethered to a department, the higher the probability is that the department heads will have sufficient information to direct the corporation’s activities.
