



NATIONAL CENTER FOR
THE MIDDLE MARKET



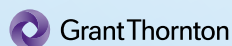
Middle Market Perspectives on Government Services

A SPECIAL REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET

IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS



Executive Summary

Local governments serve the middle market well while Washington misses the mark

The middle market accounts for a third of private GDP and employment, and is the fastest growing segment of the economy. But it can occupy a no-man's-land in terms of political discourse, government services, and rulemaking: too big to qualify for special services or to be exempt from regulations, and too large to field government-affairs teams at seats of government. The National Center for the Middle Market therefore took an election-year opportunity to ask executives from the critical middle market segment to evaluate the quality and impact of the government services they receive. The consensus: the majority of mid-sized companies are pleased with the basic services their local governments provide, such as infrastructure and policing, which they consider to be very important to operating their business and primarily a local responsibility. However, satisfaction levels decline when it comes to basic services provided by the state and federal governments. They consider these types of services to be very important to operating their businesses, and they believe the local government is primarily responsible for delivering said services. However, when the state and federal government get into the game with basic services, satisfaction levels decline.

Across all levels of government, middle market leaders are not as happy with regulations and incentive-related services or with value-added services like export and technical support. And for the most part, they believe these services are less crucial to their businesses. Regulation-related services are seen as primarily a federal activity, but local governments outshine their state and federal counterparts in delivering them. Responsibility for value-added services is split across all three levels of government, and leaders have a higher opinion of these programs when they come from municipalities or states than from Washington. There are significant local variations in overall satisfaction with government services.

Beyond the services themselves, middle market leaders find interactions with local officials are more satisfactory than dealing with officials at higher levels of government. The majority of middle market leaders say the experience with federal officials is so-so at best, and 22% say they barely even try.

Compare the Data

See how perspectives across the four U.S. regions and in key middle market states and industries compare to the perspectives of the U.S. middle market as a whole.

REGIONS	STATES	INDUSTRIES
+ Northeast	+ California	+ Construction
+ Midwest	+ Florida	+ Financial Services
+ South	+ Illinois	+ Healthcare
+ West	+ New York	+ Manufacturing
	+ Ohio	+ Professional Services
	+ Texas	+ Retail Trade
		+ Wholesale Trade

Key Findings



The closer to home, the greater the satisfaction with the government service

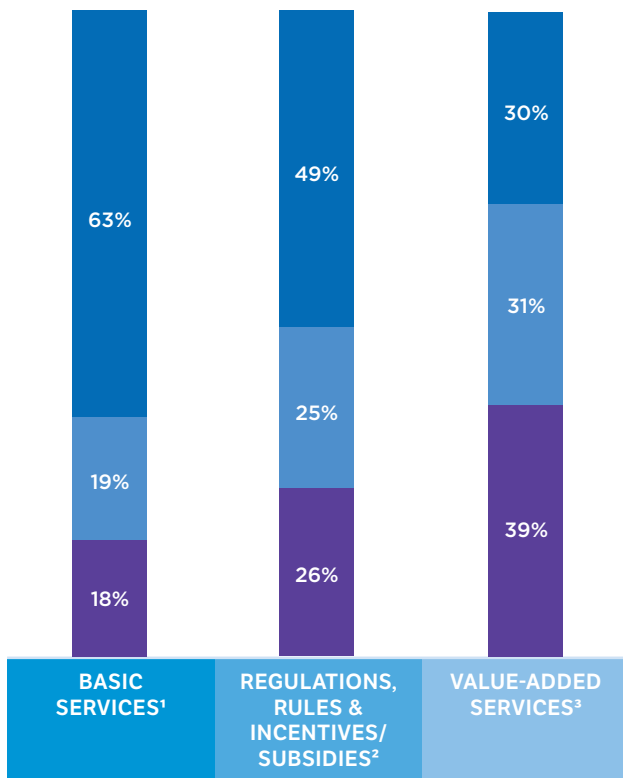
Middle market business leaders are more satisfied with the services provided by local governments than they are with state or federal services. This is true regardless of the service type—basic, regulations/incentives, or value-added. The federal government earns the lowest marks across the board, with only about a third of middle market leaders expressing satisfaction with any type of service Washington delivers. Middle market leaders are most pleased with basic municipal services.

These are the services deemed most important to business operations, and they are also considered primary the domain of local government. In general, the largest middle market businesses express greater satisfaction with all types of services from all levels of government. However, even these larger companies indicate a preference for services provided closer to home.

Middle market company executives believe government services are important to their business.

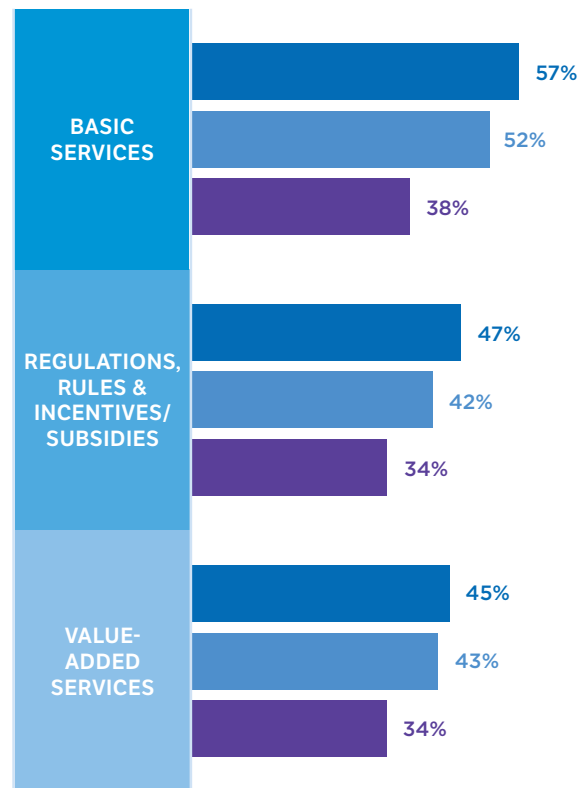
But report mixed (at best) satisfaction with those services.

IMPORTANCE OF GOVERNMENT FUNCTIONS TO BUSINESS OPERATIONS



■ Extremely/Very Important
 ■ Not Very/At All Important
■ Somewhat Important

PERCENT AT LEAST SOMEWHAT SATISFIED WITH GOVERNMENT SERVICES



■ Local
 ■ State
 ■ Federal

¹Basic Services: Clean water, policing, reasonable infrastructure, rule of law, education, etc. ²Regulations, Rules & Incentives/Subsidies, etc. ³Value-Added Services: Export support, technical support, etc.

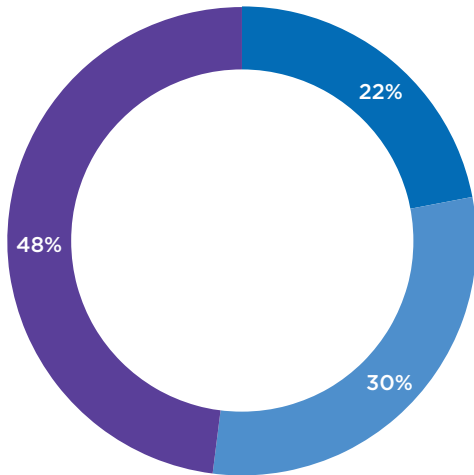


Local government services deliver the greatest bang for the buck

Across all middle market industries and revenue segments, the largest percentage of business taxes and fees paid go to federal coffers. However, only about half of companies feel they get good value for their money. At the local level, 69% of companies believe they get at least some value from their local tax dollars, and almost a quarter say their money is very well spent.

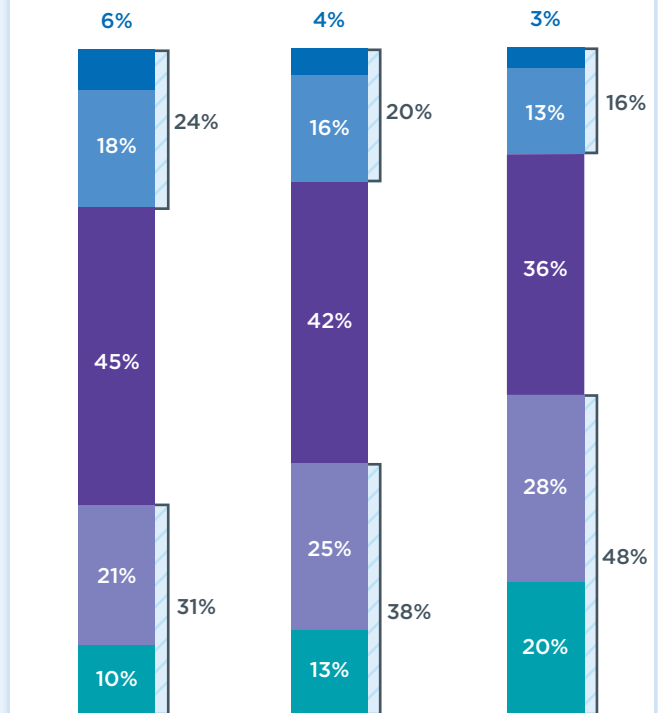
A similar percentage (62%) are at least somewhat satisfied with the return on their state tax bill. The largest middle market firms are the most likely to see the worth of their tax dollars while smaller middle market businesses perceive the least return. Just 11% of small middle market business leaders say their federal tax dollars result in a very good value for their business.

PERCENTAGE OF TAXES/FEEs PAID TO LOCAL/STATE/FEDERAL GOVERNMENT



Local State Federal

VALUE FOR THE MONEY FOR THE TAXES/FEEs PAID TO EACH LEVEL OF GOVERNMENT



LOCAL STATE FEDERAL

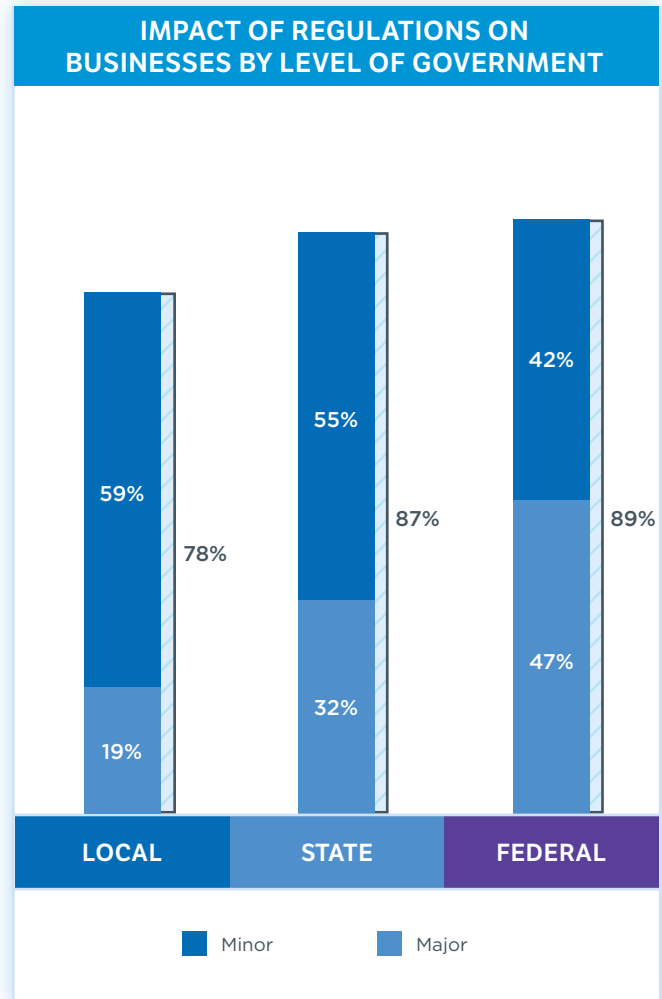
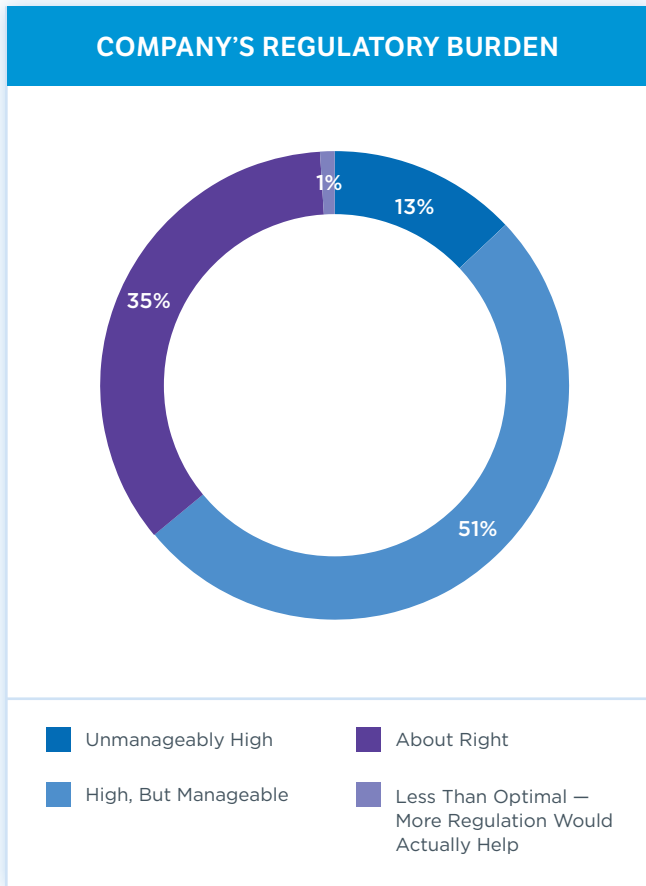
Extremely Good Very Good Somewhat Good Not Very Good Not At All Good



Middle market companies can mostly manage their regulatory burden, though they find it high

Federal regulations have a greater effect on middle market companies than state or local regulations do, with 47% of businesses saying Washington rulemaking has a major impact on doing business. Regardless of which level of government hands down the rules, just 13% of middle market business leaders believe the regulatory burden is unmanageably high.

A slight majority (51%) of businesses say it is high but manageable; 35% of companies say the regulatory burden is just right. Not surprisingly, leaders of financial services and healthcare businesses feel more weighed down by regulations, with almost a quarter of healthcare companies and 21% of financial service firms saying the burden is too high to reasonably address.

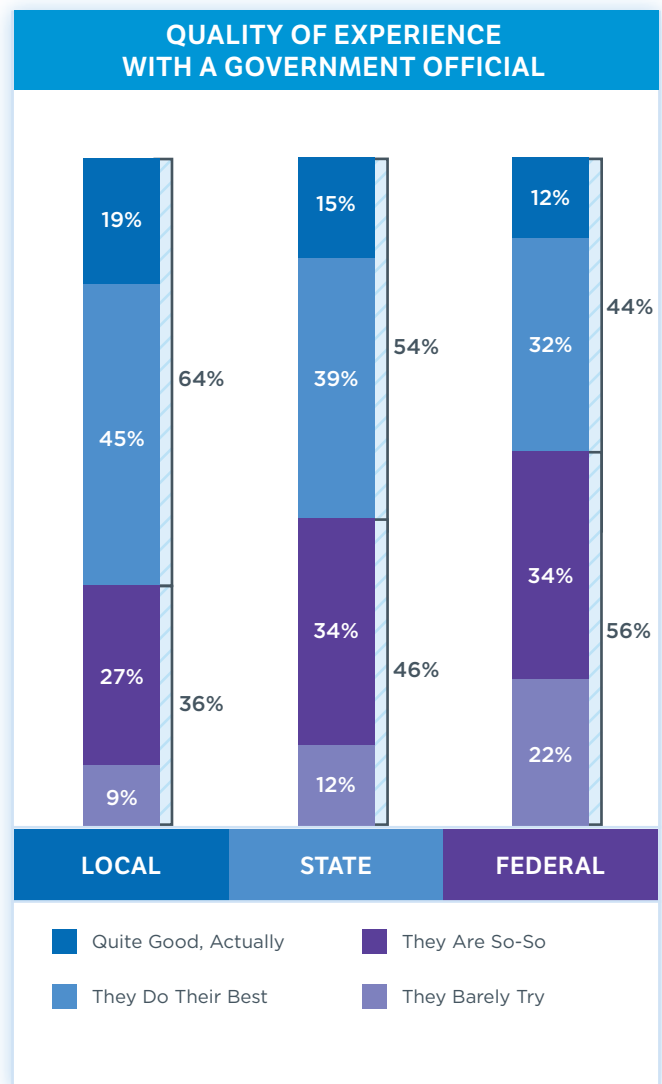
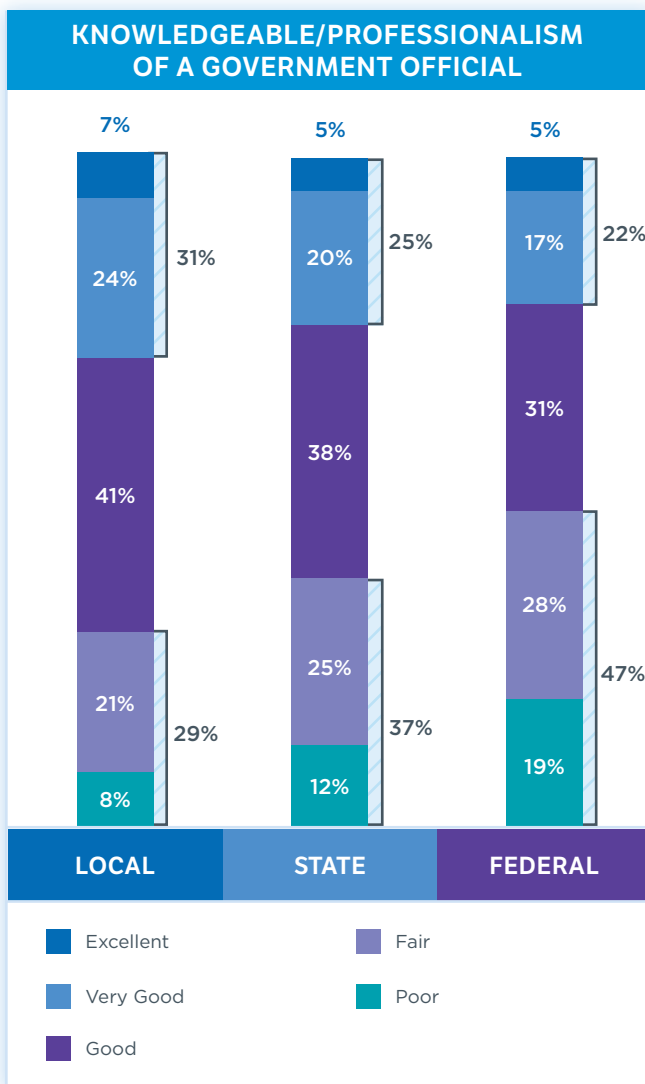




Companies prefer interacting with local officials to interacting with Washington

Most middle market leaders (72%) believe local government officials do a good job when it comes to their knowledge and professionalism. That percentage drops to 63% for state officials and just 53% for federal officials. The overall experience is better at the local level as well.

A solid majority (64%) believe local officials at least do their best, and 19% dub their interactions with the local public servants as actually quite good. The same does not hold true for Washington, where only 44% of middle market executives say the work of government officials is up to snuff.



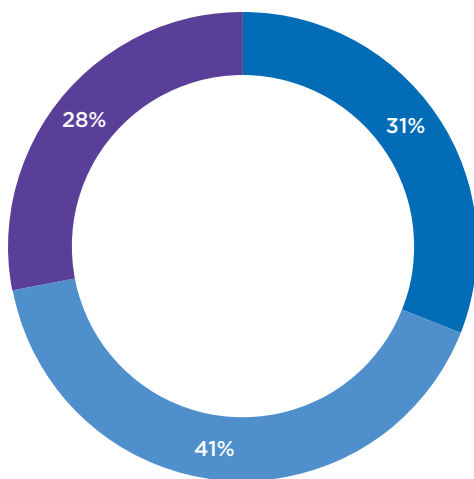


Middle market companies struggle with complexity of both regulations and taxation

Overlapping rulemaking at multiple levels of government hurts middle market companies. About three-quarters of middle market executives say they experience a compounding effect due to regulations from different levels of government.

Almost a third (31%) say such regulatory overlap creates major hurdles to getting business done. Businesses see taxes as overly complex as well. Given the choice, middle market companies across all revenue segments would elect to make taxes less complex rather than lower their bills.

EXTENT TO WHICH REGULATIONS FROM DIFFERENT LEVELS OF GOVERNMENT COMPOUND EACH OTHER

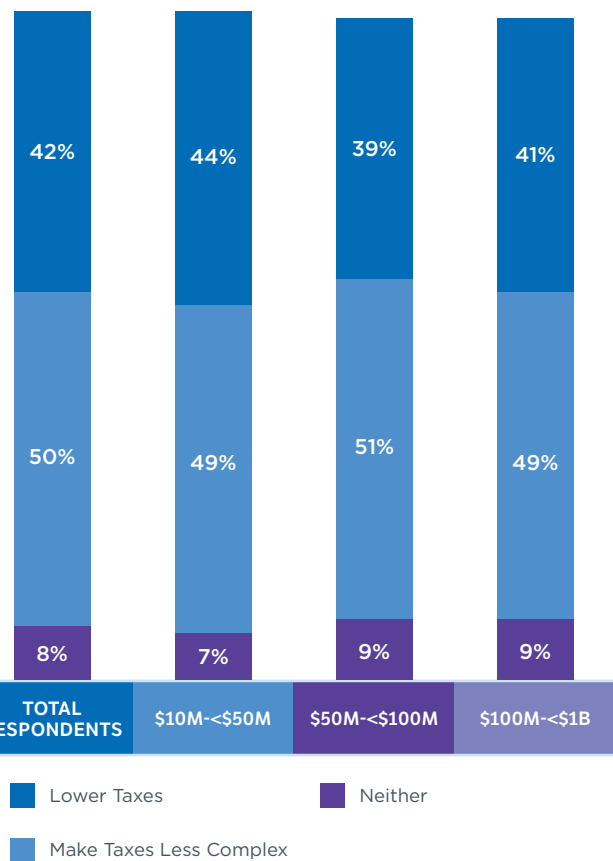


Major Compounding Effect

Some Compounding Effect

No Compounding Effect

PREFERENCE BETWEEN LOWERING TAXES OR MAKING TAXES LESS COMPLEX



Lower Taxes

Neither

Make Taxes Less Complex



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THE MIDDLE MARKET**

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