Vice President's Conversation on the Future

Trend Research: Public Services and Finance

Descriptor Definition

This descriptor white paper centers on trends in how the federal government, the State of Ohio, and Ohio local governments (county, cities, villages, townships), provide certain services to Ohio residents and how the governments pay for, or finance, the services. The public services include safety services, and social services such as unemployment benefits, medical coverage, and food assistance for Ohio's most vulnerable population. The paper will also include a historical perspective of local, state, and federal funding and expenditures for the above services and describes additional information on how all levels of government can raise revenues to fund the above services. Lastly, the paper will discuss the concept of public sector and private sector relationships as a consideration to enhance, or in some instances, maintain public services programs for Ohio's most vulnerable population.

Author Insights[i]: Descriptor Relevance

Since the very beginning of our country, it has always been the responsibility of government to protect its citizens against harm and to help the needy. While the Federal government is charged with protecting our borders and helping the less fortunate via laws and mandates, it has also provided state and local governments that same responsibility.

Historically, how the governments fund the public services has changed little over time. The funding stream is certain; they raise revenues, typically via taxes or fees, to provide for said services. The funding is very discretionary; it often changes when there is a change in elected leadership and political ideology. Traditionally, Republicans are known as a conservative ideology; strong supporters of military and spending less on social services. Democrats, on the other hand, are known as strong supporters of social or public services and spending less on military/defense. As checks and balances in our democratic government exist, our elected leaders are often charged with negotiating a compromise to ensure citizens are protected against harm and that the needy have available services.

In Ohio, how to pay for or finance public services affects every resident and business. If there is a high unemployment rate, a strain on services is likely to occur. If the strain is too great, additional taxes could be imposed on residents and businesses to ease the burden. Conversely, when the unemployment rate is considered low (less than 5.0%), there may not be a strain on public services. However, as experience tells us, even when such strain is negligible, taxes are not often reduced.

Ultimately, the responsibility to ensure safety for its residents belongs to the elected leadership in Ohio as well as local jurisdictions.

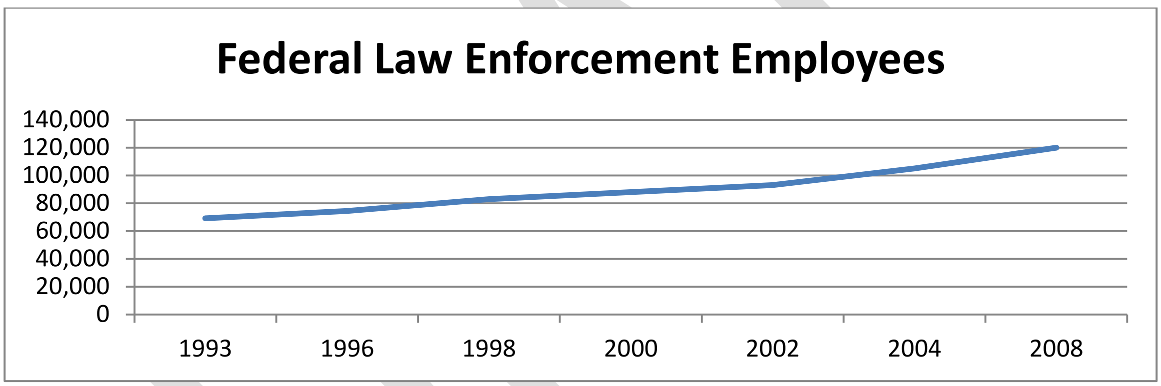
Trend Information and Interpretation

Federal Government: Law enforcement and funding

The Constitution of the United States, in its Preamble, states it is the responsibility of the federal government to provide for common defense and to promote the general welfare for citizens of the United States. In addition, the 16th Amendment that was ratified in 1913, gave Congress the power to collect taxes on income which funds the federal law enforcement employees.

In general, federal law enforcement functions include prevention, detection, and investigation of crime (Bureau of Justice Statistics, 2014). As large and complex as the federal government is, so too is the make-up of federal law enforcement. Law enforcement personnel work in many federal departments but the majority work in the Departments of: Justice, Agriculture, Commerce, and Defense. Examples of law enforcement agencies include the Alcohol, Tobacco, and Firearms (ATF), the Federal Bureau of Investigation (FBI), and the Secret Service Agency.

As a result of the attacks on September 11, 2001 the Department of Homeland Security was created. As the table below indicates, the number of federal law enforcement employees has increased by over 57% from 1993 to 2008.



Source: Bureau of Justice Statistics

Federal Government: Public Services and funding

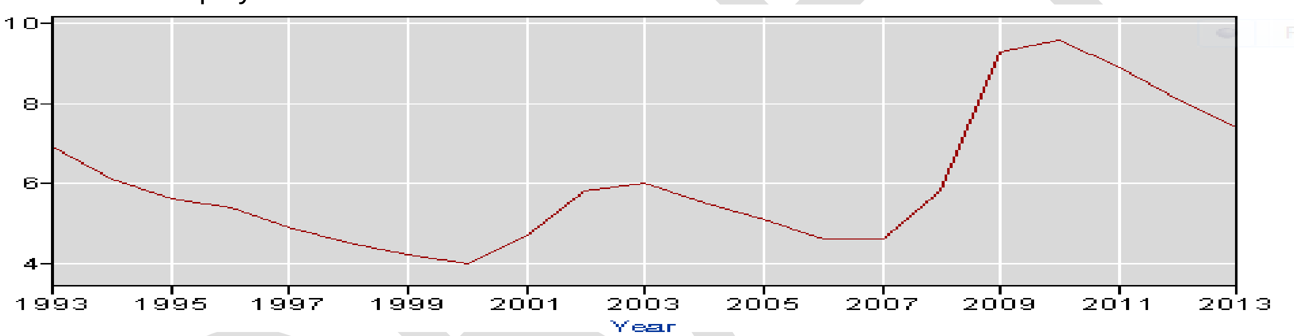
Public services such as unemployment insurance and basic necessities like medical coverage and food assistance are based on a dual program of federal and state statutes. The unemployment program was established by the federal Social Security Act in 1935. Much of the federal program is implemented through the Federal Unemployment Tax Act. Unemployment insurance provides workers, whose jobs have been terminated through no fault of their own, monetary payments for a given period of time or until they find a new job. These payments are intended to provide an unemployed worker time to find a new job equivalent to the one lost without financial distress (Unemployment Compensation Law: An Overview, 2014).

To support the public service systems, a combination of federal and state taxes are levied upon employers. States base employer contributions on the amount of wages the employer has paid, the amount the employer has contributed to the unemployment fund, and the amount that the discharged employees have been compensated from the fund (Unemployment Compensation Law: An Overview, 2014) .

The proceeds from the unemployment taxes are deposited in an Unemployment Trust Fund. Each state has a separate account in the fund to which deposits are made. Within the fund are separate accounts for state administrative costs and extended unemployment compensation. During economic recessions, the federal government has provided emergency assistance to allow states to extend the time for which individuals can receive benefits. This is accomplished through a temporary law authorizing the transfer of money to a state from its extended unemployment account (Unemployment Compensation Law: An Overview, 2014).

Between the years 1993 to 2013, the lowest national unemployment rate was in 2000 at 4.0% and the highest was in 2010 at 9.6%. The greatest increase in unemployment occurred between 2008 and 2009. In 2008, the unemployment rate was 5.8% and in 2009, the unemployment rate jumped to 9.3%. Since 2010, the trend data indicate the unemployment rates are decreasing.

National Unemployment Rate: 1993-2013



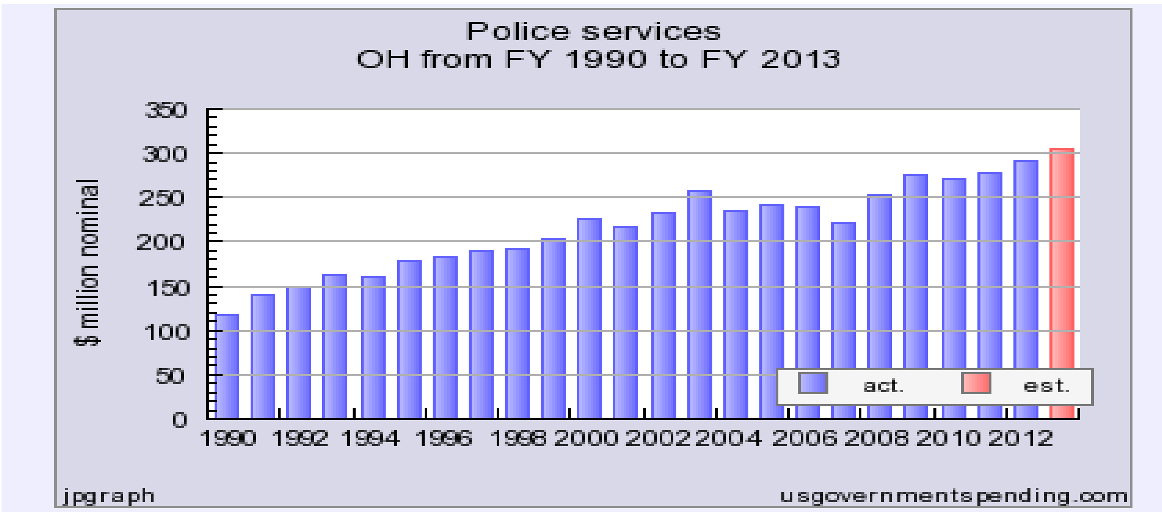
Source: Bureau of Labor Statistics, 2014

Federal and State taxation:

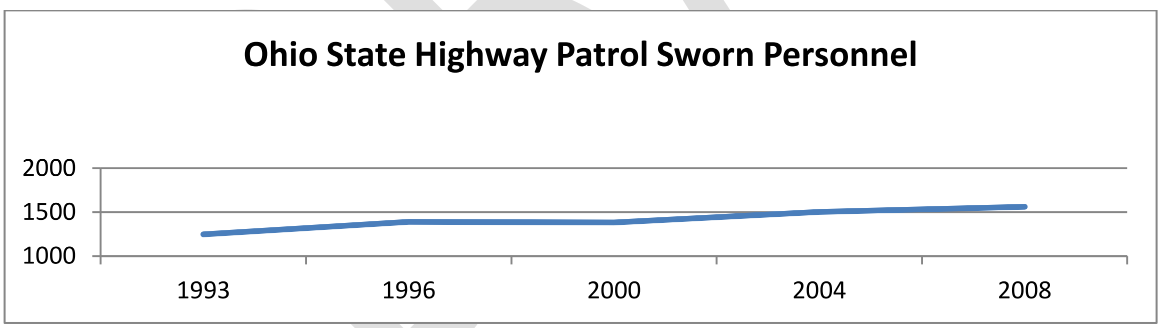
Currently, Americans are paying the smallest share of their income in taxes since the 1950s. The total tax burden — for all federal, state and local taxes — dropped to 23.6% of income in the first quarter of 2011. By contrast, individuals spent roughly 27% of income on taxes in the 1970s, 1980s and the 1990s — a rate that would mean $500 billion of additional annual tax collections today. At the national average, a person with an income of $100,000 would pay $23,600 in taxes today vs. $28,700 in 2000 and $27,300 in 1990. In addition, individuals paid taxes at an annual rate of $10,549 per person in the first quarter of 2011 — about the same as individuals have paid since 1990 when adjusted for inflation. Incomes have grown; tax payments haven't (Cauchon, 2011).

State Government: Safety services and funding

According to the US Census data, there were over eleven and a half million individuals residing in the State of Ohio in 2010 (U.S. Census, 2014). The State of Ohio funds safety services operations via pass-through dollars from the Federal government, taxes to Ohio businesses and residents, and fines and forfeitures from civil and criminal activities. Most safety service employees work for the state in the Department of Public Safety in the following divisions: Bureau of Motor Vehicles, Emergency Management, Office of Criminal Justice Service, Ohio Homeland Security, and the Ohio State Highway Patrol (Ohio Department of Public Safety, 2014). In 1990, the State of Ohio spent over $110 million for law enforcement services and in excess of $305 million in 2013.



The graph below depicts the number of fulltime employees that work as primary law enforcement personnel. Since 1993, the data indicate that the number of fulltime employees has been very stable over a 19-year period. In 1993, there were 1,391 Ohio State highway patrol officers and in 2008 there were over 1,500 full time employees.

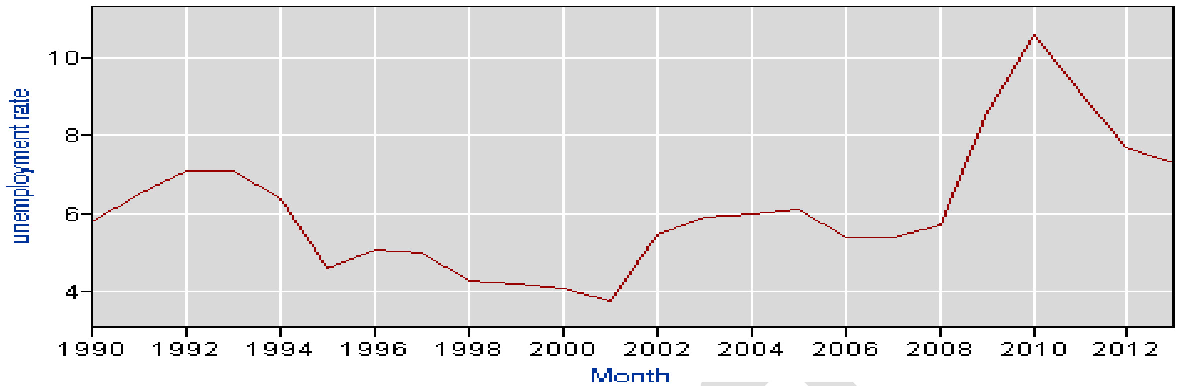


Source: Bureau Justice Statistics, 2014

State Government: Public Services and funding

During the years 1990 to 2014, Ohio's unemployment rate varied from 5.8% in 1990 to 7.3 in 2013. During that same timeframe, Ohio had its lowest unemployment rate of 3.9% in 2001. The trend appears to indicate that the Ohio unemployment rate will remain stable at around 5.5% to 6.0% in the near future.

Ohio Unemployment Rate: 1990-2013



Source: Bureau Labor Statistics, 2014

When reviewing the actual dollars spent on unemployment and other social services during that same timeframe, Ohio government spent over $680 million in 1990 and over $2.5 billion in 2013.

Local Government: Safety and public services and funding.

In Ohio, there are 88 counties, 247 cities, 691 villages and 1308 townships that provide essential services to its residents (Ohio Secretary of State, 2014). Elected county sheriffs, city/village/township police, fire, and emergency services provide vital safety to local residents. County, city, village, and township governments all rely on state dollars as well as local dollars to fund these services.

Local governments receive state dollars from a fund called the Local Government Fund (LGF). The LGF was created in 1934 when Ohio's sales tax was enacted and provided that local governments in Ohio receive an amount equal to 3.68 percent of tax revenue that was received by the state of Ohio General Revenue Fund (Ohio Secretary of State, 2014).

In 2011 with the state suffering from the Great Recession, state legislators changed the funding formula that provided for some of that revenue to remain in the State of Ohio's coffers. The law was changed and in essence, reduced the overall amount of money that is received by local government by over 50%.

A look at the aggregate amounts of revenue distributed to local governments from the LGF in 2000 compared to the amount distributed in 2012 shows that decrease in funding. According to the Ohio Department of Taxation, approximately $790 million was distributed to eligible local governments in 2000. In 2012 LGF distributions were $465 million. This represents a 41% reduction in revenues from 2000 to 2012 (County Auditors Association of Ohio, 2013).

While local governments have lost revenue from the LGF, a new revenue stream is being introduced; Ohio Casino Revenue. In November of 2009, Ohioans approved State Issue 3 authorizing the operation of casinos in Cincinnati, Cleveland, Columbus, and Toledo. After completion of the casinos, local governments began to see revenue in 2012. The Ohio Legislature created a percentage to be shared by local governments. Ohio casinos are taxed at a rate of 33% on gross casino revenue. The state disburses the tax revenue to the following funds: 51% is directed to the County Fund, 34% to the Student Fund, 5% to the Host City Fund, 3% each to the Ohio State Racing Commission and the Ohio Casino Control Commission and 2% each to the Law Enforcement Training Fund and the Problem Gambling and Addictions Fund (Ohio Casino Control Commission, 2014).

The 2013 year to date total disbursed was $821,277,202.

Because the Ohio Casino funds are new, it will take additional research and time to determine how much this funding stream will offset the change in the local government fund formula.

Due to the loss of the LGF, many local governments have either had to cut or reduce services and personnel, work with other governments or seek local additional resources to continue to provide residents with the services they desire (Intensifying Impact: State Budget Cuts Deepen pain for Ohio communities, 2012).

Public Private Partnerships:

In Ohio, law enforcement is typically a service provided by governmental entities and therefore not a partnership with a private entity. With respect to social services, there is a public private relationship to prevent blindness for Ohio citizens. The Ohio's Aging Public Private Partnership was created in 2011 with the goal of advocating for understanding the importance of vision care (Ohio's Aging Eye Public Private Partnership, 2013).

The Ohio Emergency Management Agency works with businesses to get back to work after a disaster. Ohio needs its major employers quickly back online following events such as floods, tornadoes, ice storms and widespread wind damage and power failures to help keep the state economy moving and getting employees back to work (Ludlow, R. Ohio Public-Private Partnership Opens Communication Lines, 2014).

Overall Summary of Trend Information

Trend data suggest that that the number of federal law enforcement personnel will continue to increase as continued threats to the United States' way of life increase. Relating to national unemployment, it appears that after the great recession in 2009, the unemployment rate will remain stable at around 7%.

While federal tax rates remain at its lowest level since the 1950s, it appears that they will remain low moving forward. However, consideration to the federal deficit will be an item that must be dealt with in the future, therefore potentially impacting tax rates.

At the State and local level, law enforcement employment has remained relatively stable but there has been an increase in spending to protect citizens against harm.

Unemployment levels in Ohio look to stay relatively low at around 5.5% - 6.0% in the near future.

How local governments finance public service is becoming more complicated. Due to the changes in the LGF, local governments are not receiving as much revenue as they have in the past. New revenue streams are being developed, such as the Ohio Casino Revenue Fund. Trend data indicate that the State of Ohio will be providing less revenue to local governments and therefore local governments will either have to look for alternative revenue streams or reduce/eliminate programs.

Author Insights – Possible Trends for the Future (2035)

A. Federal law enforcement employment will continue to rise; national and state unemployment will increase; tax rates will increase, funding from the State to the local government will decrease and the need for social services will increase. Based on trend information, this outcome has an a priori probability of occurrence of 0.45.

B. The number of federal law enforcement employees will continue to rise; national and state unemployment will remain relative low and stable. Tax rates will remain low and stable. Funding from the State to local government will stay the same. New revenue will increase to local governments. The need for social services will remain consistent. Based on trend information, this outcome has an a priori probability of occurrence of 0.35.

C. Federal law enforcement employment will decrease, national unemployment will rise, the state of Ohio's unemployment will remain stable; funding to the State and to local governments decrease, and the need for additional social services increases. Based on trend information, this outcome has an a priori probability of occurrence of 0.20.

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[i] Along with the research-based data and statistics included in this document, is information provided by the research paper author(s). Although these author insights are not directly cited with research references, they reflect research, observation, logic, intuition, and well-considered expectations compiled by the author(s). The Author Insights sections of this paper are offered for discussion and to help provide a wider perspective for incorporating the descriptor data into the possible future trends. These conclusions are drawn by the author(s) using their knowledge of the scholarly references and their years of professional experience related to the descriptor, and are provided to help the reader more effectively envision the future impact and effects of the descriptor.