NONPROFITS: PROPERTY TAX

Some Good News for Charities in a Time of Upheaval

08.24.17 | Linda J. Rosenthal, JD

For charities, there are daunting challenges these days; it's good to be able to report some happy news as well.

The first story is from San Francisco; there, dramatic spikes in commercial rental rates are forcing out some of the critical social service agencies needed to help struggling residents. The second report is from Minneapolis, where a major social services agency has been rocked by an embezzlement scandal, leaving aid recipients in the lurch.

There's help on the way in both cases.

Rental Relief for San Francisco Charities

Many of the news reports recently of relations between local governments and charitable institutions have been about tension and conflicts over money. Cities struggling with massive budget shortfalls are looking around for additional sources of revenue, including from 501(c)(3)s that enjoy benefits like property tax exemptions. We've been covering this trend: see, for example, Local Governments Eager to Snag Revenue from Nonprofits; Property Tax Exemptions: The New Battlefield; Princeton U. Settles Property Tax Exemption Challenge; More N.J. Nonprofit Hospitals With Property Tax Troubles; and Pittsburgh Area Nonprofits Reportedly Reach PILOT Deal.

In San Francisco, many of the largest nonprofits are landowners, but other – smaller – ones must rent office or program space in high-rent corridors. "[L]eases for many of these groups are being terminated and not renewed, or they're being renewed at substantially higher rates."

> *The San Francisco Bay Area is at or near the top of the most expensive real estate markets in the U.S. On the other hand, it also has one of the highest per-capita incomes in the country and is the engine pulling California's economic recovery after the Great Recession. Despite all the prosperity, there is plenty of need for charities and nonprofits to support the underserved communities and populations in the midst of it all, and the high rents have been especially tough on the nonprofits that survive on grants and donations, struggling to stay open in the neighborhoods they've long served.*

It's in everyone's interest to keep certain nonprofits in place where they are most needed. Community-based nonprofit service providers "can't just move across the Bay to lower-cost Oakland (which is experiencing its own real estate boom with escalating prices.) They need to be rooted in the communities they serve."

City officials, "understanding the importance of local charities, awarded $2.7 million this year to 13 nonprofits so they could afford to buy or lease facilities amid skyrocketing real estate prices. A strong local economy, bolstering the city's tax rolls, gives it the wherewithal to help." Community leaders including Mayor Ed Lee emphasize that "[t]he responsiveness of the city's leadership is testimony to the importance of local advocacy efforts by the community's nonprofit sector."

In addition to this rental help, Mayor Lee is "seeking $1.2 billion in city contracts for nonprofits in a nearly $20 billion two-year budget proposal" to the Board of Supervisors.

Minnesota Charities Cooperate

Community Action of Minneapolis, a major nonprofit social service agency, had to close down a few years ago because of the criminal activities of its long-time executive director, William Davis, and his adult son, Jordan. The two trusted employees betrayed the organization and the community by embezzling some $800,000 between 2011 and 2013.

> *Davis, who led the agency for 24 years, admitted to using charity money to pay for lavish trips with girlfriends to locales including the Bahamas; Las Vegas; Key West, Fla., and Niagara Falls, N.Y. He also bought a luxury sedan with charity money for personal use, and paid his son a $140,000 salary for a no-show job at an ice cream shop.*

The Davis father-son duo were convicted on multiple criminal counts and are now serving time in prison.

To the rescue has come an agency from a neighboring jurisdiction, the Community Action Partnership of Suburban Hennepin County. This organization has taken over the work of the now-defunct Community Action of Minneapolis, and "rebranded [itself] as a charity serving needy residents across both cities and suburbs." Services include help for needy clients to pay wintertime utility bills.

The new Executive Director is "aware that he is under the microscope" because of the excesses of Bill Davis and his son. He "is transparent about his own finances," earns $106,600 per year, and has the same benefits package as the rest of the staff. He sees the defunct Minneapolis organization as a "cautionary tale and a sad story for everyone involved."

In a recent article about these events, Ruth McCambridge, editor of The Nonprofit Quarterly, wrote:

> *When Community Action fell to a tangled scandal involving its CEO, Bill Davis, a major urban area would have been left without critical federally funded services for low-income residents if another anti-poverty agency did not step up to take over. But the adoption of services for a CAP agency is no simple task, requiring expanding governance, staff, facilities, and relationships in an area where trust had been broken in the showiest of ways.*

"This story," she added, "is meant to illustrate once again the remarkable spirit and wisdom of the majority who lead in our sector, who get way less press than the malefactors among us."

Conclusion

These two instances of cooperation and assistance are a welcome salve for the charitable sector in these uncertain times.