

Date of Hearing: April 29, 2025

ASSEMBLY COMMITTEE ON HUMAN SERVICES

Alex Lee, Chair

AB 1318 (Bonta) – As Amended March 28, 2025

SUBJECT: Public social services: tax-exempt nonprofit organizations

SUMMARY: Expands the definition “qualified nonprofit organization” for the purposes of the administration of services to refugees and undocumented persons and the administration of the Rapid Response Program and the Enhanced Services for Asylees and Vulnerable Noncitizens (ESAVN) program to allow contracts or grants be awarded to nonprofits with either state tax-exempt status or federal 501(c)(3) status.

EXISTING LAW:

State law:

- 1) Establishes the Nonprofit Corporation Law to provide for the governance of nonprofit corporations, including public benefit corporations, mutual benefit corporations, nonprofit religious corporations, and cooperative corporations. (Corporation Code § 5000 *et seq.*)
- 2) Provides that a nonprofit organization qualifies for tax exemption if it is exclusively organized and operated for purposes such as religious, charitable, scientific, educational, or the prevention of cruelty to children or animals. To qualify:
 - a) No part of its earnings can benefit private individuals or shareholders;
 - b) It cannot primarily engage in lobbying or influence legislation, except as otherwise provided in 3) below;
 - c) It cannot participate in political campaigns;
 - d) Its assets must be irrevocably dedicated to one or more of the exempt purposes listed, which means if the organization dissolves, its assets must go to another qualifying tax-exempt organization or a government entity for public use; and,
 - e) The irrevocable dedication can be shown through the organization’s founding documents or by operation of law. (Revenue and Taxation Code [RTC] § 23701d(a); 18 California Code of Regulations § 143)
- 3) Provides that the “welfare exemption,” except as provided in state law, shall not be granted to any organization unless it is qualified as an exempt organization under either state law in 2) above or federal law in 9) below. (RTC § 214.8(a))
- 4) Defines, for the purposes of the administration of refugee social services and refugee cash assistance, “qualified nonprofit organization” means a nonprofit organization that is exempt from federal income taxation pursuant to federal law in 9) below and that satisfies any additional eligibility criteria established by the California Department of Social Services (CDSS). (Welfare and Institution Code [WIC] § 13275(a))

- 5) Provides that any grant awarded, for the purposes of providing services for undocumented persons, must fulfill all of the following:
 - a) Be executed only with a nonprofit organization that meets the requirements set forth in federal law in 9) below and that meets specified requirements;
 - b) Require reporting, monitoring, or audits of services provided, as determined by CDSS; and,
 - c) Require grant recipients to maintain adequate legal malpractice insurance and to indemnify and hold the state harmless from any claims that arise from the legal services provided. (WIC § 13304(a)(1))
- 6) Requires grants awarded, for the purposes of providing services for undocumented persons, to be provided only to nonprofit organizations that meet the requirements set forth in federal law in 9) below and have at least three years of experience with both of the following:
 - a) Conducting education and outreach with immigrant populations; and,
 - b) Conducting outreach for government benefits and programs. (WIC § 13306)
- 7) Requires grants or contracts awarded by CDSS to administer the Rapid Response Program to comply with all of the following:
 - a) May be executed with entities, including, but not limited to, nonprofit entities that meet the requirements set forth in 9) below. Any entity may partner with another entity to meet the requirements;
 - b) Shall require reporting, monitoring, or audits of assistance provided, as determined by CDSS;
 - c) Shall be used to deliver critical specified assistance to immigrants;
 - d) An entity that is awarded a grant or contract to provide medical screening shall have at least three years of experience providing medical screenings or other equivalent health care related services;
 - e) An entity that is awarded a grant or contract to provide assistance other than medical services shall have at least three years of experience providing the assistance for which the entity seeks funding or shall subcontract with another entity that has at least three years of experience providing those services; and,
 - f) An entity that is awarded a grant or contract pursuant to e) above to provide medical screenings may subcontract with another entity that has at least three years of experience providing medical screenings or other equivalent health care related services. (WIC § 13401(a))
- 8) Requires grants or contracts awarded for the purposes of administering the ESAVN program, to be executed only with nonprofits that meet the requirements in 9 below) and have at least three years of experience with both of the following:

- a) Providing case management services, as defined; and,
- b) Providing culturally and linguistically appropriate services. (WIC § 13650(d))

Federal law:

- 9) Provides that corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to include legislation, and which does not participate in, or intervene in any political campaign on behalf of or in opposition to any candidate for public office. (26 United States Code [U.S.C.] § 501(c)(3))
- 10) Exempts organizations described in 9) above to be exempt from taxation unless such exemption is denied. (26 U.S.C. § 501(a))

FISCAL EFFECT: Unknown, this bill has not been analyzed by a fiscal committee.

COMMENTS:

Background: *Immigrants* with legal standing in the United States (U.S.), both temporary and permanent, are those who have been granted permission to live and work in the country by obtaining a visa or obtaining other legal statuses, such as legal permanent residency (LPR), being granted asylum, admitted as a refugee, a parolee, or conditional entrant, among others. Once in the country, these immigrants are entitled to certain rights and protections under the law, including access to government benefits and services, such as healthcare, education, and public social services. As of 2023, the California Budget and Policy Center reports that over 11 million immigrants, defined as foreign-born individuals, reside in California, making up 28% of the state population. According to the Public Policy Institute of California (PPIC), the vast majority of immigrants in California are documented residents, meaning they have legal authorization to reside in the U.S. In 2022, 83% of documented immigrants were either naturalized citizens or had other legal statuses, such as visa holder and LPR.

Undocumented immigrants are individuals who enter or reside in a country without legal authorization. However, the definition of “legal authorization” is not fixed and can shift depending on the policies of the presidential administration in power. For example, under the Biden administration, Venezuelan migrants were granted Temporary Protected Status, which allowed them to live and work legally in the U.S. This designation was later revoked by the current Trump administration, rendering many of those same individuals undocumented under current federal policy. A planned mass deportation of these individuals is now on hold, pending the outcome of a legal challenge before the federal courts.

Undocumented immigrants often fear deportation and lack access to basic rights and protections afforded to legal residents. Nationally, undocumented immigrants contributed \$96.7 billion in federal, state, and local taxes, with \$59.4 billion paid to the federal government and the remaining \$37.3 billion to state and local governments. Despite undocumented Californians contributing \$8.5 billion in state and local taxes in 2022, they may be vulnerable to exploitation and abuse in the workplace and elsewhere, and they typically face significant barriers to

accessing government services. A national 2024 report by the Institution on Taxation and Economic Policy highlighted that for every 1 million undocumented immigrants who reside in the country, public services receive \$8.9 billion in additional tax revenue. Nationally, providing access to work authorization to all current undocumented immigrants would increase their tax contributions by \$40.2 billion annually, to \$136.9 billion. More than a third of the tax dollars paid by undocumented immigrants are toward payroll taxes dedicated to funding programs, like Social Security, Medicare, and unemployment insurance—that undocumented workers are barred from accessing. In the same PPIC report, it was noted that in 2022, there were 1.8 million undocumented immigrants in California, which represented 4.6% of the total population.

The California Refugee Resettlement Program (RRP), established in 1980, is entirely federally funded, administered by CDSS, and aids eligible refugees, Cuban-Haitian entrants, asylees, certified human trafficking victims and their family members, Special Immigrant Visa holders, and certain Amerasians from Vietnam to successfully resettle in California. The CDSS Refugee Programs Bureau oversees the RRP statewide and manages the following programs: Refugee Cash Assistance, Unaccompanied Refugee Minors Program, Trafficking and Crime Victim Assistance Program (TCVAP), ESAVN, and the Repatriation Program. Based on the number of refugees residing in or receiving aid in the U.S., CDSS allocates federal funds from the Reception and Placement Program to eligible counties and qualified nonprofit organizations to deliver program benefits and services.

Enhanced Services for Asylees and Vulnerable Noncitizens Program. Vulnerable noncitizens often face significant barriers to integration, including language obstacles, cultural differences, and unfamiliarity with the U.S. legal and social service systems. In response, California established the ESAVN program in 2021 to provide culturally and linguistically appropriate case-management services to asylees and noncitizen victims of human trafficking, domestic violence, and other serious crimes who qualify under the state-funded TCVAP. Eligible individuals must reside in California and receive services within the first year of being granted asylum or deemed eligible as a vulnerable noncitizen. ESAVN services last up to 90 days and focus on helping clients access public benefits and healthcare.

In July 2021, the Refugee Programs Bureau awarded \$8 million in ESAVN funding to 13 nonprofit organizations operating across four regions: Northern California, the Bay Area, the Central Valley, and Southern California. This funding, provided through the Budget Acts of 2021, 2022, and 2023, supported services through June 30, 2024 – extended from the original end date of June 30, 2023. No additional funding was allocated beyond this extension.

Rapid Response Program. Administered by CDSS and established in 2021, the Rapid Response Program provides critical assistance to immigrants through grants or contracts with nonprofit organizations, primarily supporting humanitarian efforts at the southern border and during natural disasters. It has been funded with one-time allocations in the 2021, 2022, and 2023 Budget Acts. From April 1 to June 30, 2024, the Rapid Response Program operated under a fiscal year 2023-24 budget allocation of \$161.7 million, of which \$106.5 million had been awarded to contractors and partners. One of the largest ongoing initiatives, the Border Shelter Services for Immigrants (BSSI) project, has provided shelter to more than 595,000 migrant arrivals since its inception. Between April and June 2024 alone, 48,945 individuals received shelter through nonprofit partners participating in the BSSI effort.

In August 2022, before federal funding became available, CDSS awarded a total of \$2,023,109 to three qualified nonprofit organizations to provide critical assistance, including case management and temporary housing support, to Ukrainian newcomers affected by the war in Ukraine. Services were offered to individuals residing in Los Angeles, Orange, Sacramento, and San Diego counties. Between August 1, 2022, and September 30, 2023, the funded providers served 662 individuals. The grant term concluded on November 1, 2023, after which the project transitioned to the Refugee Programs Bureau to continue under federal funding.

The Haitian Integration Support Services project concluded on June 30, 2024, having served 70 Haitian newcomers in San Diego County through direct case management that included assistance with health care, housing, and legal navigation. In addition, 217 individuals accessed food assistance and diaper distribution services through this effort. The Opportunities for Youth program continued supporting vulnerable youth and households, with 576 individuals served and \$40,800 in direct financial assistance distributed as of April 2024. Another major initiative, the Storm Assistance for Immigrants (SAI) project, also came to a close during this period. Since launching in June 2023, SAI provided \$80.3 million in direct aid to 56,488 individuals across nearly 36,000 households. In its most recent phase, \$11.5 million in financial assistance was disbursed to 8,024 agricultural workers in counties hit hard by storms, including San Joaquin, Ventura, and Kern.

The 2024 Budget Act re-appropriated unspent funds from previous years to maintain essential sheltering services at the border. Over the past three years, nonprofit organizations were awarded \$158 million through the federal Shelter and Services Program, but only \$3.8 million of that has been disbursed. As a result, the re-appropriated state funding is currently filling funding gaps for nonprofit shelter providers that have limited or delayed access to federal resources.

501(c)(3) Nonprofits. 501(c)(3) organizations are a category of nonprofit entities recognized by the federal Internal Revenue Code that are exempt from federal income tax because they serve the public good. This designation is one of the most common in the U.S. nonprofit sector. According to the California Employment Development Department, there were 31,581 nonprofit firms in the third quarter of 2024, employing 1.8 million employees. These nonprofits employed 10.1% of California's workforce of 18.2 million employees. The nonprofits that this bill impacts are the largest type of nonprofit entities, which are 501(c)(3) organizations, employing 1.4 million employees. Additionally, there were 3,147 nonprofits that provided health care and social assistance.

A 501(c)(3) organization must be organized and operated exclusively for one or more of the following purposes: charitable, religious, educational, scientific, literary, testing for public safety, and preventing cruelty to children or animals. These organizations are strictly prohibited from participating or intervening in any political campaign on behalf or against any candidate for public office, which includes making contributions, endorsements, or issuing political statements. Additionally, the activities of the organization must provide a real, tangible benefit to the public or a significant portion of it (e.g. providing food to low-income families, offering educational programs). These organizations typically rely on broad public support, such as donations from individuals and grants from governments or foundations. Examples of 501(c)(3) organizations include food banks, health clinics, environmental organizations, and schools.

In addition to receiving federal income tax exemptions, a 501(c)(3) organization is eligible to receive tax-deductible charitable contributions, have access to public and private grants, have

postal discounts, and receive state and local tax exemptions. While many organizations automatically receive California tax-exempt status after getting a federal 501(c)(3) determination, they must notify the Federal Tax Board and file appropriate documents to maintain compliance.

Federal Actions on 501(c)(3) Nonprofits. Following a series of executive orders (EOs) by President Donald Trump in early 2025, nonprofits engaging in diversity, equity, inclusion (DEI) and environmental justice (EJ) work now face significant legal and financial risks. Two major EOs—“Ending Illegal Discrimination and Restoring Merit-Based Opportunity” and “Ending Radical Wasteful Government DEI Programs and Referencing”—aim to eliminate federal support for DEI and EJ programs. These directives not only target public-sector efforts, but also extend to private nonprofits, foundations, and associations, requiring them to certify compliance with federal anti-discrimination laws and potentially subjecting them to federal scrutiny. The U.S. Department of Justice, under new leadership, has been directed to investigate and penalize organizations believed to be engaged in “illegal” DEI practices, raising the threat of civil and criminal enforcement.

In addition to federal funding being at risk, nonprofit leaders are increasingly concerned that these EOs could jeopardize their organization’s tax-exempt status. The vague definitions within the orders, combined with calls to identify “discriminatory DEI practitioners,” have left many organizations uncertain about which programs or language may be deemed noncompliant. Legal challenges are already underway—such as a lawsuit filed against the American Chemical Society alleging racial discrimination under civil rights laws—but many nonprofits are opting to proactively review their practices. Experts recommend that nonprofits examine their DEI initiatives, reassess reliance on federal funds, and consult legal counsel to mitigate risk. These steps may include scrubbing public-facing materials, isolating DEI-related activities from federally funded programs, or seeking alternative funding sources. While some courts have already enjoined parts of the EOs on constitutional grounds, uncertainty remains high.

In March 2025, President Trump signed an EO, titled “Restoring Public Service Loan Forgiveness (PSLF),” which introduces a new regulatory definition that could indirectly threaten the tax-exempt status of certain nonprofits. The order instructs the U.S. Department of Education to exclude from the PSLF program any nonprofit with a “substantial illegal purpose.” This phrase is loosely defined to include nonprofits that: aid violations of immigration law; support terrorism or designated cartels; facilitate what the EO describes as child abuse (e.g. gender-affirming care); repeatedly engage in illegal decimation; and, regularly violate state tort laws (e.g. trespassing, disorderly conduct).

According to experts, the term “substantial illegal purpose” is not defined in federal statute, but appears in a 1984 tax case (*Church of Scientology v IRS*) where tax-exempt status was revoked for illegal activity that violated public policy. The order hints that the IRS could be used to revoke tax exemption from nonprofits alleged to engage in these activities—even without formal charges or convictions. This appears to align with broader efforts by the Trump administration to scrutinize DEI programs, nonprofit service providers to migrants and refugees, and other politically targeted entities. Advocates warn that nonprofits implicated under this new definition should prepare for potential IRS audits and assume their tax-exempt status to be at risk. Even past conduct during open audit periods could justify revocation, regardless of whether the activity has ceased.

Lastly, recent federal legislation has increasingly targeted nonprofits that support vulnerable populations, particularly immigrants and asylum seekers. For example, Senate Bill 497 (Hagerty, R-TN), introduced on February 10, 2025, proposes revoking the 501(c)(3) tax-exempt status of organizations that provide assistance to undocumented immigrants. Similarly, H.R. 9495, introduced in 2024 by Representative Claudia Tenney (R-NY), would have granted the U.S. Treasury Secretary broad authority to revoke the tax-exempt status of any nonprofit labeled a “terrorist-supporting organization,” without requiring due process. These proposals aim to undermine the legal and social services available to immigrants by threatening the nonprofit organizations that deliver them.

This bill. Under current state law, nonprofits must have federal 501(c)(3) status to qualify for many public funding opportunities. This requirement is especially common in programs administered by CDSS. As a result, if the federal government revokes a nonprofit’s 501(c)(3) status—even for political reasons—the organization could lose access to critical state funding, despite remaining fully compliant with California laws and regulations. This poses a serious risk to the state’s safety net, particularly for organizations serving immigrant communities. *This bill* seeks to address that vulnerability by allowing nonprofit organizations to qualify for public funding if they hold either federal 501(c)(3) tax-exempt status or state tax-exempt status under California Revenue and Taxation Code Section 23701d. By recognizing state-level tax-exempt status, *the bill* aims to ensure that nonprofits operating lawfully in California are not disqualified from funding due to federal political actions. This change may help safeguard the state’s ability to deliver essential services through trusted nonprofit partners, especially in immigrant communities.

Author’s Statement: According to the Author, “As someone who spent over a decade working in the nonprofit sector, I have seen firsthand how vital these organizations are to the health, safety, and dignity of our communities. I often refer to the nonprofit sector as the third arm of government, because when public systems fall short, it is nonprofits that step in—filling gaps, reaching marginalized populations, and delivering essential services where government and for-profit entities cannot. Unfortunately, recent efforts have targeted the tax-exempt status of nonprofits that do not align with the current goals of the federal administration. [This bill] ensures that California can continue to partner with nonprofits that meet our state’s standards—regardless of federal political shifts—by allowing organizations with state tax-exempt status to continue to receive funding through our programs. This bill protects the integrity of our service network and stands with the organizations that have long stood with our most vulnerable populations.”

Equity Implications: By allowing nonprofits with state tax-exempt status under California law to qualify for public funding—regardless of whether their federal 501(c)(3) status has been revoked—the bill protects continued access to essential services for undocumented individuals, asylees, refugees, and other vulnerable populations. This is especially critical in light of recent federal actions aimed at politically targeting nonprofits that provide immigration-related support. Without this safeguard, organizations serving marginalized groups could be disqualified from funding solely due to federal political interference, even if they remain fully compliant with California laws. This bill also may reinforce the state’s commitment to racial and social equity, as many of these nonprofits serve communities of color, low-income individuals, and non-English speakers. This bill seeks to affirm California’s autonomy in aligning its public funding priorities with equity-focused goals, rather than being bound by shifting federal policies. In

doing so, the bill aims to ensure stability for safety-net services and helps uphold the state's broader commitments to inclusion, justice, and human dignity.

RELATED AND PRIOR LEGISLATION:

AB 548 (Solache) of the current legislative session, revises eligibility criteria for the ESAVN program, specifies acceptable proof of California residency, and reduces the amount of time nonprofits are required to have provided relevant services before being awarded grants or contracts. *AB 548 is set to be heard by this committee on April 29, 2025.*

AB 2218 (Santiago) of 2024, would have extended eligibility for the ESAVN program's awards and contracts to nonprofit organizations with one year of experience providing case management services and linguistically and culturally appropriate services. *AB 2218 was held on the Assembly Committee on Appropriations suspense file.*

SB 85 (Weiner) of 2024, would have allowed state funds, if appropriated, to be used in addition to federal funds for the extension of refugee social services up to 360 days. Would have expanded the ESAVN program from 90 days up to 180 days, with additional opportunities for extensions up to 360 days of case management services. *SB 85 was vetoed by Governor Newsom.*

AB 1404 (Santiago) of 2019, would have required a nonprofit sponsor to make an annual disclosure publicly available by posting on the nonprofit sponsor's public internet website in the same location where it posts copies of its annual report within 30 days of filing an IRS Form 900 that discloses specified information regarding deferred compensation, and would have required the nonprofit sponsor to certify the information it discloses is true and correct. *AB 1404 was placed on the Senate inactive file.*

AB 2036 (Muratsuchi) of 2019, would have required, if the Attorney General (AG) imposes a condition on its consent to an agreement or transaction related to a nonprofit health facility (or a facility that operates or controls a facility that provides similar health care), that condition is to remain in effect for the entire period of time specified by the AG, regardless of whether the health facility is subject to an additional or subsequent sale, transfer, purchase, lease, exchange, option, conveyance, or other disposition of assets. *AB 2036 was referred to the Assembly Committee on Health but was not set for hearing.*

AB 1342 (Low) of 2019, would have required the state AG to review and approve any sale of a nonprofit educational institution to a for-profit entity. *AB 1342 was held on the Senate Committee on Appropriations suspense file.*

AB 557 (Irwin), Chapter 363, Statutes of 2015, established an administrative dissolution process and an administrative surrender process for nonprofit and foreign corporations.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association of Nonprofits (Sponsor)
AACSA
ACLU California Action
All for Kids

Aresis Ensemble (City Garage Theater)
California Behavioral Health Association
California Community Action Partnership Association
California Immigrant Policy Center
California Partnership to End Domestic Violence
CalNonprofits
Caulder Lamm Alliance for Children, INC.
Center for Empowering Refugees and Immigrants
Central American Resource Center - Carecen - of California
Ceres Community Project
Charitable Ventures
Chrysalis
Community Aliance With Family Farmers
Community Bridges
Crisis Support Services of Alameda County
Empower Yolo
Equality California
Focused on Growth Academy (F.O.G.)
Fresh Approach
Global Refugee Awareness Healing Center
Guadalupe-Nipomo Dunes Center
Guild for Psychological Studies
HARC, INC.
Health Care Integrated Services
Healthy Alternatives to Violent Environments
Hispanic Foundation of Silicon Valley
HSS
Immigrant Defenders Law Center
Kitchen Table Advisors
Legal Aid Association of California
Los Angeles Neighborhood Initiative
Lumina Alliance
Making Hope Happen Foundation
Media Alliance
Microenterprise Collaborative of Inland Southern California
Move Santa Barbara County
Orcutt Area Seniors in Service, INC. (OASIS)
Oxnard Performing Arts Center Corporation (OPACC)
Pasadena Village
PathPoint
Pop Culture Hero Coalition
Reach
Rising Sun Center for Opportunity
Roots of Change
S&L Foster Family Agency
San Diego Food System Alliance
Self-Help Enterprises
Shelter From the Storm, INC.
Sierra Nevada Alliance

Silicon Valley Council of Nonprofits
The Immigrant Legal Resource Center
The Joslyn Center
The Nonprofit Partnership
The Stephan Center
Tracy Community Connections Center
VeggieLution
Ventures
Walnut Avenue Family & Women's Center
Women Shelter of Long Beach

Opposition

None on file.

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