

Indiana Local Government Officials and the Nonprofit Sector Report Series

Indiana Local Government Officials' Opinions on Working Relationships with Nonprofits

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In this briefing, we examine how local government officials (LGOs) assess working relationships with nonprofits and various institutions, and how these assessments have changed from 2012 to 2017 (see previous briefings on this topic: <u>Fall 2015</u>, <u>Spring 2018</u>). It is part of a series on nonprofit-government relations in Indiana from the <u>Indiana Nonprofits Project:</u> <u>Scope and Community Dimensions</u>. Other briefings have examined 2-1-1 services, payments in lieu of taxes (PILOTs), and LGO trust in nonprofits.

The data for these briefings come from periodic surveys by the *Indiana Advisory Commission on Intergovernmental Relations* (IACIR) on issues affecting local governments and residents in Indiana. We rely mainly on data from the 2017 survey, but include comparisons to the 2010, 2012, and 2014 surveys.¹

Why are Working Relationships with Nonprofits Important for LGOs?

Local government officials routinely work with a large number of institutions in order to carry out their work. They coordinate activities with

Quick Facts:

- Local government officials (LGOs) routinely work with nonprofits, businesses, and all forms of government. When asked to assess those relationships, LGOs have consistently (from 2012 to 2017) ranked working relationships with nonprofits as the most positive.
- LGOs consistently view working relationships with nonprofits as significantly more positive than their relationships with federal, state, county, city, and town governments (also from 2012 to 2017).
- LGOs rate working relationships with nonprofits generally more positively if they hold office in a central-city metropolitan county, if voter participation in their county is high, and if the direction their community is heading is positive (as reported by LGOs).
- LGOs rate working relationships with nonprofits more negatively if average aggregate income for public charities in the county is high and if current community conditions are a major problem (as reported by LGOs).

¹ The IACIR surveyed 1,148 local government officials (LGOs) in 2010 (effective response rate of 35%), 1,185 in 2012 (effective response rate of 35%), 2,441 in 2014 (effective response rate of 26%), and 1,381 in 2017 (effective response rate of 33%). See www.iacir.spea.iupui.edu/publications.htm.

other units of local government in their region. They must adhere to state and federal laws and regulations that pertain to their work, request and satisfy conditions for securing state and federal funding, etc. They also interact extensively with local nonprofits and businesses regulating their activities, seeking to shape their investments, responding to their requests for services, or needing their expertise.

A vibrant business community is clearly important for LGOs because of the contributions businesses make to the local economy – the loss of a major employer can devastate local communities. However, the nonprofit sector is also important for LGOs. Statewide, nonprofits employed more than 290,000 workers (not counting volunteers), or about 9.6 percent of the paid labor force, and reported payrolls of more than \$14 billion, or about 9.9 percent of Indiana total payroll, in 2018.²

Nonprofits also serve as mobilizing forces in local communities – identifying issues to be addressed, recruiting volunteers, organizing constituency groups, strengthening social capital, etc. They are particularly important to LGOs because of the range of services they deliver – health, social services, housing, community development, arts and culture, education, youth development, environmental protection, etc. These services enhance the quality of life and meet important needs in local communities. While LGOs may provide some of these services directly, almost all count on local charities and nonprofits to complement, supplement, or provide such services.

Because LGOs rely on nonprofits to deliver services, good working relationships with local nonprofits are important to LGOs. Good working relationships allow for effective coordination of activities and quicker resolution of problems. Good working relationships with LGOs are also important to nonprofits – they depend on ongoing public funding to subsidize many of the services they deliver.

Previous research has shown that working relationships and trust are closely intertwined.³ Most likely, this is a mutually reinforcing process: trusted partners can more easily work out disagreements and work effectively together. Also, over time, a good working relationship may demonstrate that partners act responsibly and are trustworthy. In either case, transaction costs will be lower for both parties, allowing for more streamlined communication, less need to monitor the other party's efforts, and fewer unanticipated obstacles.

How do LGOs Assess their Working Relationships with Various Institutions?

The 2017 survey of Indiana LGOs included a question asking LGOs to assess their working relationships with federal, state, county, city, town, and township governments; school, library, and other special districts; local businesses; and local charities and other nonprofits. Response options ranged from 1 (very negative) to 5 (very positive).

² Grønbjerg, Kirsten and Anjali Bhatt, *Nonprofit Paid Employment in Social Assistance: Update Report, Indiana 1995-2018*, Indiana Nonprofits Project Nonprofit Employment: Industry Series, Report Number Twelve (Bloomington, IN: Indiana University O'Neill School of Public and Environmental Affairs, 2020).

³ Grønbjerg, Kirsten and Kellie McGiverin-Bohan, with Angela Gallagher, Lauren Dula, and Rachel Miller, *Indiana Government Officials and Trust in Nonprofits*, Indiana Local Government Officials and the Indiana Nonprofit Sector Report Series, Briefing Number Four (Bloomington, IN: Indiana University School of Public and Environmental Affairs, 2016).

A large majority of LGOs reported very or somewhat positive working relationships with all types of institutions, except the federal government. As Figure 1 shows, about fourfifths of LGOs reported very or somewhat positive working relationships with nonprofits and local businesses (both 82 percent). About three-fourths reported similarly positive working relationships with schools (77 percent), townships (75 percent), and county governments (74 percent). Slightly fewer provided positive assessments for libraries and city and town governments (all three 70 percent), and state government (68 percent).

LGOs were less likely to provide similarly positive assessments of their working relationships with other special districts and the federal government (respectively 55 and 46 percent). Notably, only one-fourth rated working relationships with the state government and other special districts very positively (28 and 27 percent respectively), and less than one-fifth did so with regard to the federal government (17 percent).

LGOs were most likely to give ambivalent ratings (neither positive nor negative) to their working relationships with federal government and other special districts (43 percent each), compared to only about one-fifth for all the other institutions included (16-27 percent). About one-tenth rated working relationships with the federal and state government as negative (11 and 12 percent respectively). These ambivalent and/or negative assessments may reflect the power that the federal and state government hold over local government units – the latter depend on federal and state funding for a significant share of their revenues⁴ and they must abide by overarching state and federal policies. Possibly, the distance and



Figure 1: LGOs' Assessment of Working Relationships (n=213-372)

⁴ According to the 2015 Annual Survey of Government, federal and state funding accounted for 35 percent of total revenues available to local governmental units in Indiana, and 38 percent of total general revenue. Retrieved from https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SLF_2015_00A1&prodType=table, November 6, 2019.

lack of familiarity between LGOs and federal and state officials also play a role.

To facilitate further analysis, we computed the average rating score for each of the eleven institutions included in Figure 1 where 5 is very positive, 1 is very negative, and 3 is neutral (neither positive nor negative). As Figure 2 shows, average scores range from a high of 4.2 for local nonprofits/charities, local business, and local schools to lows of 3.8 for state government and other special districts and 3.5 for the federal government. Notably, all average scores are above 3, indicating overall positive or neutral working relationships across all eleven institutions.

Because we are particularly interested in how LGOs rate their working relationships with nonprofits, we examine how the high average score for local nonprofits and charities compares to the average scores for the ten other institutions included in the survey.⁵ Four of the comparisons revealed no significant differences; average ratings for local nonprofits and charities were similar to those for local businesses, schools, township governments, and libraries. All four are local institutions (e.g., not state or federal), are relatively autonomous from other governmental units, and have no broad legislative authority. Ratings for local nonprofits and charities were significantly higher than for the remaining six institutions: federal, state, county, city, and town governments and other special districts.

To further explore these findings, we examine whether LGOs' assessment of working relationships with each of the eleven institutions group in some way. Our statistical analysis⁶ reveals two underlying groupings for 2017. As we expected, LGOs assess working relationships





 ⁵ We computed 95 percent confidence intervals for each of the average ratings to determine whether the intervals overlapped for each comparison. If they do, the means are not significantly different from one another.
⁶ The two groups were created using factor and reliability analysis.

with nonprofits very similarly to how they view relationships with local businesses, schools, libraries, and other districts. The second grouping consists of federal, state, county, city, town, and township governments, suggesting that LGOs have similar views of working relationships with these general purpose governments.

How Have LGOs' Working Relationships Changed Over Time?

We are able to examine whether LGOs' working relationships have changed from 2010 to 2017 for county, city, town, and township governments and school and library districts. We are only able to examine whether LGOs' working relationships have changed from 2012 to 2017 for local nonprofits, local businesses, and federal and state government since no similar questions were asked in the 2010 survey. We excluded other special districts from this analysis because it is a residual and therefore not defined identically in all four years.

We find that average working relationship scores were stable over time for local nonprofits, businesses, schools, and libraries, as well as for federal, county, city, and township governments.⁷ However, there were significant changes over time in how LGOs rate working relationships with state and town governments. As Figure 3 shows, LGOs rated their working relationships with state government significantly higher in 2017 (average of 3.8) than in 2012 (3.3) or 2014 (3.4), with most of the changes occurring between 2014 and 2017. There is no significant difference between 2012 and 2014.





⁷ We computed 95 percent confidence intervals for the average score for each institution to see whether the confidence interval overlaps with the corresponding confidence interval for a different year. If there is an overlap, the percentages are not significantly different.

For town governments, there is a significant difference only when comparing 2010 to 2012. The average working relationship score dropped from 4.2 in 2010 to 4.0 in 2012, but has remained stable since then.

We also find that there have been changes in how working relationships with nonprofits compare to other institutions at various points in time. Average scores for nonprofits have been stable at 4.2 throughout the period.

As we noted earlier, in 2017, LGOs rated working relationships with nonprofits significantly higher than the corresponding scores for federal, state, county, city, and town governments. That pattern has persisted since 2012, the earliest year where these comparisons are possible (see Table 1). However, in 2014, scores for nonprofit working relationships were also significantly higher than the corresponding scores for libraries and townships. Only local schools and businesses had very similar scores as local nonprofits/charities. In 2012, nonprofit working relationships were significantly higher for eight of the nine institutions, including schools, leaving only local businesses with a similar score.

In short, LGOs have consistently rated working relationships with local nonprofits and local businesses equally positive since 2012. By 2017, LGOs gave similarly high ratings to several other institutions – schools, libraries, and townships. Put another way, while LGOs continue to view working relationships with local nonprofits and charities very positively, local nonprofits and charities have lost some of their comparative advantage.

Table 1: Institutions in which Working Relationships with Nonprofits are Significantly more Positive than

Other Type of Institutions	2012	2014	2017
Local Business			
School	+		
Library	+	+	
Township Government	+	+	
Federal Government	+	+	+
State Government	+	+	+
County Government	+	+	+
City Government	+	+	+
Town Government	+	+	+

What Explains LGOs' Assessment of Working Relationships with Nonprofits?

We are interested in understanding which factors influence how LGOs view working relationships with nonprofits. We consider several groups of explanatory factors: (1) location and characteristics of the LGOs themselves; (2) community conditions; (3) scope of nonprofits in the county; and (4) service arrangements with nonprofits.⁸ In order to capture these potential explanatory factors, we used responses to the 2017 IACIR survey of LGOs together with county-level information about the community each LGO represents.

We performed multivariate analysis to determine which combination of explanatory factors predict LGOs' working relationships with nonprofits, controlling for all other factors. Because some of the explanatory factors are highly intercorrelated, we explore several alternative models. In the findings presented below, we highlight only those factors that appear to be

⁸ Descriptive statistics for the variables described below is available upon request.

significant in the final multivariate analysis.

LGO Characteristics

We consider the type of position LGOs hold in local government (e.g., mayor, township trustee, city council member) because some LGO positions are more likely to interact with nonprofits than others. We also include a measure of LGOs' service length⁹ and where the LGO is located.¹⁰ LGOs in smaller communities may have more familiarity with local nonprofits, but also fewer nonprofits to interact with. It is unclear how this may affect their view of working relationships with local nonprofits, so this analysis is exploratory.

In our multivariate analysis, only metropolitan location is significant. LGOs in central-city metropolitan counties provide a significantly more positive assessment of working relationship with nonprofits than nonmetropolitan counties (not displayed).^{11, 12}

Community Conditions

We also consider a variety of community and political conditions. We include voter participation as an indicator of political and civic engagement and expect it to be positively related to positive working relationships with nonprofits. We include several measures of community conditions: percent unemployed and two that reflect how LGOs perceive their own community. The latter measures whether LGOs report that their community conditions across a broad array of indicators present a major, moderate, or minor/no problem. The second measures how LGOs feel about the general direction their community is headed from very pessimistic to very optimistic.

We expect working relationships to be viewed more positively if voter participation is high and if community conditions have improved over the past year. We are uncertain how current community conditions may affect how LGOs assess their working relationships with nonprofits. However, it seems likely that LGOs may view working relationships with nonprofits more positively if community conditions are relatively unproblematic and more negatively if they see major problems in their communities.

In our multivariate analysis, voter participation, current community conditions, and general direction the community is headed are significant and all align with our expectations. LGOs in counties with high voter participation provide a significantly more positive assessment of working relationships with nonprofits (not displayed).¹³ LGOs who report more problematic community conditions provide a significantly more negative assessment of working relationships with nonprofits (Figure 4). LGOs who report that the direction their community is heading is more optimistic

⁹ We explore two measures of service length: how long the LGO has been in his/her current position and how long the LGO has held a position in local government. Both indicators are highly correlated with one another, so we explore alternative models, including first one and then the other. The years in current position provides the more powerful predictor of working relationship, so we use that variable in our final model.

¹⁰ We explore two definitions of rural communities: whether the largest town in the county has fewer than 10,000 residents and whether it is a metropolitan-central county, metropolitan-ring county, or non-metropolitan county. The latter is a better predictor of working relationship, so we use that variable in our final model.

¹¹ We used nonmetropolitan counties as the reference category in all the multivariate analyses.

¹² Metropolitan location graph is not displayed because the bivariate relationship is not significant and does not show a distinct trend.

¹³ Voter participation graph is not displayed because the bivariate relationship does not show a distinct trend.

provide a significantly more positive assessment of working relationships with nonprofits (Figure 5).



Least problematic third Middle problematic third Most problematic third



Scope of Nonprofits

We also consider the scope of nonprofits in the community. The sheer number of nonprofits in the community may also be important and present challenges to LGOs in terms of identifying which nonprofits to work with. Similarly, the presence of large nonprofits may introduce complex power dynamics and make the relationships with local nonprofits and charities more difficult to manage. We explore several measures of nonprofit scope in our analysis, but present average aggregate income reported by IRS-registered 501(c)(3) charities as the best measure for this analysis.¹⁴

In our multivariate analysis, average aggregate income reported by IRS-registered 501(c)(3) charities is significant. LGOs holding office in a county where charities have high incomes (as indicated by average aggregate income reported by 501 (c)(3) nonprofits) provide a significantly more negative assessment of working relationships with nonprofits (not displayed).¹⁵

Service Arrangements with Nonprofits

Finally, we consider two measures of existing service arrangements with nonprofits because we suspect that the presence of such arrangements provides greater opportunities for LGOs to observe nonprofits in action. One measure is a simple indicator of whether the local government represented by LGO has established alternative service arrangements with local nonprofits, given its own financial resources. A second measure captures whether the local government the LGO represents provides any of 18 specific services through a contract with local nonprofits. Unfortunately, many of the 18 services are not particularly relevant for nonprofits (e.g., roads and streets, sewers, jails, and property assessment), while others that might be relevant (e.g., housing or counseling) are not included.

Neither of these two explanatory factors is

¹⁴ We explore two measures of scope of nonprofits: total number of IRS-registered 501(c)(3) charities, nonprofits who are registered as charities under the IRS tax section 501(c)(3), with reporting addresses in the county and the average aggregate income reported by those charities. Both indicators are highly skewed, so we use the natural log value. They are also highly correlated with one another, so we explore alternative models, including first one and then the other. The log value of the average aggregate charitable income provides the more powerful predictor of working relationship, so we use that in our final model.

¹⁵ Average aggregate income reported by 501(c)(3) nonprofits graph is not displayed because the bivariate relationship is not significant and does not show a distinct trend.

significant in the multivariate analysis.

Working Relations with Nonprofits: Summary The final multivariate analysis of working relationships with nonprofits is highly significant and explains 22 percent of the variance for LGOs' working relationships with nonprofits after adjusting for the number of explanatory factors (see the first column in the Appendix Table). Five predictors are significant in the final analysis, one representing LGO characteristics, three capturing community conditions, and one measuring nonprofit scope. Neither measure of nonprofit service arrangements is significant.

The multivariate analysis shows that LGOs who hold office in a central-city metropolitan county are significantly more likely to view working relationships with nonprofits as positive, controlling for all other factors. We do not know whether this reflects the larger scope of local government in metropolitan cities and therefore, more formalized relations with local nonprofits.

Also, LGOs holding office in a county with high voter participation are significantly more likely to have positive working relationships with nonprofits, suggesting that strong civic and political engagement promote stronger working relationships, as we expected.

As expected, LGOs who report that their community is moving in a positive direction are more likely to say that working relationships with nonprofits are positive. Correspondingly, those who say current community conditions are a major problem are less likely to view working relationships with nonprofits as positive. These findings suggest that working relationships between LGOs and nonprofit organizations are strongly tied to community conditions. However, we do not know the causal direction of the relationship – whether good community conditions make it easier for stronger working relationships to develop or whether strong working relationships with nonprofits are important for strengthening the local community.

Finally, LGOs holding office in a county where charities have high incomes (as indicated by average aggregate income reported by 501 (c)(3) nonprofits) are less likely to have positive working relationships with nonprofits. Average aggregate income is likely driven more by the presence of large, wealthy nonprofits rather than the presence of many smaller ones. The former pattern may introduce more complex power dynamics in how local governments relate to local nonprofits and charities in their communities.

What Explains LGOs' Assessment of Working **Relationships with General Purpose** Governments and Other Local Institutions? As we noted earlier, LGOs view working relationships with nonprofits very similarly to how they view working relationships with a group of other local institutions - local businesses, schools, libraries, and other special districts. We therefore explore whether the factors that are significant in predicting positive working relationships with nonprofits are also significant in predicting positive relationships with all of these other local institutions (including local charities and nonprofits). We also explore whether the same factors are significant in predicting positive working relationships with the six types of general purpose governments – federal, state, county, city, town, and township governments.

To do so, we first compute the average assessment score for each respondent for the five

types of other local institutions (including local nonprofits and charities) and the average assessment score for each respondent for the six types of general purpose governments.

The last two columns in the Appendix Table summarize the results of our multivariate analyses to determine which combination of factors best predict whether LGOs have positive assessments of working relationships with other local institutions and with general purpose governments. The results for other local institutions, which includes local charities and other nonprofits, are shown in column 2, and those for general purpose governments are presented in column 3. Both analyses are highly significant and explain respectively 18 and 14 percent of the variance in working relationships with the two clusters of other local institutions and general purpose governments considering all explanatory factors at once.

Community Conditions/Changes.

Our analysis of other local institutions, including local charities and other nonprofits, find only one significant predictor: how LGOs think the general direction their community is headed. As noted earlier, that factor was also significant in predicting positive working relationships with local charities and non-profits. And it is also significant in predicting working relationships with general purpose government.

Regardless of which working relationships are considered – other local institutions (Figure 6) or general purpose governments (Figure 7) – LGOs rate them more positively if they report that the general direction their community is headed is positive. We do not know whether improved community conditions are the result of more positive working relationships or whether better conditions help reduce frictions and tensions in working with other institutions in the community. Possibly both processes operate.



Figure 7: Average Working Relationships with General Purpose Governmental Units by Community Direction by (n=77-156)



LGO Characteristics.

For working relationships with general purpose governments, only one other predictor is significant – the position held by LGOs. Controlling for all other factors, school board members are significantly less likely to view working relationships with general purpose governments positively compared to township trustees¹⁶ (Figure 8).

¹⁶ Township trustees was used as the reference category in all the multivariate analyses.



Figure 8: Average Working Relationships for General Purpose Gov by LGO Position (n=24-138) $\,$

Summary and Conclusions

Local government officials routinely work with a large number of institutions in order to carry out their work. We have examined how LGOs rate their working relationships with local nonprofits and charities and how that compares to working relationships with a range of various institutions. We have also examined under which conditions LGOs' working relationships with nonprofits, other local institutions, and general purpose governments appear to be most positive.

LGOs consistently rank working relationships with nonprofits/charities as the most positive, compared to nine other institutions. In 2012, local nonprofits had significantly more positive ratings than eight of the other institutions. Only local businesses had similarly high ratings. By 2017, working relationships with nonprofits were significantly more positive only in comparison to federal, state, county, city, and town governments. LGOs' working relationships with libraries, schools, and township governments were no longer significantly different from those with nonprofits.

Our multivariate analysis allows us to identify which combination of factors best explains LGOs' working relationships with nonprofits, with other local institutions (including nonprofits), and with general purpose governments, controlling for all other factors. Notably, our models are highly significant and explain between 14 and 22 percent of the variance in LGOs' working relationships with nonprofits, with other local institutions (including nonprofits), and with general purpose governments considering all explanatory factors at once.

Our findings point to the importance of conditions in the communities LGOs represent. LGOs' working relationships with nonprofits are generally more positive if LGOs hold office in a central-city metropolitan county, if voter participation is high, and if the direction the community is heading is positive (as reported by LGOs). On the other hand, LGOs' working relationships with nonprofits are generally less positive if current community conditions are a major problem (as reported by LGOs) and if average aggregate income by registered charities is high.

LGOs' assessment of working relationships with a cluster of other local institutions – nonprofits, businesses, schools, libraries, and other special districts – is significantly more positive if they are optimistic about the general direction their community is heading. The same holds for their assessment of working relationships with a cluster of general purpose governments – federal, state, county, city, town, and township governments. For this latter cluster, it also matters which position LGOs hold. School board members view working relationships significantly less positively compared to township trustees.

We note that the current COVID-19 pandemic will inevitably result in more problematic community conditions; some communities will be

particularly hard hit. Responding to the pandemic will certainly test LGOs' working relationships with a full range of other institutions. Our findings suggest that under these conditions working relationships with local nonprofits and charities may come to be viewed less positively, although perhaps only in the short run. Alternatively, LGOs may come to appreciate the many positive contributions local nonprofits and charities make to local communities. The same dynamics may hold for how LGOs assess working relationships with all other institutions and general purpose government. Much, however, will depend on how the various institutions respond to the crisis. We plan to monitor these developments.

We hope that this briefing will be helpful to local government officials in Indiana and to the state's many nonprofit organizations, as they seek to more fully understand and improve relationships between local government officials and nonprofits.

Acknowledgements

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Appendix Table Significant Predictors of Working Relationships with Nonprofits and Two Clusters of Institutions; Indiana Local Government Officials, 2017

Explanatory factors	Local Charities and Other Nonprofits	Other Local Institutions, including nonprofits	General Purpose Governments
Central City Metropolitan County	+		
School Board Member			-
Voter Participation Rate (2016)	+		
Direction the Community is Heading	+	+	+
Problematic Community Conditions	-		
Average Income Reported by c3 Nonprofits	-		
Overall Significance Level	.000	.000	.000
Number of Cases	300	316	320
Adjusted Proportion of Variation Predicted	.215	.178	.135

<u>Notes</u>: Only factors that are significant at the p.05 level of significance in the overall prediction equation are included in the table. Coefficients are flagged with + if this factor is positively associated and with – if this factor is negatively associated with LGOs' working relationships. Voter participation data are from the general election in 2016 and was obtained from the Indiana Secretary of State (see <u>https://www.in.gov/sos/elections/2983.htm</u>). Metropolitan data are based on Indiana's metropolitan statistical areas as defined in February 2013 and was obtained from STATS Indiana (<u>www.stats.indiana.edu/maptools/maps/boundary/indianametros.pdf</u>). Average income reported by 501 (c)(3) nonprofits data are from IRS-registered 501(c)(3) charities with reporting addresses in Indiana and were obtained from the 2017 IRS Business Master File. All other data are based on responses to the 2017 survey of Indiana local government officials conducted by the Indiana Advisory Commission for Intergovernmental Relations. For information about the survey, see <u>www.iacir.spea.iupui.edu/</u> and follow link to "Intergovernmental Issue in Indiana: 2017 IACIR Survey."





