



# INDIANA UNIVERSITY PUBLIC POLICY INSTITUTE

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## INDIANA LOCAL GOVERNMENT OFFICIALS' CONTRACTING 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. Moreover, revenue collected through local fees and taxes and state and federal government funding usually cannot meet all service demands. In addition to a lack of resources, LGOs may also lack the capacity to meet particular community needs. In such cases, they may be able to access the expertise and capacity of 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.<sup>1</sup> LGOs’ and nonprofits’ shared commitments to public and community service build a strong basis for this trust, and nonprofits have specific expertise in important services—particularly health, substance abuse, emergency relief, youth development, counseling, and education. Almost one-fourth of Indiana nonprofits receive some form of government funding, accounting for nearly two-fifths of their revenues.

This brief updates data from a previous analysis of the extent to which LGOs contract with nonprofits as part of a series on nonprofit-government relations in Indiana from the Indiana Nonprofits Project: Scope and Community Dimensions.<sup>2</sup>

### METHODOLOGY

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### KEY FINDINGS

- While most local governments provided services directly, many contracted with other governmental units, nonprofits, or private businesses to meet community needs.
- At least 80% of LGOs relied on internal resources, in part, to provide all but eight of the 29 listed services.
- Only for juvenile detention did more than half of LGOs report using another local government unit to provide services.
- LGOs contracted with nonprofits and/or for-profits just as often as they did with other local governmental units for service delivery.
- Forty percent or less of LGOs contracted with nonprofits to provide each of the 29 listed services.
- LGOs contracted with nonprofits most often to provide mental health, substance abuse prevention and treatment, emergency relief, free/low-cost health care, correctional facility addiction treatment, and child and family welfare services.
- Half of the LGOs contracted with nonprofits to provide at least one service.
- LGOs contracted significantly more frequently with for-profit businesses than nonprofits only for high-speed internet services, solid waste, and property assessment.
- LGO contracting with nonprofits was relatively stable from 2017 to 2020.
- Nonprofit service capacity appears to be a more important consideration for LGO nonprofit contracting than nonprofit contract cost efficiency or LGO capacity to manage contracts.
- To be effective, LGOs must have the skills and capacity to coordinate multiple service arrangements with nonprofits, for-profits, and government units and manage services provided directly.

in Bloomington, Indiana, prepared this study based on data collected from the Indiana Advisory Commission on Intergovernmental Relations (IACIR) 2020 survey. This policy brief examines the service arrangements LGOs used to provide a range of specified services and how service arrangements have changed over time. While they focused primarily on service arrangements with nonprofits, the authors also compared them with contracts awarded to private business firms. Grønbjerg and Schmidt relied mainly on 2020 data but also included comparisons to the 2017 IACIR survey.

Beginning in 2010, IACIR conducted periodic surveys investigating issues affecting Indiana LGOs and residents. The survey included a question about which types of institutions local governments use to examine their service arrangements. The term “service arrangement” refers to reliance on a particular configuration of providers. LGOs form these service arrangements with other local governments and private entities—including both nonprofits and private for-profit firms.

While prior IACIR surveys asked respondents about roughly 18 services, the 2020 survey included additional services likely to involve nonprofit providers, increasing the number to 29.<sup>A</sup> With the 11 additional services, the 2020 survey offered a more comprehensive view of LGO service arrangements than past surveys. However, as these 11 services did not appear in the 2017 survey, they were not included in the analysis of change over time.

For the 2020 survey, 365 LGOs responded. They could choose any or all of four types of service arrangements: (1) “my local government provides this service directly,” (2) “my local government provides this service through an agreement or contract with another local government,” (3) “my local government provides this service through a contract with a private for-profit firm,” and (4) “my local government provides this service through a grant or contract with a nonprofit organization.” Respondents also

could indicate that their local government does not provide the specific service. However, the data shows only whether any of the service providers for a service included nonprofit and/or for-profit organizations. It does not indicate the number of nonprofits or for-profits LGOs contracted with for a service.

The ability to choose multiple service arrangements resulted in a more accurate picture of service arrangements than previous surveys. In 2010 and 2012, respondents could pick only one of four options for each service, which most likely underestimated the extent of contracting.

## FINDINGS

### WHAT ARRANGMENTS DO LOCAL GOVERNMENT OFFICIALS USE TO PROVIDE SERVICES?

The authors examined what types of service arrangements LGOs used for the 29 services and how those arrangements changed over time. In 2020, almost all LGOs indicated they contracted with multiple types of institutions to provide the 29 services indicated above. When LGOs contract with nonprofits, they can access the substantial levels of service capacity that nonprofits provide to Indiana communities, as indicated by the nonprofit paid-employee numbers and total payroll. In 2020, the 285,300 nonprofit-paid employees (excluding volunteers) accounted for almost 10% of the state’s labor force and payroll (more than \$14 billion). In some industries, nonprofits furnished a substantial share of total services. For health and social assistance, nonprofits supplied almost half of all paid employees (45% and 46% respectively). Although nonprofits may have provided these services for a fee, they had access to subsidies to serve those unable to pay in full or at all. For example, nonprofits are exempt from paying corporate income taxes and are eligible to receive private charitable donations from individuals, foundations, and corporations. Government grants and contracts also helped subsidize their services.

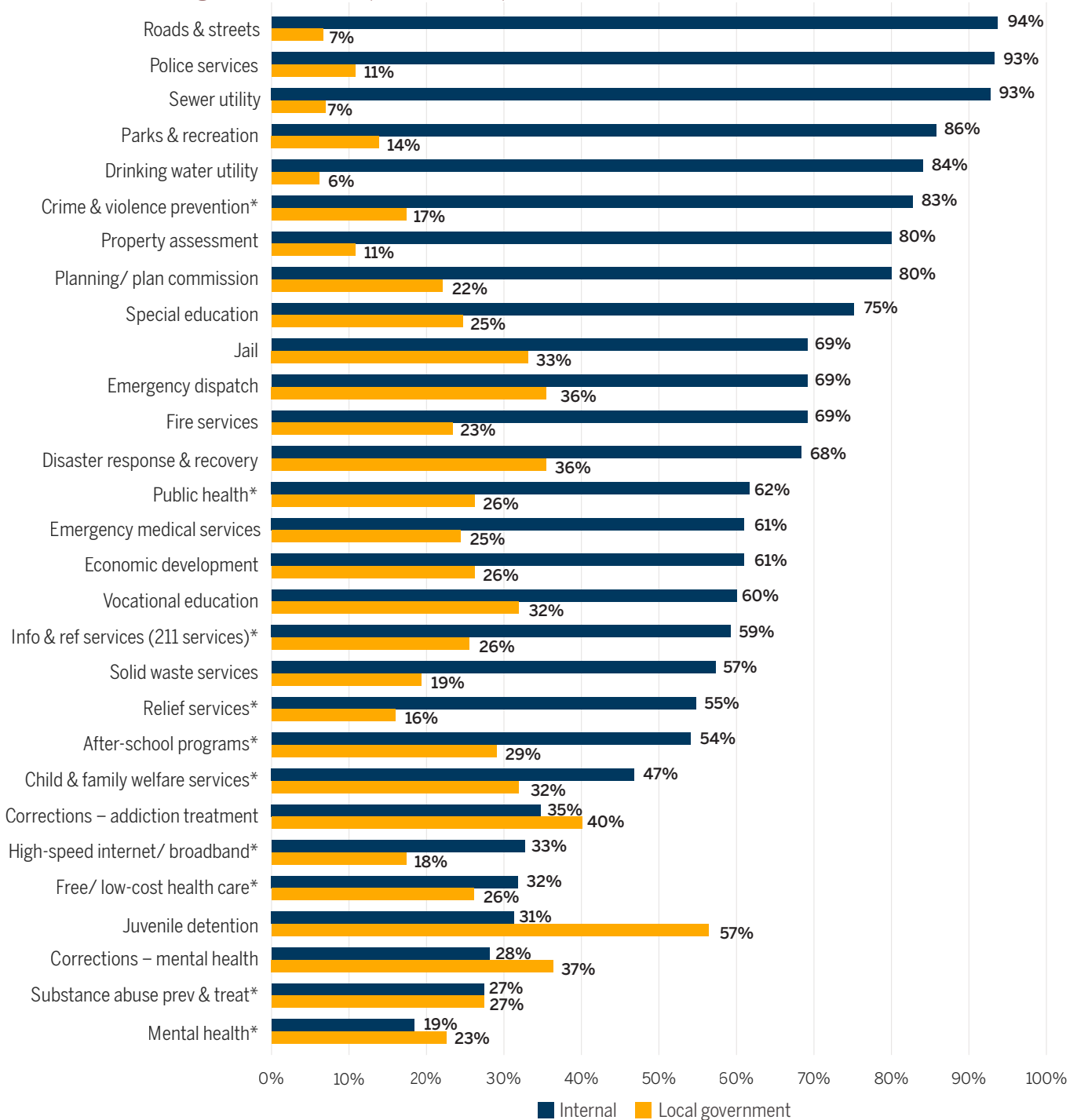
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<sup>A</sup> The services included on the survey were listed as **(1) Child and family welfare services, (2) Public health, (3) Substance abuse prevention and treatment, (4) Mental health, (5) Free/low-cost health care, (6) Relief services (food/shelter), (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. Services listed in bold, are new to the 2020 IACIR survey.**

Figure 1<sup>B</sup> shows the percentage of LGOs who provided the specified services directly (blue bars) and/or contracted with another local government unit (gold bars) for a particular service. Half or more of LGOs used internal resources to provide all but eight services (listed at the

bottom of Figure 1). For eight services (listed at the top of Figure 1), at least 80% of LGOs relied at least in part on their internal resources. Only for juvenile detention did more than half of LGOs report using another unit of local government to provide services.

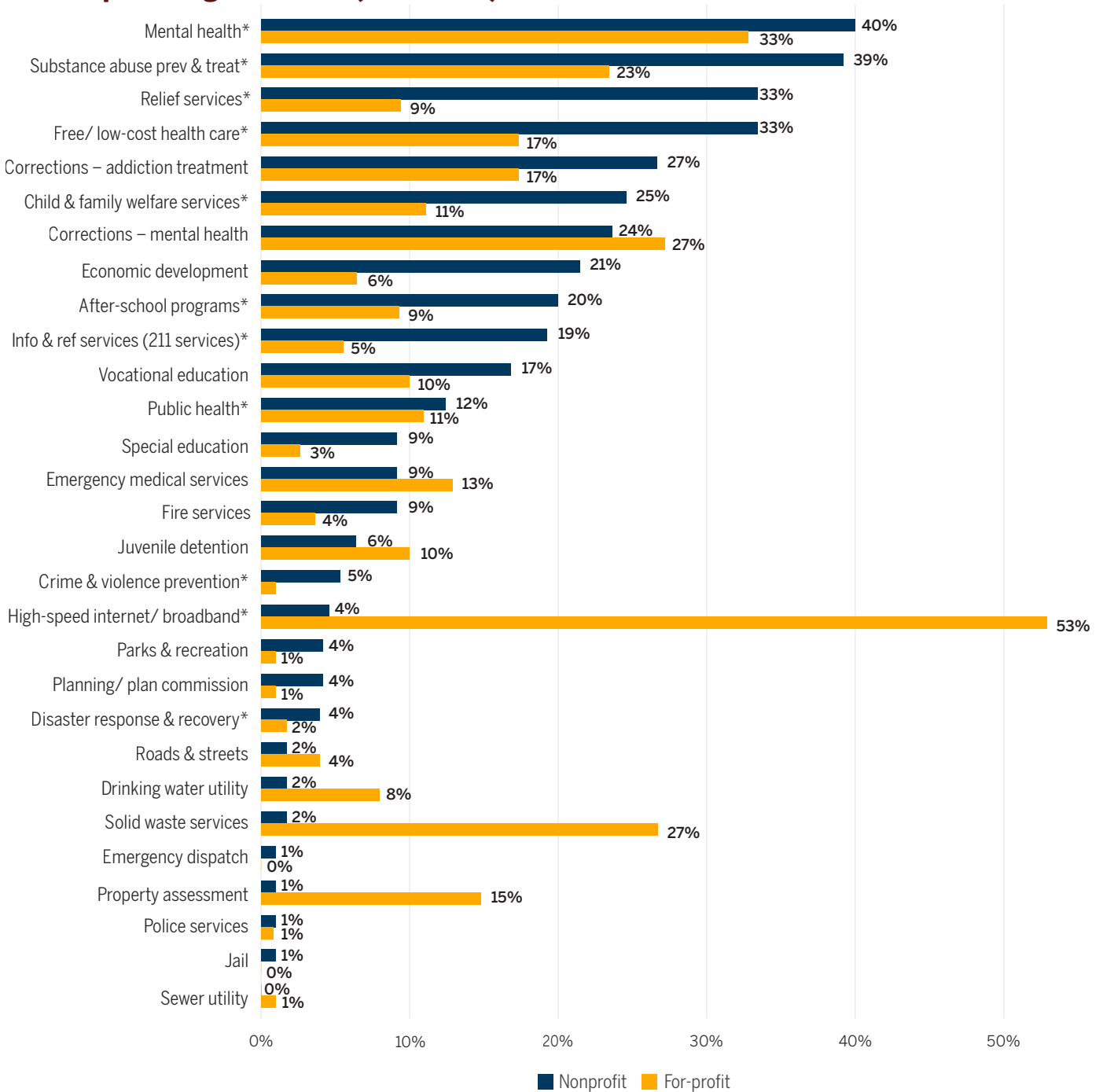
**FIGURE 1. Arrangement(s) LGOs used to provide services directly or through contracts with other local governments (n=72–365)\***



\*Note: The number of LGOs in various elected offices who responded ranged from 72 to 365.

<sup>B</sup> Asterisks in figures 1 and 2 denote new services introduced in the 2020 IACIR survey.

**FIGURE 2. Arrangement(s) LGOs used to provide services through contracts with nonprofit and for-profit organizations (n=72–365)\***



\*Note: The number of LGOs in various elected offices who responded ranged from 72 to 365.

Figure 2 shows the corresponding information for contracting the same 29 services with nonprofit (blue bars) and for-profit (gold bars) providers. Overall, the percentages were notably lower (all 40% or less) than in Figure 1. For eight services, LGOs were more likely to contract with nonprofits than for-profit businesses: child and family services, after-school programs, crime and

violence prevention, free/low-cost healthcare, substance abuse prevention and treatment, information and referral services (211 services provide information about where people can find help for particular problems), economic development, and relief services. Overall, LGOs reported most often using contracts with nonprofits for mental health (40%), substance abuse prevention and treatment

(39%), relief services, free/low-cost health care (both 33%), correctional facility addiction treatment (27%), and child and family services (25%). These are service areas in which nonprofits tend to have significant expertise and staff or volunteer capacity.

LGOs contracted significantly more frequently with for-profit businesses than nonprofits for only three services: high-speed internet services (the only service where more than half of LGOs contracted with for-profits), solid

waste, and property assessment. For-profits generally have considerable expertise and/or can meet the demand for specialized equipment for these services.

### Multiple Service Arrangements

The data analysis indicated that local governments utilized multiple service arrangements for almost all services. For every service (except drinking water utility), at least one LGO reported using two or more types of service providers in 2020. However, the number of contracts LGOs had with each type of provider was not available.

**TABLE 1. Types of multiple service arrangements, Indiana local government officials (LGOs), 2020 (n=365)**

TYPES OF INSTITUTIONS USED TO DELIVER SERVICES	# OF INSTITUTIONS	HEALTH & SOCIAL SERVICES (9)	PUBLIC SAFETY (10)	OTHER SERVICES (10)	TOTAL (29)
Provides directly only	1	None	None	None	
Direct + other gov't	2	9	10	10	100%
<b>Nonprofit + direct</b>	2	<b>8</b>	<b>6</b>	<b>5</b>	<b>48%</b>
<b>Nonprofit + for-profit</b>	2	<b>8</b>	5	2	<b>45%</b>
<b>Nonprofit + other gov't</b>	<b>2</b>	<b>7</b>	5	2	<b>41%</b>
<b>Nonprofit + direct + other gov't + for-profit</b>	4	<b>8</b>	2	4	<b>34%</b>
<b>Nonprofit + direct + for-profit</b>	3	<b>6</b>	5	—	<b>38%</b>
<b>Nonprofit + direct + other gov't</b>	<b>3</b>	3	4	2	<b>24%</b>
<b>Nonprofit + other gov't + for-profit</b>	3	—	2	—	<b>7%</b>
Direct + for-profit	2	5	4	5	31%
Direct + other gov't + for-profit	3	5	5	3	34%
Other gov't + for-profit	2	3	3	4	21%

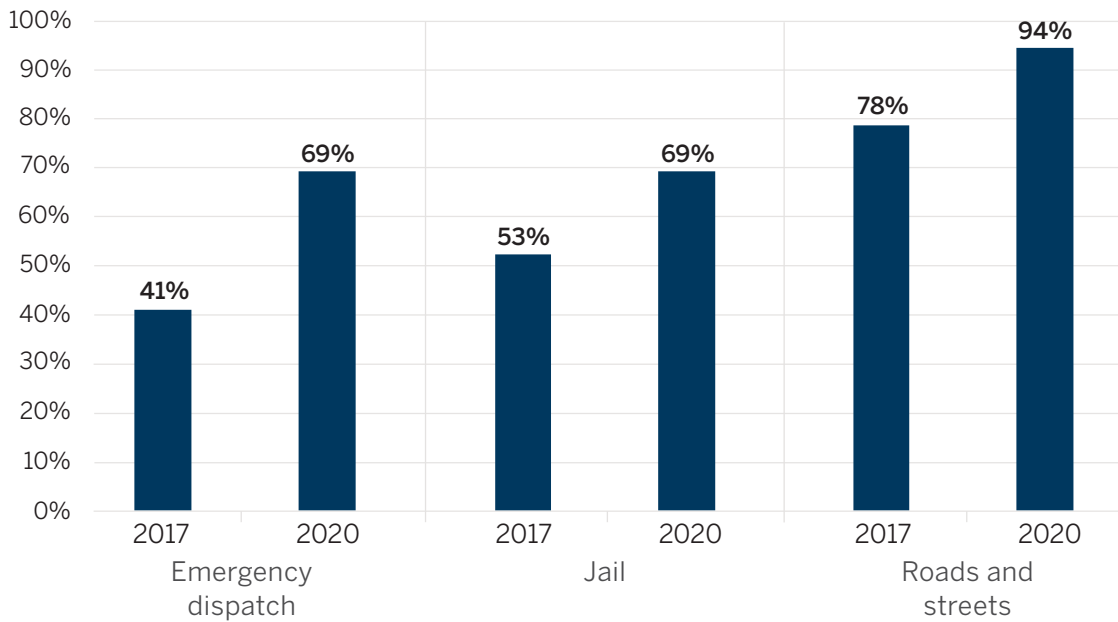
The researchers identified 11 different service arrangement configurations for the 29 services (See Table 1). Five involved three or more institution types (e.g., direct local government, nonprofits, and for-profits). Seven included the LGO's governmental unit and other governmental units. LGOs involved nonprofits and/or for-profits in different service arrangement configurations in equal numbers.

For the 365 LGOs who responded, substance abuse prevention and treatment, addiction services in correctional facilities, economic development, vocational education training (13%), and relief services (12%) most frequently involved a multiple service arrangement. LGOs reported a multiple service arrangement that included a nonprofit for 24 of the 29 services (83%).

### HOW HAVE LOCAL GOVERNMENT OFFICIALS' SERVICE PROVIDERS CHANGED OVER TIME?

The authors examined service changes between 2017 and 2020 for the services included in both years.<sup>3</sup> Figure 3 summarizes the statistically significant changes in service provider types between 2017 and 2020. Overall, the use of service provider types remained remarkably stable over time. Only a handful of services (jail, juvenile detention, roads and streets, police, and emergency dispatch) changed significantly between 2017 and 2020.

**FIGURE 3. LGO internal over time (n=93–286)\***



\*Note: The number of LGOs in various elected offices who responded ranged from 93 to 286.

### **Deliver services directly (Internal resources)**

For 3 of the 5 services with significant changes in service arrangements, more LGOs reported using internal resources in 2020 than in 2017 (see Figure 3). Specifically, the percentage of LGOs who used internal resources increased from 53% in 2017 to 69% in 2020 for jail services, from 78% to 94% for roads and streets, and from 41% to 69% for emergency dispatch.

### **Contracts with another local government**

Significant changes in contracting with other units of local government occurred from 2017 to 2020 for police services and emergency dispatch services. LGOs using other local governments for police services increased from 4% in 2017 to 11% in 2020. However, the use of other local government units for emergency dispatch decreased from 56% to 36%. This decrease corresponds to increases in direct delivery, noted above, and is perhaps linked to changes in how these services were provided.

### **Contracts with nonprofits**

Only one service (juvenile detention) changed significantly when comparing LGO contracting with nonprofits in 2017 and 2020. As seen in Figure 4, using nonprofits to provide juvenile detention increased significantly from 0% in 2017

to 6% in 2020. However, the percentage was still tiny in 2020.

Changes in both types of corrections-related services were only borderline significant<sup>c</sup> but grew much from 2017 to 2020. LGOs' use of nonprofits for corrections—mental health rose from 14% in 2017 to 24% in 2020. For corrections—addiction treatment, LGO contracting with nonprofits rose from 15% to 27%. Although these changes in corrections-related services only held borderline significance, they had practical implications for nonprofits. Therefore, they are highlighted.

The 2020 survey added 11 services that were not included in the 2017 survey. For five of these—mental health, substance abuse prevention, relief services, free or low-cost health care, and child and family welfare services—at least one-quarter of LGOs reported contracting with nonprofits. The other six new services—after-school programs, info and relief services, public health, violence and crime prevention, high-speed internet, and disaster response and recovery—also involved some level of contracting with nonprofits (20% to 4%).

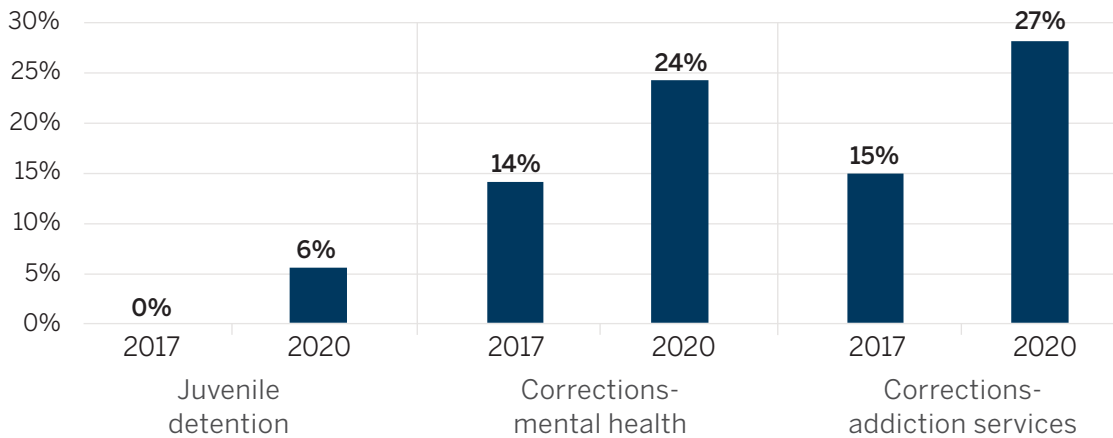
<sup>c</sup> Denoted by asterisks in Figure 4.

### Contracts with for-profits

Only one for-profit service changed significantly in contracting between 2017 and 2020. The percent of LGOs contracting with a private, for-profit firm to provide roads and street services decreased from 17% in 2017 to

4% in 2020, corresponding to an increase in the use of internal resources for these services noted above. Table 2 summarizes the significant contracting changes according to service provider types, comparing 2020 and 2017.

**FIGURE 4. LGOs contracting with nonprofits over time (n=93–286)\***



\*Note: The number of LGOs in various elected offices who responded ranged from 93 to 286.

**TABLE 2. Service arrangements that changed significantly over time, 2017–20**

SERVICES	INTERNAL	OTHER LOCAL GOV	NONPROFIT	FOR-PROFIT
Jail	+			
Juvenile detention			+	
Roads and streets	+			-
Police services		+		
Emergency dispatch	+	-		

## CONCLUSIONS AND IMPLICATIONS

While most local governments provide services directly, many also routinely contract with other institutions to provide services to their constituents—even for the same service the local government provided. Each type of provider—other units of government, nonprofits, or private businesses—operates with distinctive legal and financial incentive structures and represents distinctive service arrangements. Because LGOs frequently engage in multiple service arrangements involving other government units, nonprofits, and for-profits, LGOs must have the skills and capacity to coordinate these arrangements and manage services provided directly to be effective.

Prior IACIR surveys asked respondents about roughly 18 services for which they may contract with outside organizations for service provision. The 2020 survey included 11 new services directly related to nonprofits—such as general mental health and free/low-cost health services. However, as these 11 services did not appear in the 2017 survey, they were not included in the analysis of change over time.

Nonprofits and for-profit businesses were part of the service arrangements for almost all the 29 services examined. Overall, LGOs contracted with nonprofits much less often than they relied on their own internal resources to provide the 29 services included in the 2020 IACIR survey. At least 80% of LGOs relied, in part, on internal resources for all but

eight of the services, while they contracted with nonprofits for all at 40% or less.

For the 29 listed services, LGOs reported that they contract the most with nonprofits to provide mental health (40%), substance abuse prevention and treatment (39%), emergency relief (33%), free/low-cost health care (33%), addiction treatment in correctional facilities (27%), and child and family welfare services (25%). LGOs contracted significantly more frequently with for-profit businesses than nonprofits for only three services: high-speed internet services (the only service where more than half of LGOs contracted with for-profits), solid waste, and property assessment. For-profits generally have considerable expertise and/or can meet the demand for specialized equipment for these services.

Future LGO surveys should continue to include all services listed in 2020 to produce a more comprehensive picture

of changes in LGO contracting with nonprofits over time. Moreover, if the survey included other services nonprofits commonly provide—such as low-income housing—the percentage of LGOs contracting with nonprofits would likely be higher. However, regardless of whether additional services were included, it is likely that the dominant practice will most likely remain the same, with local governments providing most services directly and/or relying on collaborative service arrangements with other local governmental units.

A previous report showed when LGOs contract with nonprofits they give particular importance to overall nonprofit service capacity—especially service quality and effectiveness. Grønberg also considered the efficiency of LGO contracting with nonprofits and their own capacity to manage the contract system. Overall nonprofit service capacity seems more important than contract cost efficiency and LGO management capacities.



## REFERENCES

- 1 Grønbjerg, K.A., Bardon, Z., & McAvoy, E. (2022, October). *Indiana Local Government Officials' Trust in Nonprofits*. Indiana Local Government Officials and the Indiana Nonprofit Sector Report Series, Briefing Number Thirteen. Indiana University Paul H. O'Neill School of Public and Environmental Affairs.
- 2 Indiana Nonprofits Project. (n.d.). *Local Government Officials Survey*. Indiana University. <https://nonprofit.indiana.edu/research-results/local-government-officials-survey.html>
- 3 For changes in service arrangements from 2010 to 2017, see Grønbjerg, K. & McAvoy, E. (2020, September). *Indiana Local Government Officials' Contracts with Nonprofits*. Indiana Local Government Officials and the Indiana Nonprofit Sector Report Series, Briefing Number Ten. Indiana University Paul H. O'Neill School of Public and Environmental Affairs.

## FURTHER READING

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



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