

Looking Toward Tomorrow, Budgeting Today

By L. Brooks Patterson, Oakland County Executive

Oakland County employees – elected, appointed or hired – have a responsibility to use public funds wisely. Such stewardship includes efficient delivery of services, comprehensive controls over collections and spending, frequent financial reporting, independent audits and compliance with accepted accounting principles.

Beyond the numerous awards Oakland County has received for its exemplary financial management, the most impressive stamp of approval is our coveted AAA bond rating – a rating that very few government entities possess. When it recently reaffirmed the County's AAA bond rating, Moody's Investor Services – a prestigious New York bond rating firm – said, "[Oakland] County's sound financial management is further evident in the continuous, proactive measures it takes to address challenges for *future* fiscal years. Moody's believes that institutionalized conservative budgeting processes bolster the County's ability to mitigate unfavorable variances. The County continues to identify budget solutions for subsequent fiscal year challenges..."

A key to our success is the development of a biennial budget, which forecasts two years into the future and plans expenditures according to projected revenues. Simply put, if we don't have the money, we don't spend it. We take a long-term perspective and link the budget with broad economic, managerial, planning and organizational goals that are constantly measured.

As we develop our biennial budget for the 2007-2008 fiscal years, we continue to identify challenges for the future. The forecast considers the economy at the local, regional and state levels to determine how we are affected. We know the County's economic health depends on many factors beyond our control.

Consider the connection between all levels of government. While Oakland County remains fiscally strong, several of our municipalities face budget shortfalls that affect us. State and federal challenges and how they meet them also affect us. State revenue for general fund/general purpose activities has dropped to pre-1998 levels (unadjusted for inflation). If a state budget imbalance occurs next year, the state Constitution requires that spending be reduced, meaning less money for Oakland County. Further, for the past several years the federal government has had large annual budget deficits (FY2006 projected deficit: \$360 billion). Congress continuously looks for opportunities to cut spending, often at the expense of state and local governments. As such, grant awards such as Community Development Block Grants and Medicaid reimbursements – both significant sources of County revenue – will face restrictions or reductions.

It's no secret that Michigan has been hit hard by job layoffs. In the past 18 months, 35,000 jobs were lost, as the auto companies strive to come profitable and competitive. Government has also been forced to do more with less. Detroit and Wayne County budget deficits have been well publicized, as have the state's unemployment woes. Pontiac faces similar challenges with its deficit. Flat or declining property tax revenues and reduced state revenue sharing affect many cities and towns within our county and the region. With 58 percent of the general fund revenue coming from property taxes, the importance of this revenue decline to the county is obvious. You should also realize that two state constitutional amendments – the Headlee Amendment and Proposal A – have limited the growth of our property tax revenue base. Eventually, any growth in property tax revenue beyond inflation will come only from new construction. County property value continues to rise but at a slower pace than it has in the past, resulting in an annual loss of \$1 million a year in revenue.

The cost of healthcare for county employees – for both retirees and active – has risen dramatically in recent years. Most businesses nationwide have eliminated retiree healthcare and many have reduced healthcare benefits for active employees. In Oakland County, we anticipated healthcare cost increases and proactively worked to control their impact by instituting a Health Retirement Savings Plan, keeping a valuable benefit for our new employees.

Even so, costs continue to escalate at a rate that is difficult to predict and fund. Over the last four years, the County has experienced a 64% increase in current healthcare claim payments and a 78% increase in projected retiree healthcare costs. The projected costs for the 2007 fiscal year are expected to rise again, which could lead to additional budget adjustments unless additional money is found to pay for the increased costs.

These challenges are painful but they were anticipated. Together with my staff, we have worked hard to overcome these rough times with innovative programs and initiatives to stimulate the local and state economy. Many of the initiatives are being duplicated around the state and country.

Automation Alley – Southeast Michigan's technology cluster, was created in Oakland County in 1998 and now boasts more than 600 members, eight counties and the city of Detroit. It is becoming one of the most advanced and technologically diverse clusters in the nation.

Emerging Sectors – The legacy program created to help diversify our employer base by attracting high tech foreign firms to Oakland County. Since 2004, the program has produced new investment of more than \$210 million, brought in or retained 19 companies, created more than 2,400 new jobs, retained 1,200 more and created property taxes of \$5.1 million. That investment was brought in by five business development representatives, an average of more than \$40 million

each. We're in the process of hiring two new senior business development representatives. It is expected the new representatives will have similar success.

Main Street Oakland County – the largest county-run program of its kind in the nation – is designed to help revitalize our traditional downtowns. Twelve communities are members of a program administered by the National Trust for Historic Preservation. So far, Main Street Oakland County has generated more than \$344 million in new private and public investment – more in one county than many of the 40 states now in the program have generate in those states. It is my goal to make each of Oakland County's 31 traditional downtowns a Main Street community.

Wireless Oakland will cover Oakland County's 910 square miles, giving free Internet service to everyone in the county. It is the first program of its kind in the nation. The service will be available for some of our communities in the next few months and across the county by the end of 2007. A host of counties in Michigan have begun similar programs in response to our initiative.

This is not the first time my administration has had to anticipate and plan for difficult fiscal scenarios. For years, we have steadily positioned the County to weather economic storms.

Internally, departments have to overcome numerous hurdles to secure new positions, and have of late been encouraged to leave vacant positions unfilled as long as possible. As a result, total employment at the County is 10% less than it was just four years ago. My Human Resources director is creating a Wellness Program for County employees to improve overall employee health to stem rising health care costs. These are but a few of the proactive measures we've taken.

The combined affect of a lagging regional economy, competition in attracting new businesses, spending reductions at the state and federal level, local budget constraints and rising healthcare costs will continue to challenge the County. My administration will continue to monitor developments and proactively manage the county budget. Our forecast suggests that being wise stewards of the taxpayers' funds may soon mean that tough choices will have to be made. I have never shied away from tough choices, nor will I. Rest assured, the County's fiscal house will remain in order.