

THE OAKLAND PRESS

Oakland County is paragon of financial stewardship

Michigan is generally viewed as a “good government” state. With a few exceptions, governments here are considered free of the outrageous corruption that characterizes some municipalities and state governments elsewhere. That said, very few units of government here or anywhere else have as sterling a record of prudent and transparent financial management as that of Oakland County.

Evidence of this is its relatively low tax rate, the fact the county has been proactive in using cost-saving measures such as privatization to stretch taxpayers’ dollars and, perhaps most strikingly, its foresight in managing and limiting pension and post-retirement health care benefits promised to county employees.

In the private sector, traditional “defined benefit” pension systems are rapidly disappearing, with most employers going to 401(k)-type defined contribution systems for employees. Post-retirement health care benefits are very rare in private businesses.

Considering that the federal Medicare program already covers most retiree health care costs, financed by a 2.9-percent payroll tax on every American worker, employer-provided retiree health benefits are rightly seen as obsolete.

Government, however, has marched to a different, less fiscally prudent, drum, continuing to provide defined benefit pensions and retiree health coverage in most cases. The accumulated liabilities are staggering and could eventually lead to the outright bankruptcy of some municipalities and school districts (Detroit being a prime candidate in both categories).

One well-documented example of these burdens is Michigan’s school retiree health care plan, which, along with school pensions, is expected to consume more than 30 percent of school payrolls by 2020 — an amount widely recognized as unsustainable.

Oakland County is perhaps unique as one large local government whose leaders have swum against this tide of red ink, refusing to make their jobs easier today by passing costs on to future taxpayers. For 20 years the county has prefunded not just employee pensions

— as required by the Michigan Constitution — but also the health coverage promised to future retirees. This practice is extremely unusual, if not unique in the state.

Over the next few decades, taxpayers in practically every other jurisdiction can expect either substantial tax hikes, service cuts or both to pay for benefits promised by politicians years or decades earlier.

Moreover, 10 years ago Oakland County wisely capped future pension liabilities by placing new employees in a 401(k)-type pension plan, following the practice of most private sector employers. Beginning in 2006, new hires also participate in the health care equivalent of a defined contribution system, a retirement health savings account.

As mentioned, Oakland also has kept taxes low, maintaining the third lowest countywide property tax rate — just 4.65 mills — compared to a statewide average of 7.39 mills for counties.

Oakland County has been able to keep the rate down through innovative and well-managed competitive contracting for county services.

From time to time Mackinac Center analysts have not hesitated to criticize Oakland County (and the state) for economic development and related programs that we believe are not part of government’s core mission.

However, at the county level these minor peccadilloes pale in comparison to the magnitude of Oakland’s success in implementing the far more important management practices described here.

Oakland County’s leaders have established a corporate culture of prudent financial management that is a rarity in the public sector, where the incentives all press in the opposite direction.

Taxpayers in other jurisdictions would be well-advised to benchmark their own local government’s practices against the standard Oakland has set and demand that their public officials follow its example.

GUEST OPINION



JACK MCHUGH

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