

New Select Committee on Nonprofits in CA Assembly

06.07.17 | Linda J. Rosenthal, JD



"The IRS is not the only sheriff in town."

That's a key point made in last summer's edition of the Nonprofit Quarterly magazine on the "New Nonprofit Regulatory Environment: What You Should Know."

One of the most dramatic developments of the past 15 years or so for charitable organizations in the United States has been the rise of the states as vigorous regulators of the nonprofit sector.

Especially for charities, state regulators have the authority and willingness to pursue wrongdoing. Like the IRS, they face budget pressures and competing priorities, but state regulators are showing an ability to manage these pressures through both innovation at the individual state level and coordination with other states and federal agencies at the national level. Forums such as NASCO, NAAG's Charities Committee, and the Charities Regulation and Oversight Project will only continue to enhance state regulators' ability to do more with their limited resources and to work together.

California As Leader on Regulation of Nonprofits

The Enron and Worldcom scandals that shook up the corporate world in the early 2000s were a wakeup call for federal and state regulators; they took swift, serious action to beef up regulation of corporate governance. Although the trouble had occurred in the for-profit sector by huge multinational businesses, officials decided it was time to focus attention as well on the nonprofit sector.

California took the lead among the states with enactment of the Nonprofit Integrity Act of 2004 with tough new provisions on governance of charities, charitable trusts, and commercial fundraisers. In the years since then, this state has continued this policy of aggressive oversight and innovation in nonprofit regulation, and other jurisdictions have jumped on board.

This trend is fortunate for those who care about oversight of nonprofits, because it comes at a time when the Internal Revenue Service's efforts in this area are atrophying. Even before the recent controversy related to the handling of exemption applications filed by politically active nonprofits, the IRS faced a tight budget and a growing list of responsibilities, including significant rulemaking and administrative duties related to the Affordable Care Act, or Obamacare. These pressures, in turn, led to a growing backlog of applications for recognition of exemption, a decline in the already low audit rate for tax-exempt nonprofits, and limited new guidance for nonprofits seeking to comply with the complex federal tax rules applicable to them.

State regulators have "been working to enhance the other information available on their websites," and have "become regular presenters at many conferences focused on nonprofit legal issues...." They have also collaborated on enforcement across state lines, including the recent action taken by the 50 state attorneys general against a notoriously flagrant cancer charity fraud.

The bottom line is that nonprofits need to be aware that even as IRS enforcement of the federal requirements for tax-exempt organizations continues to be battered by limited resources and congressional criticism, the states have quietly laid the groundwork for more effective individual and collective oversight of nonprofits.

New CA Select Committee on Nonprofits

California, which has led in this effort at increased state focus on nonprofit governance, has a new development: "For the first time, an Assembly Select Committee has been created to focus on the Nonprofit Sector."

What is a 'select committee'? "The California Legislature has a broad array of issues to deal with and one way to vet ideas and hash out strategies is through select committees — small legislative bodies appointed for a special purpose. There have been committees formed on everything from clean energy to wine, but no committee for nonprofits – until now.

California Association of Nonprofits, a statewide policy alliance of more than 10,000 nonprofits, has worked for "more than a year" on getting this off the ground, in coordination with Assemblywoman Monique Limon (D-Santa Barbara), who has agreed to chair this new Select Committee on the Nonprofit Sector. She was just officially appointed by Speaker of the Assembly Anthony Rendon (D-Paramount) who – himself – "comes from the nonprofit world as a former executive director of Plaza de la Raza Child Development Services, Inc. in Los Angeles County."

Assemblymember Limon, who is currently the Assistant Majority Whip of the California Assembly, has "worked with nonprofits in the community including the Santa Barbara City College Foundation, the Katherine Harvey Fellows Program of the Santa Barbara Foundation, the McCune Foundation, Leading from Within, and the Community Engagement Committee for the Santa Barbara Center for the Performing Arts.

She believes "it is vital

the Assembly take a role to ensure public awareness about how these entities operate and how they benefit the economy.....Nonprofits have always filled gaps in services to ensure our values are protected and sustained. This committee will realize California's collective goals and enhance partnerships between government and the nonprofit sector.

Conclusion

The Select Committee “will be the nexus between California’s elected officials, government agencies, philanthropic leaders, and nonprofit organizations.” Committee meetings and hearing dates will be announced.