



Why and How to Start a Neighborhood Non-Profit

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Why start a neighborhood non-profit?

Most neighborhoods organize when residents are faced with significant threats to their safety or livelihood. The main defenses against such threats are usually zoning ordinances or municipal policies. Mobilizing neighbors and approaching city officials can become endless organizing tasks in established urban neighborhoods. A strong neighborhood association that can communicate with, and mobilize residents to voice their views at City Hall is vital to preserving and enhancing the residential quality of the community.

An active and engaged neighborhood association, however, can greatly increase its capacity if it starts its own non-profit (501-C-3). There are many businesses, charitable organizations and government programs that are willing to donate to local groups with good causes. Improvements to parks, public art, books and learning aids for local schools, affordable housing and recreational programs can be addressed by a neighborhood-based non-profit that has incorporated broadly. Over time, a non-profit can provide many creative projects that lie outside the scope of normal municipal operations and funding -- and if the non-profit chooses to engage in accumulation and management of real estate, it can influence land use in its boundaries in ways beyond the usual zoning ordinances.

What it takes.

For a non-profit to work, the neighborhood must be well-organized and have at least several residents who are willing to start it and nurse it along for at least several years. The initial incorporation takes a bit of time and patience but the technical work is not really that complicated. It needs to be well thought out, however, with an eye to the future -- or reincorporation may be required later when an opportunity arises outside the scope of the original incorporation.

There are three major considerations in setting up the non-profit charter and bylaws:

- (1) Create a very broad scope that can encompass almost anything your neighborhood may ever want to accomplish. A possible phrase is "The purpose of the Dogwood Community Development Corporation is to preserve and enhance the residential qualities of the neighborhood by fostering communications, recreation, health, environmental, housing, economic, social, educational and training opportunities." As you can see, with a scope that broad you can address everything from global warming to production of your newsletter.

- (2) Write a set of bylaws that assure continuity of leadership over time. You need at least three board members, ideally no more than nine, and they should have staggered, three-year terms so that in no year a majority can be elected. This prevents hostile “takeovers” should your non-profit ever provoke an organized opposition. You need to have an annual board election and that should be announced a month before the election in your neighborhood newsletter with nominations due the week before the election. No floor nominations or proxy voting should be allowed. While you want the non-profit board to be democratically elected and have the support of the neighborhood, you do not want it in a constant state of flux or subject to being toppled by a small band of naysayers.

- (3) It would be good to have a lawyer versed in corporate processes to help you but you may be able manage without one if you have some experience with non-profits. It is usually good to have a lawyer’s counsel, however, and if you can get one to volunteer from your neighborhood, that would be ideal. If your neighborhood has low-income households, you may be able to get a pro-bono lawyer from Texas C-BAR that specializes in matching organizations with lawyers willing to donate their time. You can access Texas C-BAR at http://jobstrap.org/Texas_C-Bar_Application.htm
Also, it takes a while to train board members to understand conflicts of interest, reporting to IRS and the Texas Secretary of State, when to close a meeting and why you can’t endorse political candidates. A lawyer will be very helpful during the first year of your work to assist with these. If you ever acquire property or engage in activity where there is some liability involved, you will want to consult with a lawyer then.

It costs \$25 to register with the Texas Secretary of State; another \$25 if you want an expedited, 24-hour turnaround.

Then you file with IRS for your 501-C-3 status. Within a month or so of filing, you’ll get a cryptic letter granting you “provisional” status. Don’t worry about the “provisional” term because that’s probably what you’ll always be. And it makes no difference when you apply for grants. Consider yourself on probation, however, and don’t ever miss a filing deadline for a 990 annual return. (Any communications with IRS requires several months for a response. Don’t bother to write them if you have minor questions or need clarification on vague phrases. Talk with your lawyer or another non-profit.)

Once you’re underway...

There are certain things that a non-profit has to do annually: submit an IRS 990 form by May 15 (or get an extension) and notify the Texas Secretary of State you’re still in business. Beyond those, each time you get a grant or donation, you will probably need to report on that as well to whichever grantor favored you with bucks. At first there’s not much to report but as the years, projects and grants mount, you will find a need to set up a written “critical” list of things that have to be done each month of the year. Your secretary will need to look at this before each meeting and list these on the agenda the month before anything is due. And you need to keep minutes of each meeting, particularly anything dealing with board elections and bylaw changes.

Unless you have a cash flow of \$20,000 or more, your IRS 990 is simple and can be sent online. An annual audit will cost around \$5,000 but you don’t need one if your cash flow is small. Most charitable organizations will accept a copy of your IRS 990 because they know the cost of an audit can cripple a small non-profit.

And then the real fun begins...

Every neighborhood has bright and creative folks who can garner grants for special projects. The non-profit gives them a vehicle to hang the grant on and can sponsor their efforts.

Aside from grants, the non-profit can also accept tax-deductible donations from individuals and businesses.

A neighborhood non-profit can also create a land trust that can receive donated property and manage it for charitable purposes. For example, the neighborhood non-profit might set up a "Dogwood Heritage Trust" where residents can will their property and specify that it be used, for instance "to house battered women with children who are transitioning to stable living situations." The property might be named after the donating owners and be named for the donor, "The Allister House." The non-profit board could manage the trust over time or possibly lease the property to another non-profit that would maintain it and provide casework support for transitional families. These sorts of activities obviously require carefully crafted contracts and legal support so you'll always need a lawyer handy.

Over time, such a trust function could draw in a significant number of properties and give the neighborhood input into zoning and land use issues from the vantage point of a property owner. At that point, it has entered the "Big Leagues" and becomes a player in neighborhood plans and will be constantly contacted by developers wanting to buy the property for their purposes. It may also attract the wrath of any groups who are upset with the policies of the non-profit, hence, the attention to the crafting of the bylaws already mentioned.

In general, the non-profit can offer the neighborhood a vehicle to garner new resources and power. What's needed are a few residents with a long-term commitment and an equally long vision for their community -- and who enjoy investing some of their creativity and energy in the neighborhood in which they live.

If those folks are successful, they will never see the final results of their stewardship, but they'll never be bored while they pilot the endless succession of decisions that foster and perpetuate their community.

