

# How Local Governments Work with Nonprofit Organizations in North Carolina

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Over the past two decades and especially during the 1990s, local governments all across the United States have increased their involvement with nonprofit organizations. As municipal and county governments deal with “devolution” (transfer) of public service responsibilities from state and federal governments, they face the challenges of providing more and better service while meeting difficult fiscal limits. To help take on these challenges, many have involved nonprofits in service delivery, drawing on these organizations’ volunteers and private financial resources, as well as their greater flexibility of action. Some nonprofits also have become very skilled as advocates for the clients they serve, making persuasive appeals for public funding of their work or otherwise helping shape governments’ priorities. In some cases, nonprofits and local governments have partnered to develop and implement public service programs jointly.<sup>1</sup>

What is the situation in North Carolina? This article presents an overview of how North Carolina municipalities and counties are involved with nonprofit organizations in their communities.<sup>2</sup> Because governments’ funding of nonprofits is the most frequent sort of continuing relationship between the two types of organizations, the article looks in greatest detail at local governments’ funding processes and reporting requirements for non-

*Volunteers with the nonprofit organization Habitat for Humanity frame a house being built on land donated by Durham.*



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DURHAM HABITAT FOR HUMANITY

**TABLE 1. STUDY RESPONDENTS**

Population, 1997	N.C. Total	# Responding	% Responding
<b>Cities</b>			
Less than 1,000	237	14	6
1,000–4,999	194	72	37
5,000–9,999	47	32	68
10,000–24,999	35	24	69
25,000–49,999	9	5	56
50,000–99,999	8	8	100
100,000 and up	6	6	100
<b>Total</b>	<b>536</b>	<b>161</b>	<b>30</b>
<b>Counties</b>			
Less than 25,000	29	15	52
25,000–49,999	25	11	44
50,000–99,999	23	13	57
100,000–199,999	18	12	67
200,000 and up	5	5	100
<b>Total</b>	<b>100</b>	<b>56</b>	<b>56</b>

profits. Other important relationships also are outlined.

**A Definition**

The term “nonprofit organization” refers to a corporation whose charter prohibits the distribution of profits to officers or members. Nonprofits thus are private entities. Each has articles of incorporation stating its purpose, and a volunteer board of directors responsible for the corporation.

There are many kinds of nonprofit organizations. Some are clubs or other organizations (like mutual insurance companies) that exist to serve their members. Others have a public service purpose. If a nonprofit’s purpose is religious, educational, charitable, scientific, literary, or cultural, it can qualify for special tax status under the U.S. Internal Revenue Code’s Section 501(c)3. Donations to 501(c)3 organizations are tax-deductible, and this encourages private giving to support them. Most of the nonprofits to which local governments allocate public funds

**TABLE 2. LOCAL GOVERNMENTS’ RELATIONSHIPS WITH NONPROFIT ORGANIZATIONS**

Population, 1997	# Responding	% Planning Jointly	% Coordinating Service Delivery	% Developing Programs Together	% Providing In-Kind Support	% Budgeting Funds
<b>Cities</b>						
Less than 1,000	14	21	21	7	50	64
1,000–4,999	72	26	18	24	56	68
5,000–9,999	32	34	34	41	63	88
10,000–24,999	24	33	42	42	67	96
25,000–49,999	5	40	20	40	80	100
50,000–99,999	8	50	75	63	100	88
100,000 and up	6	67	100	50	100	100
<b>Total</b>	<b>161</b>	<b>32</b>	<b>31</b>	<b>32</b>	<b>63</b>	<b>79</b>
<b>Counties</b>						
Less than 25,000	15	60	47	33	31	93
25,000–49,999	11	45	55	36	32	91
50,000–99,999	13	38	23	38	39	92
100,000–199,999	12	50	42	25	28	100
200,000 and up	5	20	80	40	80	100
<b>Total</b>	<b>56</b>	<b>46</b>	<b>45</b>	<b>34</b>	<b>63</b>	<b>95</b>

are 501(c)3 organizations. These are the nonprofits most likely to provide services that meet local public purposes. A local government can fund nonprofits only to carry out services that the government itself is authorized to provide.<sup>3</sup>

### A Survey on Relationships

To get an overview of North Carolina local governments' relationships with nonprofit organizations, in 1999 the Institute of Government surveyed all 536 municipalities and 100 counties. The mail questionnaire asked about their relationships in 1997–98.

#### Study Respondents

A total of 161 municipalities and 56 counties responded to the survey (for a breakdown of responses by type of jurisdiction and population range, see Table 1). Respondents included city and county managers, town clerks, and budget or finance personnel.

Those responding included most of the largest municipalities in the state but

few of the smallest ones. Thus the data overrepresent large municipalities. (To simplify discussion, all municipalities are hereinafter referred to as “cities”.)

In contrast, about half of the counties in each population range responded, although in this category too, the largest units were most likely to respond. Thus, although the county data appear to be much more representative of the state, county totals also are disproportionately affected by the large counties.

#### Kinds of Relationships

Local governments can have continuing relationships of several kinds with nonprofit organizations. The two types of organizations can plan together regarding public service needs, they can coordinate their services, and they can develop programs together. Also, governments can provide both in-kind and financial resources to nonprofits. The Institute survey asked about all these ways of working together (for the results, see Table 2).

About a third of the cities and almost half of the counties reported planning

jointly with nonprofit organizations. In some communities, for example, interagency councils include representatives from local government and nonprofits and meet to assess community needs and plan ways to address them.

Similar numbers reported coordinating service delivery. This occurs, for example, when a local government's dispatchers serve volunteer fire or emergency medical squads, or when county social workers refer clients to a mix of nonprofit and government services.

Also about a third of the cities and a third of the counties reported developing programs with nonprofit organizations. Local governments partner with these organizations in creating new public service programs in areas such as economic development, parks and recreation, and social services.

Much more common than joint planning and programming, and coordinated service delivery, though, are relationships in which local governments supply in-kind or financial resources to support public services provided by nonprofit organizations. More than 60 percent of cities and counties reported in-kind support. Office space was frequently mentioned as one type of such support, with some governments also making staff or supplies available to help nonprofits carry out public services. Financial support was by far the most common way for local governments to relate to nonprofits, however. Nearly 80 percent of the cities and 95 percent of the counties reported that they had provided funds to at least one nonprofit during 1997–98.

#### Government Funding

Altogether, the cities and the counties responding to the Institute survey reported budgeting nearly \$75 million in funding for nonprofit organizations in 1997–98: 127 cities, more than \$26 million (just less than 1 percent of their total expenditures); and 53 counties, more than \$48 million (about 1.5 percent of their total expenditures).

Total funding for nonprofit organizations is likely to be considerably higher, though. Most respondents reported only funds earmarked for nonprofits in their government's annual budget. The reported total thus does not include funding of nonprofits through contracts with

**TABLE 3. BUDGETED SUPPORT FOR NONPROFIT ORGANIZATIONS (NPOs)**

Population, 1997	# Budgeting for NPOs	Mean # of NPOs Funded	Mean Amt. Funded
<b>Cities</b>			
Less than 1,000	9	3.8	\$ 17,737
1,000–4,999	49	3.9	25,492
5,000–9,999	28	6.5	49,967
10,000–24,999	23	9.4	109,936
25,000–49,999	5	15.0	296,392
50,000–99,999	7	13.3	597,298
100,000 and up	6	32.8	2,581,062
<b>Total/overall mean</b>	<b>127</b>	<b>7.8</b>	<b>208,395</b>
<b>Counties</b>			
Less than 25,000	14	10.9	\$ 296,556
25,000–49,999	10	18.1	491,730
50,000–99,999	12	22.8	773,890
100,000–199,999	12	31.7	1,230,497
200,000 and up	5	37.0	2,978,109
<b>Total/overall mean</b>	<b>53</b>	<b>22.1</b>	<b>905,892</b>

operating departments financed from funds budgeted to the departments themselves. For example, county funding of education, mental health, public health, and social service programs often comes to nonprofits through contracts awarded by the public schools, the area mental health authority, the county public health department, or the county department of social services. Unless these contracts with departments were mentioned in the county's annual budget, they were usually not reported in the survey.

Cities fund fewer nonprofit organizations than counties do (for a breakdown of mean numbers and amounts by type of jurisdiction and population range, see Table 3, page 27). A total of 127 cities reported budgeting for only 986 nonprofits. Overall, on average, the responding cities funded 8 organizations, at \$208,395 per city.<sup>4</sup>

The smallest cities were least likely to budget funds for nonprofit organizations, and, if they did, they funded very few and at low levels. Cities of at least 5,000 people were almost as likely as counties to budget for nonprofits, but

they too tended to fund fewer of them and to fund them at lower levels than counties did. Thus, on average, cities with populations between 10,000 and 25,000 funded about 9 nonprofits and allocated about \$110,000 per city, compared with 11 organizations and \$300,000 in allocations for all counties under 25,000. In the 25,000 to 50,000 range, cities averaged about 15 organizations funded and \$300,000 in funding, whereas counties of that size averaged 18 funded and nearly \$500,000 in funding. The gap narrowed only for the largest cities. On average, they budgeted funds for 33 organizations and allocated nearly \$2.6 million per city—figures quite close to those for the largest counties.

Fifty-three counties reported funding a total of 1,172 nonprofit organizations. Overall, these county budgets averaged direct funding for about 22 nonprofits, at \$905,892 per county.

Counties were very likely to budget funds for nonprofit organizations regardless of the county's size. Size of county affected the number of nonprofits funded and the level of support, however. On

average, each of the smallest counties budgeted support for about 11 nonprofits and allocated about \$300,000 to them. Larger counties allocated more funds to a larger number of nonprofits. The states' five largest counties budgeted funds for an average of 37 nonprofits, at an average cost of almost \$3 million per county.

#### Kinds of Services Funded

Differences in patterns of funding for cities and counties (see Table 4) are related to the differences in the services that they provide. In North Carolina, counties have primary responsibility for delivery of human services, and this has been a major area of service devolution from federal and state governments. Many nonprofit organizations also deliver human services, so it is not surprising that county governments frequently choose to provide human services to their residents by funding nonprofit delivery of those services. In fact, 40 percent of the nonprofits that counties included in their budgets in 1997–98 were human services organizations. These include those providing mental health, sub-

**TABLE 4. TYPES OF NONPROFITS FUNDED BY JURISDICTIONS OF DIFFERENT SIZES**

Population, 1997	% Human Services	% Public Safety	% Economic Development	% Recreation, Arts, Culture	% Env'tl. Protection	% Other
<b>Cities</b>						
Less than 1,000	15	32	6	41	6	0
1,000–4,999	18	17	19	40	2	4
5,000–9,999	30	12	20	33	3	2
10,000–24,999	44	11	14	25	1	5
25,000–49,999	57	1	11	28	1	1
50,000–99,999	29	6	32	26	1	5
100,000 and up	46	9	15	29	1	1
<b>Total</b>	<b>35</b>	<b>12</b>	<b>18</b>	<b>31</b>	<b>2</b>	<b>2</b>
<b>Counties</b>						
Less than 25,000	29	41	7	17	1	6
25,000–49,999	27	43	12	15	1	3
50,000–99,999	33	34	9	15	3	5
100,000–199,999	43	18	10	18	2	8
200,000 and up	69	11	0	8	0	12
<b>Total</b>	<b>40</b>	<b>28</b>	<b>8</b>	<b>15</b>	<b>1</b>	<b>7</b>

**TABLE 5. PROCEDURES USED TO FUND NONPROFIT ORGANIZATIONS (NPOs)**

Population, 1997	# Bdgting. for NPOs	% Using Reg. Bdgt. Process	% Using Funding Request Form	% Funding Recommended by				% NPOs Presenting Case
				Mgr.	Adv. Bd.	Depts.	Gov. Bd.	
<b>Cities</b>								
Less than 1,000	9	100	33	56	0	33	89	67
1,000–4,999	49	82	22	63	8	12	69	53
5,000–9,999	28	89	36	71	7	7	64	68
10,000–24,999	23	96	61	70	22	13	70	65
25,000–49,999	5	100	60	60	40	0	60	40
50,000–99,999	7	86	43	71	29	29	43	29
100,000 and up	6	100	100	50	50	50	50	50
<b>Total</b>	<b>127</b>	<b>89</b>	<b>39</b>	<b>65</b>	<b>14</b>	<b>15</b>	<b>67</b>	<b>57</b>
<b>Counties</b>								
Less than 25,000	14	86	43	64	14	0	57	57
25,000–49,999	10	100	60	100	30	20	50	50
50,000–99,999	12	92	58	83	33	33	50	42
100,000–199,999	12	92	75	75	42	25	83	50
200,000 and up	5	100	80	100	60	80	60	40
<b>Total</b>	<b>53</b>	<b>92</b>	<b>60</b>	<b>81</b>	<b>32</b>	<b>25</b>	<b>60</b>	<b>49</b>

stance abuse, public health, and social services. Higher proportions of the nonprofits funded provided human services in larger counties. Almost 70 percent of those funded in the largest counties were human services providers, whereas less than 30 percent of the nonprofits funded by counties with populations under 50,000 were.

Counties also often support public safety nonprofit organizations: volunteer fire departments, emergency rescue squads, animal shelters, dispute settlement centers, and so on. More than a quarter of the nonprofits that counties included in their budgets contributed directly to public safety. Higher proportions of the nonprofits funded provided public safety services in smaller counties. More than 40 percent of the nonprofits funded by counties with fewer than 50,000 people provided public safety services, whereas only about 10 percent of those funded by the largest counties did.

Recreation, arts, and culture programs were the third-largest category for county funding of nonprofit organiza-

tions, at 15 percent. There was little variation in this proportion by county size.

Somewhat surprisingly, human services nonprofit organizations also were the largest category funded by cities (35 percent). But cities tended to fund different human services agencies than counties did. Although there was some overlap, the human services nonprofits budgeted by cities were more likely to be related to housing, homelessness, or crisis intervention. As with counties, smaller jurisdictions tended to fund a lower proportion of human services nonprofits.

Public safety programs (including volunteer fire departments and delinquency prevention organizations) received considerably less support from cities—overall, only 12 percent. As with counties, however, public safety organizations made up a larger share of the nonprofit organizations funded by smaller jurisdictions. Almost a third of the nonprofits funded by cities under 1,000 provided public safety services.

Not surprisingly, recreational, arts, and cultural nonprofit organizations

were frequently included in city budgets, comprising 31 percent of all nonprofits funded by cities. Many cities have traditionally supported programs in these areas to enhance quality of life for their residents, to attract new residents, and to encourage visits from tourists. In the smallest cities, about 40 percent of the nonprofits funded were in this category.

Economic development organizations (chambers of commerce and site development preparers, for example) also were among the nonprofit organizations commonly supported by cities, overall accounting for 18 percent. There was no systematic variation by city size in support for this kind of organization.

### **Budgeting for Nonprofits**

Most local governments consider nonprofit funding requests as part of their regular budget process (see Table 5). Only a few local governments budget for nonprofit organizations outside this process. Allocations were incorporated into the regular budget process in 89 percent of the cities and 92 percent of the counties.



City and county budgeting practices for nonprofit organizations differed somewhat, though. For example, only 39 percent of the cities used a funding request form for nonprofits, whereas 60 percent of the counties used such a form. In general, smaller jurisdictions were less likely to use formal applications.

The fiscal year 1997–98 data suggest that formal funding requests became more common during the decade. A survey of practices during fiscal year 1990–91 revealed that only 40 percent of counties and 30 percent of cities considering nonprofit funding requests used a prescribed application form.<sup>5</sup>

For fiscal year 1997–98 in North Carolina cities and counties, the manager typically recommended nonprofit organizations for funding. This is not surprising, given the manager’s responsibility to recommend a balanced budget to the governing board. Managers recommended nonprofit funding in 65 percent of the cities and 81 percent of the counties, with little systematic variation by size of jurisdiction.

Managers’ involvement apparently changed little from 1990–91, when 63 percent of the cities and 74 percent of the counties reported the same practice.

For fiscal year 1997–98, advisory committees or operating departments also reviewed nonprofit funding requests in some cities and counties. In some instances this review preceded the manager’s review and recommendation. In others, the manager’s recommended budget included a dollar amount for all nonprofit organizations, and an advisory committee recommended how to divide up that total. Advisory committee recommendations were used by only 14 percent of the cities but by 32 percent of the counties. They were more likely to be used in larger jurisdictions.

Department recommendations were less commonly part of the process. Department staff recommended nonprofit funding in only 15 percent of the cities and 25 percent of the counties, with some greater involvement by departments in the largest jurisdictions.

The researchers who conducted the survey of practices in 1990–91 combined these two kinds of review into one category. They reported citizen or staff advisory reviews in 25 percent of the cities and 40 percent of the counties.

**TABLE 6. FUNDING ARRANGEMENTS**

	<b>% Contracts Only</b>	<b>% Contracts &amp; Grants</b>	<b>% Grants Only</b>
Cities	13	24	62
Counties	21	40	40

For fiscal year 1997–98, governing board members also frequently recommended funding of nonprofit organizations—in 67 percent of the cities and 60 percent of the counties. There was no systematic variation by size of jurisdiction.<sup>6</sup>

Nonprofit organization representatives often presented their case for funding in person, either before an advisory committee or before the governing board itself. More than half of the cities and almost half of the counties reported such procedures. Again, there was no systematic variation by jurisdiction size.<sup>7</sup>

### **Funding Arrangements**

After funds have been allocated to nonprofit organizations through adoption of the budget ordinance, the local government may enter into contracts with the nonprofits so funded, or it may award grants to them without entering into a formal contract. Some local governments use both arrangements, entering into contracts with some nonprofits and awarding grants to others.

A contract specifies what the nonprofit will deliver to the public in return for government financing. It also may specify how services are to be delivered and how the nonprofit is to operate and report.

In the case of grants, a funding application usually indicates what the nonprofit organization intends to do with government funds. However, the government awards a grant without executing a formal contract to that effect.

In fiscal year 1997–98, most North Carolina cities (62 percent) used grants exclusively to fund nonprofit organizations. Only 13 percent relied solely on contracts (see Table 6). In contrast, more than half of the counties used contracts, 21 percent of them using contracts exclusively and another 40 percent using both grants and contracts. Just 40 percent used grants alone.<sup>8</sup>

Local government finance experts often suggest that governments use con-

tracts as a standard practice when funding nonprofits. For example:

*Even if a city does not submit budget requests from community agencies to the same procedural and review requirements as it does other budget requests, city contributions to any such agency should occur only under a written contract between the city and the agency.<sup>9</sup>*

### **Accountability Requirements**

Cities and counties use a variety of methods to hold nonprofit organizations accountable for the public funding they receive (see Table 7). Often they require some sort of report. The report may focus on the organization’s finances, its programs, or both. In general, reporting requirements are more stringent when the funding is provided under a contract, but there are many exceptions. No systematic information is available on the quality of the reports or the use that local governments make of them.

Reports, of course, are after-the-fact accounts of what has happened. Another way in which local governments can seek accountability is by requiring nonprofit organizations to let government officials know in advance how they intend to spend the dollars that the governments provide. One way to seek advance control of spending is to require nonprofits to submit budgets outlining how they intend to spend the funds they receive. In 1997–98, counties were somewhat more likely than cities to require that nonprofits submit budgets. Further, cities and counties both were more likely to require that nonprofits submit a project budget with applications for contracts than they were to ask for a budget with requests for grants.

Another sort of advance control of spending is even more direct. A local government can “preaudit” nonprofit organizations’ expenditures of the funds the

government provides. That is, before the nonprofit organization spends government funds, it must submit a payment order and supporting documentation to the government providing the funds. This alternative is rarely used. Only 4 of the 180 North Carolina jurisdictions reporting accountability procedures (1 city and 3 counties) reported preauditing nonprofits' 1997-98 spending.

Preauditing appears to have been more common a few years ago. Twenty of 99 jurisdictions reported preauditing nonprofit organizations' expenditures in 1990-91. That included 16 of 56 cities and 4 of 43 counties. The difference is mostly in city practices. In 1997-98, less than 1 percent of the cities preaudited nonprofit expenditures, compared with 29 percent in 1990-91. For counties, however, the difference over that period is insignificant: 6 percent in 1997-98, compared with 9 percent in 1990-91. These data suggest that preauditing is not a popular accountability mechanism for local government funding of nonprofits, and may, in fact, be waning in popularity.

Most local governments also required some kind of report about how nonprofit organizations used the government funds they received. The most nearly standardized of the required reports is the annual audit. About two-thirds of the cities and counties required annual audits from nonprofits with which they had contracts in 1997-98. Annual audits were much less commonly requested when the funding was provided as a grant, especially by cities.

Requiring audited reports was about as common at the beginning of the 1990s as it was at the end. Thirty-eight percent of the cities and 58 percent of the coun-



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ties required audited financial statements for 1990-91.

Unaudited financial reports are required by some local governments, usually (but not always) in place of audited financial statements. About a quarter of the cities and counties required them for contracts, and about a sixth required them for grants in 1997-98. In 1990-91, in contrast, 32 percent of the cities and 28 percent of the counties required unaudited financial reports. This suggests there may have been a slight decrease in the practice during the 1990s.

Annual reports also are commonly required. In 1998 more than half of the cities and almost half of the counties required annual reports from the nonprofit organizations they funded through contracts. For funding through grants, about

*Meals on Wheels distributes several hundred meals a day to people who cannot shop or cook for themselves. Above, an elderly woman gives an appreciative hug to her delivery person.*

half the counties required annual reports, but only a quarter of the cities did.

Quarterly reports were less commonly required than annual reports. A few jurisdictions, though, required both.

Program evaluations also were less commonly required. Slightly more than a quarter of the counties required them for contracts, and fewer than 20 percent of the cities did so. Program evaluations were even less often required for grants.

More research is needed to determine how useful these practices are for assuring local governments that nonprofit organizations are spending government

**TABLE 7. LOCAL GOVERNMENT ACCOUNTABILITY REQUIREMENTS**

	# Funding This Way	% Budget with Applic.	% Preaudit	% Annual Audit	% Unaudited Fin. Rept.	% Annual Rept.	% Quarterly Repts.	% Prog. Eval.
<b>Cities</b>								
For contracts	48	52	2	71	29	58	21	19
For grants	110	32	1	17	17	28	3	15
<b>Counties</b>								
For contracts	32	63	3	66	22	47	32	28
For grants	42	52	7	48	17	45	14	17

funds appropriately. Each one can require additional administrative work for the nonprofit and also for the local government, if its staff is to make effective use of the information. How cost-effective are various financial control arrangements? What sort of information is needed to track and evaluate service delivery? How will that information be used in making decisions about the program or its funding? Those are questions that local government officials and nonprofit leaders in each community need to answer in terms of their particular situation. In fact, a mix of clearance and reporting mechanisms may well be needed, depending on the services being funded, the amount of funding involved, and the extent of other, less formal exchanges of information among nonprofits, the people who receive their services, and government officials.

## Conclusion

Cities and counties in North Carolina work with nonprofit organizations in many different ways. The data reported in this article sketch the extent and the variety of those relationships but not their nature and government officials' and nonprofit leaders' understanding of them (for a discussion of the latter two subjects, see the article on page 33). In some cases, nonprofits may be seen as integral partners in the government's design or delivery of public services. The frequency of joint planning, program development, and service coordination suggests that such an interpretation may fit some government-nonprofit organization relationships. So does the inclusion of nonprofit funding in the manager's recommended budget to the governing board.

However, the data also indicate that many local governments budget differently for nonprofit organizations than they do for their own departments. Advisory committee reviews of nonprofits and other community programs, for example, suggest that nonprofit programs follow an approval process outside, and not necessarily in concert with, regular departmental planning of public programs. The even more common practice of nonprofit funding recommendations by governing board members suggests that nonprofit

funding may sometimes be more responsive to political support for the nonprofit than to consideration of how well its programs help local government deal with public problems of high priority on the jurisdiction's regular agenda.

Are local governments buying specific public services from nonprofit organizations? Are they working with nonprofits to assess public needs and design services to address them? Or are they funding nonprofits to design and carry out public services within fairly broad limits? The answer seems to be all of the above. More study is needed to assess how extensive each kind of relationship is, and more conversation among government and nonprofit organization leaders is needed to sort out what they expect of existing relationships and what sorts of relationships they might prefer to serve the public best.

## Notes

1. Evan M. Berman & Jonathan P. West, *Public-Private Leadership and the Role of Nonprofit Organizations in Local Government: The Case of Social Services*, POLICY STUDIES REVIEW, Spring/Summer 1995, at 235; Wolfgang Bielefeld et al., *National Mandates and Local Nonprofits: Shaping a Local Delivery System of HIV/AIDS Services*, POLICY STUDIES REVIEW, Spring/Summer 1995, at 127; Carol J. De Vita, *Nonprofits and Devolution: What Do We Know?* in NON-PROFITS AND GOVERNMENT ch. 6 (Elizabeth Boris & C. Eugene Steuerle eds., Washington, D.C.: Urban Inst. Press, 1999); Robert C. Lowry, *Nonprofit Organizations and Public Policy*, POLICY STUDIES REVIEW, Spring/Summer 1995, at 107; Richard P. Nathan & Associates, *The "Nonprofitization Movement" as a Form of Devolution*, in CAPACITY FOR CHANGE? THE NONPROFIT WORLD IN THE AGE OF DEVOLUTION 23 (Dwight F. Burlingame et al. eds., Indianapolis: Indiana Univ. Center on Philanthropy, 1996); Lester M. Salamon, *AMERICA'S NONPROFIT SECTOR: A PRIMER* (New York: Foundation Center, 1999); Stephen Rathgeb Smith, *Government Financing of Nonprofit Activity*, in NON-PROFITS AND GOVERNMENT ch. 5; Dennis R. Young, *Complementary, Supplementary, or Adversarial? A Theoretical and Historical Examination of Nonprofit-Government Relations in the United States*, in NON-PROFITS AND GOVERNMENT ch. 1.

2. This article was developed as a part of the Project to Strengthen Government-Nonprofit Relationships, a collaboration of the Institute of Government of The University of North

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3. IRS tax status does not determine whether a nonprofit organization can receive local government funding. Local governments also contract with nonprofits falling under other sections of the U.S. Internal Revenue Code (such as chambers of commerce) and with for-profit businesses. The issue is whether the organization is receiving the funds in order to do work that the local government is authorized to provide. The relevant statutes are N.C. GEN. STAT. § 153A-449 for cities and § 160A-20.1 for counties.

4. This figure is likely to represent almost all the funding of nonprofit organizations by these cities. City departments do not have authority to award contracts to nonprofits, but in some municipalities the manager or the council approves agreements through which funds budgeted to departments are paid to nonprofits to deliver services that carry out the departments' programs.

5. Charles K. Coe & A. John Vogt, *How North Carolina's Cities and Counties Budget for Community Agencies*, POPULAR GOVERNMENT, Winter 1993, at 25, 26. All remaining 1990-91 data cited in this article are from the same source, at pages 26 and 28.

6. This was so except for the very smallest jurisdictions, almost all of which reported that governing board members suggested nonprofit organizations for funding. Many of the smallest jurisdictions do not employ managers, of course, and board members frequently play a greater role in budget preparation.

7. Coe and Vogt did not report on the extent of governing board recommendations or in-person presentations, so no comparison with fiscal year 1990-91 practices is possible.

8. Again, these figures relate only to nonprofit organizations funded directly through the annual budget. Nonprofits also may receive funding from a department's budget allocation when department officials decide to purchase services from a nonprofit vendor. Contracts are most commonly used in this latter situation by county human services departments.

9. A. John Vogt, *Budget Preparation and Enactment*, in MUNICIPAL GOVERNMENT IN NORTH CAROLINA ch. 13, at 354 (David M. Lawrence & Warren Jake Wicker eds., 2d ed., Chapel Hill: Institute of Government, The University of North Carolina at Chapel Hill, 1996).