



EXPLAINING WHICH LOCAL GOVERNMENT OFFICIALS CONTRACT WITH NONPROFITS

BACKGROUND

Local government officials (LGOs) have limited capacity to provide such services as mental health, substance abuse prevention and treatment, emergency relief services, and free and low-cost health care. Revenue collected through local fees and taxes and state and federal government funding usually cannot meet all service demands. LGOs may also lack specialized expertise to meet certain needs. In these cases, they can award grants and contracts to nonprofits and other institutions to provide specialized or complementary services.

Although LGOs also may purchase services from other government units or private businesses, Indiana LGOs report stronger working relationships with nonprofits and higher trust levels. Many assert nonprofits will “do the right thing” compared to other institutions.¹ LGOs’ and nonprofits’ shared commitments to public and community service build a strong basis for this trust. Also, LGOs and nonprofits have specific expertise in important services—particularly health, substance abuse, emergency relief, youth development, counseling, and education. Moreover, U.S. tax laws require that nonprofits retain surplus earnings from providing services to further their organizations’ missions, while private businesses earn profits and distribute them to their owners. Almost one-fourth of Indiana nonprofits receive some form of government funding, accounting for nearly two-fifths of their revenues.

It is important to understand what predicts LGO contracting. In addition to providing important services, nonprofits can influence policy changes because of their expertise in implementing existing policies, serving community needs, and understanding the effects of policy priorities. When local governments contract with nonprofits, this serves

KEY FINDINGS

- County commissions and council members were significantly more likely to contract with nonprofits than town council members.
- The type of nonprofits with which LGOs were or had been personally involved related significantly to contracting with nonprofits.
- LGOs who had served longer in local government were more likely to report contracting with a nonprofit.
- LGOs representing a nonmetropolitan area appeared to increase the likelihood that LGOs contracted with nonprofits, perhaps reflecting a lack of local government capacity in those regions.
- Community socioeconomic conditions and perceptions and assessments of community well-being were unrelated to whether LGOs contracted with nonprofits.
- After the COVID-19 pandemic struck, LGOs responding to the survey were less likely to report contracts with nonprofits than those responding before it hit, appearing to reflect losses in nonprofit service capacity. If so, it suggests a need for nonprofit disaster preparedness to prevent future service disruptions during major disasters.

as a form of endorsement and enhances the visibility and legitimacy of those nonprofits in the community.

This brief updates data from a previous analysis of LGO contracting with nonprofits as part of a series on nonprofit-government relations in Indiana from the Indiana Nonprofits Project: Scope and Community Dimensions.² The authors of

the research behind this policy brief, Dr. Kirsten Grønberg and graduate student Eric Schmidt, based their study on data collected from the Indiana Advisory Commission on Intergovernmental Relations (IACIR) 2020 survey. They supplemented data from the IACIR survey with findings from a separate Indiana Nonprofit Sector Project May 2020 survey—designed to learn how the COVID-19 pandemic impacted nonprofit services—and county-level information about the community each LGO represents. This policy brief examines which conditions appeared to be related to whether LGOs said their unit of local government contracts with nonprofits.

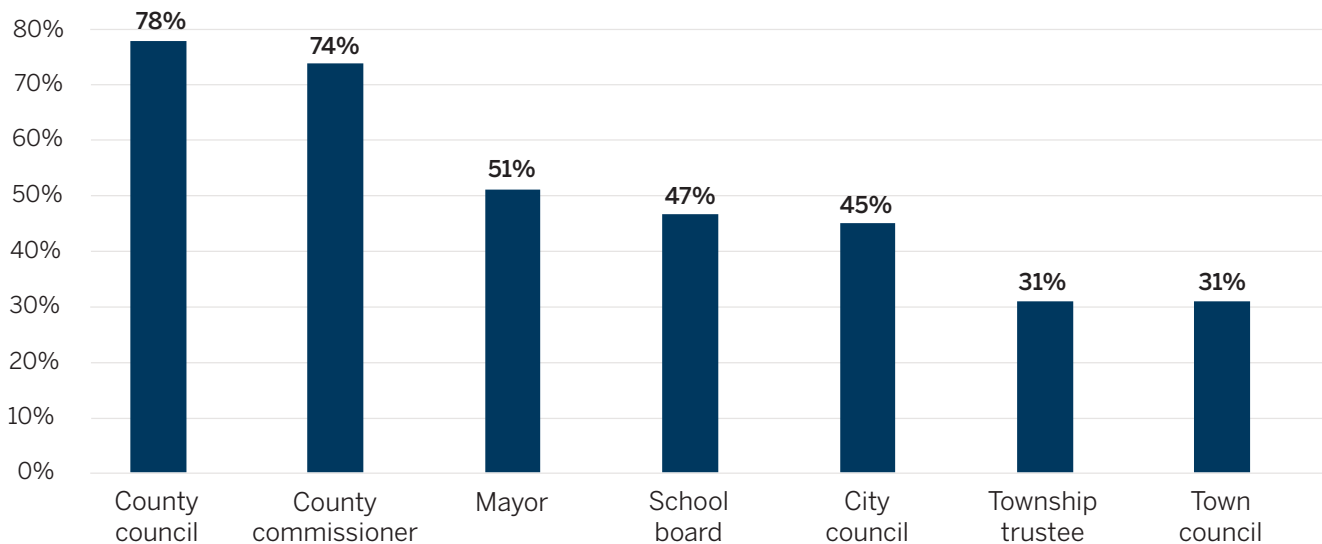
METHODOLOGY

Beginning in 2010, IACIR conducted periodic surveys investigating issues affecting Indiana LGOs and residents. The authors designed 2020 survey questions to examine factors that may account for whether LGOs contract with nonprofit organizations for 29 services.^A Many of these services (e.g., roads and streets) are not particularly relevant to nonprofits, but some are—notably those

involving counseling, substance abuse treatment, or support for low-income residents. The authors considered (1) characteristics of the LGOs; (2) community conditions, including the potential impact of COVID-19; and (3) LGOs' relationships with nonprofits. The survey included questions designed to ascertain the effects of LGO relationships with nonprofits. The authors also collected data from a May 2020 survey of Indiana nonprofits about how the COVID-19 pandemic impacted nonprofit services.

In addition to responses to these surveys, the researchers used county-level information about the community each LGO represents. They considered factors influenced by geographic location (i.e., rural vs. urban areas) and used the social vulnerability index to capture community conditions more objectively. The index relies on census data to capture demographic and socioeconomic factors (e.g., poverty) that adversely affect communities when disasters or other community-level stressors impact them.³ Several of these factors were interrelated and influenced outcomes. The authors made statistical adjustments for these multiple influences in their analyses.

FIGURE 1. Percent of LGOs who contracted with nonprofits by LGO position (n=22–145)*



*Note: The number of LGOs who responded in various elected offices ranged from 22 to 145. City council members who responded represented the smallest group (22), and township trustees who responded represented the largest group (145).

^A The services included on the survey were listed as (1) Child and family welfare services, (2) Public health, (3) Substance abuse prevention and treatment, (4) Mental health, (5) Free/low-cost health care, (6) Relief services (food/shelter), (7) Information and referral (211 services), (8) Police services, (9) Crime and violence prevention, (10) Fire services, (11) Emergency medical services, (12) Emergency dispatch, (13) Disaster response and recovery, (14) Jail, (15) Juvenile detention, (16) Corrections – mental health services, (17) Corrections – addiction services, (18) Drinking water utility, (19) Sewer utility, (20) Solid waste services, (21) Roads and streets, (22) High speed internet/broadband, (23) Economic development, (24) Planning/plan commission, (25) Vocational education training, (26) Special education, (27) After-school programs, (28) Parks and recreation, (29) Property assessment.

FINDINGS

The authors explored several factors that may explain contracting with nonprofits.

LGO CHARACTERISTICS

Factors that could explain whether LGOs contract with nonprofits for the 29 services included the type of local government office (e.g., mayor, township trustee, city council) and the length of time an LGO held a position.

Only position type remained statistically significant when all influencing factors were considered. LGOs who were county council members and commissioners were more likely to report that their units of local government contract with nonprofits. LGOs who were town council members and township trustees were less likely to do so (Figure 1). Although Indiana township trustees are responsible for providing assistance to low-income residents they have a limited scope of responsibilities and budgets and do not govern.

LGOs who served longer in a local government position appeared more likely to report their office contracting with nonprofits. Although this relationship is notable, this finding proved insignificant statistically when other related influencing factors were introduced into the analysis.

COMMUNITY CONDITIONS

For the study, community conditions that could affect contracting with nonprofits included LGO community assessments (how LGOs perceived their communities), objective community conditions (demographic and socioeconomic factors), nonprofit scope (size and number), and the impact of the COVID-19 pandemic.

LGO community assessments

LGOs answered a survey question to signal whether they perceived their communities were heading in a positive direction for the future—with choices ranging from very pessimistic to very optimistic. A second question's responses revealed whether LGOs believed

their communities were experiencing major, moderate, or minor/no problems across a broad array of indicators. Finally, LGOs assessed the disaster preparedness of their local nonprofits. None of these indicators were significant predictors for LGO contracting with nonprofits.

Objective community conditions

The researchers used the social vulnerability index to capture community conditions more objectively. They also considered geography, assuming LGOs in metropolitan areas would have access to more nonprofits than in rural areas and to ones with the capacity to deliver needed services. Being in a nonmetropolitan area instead appeared to increase the likelihood that LGOs contracted with nonprofits, but this relationship was statistically insignificant when multiple variables were introduced into the analysis.

Scope of nonprofits

Whether LGOs contract with nonprofits may depend on how many nonprofits exist in a community and on their size.^B In communities with low nonprofit capacity (generally small, rural communities), LGOs appeared more likely to contract with nonprofits, but this was statistically insignificant when analyzed along with other possible predictors.^C

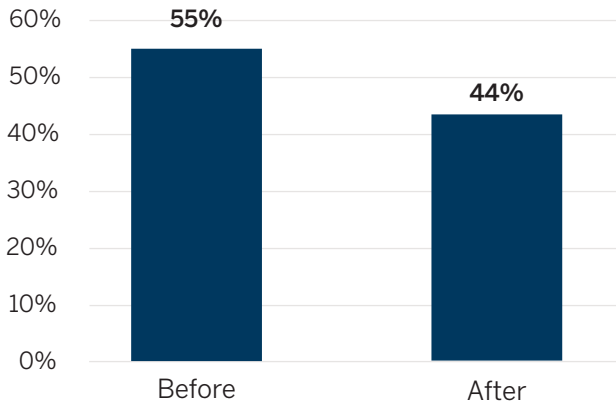
Impact of COVID-19

In principle, COVID-19's sudden and dramatic impact may also have affected nonprofit contracting. Recording whether LGOs responded before or after April 3, 2020—when the entire state was declared a major disaster area because of the pandemic—was the only way to measure the significance of this relationship using the IACIR survey. IACIR opened the survey on February 25, 2020, and roughly half of LGOs responded before April 3. The survey closed on August 13, 2020.

^B The researchers explored many ways of measuring nonprofit scope, e.g., the total number of IRS-registered 501(c)(3) charities (tax-exempt entities that are registered under the IRS tax section 501(c)(3) and, as such, are eligible to receive tax-deductible contributions) with reporting addresses in the county, average aggregate income reported by those charities, etc. All these indicators are highly skewed, so they used their natural log in their analysis.

^C The full list of variables considered is four measures related to IRS-registered charitable organizations (number of organizations and aggregate revenues, income, and assets) and the corresponding indicators for all other exempt organizations, plus average income of charitable organizations.

FIGURE 2. Percent of LGOs who contracted with nonprofits before and after April 3, 2020 (n=279)



As Figure 2 shows, LGOs who responded before April 3, 2020, were significantly more likely to report contracting with nonprofits than those who responded after that date. The pandemic led to a loss of service capacity, and many Indiana nonprofits (like nonprofits everywhere) could not provide the services they had contracted to deliver. This loss in service capacity offers a plausible explanation for the lower use of nonprofits after April 3, 2020.

Responses to an Indiana Nonprofit Sector Project, May 2020 survey about how COVID-19 impacted nonprofit services supported this argument. At that time, 70% said their programs operated at limited or reduced capacity, and 60% reported that the pandemic caused program suspension or termination.⁴ In addition, 46% indicated they had lost fee-for-service revenues, and 13% said they had lost government funding. For the IACIR survey, responses recorded after April 3, 2020, were statistically significant and appear to be associated with less LGO contracting with

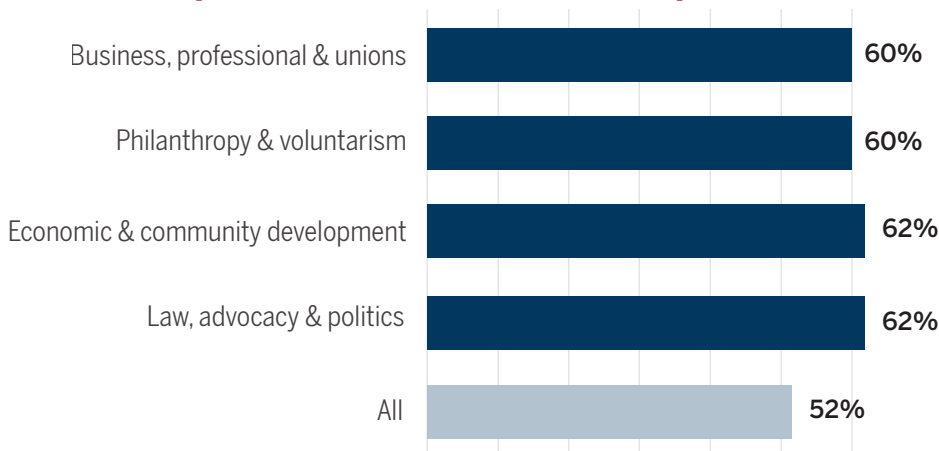
nonprofits. This service capacity loss suggests a need for increased nonprofit disaster preparedness to adapt quickly when major disasters strike.

LOCAL GOVERNMENT OFFICIALS' RELATIONSHIPS WITH NONPROFITS

Finally, the authors considered several dimensions of the associations between local governments and nonprofits. The IACIR survey included questions to assess LGOs' working relations with and their trust in nonprofits. The researchers also wanted to know whether LGOs were or had been active with nonprofits as leaders, members, or volunteers. Through the survey, LGOs indicated what types of nonprofits they engaged with, how important this involvement was to their government work, and if they trusted nonprofits to "do the right thing." They also reported how important local charities were to their local governmental unit in various ways and how important their local government was to local charities/nonprofits in the same ways.

Only the type of nonprofits with which LGOs were or had been involved related significantly to contracting with nonprofits. LGOs who were currently or previously personally involved with nonprofits engaged in business, professional, or union activities; philanthropy or promotion of voluntarism; economic, community development, housing, employment, and training; or law, advocacy, and politics, were significantly more likely to engage in contracting with nonprofits than LGOs overall (bottom, light bar in Figure 3). Although the authors expected working relationships with and trust in nonprofits would relate to more contracting, neither was significant in any analyses.

FIGURE 3. LGO personal involvement with nonprofits and contracting (n=467)



CONCLUSIONS AND IMPLICATIONS

Nonprofits provide substantial levels of service to Indiana communities. The authors of this study examined which conditions related to whether LGOs said their unit of local government contracts with them. A better understanding of what predicts LGO contracting with nonprofits is important because nonprofits can influence policy changes when the government funds them and calls on their expertise regarding existing policies, community needs, and policy priorities. Local government funding also serves as a form of endorsement and enhances the visibility and legitimacy of those nonprofits in the community.

LGOs who were county council members or county commissioners were more likely to report that their local governmental units (e.g., counties) contract with nonprofits. LGOs who were town council members and township trustees were less likely to do so. The authors speculate that county officials had broader responsibilities and more financial resources with which to work than other LGO types, given the small size of many Indiana towns. They may also have greater access to nonprofits since these are most likely concentrated in county seats.

LGOs who were or had been involved previously in certain nonprofit sectors were more likely to contract with nonprofits. These included nonprofits engaged in business, professional, and union activities; philanthropy and promotion of voluntarism; economic, community development, housing, employment, and training; or law, advocacy, and politics.

The authors introduced types of geography into the analysis with the hypothesis that LGOs in metropolitan areas would contract more with nonprofits because they have access to greater numbers of them that can deliver services to meet community needs. Instead, their analysis revealed some association between being in a nonmetropolitan area and increases in the likelihood that LGOs contracted with nonprofits. However, this relationship was statistically insignificant with the introduction of other possible interrelated predictors. Yet, the extent of contracting with nonprofits in more rural communities may reflect some lack of local government capacity in these areas.

The authors investigated how the COVID-19 pandemic affected LGO contracting with nonprofits. LGOs who submitted their AICIR surveys after April 3, 2020—when the state was declared a major disaster area—were less likely to report engaging in nonprofit contracts than those who responded before the onset of the pandemic. Many Indiana nonprofits (like nonprofits everywhere) could not provide the services they had contracted to deliver. Seventy percent of the nonprofits responding to an Indiana Nonprofit Sector Project, May 2020 survey stated they were operating their programs at limited reduced capacity, and 60% reported program suspension. Nearly half had lost fee-for-service revenues, and 13% had lost government funding. This service capacity loss after April 3, 2020, most likely explains the drop in LGO contracting with the onset of the COVID-19 pandemic and suggests a need for increased nonprofit disaster preparedness to prevent service disruption.

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FURTHER READING

To read more, see the Indiana Nonprofits Project webpage, <https://nonprofit.indiana.edu/>.



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