



City of Santa Ana
20 Civic Center Plaza, Santa Ana, CA 92701
Staff Report
November 1, 2022

TOPIC: Creation of 501(c)(3) Nonprofit City of Santa Ana Foundation

AGENDA TITLE:

Informational Report Relating to the Creation of 501(c)(3) Nonprofit City of Santa Ana Foundation

RECOMMENDED ACTION

Accept informational report.

DISCUSSION

State tax law allows for the formation of a 501(c)(3) nonprofit organization, more commonly referred to as charitable organizations. The City of Santa Ana, as it is formed today, is not a charitable organization and does not have a mechanism to which it can engage in charitable activities providing a tax incentive for donating. This can be changed by the formation of an auxiliary organization, such as a community foundation, that is authorized to provide supplemental services and support to the City.

Community foundations are nonprofit organizations that utilize philanthropic contributions. A community foundation can be established to accept and manage the use of donated funds for the benefit of the entire City and cannot be used for general City operations. A community foundation is a useful means to accept tax-exempt donations and could be organized exclusively for charitable purposes. A community foundation could also engage in soliciting, receiving, investing, and making grants of funds, property, and other resources, or providing direct charitable services to aid, sponsor, promote, advance and assist worthy activities, programs and services. If formed, the Santa Ana Community Foundation would be led by a Board, whose initial functions and responsibilities would be as follows:

- Adopt governing bylaws
- Apply for non-profit status
- Assist worthy activities, programs and services
- Develop a budget and set up accounts
- Develop marketing publication to attract financial support
- Establish goals

- File with both federal and state agencies
- Manage assets

Specific to the City of Santa Ana, a community foundation could accept donations from the community, which in turn would use its local expertise to channel those resources to nonprofit organizations and address the most pressing community needs. Some of the benefits to Santa Ana could be:

- **Grant Eligibility:** Foundations have the advantage of being eligible for grants. Some grantors require that recipients be a 501(c)(3) nonprofit organization. Also, some major grantors have a policy against funding tax-supported institutions, but will provide grants to foundations.
- **Funding for Programs and Services:** There is always some uncertainty surrounding annual budgets. Having the opportunity to fund programs and projects through a foundation helps ensure the continuation of a high level of service, even in difficult financial times.
- **Sponsorships and Partnerships:** Foundations can be helpful in building partnerships and obtaining sponsorships. Many companies, individuals, and organizations like to be associated with City programs and events.
- **Planned Giving:** Foundations cultivate donors and seek out opportunities for large charitable donations. This allows for gifts to be made to a foundation as part of a financial or estate plan, where the donor could potentially receive financial and tax benefits.
- **Gifts such as Stocks, Real Estate, etc.:** Foundations can often accept gifts for restricted and unrestricted purposes that might be difficult for City departments to accept. Donors also enjoy the benefits of potential tax exemptions as well.
- **Endowments:** Gifts to create endowed funds are invested and only the income is spent on needs. Ideally, these are unrestricted by the donor(s).
- **Investments:** Foundations have the flexibility to invest their funds to maximize the benefit for the foundation. Investment options available to public agencies are usually more restrictive.
- **Community Support and Trust:** Ideally, potential donors give to a foundation knowing that their gifts will be used as intended. Gifts may be restricted, making the giving even more appealing.
- **Advocacy:** Foundation members are often good advocates for city services, helping to promote programs and services through a variety of media channels.
- Makes it easier to receive donations and sponsorship from the community.

As the City progresses through the development of the foundation, staff will return to the City Council for review and consideration of policy-related decisions, such as potential board membership, bylaws, and Articles of Incorporation.

Staff researched companies specializing in incorporating 501(c)(3) non-profits. Based on conversations with several companies, staff determined that a foundation could be established with technical assistance at an amount not to exceed \$10,000. The technical

assistance would focus on assisting staff with the development of bylaws and Articles of Incorporation in forming the 501(c)(3).

ENVIRONMENTAL IMPACT

There is no environmental impact associated with this action.

FISCAL IMPACT

There is no fiscal impact associated with this action.

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