The 501(c)(3) Decision Guide for Local Health Departments in Community Health Coalitions

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GOAL OF THE 501(C)(3) DECISION GUIDE FOR LOCAL HEALTH DEPARTMENTS IN COMMUNITY HEALTH COALITIONS

The goal of this Decision Guide is to Increase local health departments' (LHDs') knowledge of the advantages, disadvantages, and considerations of formalizing a community health coalition under 501(c)(3) nonprofit status through the Internal Revenue Service (IRS) to assist with their community health improvement (CHI) efforts.

INTRODUCTION

This 501(c)(3) Decision Guide assists LHDs in determining whether they should formalize their community health coalition under a 501(c)(3) nonprofit status. Formalizing a coalition as a nonprofit can help coalitions maintain partnerships, maximize their collective capacity, operationalize mission-driven values, and diversify funding streams. By exploring various considerations of a 501(c)(3) nonprofit status, coalitions will be able to detail what makes this strategy worthwhile.

Community Health Coalitions and their Role in Community Health Improvement

A community health coalition is a multi-stakeholder collaboration that leverages the talents, resources, and perspectives of diverse organizations and individuals to address large-scale, complex social challenges within a community.[1] Coalitions form for many reasons, including to combine efforts and to achieve a specific collective goal.

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[1] Reid A, Abraczinskas M, Scott V, et al. Using Collaborative Coalition Processes to Advance Community Health, Well-Being, and Equity: A Multiple–Case Study Analysis From a National Community Transformation Initiative. *Health Education & Behavior*. 2019;46(1_suppl):100S-109S. doi:10.1177/1090198119838833

Coalition activities may vary, but they usually aim to improve local health outcomes through CHI efforts that focus on pursuing health equity and addressing systemic root causes of inequity within communities. Despite differences in mission and objectives, the various organizations in a coalition typically have common interests, such as improving the health of the community, and overlapping community health needs assessment (CHNA) requirements that encourage a collaborative structure to assess and address community needs.[2] Through formalized collaborative efforts, coalitions address the most pressing health issues in their community through shared priority issues and collaborative strategic action.[3]

Challenges Facing Community Health Coalitions

There are a host of challenges that may prevent community health coalitions from exhibiting measurable long-term success. These include lack of clear, common purpose, little diversity among sectors represented, a need for shared accountability, and a lack of sustainable funding streams.

Despite having a shared interest, some coalitions may lack a strong common purpose or clear strategy for their work. This can make it challenging to plan, implement, and monitor CHI activities. Additionally, strong coalitions require a clear structure and communication between partners. All members should understand the authority structure and their individual responsibilities. These challenges can fragment or derail CHI efforts by leading to an unstable and unequal distribution of power, responsibility, and authority.

Local health departments are also often the conveners for CHI work, overseeing the planning, implementation, and ongoing monitoring of CHI efforts, but

[2] Davis, DrPH, MSPH MV, Abby A, Mikolowsky, MSc K, Guptill, MPH M. Chi processes evaluation - health resources in action. https://hria.org/wp-content/uploads/2019/04/RWJF_Report_041219.pdf. Published January 31, 2019. Accessed August 5, 2022.
[3] Clayton, MPH A, Verma, MPH P, Weller Pegna, MPH S. Mapp Evolution Blueprint Executive Summary - NACCHO. https://www.naccho.org/uploads/downloadable-resources/MAPP-Evolution-Blueprint-Executive-Summary-V3-FINAL.pdf. Published November 2020. Accessed August 5, 2022.

many types of organizations should be involved in the process to create transformative, upstream change. Local jurisdictions using the Mobilizing for Action through Planning and Partnerships (MAPP) framework often cited challenges engaging partners outside of healthcare.[4] This lack of diversity in partnerships and engagement can hinder a CHI process because it does not include the integral players that inform the upstream systems that contribute to equitable health outcomes. It is also important for these organizations to have a common language and understanding of the multidimensional root causes of the social and structural determinants of health to identify new partners and embark on transformative work together.

Lastly, coalitions may have challenges attaining sustainable funding streams. Funding can come from state or federal sources or be provided by the coalition members directly. Securing funds that are both appropriate for the coalition's goals and sustainable in the long-term, however, can be challenging.[5] Local health departments' funding, for example, is often designated for specific priorities,[6] which may limit its availability for coalition activities. Additionally, available funding from other local sources may force the coalition to move in a new direction.[5] To address these challenges, coalitions must consider the inherent complexities of the health ecosystem to develop and mature networks and expand funding opportunities.

[4] Seweryn, S., Welter, C., Jarpe-Ratner, E., Bonney, T., Verma, P., & Holtgrave, P. (2019, November). Evaluation of Mobilizing for Action through Planning and Partnerships (MAPP). In *APHA's 2019 Annual Meeting and Expo (Nov. 2-Nov. 6)*. APHA. Seweryn, S., Welter, C., Jarpe-Ratner, E., Bonney, T., Verma, P., & Holtgrave, P. (2019, November). Evaluation of Mobilizing for Action through Planning and Partnerships (MAPP). In APHA's 2019 Annual Meeting and Expo (Nov. 2-Nov. 6). APHA.

[5] https://www.naccho.org/uploads/downloadable-resources/Policy-and-Advocacy/Federal-Funding-final.pdf

[6] https://www.naccho.org/uploads/downloadable-resources/Programs/Public-Health-Infrastructure/NACCHO_2019_Profile_final.pdf

Addressing Challenges by Formalizing as a Nonprofit

To address these challenges, coalitions must strategize how to maximize their resources and efforts to support their collaborative work. One strategy is to formalize their coalition under a 501(c)(3) nonprofit status through the IRS by either establishing a new entity or partnering with or repurposing an existing one. Through this strategy, the formalized coalition operates as a separate legal entity from its incorporators and acts as both a convening body and administrative hub for the coalition's programmatic efforts. Operating as a nonprofit organization allows the coalition to expand funding opportunities, coordinate strategic action and promote collaboration. This formalized structure also helps the coalition of partners manage their work, ensuring a community driven process.

In all, there are a variety of reasons to formalize under a 501(c)(3) structure, including:

1. Increased access to diverse funding streams & reduction of cost - both direct and indirect – related to health

2. The ability to strategize activities outside of the LHD and partner organizations' restrictions/limitations

3. Increased ability to address social determinants through coordination of multi-sector partnerships

4. Increased ability to sustain momentum of community improvement process and implementation strategies

5. Increased credibility beyond the scope of the individual organization

6. Shared responsibility and roles in planning and implementing CHI activities

7. Reduced competition between partner organizations as they combine efforts

8. Increased ability to leverage and maximize resources (staff, funding, time, etc.)

What is a 501(c)(3) Tax-exempt Nonprofit Designation?

Section 501(c)(3) is a portion of the U.S Internal Revenue Code (IRC) and a specific tax category for nonprofit organizations. It is a tax law provision that allows for certain federal tax exemptions, specifically for organizations that are public charities, private foundations, or private operating foundations. It is highly regulated and administered by the US Department of Treasury through the IRS, and strict regulations apply to both activities and the governance of these organizations. Regulations or requirements include the establishment of articles of incorporation, bylaws, board appointments, annual reporting and more. Although this status encourages collaborative work from partners, a nonprofit does not belong to those who created it and it cannot contribute to personal gain. It acts as a separate administrative hub, existing separately but in collaboration with those that incorporated it. This separation of regulations and administrative duties allows 501(c)(3)'s to operate beyond the limitations of the LHD or coalition alone.

HOW TO USE THIS GUIDE

This guide includes a series of considerations and discussion questions to help LHDs and their partners consider the utility of a 501(c)(3) status to support their coalition's efforts. The following topics are the primary areas of interest in considering this strategy and should be considered holistically to determine whether this strategy is feasible.

In cooperation with all partners, read and discuss the considerations and guiding questions below to help decide the utility of this strategy for your coalition.

Considerations for Adapting a 501(c)(3) Administrative Structure

Purpose and Social Need

A coalition that is going to formalize as a 501(c)(3) must be able to clearly communicate its purpose and the social need it addresses to partners, funders, and the IRS. The mission statement differentiates the formalized coalition from similar organizations, and communicates their purpose, population served, and programmatic aims. Without a clearly defined mission, a coalition runs the risk of foundational instability, a lack of interest from funders and application rejection by the IRS. It is also the grounding factor that ensures that all involved maintain a clear connection to the purpose of the partnership.

Funders rely on the mission to finance organizations based on their ability to address a social need. The mission statement also helps solidify the common goal of the partners within the coalition.

As you consider this strategy, discuss and think through the following considerations to ensure this is the best route for your coalition:

- All partners must be grounded in a clear and consistent mission. The mission ensures that partners, funders, and the IRS understand the purpose and social need of the nonprofit.

- The mission is foundational. Organizations that fail to demonstrate a purpose or need may "run out of steam," hindering progress and discouraging investment.

- Nonprofits attract members or donors of nonprofits because the mission statement inspires them, and they want to support it.

- A 501(c)(3) must be rooted in an <u>exempt organization type</u> for IRS filing and approval.

To assist you with your discussion of the above considerations, discuss and think through the following guiding questions:

- What purpose and social need is the coalition addressing? How does the mission encourage public, funder, and IRS support?
- What gaps will the nonprofit intend to address (e.g., services, resources)? How do you measure the success of your coalition? How can you demonstrate measurable impact?
- Does the mission qualify under the description for a tax-exempt status under section 501(c)(3) of the tax code?

Partnerships

As a strong foundational characteristic of both a coalition and a nonprofit, strong partnerships can create a shared identity that guides partners to effectively collaborate, combine efforts, coordinate shared resources, and
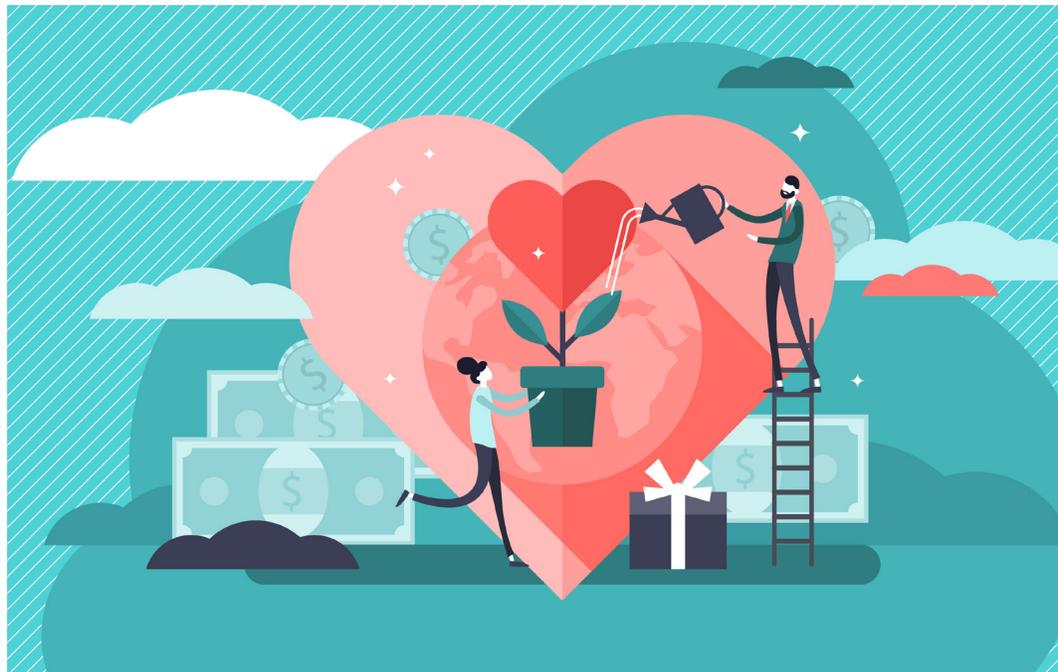
create new opportunities for collaboration. Strong partnerships can also assist coalitions with sharing cost, improving efficiency (e.g., time, effort, and personnel), promoting inclusivity, and increasing credibility. Without strong partnerships, organizations run the risk of instability and a lack of investment from both partners and funders.

Maximizing cost savings, this strategy can reduce the overall spending of individual organizations on community health improvement efforts. This contributes to a level of efficiency that is rooted in the minimization of expenditure and overhead cost.[5] Combining resources and coordinating shared responsibilities also promotes inclusivity of partners and the credibility of the nonprofit. In general, this credibility and trust can affect the performance of the nonprofit, increasing the relevance of programming within the community.[6]

As you consider this strategy, discuss, and think through the following considerations to ensure this is the best route for your coalition:

- Shared identity is formed through strong partner relationships and es-tablished track records.
- A 501(c)(3) status fosters shared financial responsibility amongst coali-tion members, maximizing cost savings and reducing overhead cost for each individual organization
  - o Partnerships and collaborations can alleviate operational duties and programmatic expenses, balancing the cost between all orga-nizations involved.
- Both pre-existing and new partnerships require time and rapport.
- Looking to advance CHI efforts, each partner's contribution of resources or expertise to the 501(c)(3) should be clearly defined.

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[5] https://www.researchgate.net/profile/Jessica-Berrett/publication/353342177_Toward_a_val-id_approach_to_nonprofit_efficiency_measurement/links/60f5bbed9541032c6d5093eb/To-ward-a-valid-approach-to-nonprofit-efficiency-measurement.pdf

[6] https://www.researchgate.net/profile/Lester-Salamon-3/publication/242075314_Determi-nants_of_Nonprofit_Impact_A_Preliminary_Analysis/links/550214040cf231de076da258/Deter-minants-of-Nonprofit-Impact-A-Preliminary-Analysis.pdf

- Coalitions should consider ways to mend fragmented relationships amongst partners, bring in new partners and build a successful track record to attract appropriate funders.

To assist you with your discussion of the above considerations, discuss and think through the following guiding questions:

- Who is a part of your coalition and how will they contribute to the 501(c)(3) (staffing, resources, time, etc.)?
- What is the credibility and reputation of your partners?
- How can you leverage partner relationships and influence to garner support and funder interest?
- How will a 501(c)(3) designation advance participating organizations/partners current mission (i.e., formalizing activities, encouraging re-source sharing, expanding donor and volunteer pool)?
- To assess the impact of the coalition members, consider who is in-volved and their "why." Their "why" should align with the mission of the 501(c)(3).

Finance

A 501(c)(3) tax exemption status can be used to diversify and sustain funding streams for community health coalitions. LHDs are funded primarily through federal and state funds; however, this exemption status allows coalitions to work beyond their organizational funding restrictions by providing them access to private and public funding. This expanded funding opportunity gives coalitions a chance to go after efforts they may not otherwise pursue or have adequate capacity to address. In increasing flexibility of activities, LHDs can maximize their limited resources for funding public health services and programs without jeopardizing their internal organizational activities, because the 501(c)(3) exists as a separate entity, operating through a separate pool of funds and management.

The following are sources of income[7] nonprofits can use to help fulfill their mission:

- Fees for goods and/or services
- Individual donations and major gifts
- Bequests
- Corporate contributions
- Foundation grants
- Government grants and contracts
- Interest from investments
- Loans/program-related investments (PRIs)
- Tax revenue
- Membership dues and fees

Although there are many benefits to expanding funding, operational fees and identifying funding sources continue to pose obvious obstacles to this strategy. Coalitions must consider the funding and research required to pursue this strategy such as startup fees, application fees, and grant availability. If there is a lack of grants that align with the nonprofits' mission and activities, this strategy may not be worthwhile. In addition to identifying those opportunities, filing fees, administrative fees and other costs must be considered as they are required prior to being granted a tax-exempt status. Fees differ across states but usually include the following:[8]

- Incorporation fees (differ from state to state)
- IRS filing
- State tax license
- Charitable license fee
- Legal fees (consulting legal counsel, online service fees, etc.)
- Office space
- Staffing
- Marketing

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[7] https://learning.candid.org/resources/knowledge-base/how-are-nonprofits-funded/

[8] https://www.springly.org/en-us/blog/how-much-does-it-cost-to-start-a-nonprofit-organization/

As you consider this strategy, discuss and think through the following considerations to ensure this is the best route for your coalition:

- It is important to consider both available and desired funds. Through thorough research and an analysis of the public health finance landscape, one should have an idea of potential funding streams of interest (I.e., private foundation grants, federal grant programs, state-funded resources, nonprofit startup grants) before formalizing under a 501(c)(3) status.

- Nonprofits are dedicated to public interest; therefore, finances are open to public inspection and reporting. This gives the public, funders and the IRS access to the organization's annual state and federal filings including salaries and expenditures.

- Grants have various restrictions, including eligibility criteria and implementation requirements that each awardee must adhere to. These entities are usually very rigid in their operations and do not allow for any flexibility on contractual agreements and deliverables. Coalitions should anticipate these requirements, and plan accordingly. Additionally, coalitions should have the infrastructure (administrative, data management, etc.) to ensure all requirements are appropriately tracked and met.

- o Grant requirements and restrictions may deter or encourage coalitions from formalizing based on their individual needs.

- Startup and overhead cost can be burdensome. Creating a nonprofit organization takes time, effort and money. Fees are required for both formalizing (application fees, counsel, etc.) and day-to-day operations (payroll, administrative needs, etc.).

- Continuous and consistent funding is crucial to the functions and sustainability of the 501(c)(3). Funding in abundance or multi-year grants will allow a 501(c)(3) to make significant capital investments without seeing an immediate return, which is important to social change initiatives that take time to show impact. Consider the nonprofits Longterm funding strategy.

- Be sure to determine which <u>type of nonprofit</u> you are first, as the filing forms change based on this.

To assist you with your discussion of the above considerations, discuss and think through the following guiding questions:

- What funding support do you have access to under a 501(c)(3) designation and how does this differentiate from current streams?

- Are the identified funding streams sustainable?

- What individuals, groups, governmental organizations or companies will commit resources to start the organization (e.g., capital, capacity, personnel, etc.)?

- What nonprofit startup grants are available?

- Do you have the capacity and infrastructure to research, track and manage grant requirements?

Competition and Market Considerations

All organizations, even nonprofits, operate in the context of markets. A "market" is a summation of the various providers offering the same product or service, usually bounded by a geographical location or population.[9] The nonprofit market is characterized by monopolistic competition, where many organizations supply similar but differentiated goods and services. Competition within a market is caused by a variety of situations, such as a shortage of resources across organizations, which may cause organizations to compete for the same funding, or a lack of communication and coordination.[10] For this reason, knowing one's competition and market is essential to the success of the nonprofit.

Nonprofits not only compete against other organizations that focus on the same issue; they also compete for the public's and funders' attention. In this market, funders are not necessarily the direct beneficiaries of the dollars that they give, so these organizations are built upon the concept that individuals will readily give resources to help others or the community-at-large.[11] In a saturated market, funding scarcity can exist, limiting access to sustainable funding streams. One should thoroughly analyze competing organizations before implementing this strategy to avoid creating undue competition amongst organizations and funding sources. To fully understand the landscape, know the abundance of similar organizations, funder interest, and funding availability.

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[9] https://nonprofitquarterly.org/competitive-positioning-why-knowing-your-competition-is-essential-to-social-impact-success/%20May%2016,%202022,%2011:15%20AM

[10] https://www.researchgate.net/profile/Lester-Salamon-3/publication/242075314_Determinants_of_Nonprofit_Impact_A_Preliminary_Analysis/links/550214040cf231de076da258/Determinants-of-Nonprofit-Impact-A-Preliminary-Analysis.pdf

[11] https://ssir.org/articles/entry/ten_nonprofit_funding_models

As you consider this strategy, discuss and think through the following considerations to ensure this is the best route for your coalition:

- The nonprofit sector is saturated with various causes and efforts, amplifying the need to differentiate one organization from many others. Although overlap is inevitable, the public's understanding of those differentiating factors is what makes the difference.

- Funders may consider the social impact of the organization in comparison to others.

- Competition amongst nonprofits can be measured by the Herfindahl-Hirschman Index (HHI).[12] The HHI is calculated by summing the squared market shares of each nonprofit in a market.

- There are many nonprofits competing for government grants, creating competition and lowering the success rate of acquiring a grant. Coalitions will need to work harder for these funds, and you must demonstrate a clear social need and measurable impact.

- A 501(c)(3) status formalizes the coalitions work and can add credibility, encouraging funders interest.

- Standing out from similar organizations, clearly articulating and defining success in the marketplace allows investors to easily understand how their investment will be used.

To assist you with your discussion of the above considerations, discuss and think through the following guiding questions:

- In your community, are there organizations addressing a similar social need? If your organization is similar, what differentiates you from the competition?

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[12] https://www.justice.gov/atr/herfindahl-hirschman-index

- How saturated is your market with nonprofits competing for similar funding opportunities?
- Are there enough funding sources/opportunities for all organizations in the market to succeed?
- Will your organization garner public support?
- Will this reduce or compete with resources and funding for the LHD and partnering organizations?

Legal and Administrative Considerations

The IRS emphasizes that 501(c)(3) organizations exist over and above any of the individuals that created them. They have their own rights and responsibilities, including the expectation that they strategically and systemically pursue their own goals. For this reason, an administrative structure must be created and sustained. This structure includes formal plans, activities, policies, documentation, measures of success, personnel (e.g., board, director, administrative, etc.), and ongoing compliance.[13]

As you consider this strategy, discuss and think through the following considerations to ensure this is the best route for your coalition:

- The IRS requires 501(c)(3) to have a solid foundation before applying. This foundation includes:

  o Drafted mission statement

  o Written business plan

  o Developed board

  o Access to necessary space and equipment

  o Licensing and fees (differ state to state)

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[13] https://learning.candid.org/resources/knowledge-base/starting-a-nonprofit/

- A 501(c)(3) exists on its own, serving as a separate entity and administrative hub. This allows partners to advance public health services and programs without jeopardizing their internal organizational activities (reduces competition for conflicting funding priorities, e.g., COVID)

- Nonprofits must have an administrative backbone. The coalition acts as members of the nonprofit, but not as its governing body. Nonprofits are required to have several directors, who in turn are the only people allowed to appoint the officers who determine policy and activities.

- Nonprofits must keep detailed records and submit annual filings to the state and IRS by stated deadlines in order to keep an active and exempt status.

To assist you with your discussion of the above considerations, discuss and think through the following guiding questions:

- Do you have the capacity and infrastructure (data management systems, staffing, time, etc.) to adhere to IRS compliance?
- Is your organization operating under the appropriate qualifying regulations and requirements?
- Have you appointed a board and developed a business plan?

FORMALIZING AS A 501(C)(3)

There are two ways to best implement this strategy. The first is to start a **new** 501(c)(3) and the second is to **partner with or repurpose** an existing 501(c)(3). Reflect on the following considerations to determine the best route for your community health coalition.

Starting a new 501(c)(3)

Advantages

- Advance coalitions mission and vision
- Tax-exempt status
- Diverse streams of funding w/ varying degrees of requirements and limitations
- Separation of work
- Access to data, knowledge, and expertise from partners
- Address gaps in service, resources, new service, better quality, affordability, increase access to services

Disadvantages

- Potentially duplicating work and creating undue competition
    - Market saturation
    - Competitive funding
- Operation and formalizing cost and paperwork
    - Paperwork upkeep to maintain active and exempt status
    - Public financial reporting and IRS annual filing
- Dedicated time to create and building internal infrastructure (e.g., data management, convening spaces, etc.) and staffing (board, ED, grant writer, volunteers, etc.)

Resources Needed to Get Started

- Staffing expertise (grant, contracts, invoicing, data collection, evaluation, etc.)
- Startup cost and staffing
- Knowledge and expertise in registering and maintaining a 501(c)(3) status
- Researched and identified funding opportunities

Partnering with or Repurposing an Existing 501(c)(3)

Considerations:

- Reduces need for start-up cost and paperwork
- Potential to repurpose or rebrand an existing 501(c)(3), reducing the need to start from scratch
- Combine efforts and reduce competition
- Access to a new audience

- May need to align activities with preexisting organization
- Re-orienting existing staff members
- Shared autonomy
- Must report changes to <u>Form 1023</u> to the IRS
    - These changes include any programs and activities that may shift away from the direction of the original mission
    - Nonprofits also need to keep their donors apprised of any changes in their mission to align funds with the activities they intend to support
- Nonprofits can change their mission statements without disrupting their nonprofit status as long as the new statement qualifies under the tax- exempt status under section <u>501(c)(3) of the tax code</u>

Resources Needed to Get Started

- Partnership or access to an existing or non-active nonprofit
- Staffing expertise (grant, contracts, invoicing, data collection, evaluation, etc.)
- Startup cost and staffing
- Knowledge and expertise in registering and maintaining a 501(c)(3) status
- Researched and identified funding opportunities

To assist you with your discussion of the above considerations, discuss and think through the following guiding questions:

Partnering with an existing 501(c)(3)

- Can this become a project of a group already incorporated, rather than obtaining your own 501(c)(3)?
- Is there an organization or group already incorporated with a similar mission or vision? Might you partner with this organization?

- Is there a need to reach a new audience, including partners, donors, and volunteers?
- Will creating a 501(c)(3) contribute to a fragmented service landscape?
- Would adding a 501(c)(3 be counterproductive?
- What existing organization(s) is willing to have your efforts under their umbrella?
- Can your mission be furthered more effectively and efficiently by an existing nonprofit?

Repurposing an existing 501(c)(3)

- What existing non-active nonprofit can you rebrand to avoid startup cost and filing paperwork?
- Has a coalition member already filed for 501(c)(3 designation, either their own or a separate entity?

Implementation Resources

- Access to additional resources and requirements (state and federal)
    - IRS Exemption Requirements
    - State Filing Requirements
- Additional implementation considerations
    - Candid: Advantages & Disadvantages
    - Taking Over an Existing Nonprofit
- Tools and next steps
    - Application Process
    - Applying for 501(c)(3) Tax-exempt Status