

Revenue Source Descriptions

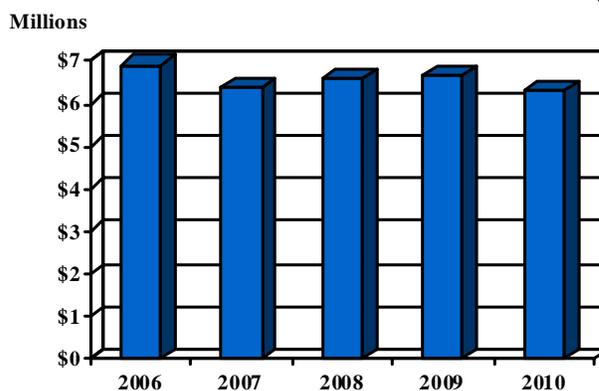
Primary Government

Property Taxes

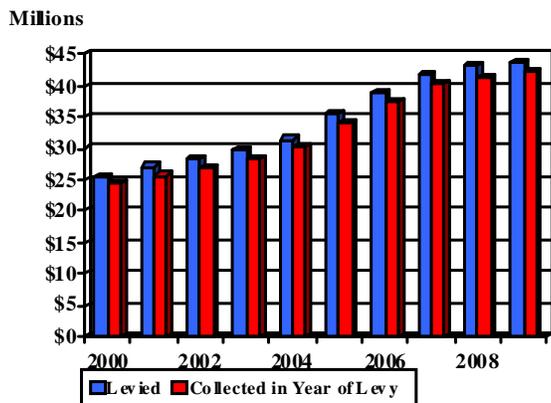
Property Taxes are levied against the assessed taxable valuation of real and personal property in the County. The tax rates are expressed in "mills" per one dollar of the assessed taxable valuation of the property; one mill of taxation is equal to one dollar on each one thousand dollars of assessed valuation. Reductions, due to various legislative acts to provide exemptions, are based on historical trends. In addition to the operating levy, in August, 1989, Ottawa County residents voted a 20 year millage at the rate of .5 mill to fund the equipment lease obligation and the cost of operating the E-911 Central Dispatch system. In November 1996, a 10-year .33 mill was approved for Park Expansion, Development and Maintenance. The Park levy was renewed for 10 years by the voters during 2006, and the E-911 Central Dispatch levy was renewed for 20 years during 2008. The property tax levies conform with the Headlee constitutional tax limitation amendment as well as P.A. 5 of 1982, Truth in Taxation requirements.

The graph to the right highlights the millage "cushion" for Ottawa County. For the last twelve years, the County has levied less than its maximum allowed mills for operations. For the 2010 *operating* levy, the current maximum is 4.2650 mills; the County is levying 3.6 mills. Consequently, the County has a substantial "cushion" available for funding operations that equates to approximately \$6.3 million in 2010. This "cushion" can be accessed with a vote of the Board of Commissioners. The 2011 operating levy will remain at 3.6 mills, so the "cushion" is expected to change in proportion to the taxable value change.

Ottawa County Millage Cushion
Difference between Maximum and Actual Levy



Property Tax Levies and Collections

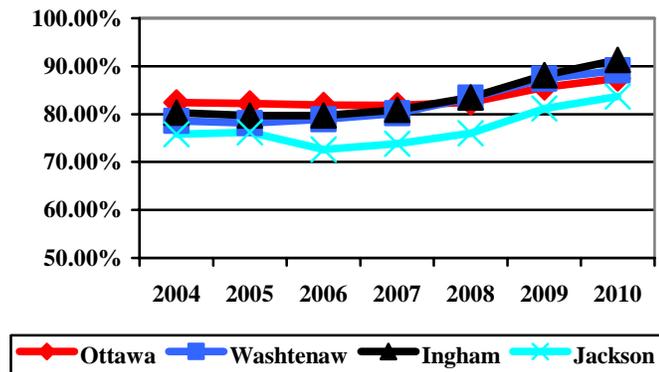


Like any municipality, Ottawa County is concerned with its tax collection rate. The County's current collection rate is slightly higher than it was in the late nineties. The graph to the right provides a ten-year history of collections for the County. The collection rate for the year the levy was made was 95.1% in 2000; in 2009, 96.55%.

Taxable Value

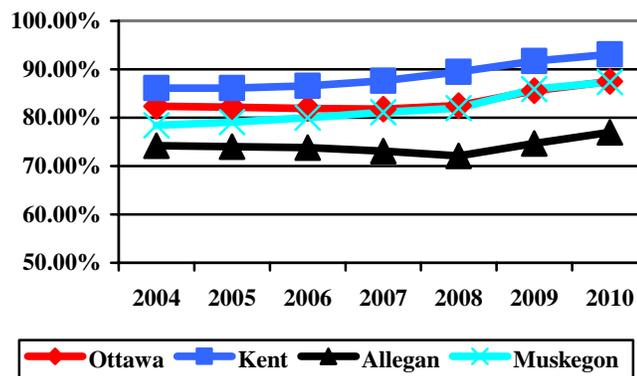
Proposal A of 1994 limits increases in the taxable value of property to the lower of the consumer price index or 5%. This has artificially lowered the 2010 taxable value of the County by approximately \$1.4 billion which equates to over \$6 million in County operating taxes annually. Even though home prices are declining, they are not necessarily lower than the taxable value, so the County is seeing increases in the taxable value of such property even though the assessed value may be decreasing. However, if home prices continue to fall, the gap between the taxable value and the assessed value will be closed. At that point, the taxable value will change in concert with housing prices. This means that the effect of falling home prices has been delayed for Michigan municipalities. In comparing Ottawa County to some of its comparable Michigan counties, Ottawa County (in red) had a smaller gap between taxable and assessed value from 2004 - 2007, but it has maintained the gap better than the comparable counties. In fact, based on the 2010 values, Ottawa's gap is now slightly larger than Washtenaw and Ingham Counties:

Taxable Value as a % of State Equalized Value

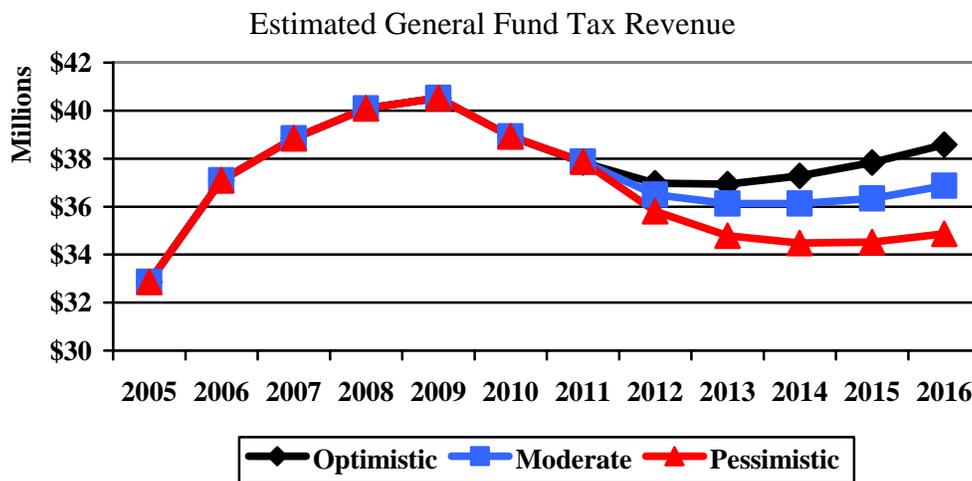


However, the comparable counties are in the middle and east side of the State which has been more acutely impacted by the troubled auto industry. It may be more relevant to look at Ottawa's gap in comparison to its adjacent counties. The chart that follows shows that Ottawa's experience is in line with its neighbors.

Taxable Value as a % of State Equalized Value



As discussed in the transmittal letter, Ottawa County is concerned about its taxable value-much like other Michigan municipalities- due to falling home values. In Ottawa County, 70 percent of the tax base is residential. Although other Michigan municipalities have felt the decline in the housing market for a few years, Ottawa County experienced its first decrease in taxable value of 4.01 percent in 2010. Taxable value is expected to decrease further in 2011 by 3.5%, and the County anticipates additional decreases in the near future which will negatively impact revenue. It has become increasingly difficult to project property values due to the volatility in the housing market, not just in Ottawa County, but in the national economy as well. Other factors play a role as well. If unemployment continues to rise in the County, it may cause property values to decrease further (due to additional foreclosures). As a result, the County is showing projections based on an optimistic, moderate, and pessimistic scenario. The optimistic scenario reflects a range of taxable value changes of -1.0 percent to 2.0 percent; moderate, -3.0 percent to 1.5 percent; pessimistic, -5.0 percent to 1.0 percent.



Intergovernmental Revenue

Intergovernmental revenue can be found in the majority of the County's funds. Such revenues come from the Federal and State governments as well as local municipalities. For the County as a whole, intergovernmental revenue is the County's largest revenue source.

General Fund: There are four main components to intergovernmental revenue in the General Fund:

State Court Fund Distribution

Revenue received from the State under Public Act 374 of 1996 for reimbursement of allowable costs of court operations, pursuant to a formula. The budget is based on information received from the State of Michigan. The 2011 budget for this revenue source is \$1.1 million.

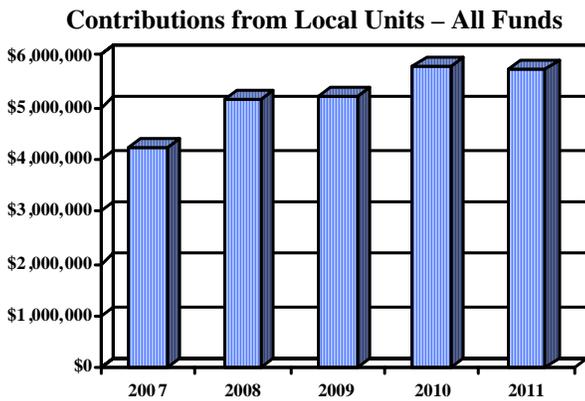
Convention Facility Liquor Tax

The County share of distribution of revenues generated from the tri-county convention facilities tax levied under Public Act 106 and 4% liquor tax levied under Public Act 107 of 1985, when these revenues exceed the debt service requirements for convention facilities. The Public

Act mandates a 50% allocation for substance abuse programs and 50% for general County operations. Previously, the County Board would also direct 100% to be used for substance abuse. However, beginning with the 2007 budget, the County may use 50% for general operations. The 2011 budget of just \$957,000 is based on information received from the State of Michigan.

Contributions from Local Units

Contributions from Local Units represent payments from townships and cities in Ottawa County for policing services that the County provides and are based on expenditures.



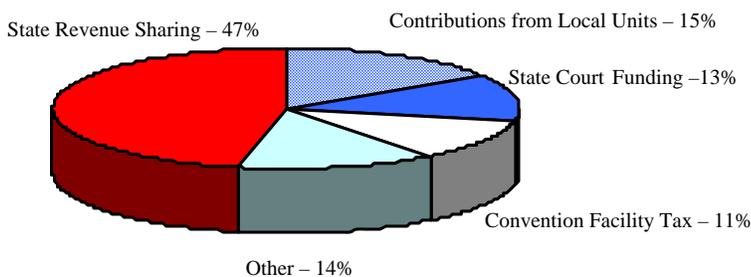
As communities have realized the value of Community Policing programs, the demand for these services has increased. The graph to the left shows the increasing dollars the County is receiving for these services. Many of these programs began with federal funding under the COPS Universal grant programs that expired after three years. As the grants have expired, the municipalities have continued to fund the programs from their own resources. As for the future, the County expects this revenue source to increase steadily over the next few years in tandem with public safety expenditures.

State Revenue Sharing

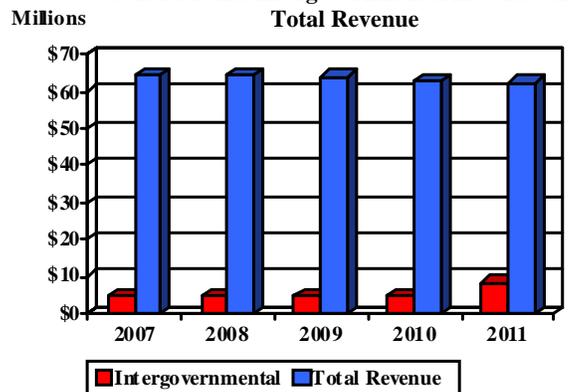
Since 2005, State Revenue Sharing payments from the State of Michigan had been suspended. Beginning in 2011, payments are anticipated to resume once again. As discussed in the transmittal letter, there are significant concerns about the State’s ability to make these payments beyond next year. For 2011, the County is budgeting a 6.5 percent decrease from the calculated amount provided by the State.

The graphs that follow summarize both the components of intergovernmental revenue and its importance to the General Fund. With the reinstatement of State Revenue Sharing, Intergovernmental revenues as a percentage of total General Fund revenue is increasing from 7.3 percent in 2010 (estimated) to 13.4 percent in 2011.

General Fund Intergovernmental Revenue



General Fund Intergovernmental Revenue and Total Revenue



Special Revenue Funds: Special Revenue funds hold the majority of the intergovernmental revenue since these are primarily grant funds. The purposes of these grants include culture and recreation (Parks and Recreation fund), judicial (Friend of the Court and Judicial Grants funds), public safety (community policing), health and welfare (Health, Mental Health, Community Action Agency, and Child Care funds), and employment services (Workforce Investment Act (WIA) funds). Budget amounts are based on State recommendations.

Parks and Recreation

The Parks and Recreation department receives funds from the State of Michigan and/or the Federal government for land acquisition and capital improvements at County parks. The revenue source can and does vary substantially from one year to the next depending on both the applications submitted and the ranking and availability of State funding for the projects. The 2011 budget includes a request for \$647,000 from the Environmental Protection Agency for the restoration of the Holland Country Club and a \$365,000 request to the State of Michigan for improvements at Olive Shores.

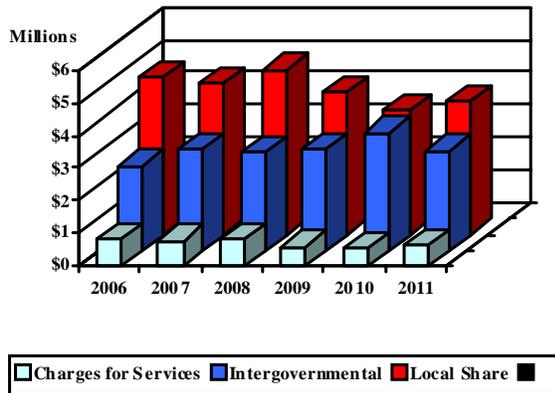
Friend of the Court Co-op Reimbursement

This revenue represents funds received from the state for title IV-D child support enforcement. The program is a federal, state and county cooperative effort to collect child care support from parents who are legally obligated to pay. This is accomplished through services provided to establish paternity, locate absent parents, establish and enforce child support orders and collect child support payments. Revenue estimates are based on eligible expenditures, with federal funding for 66 percent of eligible expenditures. Increases are anticipated to partially accommodate inflation, but no funds are anticipated for program expansion. The budget is based on preliminary contract amounts from the State of Michigan.

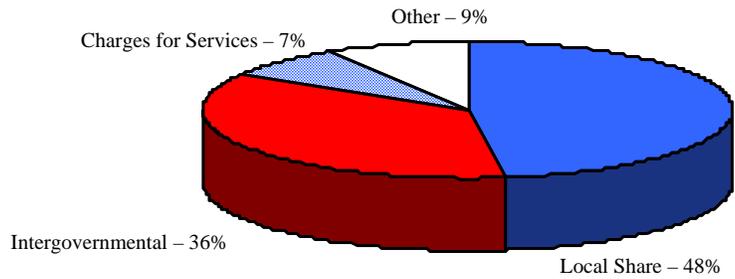
Health Fund

Intergovernmental revenue in the Health fund includes various state grants, Medicaid reimbursements, and state cost sharing established by the Public Health code. Medicaid fees are likely to increase due to the increased caseload and Medicaid eligible population. Nine services identified by the state are supposed to be reimbursed at a cost sharing level of 50%. Unfortunately, state grants and cost sharing reimbursements have not kept pace with expenditures. Some of the difference had been made up in fees charged to the clients, but much of the difference had been funded by local dollars. The graph below shows the increasing local share in red. A significant spike in local funding occurred in 2006 when Intergovernmental revenue decreased from 34.5 percent of expenditures in 2005 to 28.9 percent in 2006. Local share increased from 47.7 percent of expenditures in 2005 to 54.5 percent of expenditures in 2006. As County resources have become tighter, the County was forced to make reductions to bring these funding percentages back in line. The 2011 budget shows Intergovernmental revenue funding 36.1 percent of expenditures, and the local share funding 47.7 percent of expenditures.

Public Health Revenue



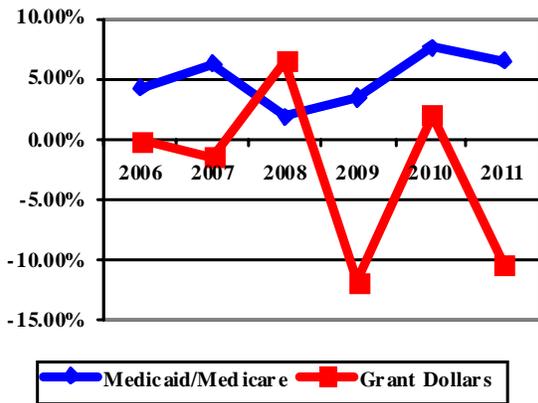
2011 Public Health Revenue



Mental Health

State funding for Mental Health Medicaid programs changed from a fee-for-service payment method, to capitated payments under a managed care system.

% Change in Mental Health Intergovernmental Revenue



Capitation for Medicaid is an "at risk" funding. State general fund revenues are to serve priority population residents up to resources available. If overspending occurs in either funding stream, Mental Health has a fund balance of State and non-County dollars that can be used. In addition, an Internal Service fund has been established to accommodate this risk of capitation of Medicaid. Although Medicaid dollars have increased due to increased enrollment, grant dollars, including those from the State of Michigan, have declined as illustrated by the graph to the left.

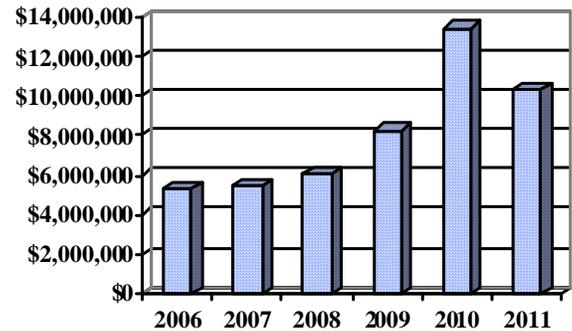
Sheriff Contracts

Beginning in 1997, the Federal government provided grants to townships that contract with the County to provide community policing services in order to enhance local law enforcement in their area. The grants were intended as "seed money" to start the community policing projects, and they typically lasted three years. All of these grants have expired, but in most cases, the programs were continued with contributions from local units discussed previously.

Workforce Investment Act Funds

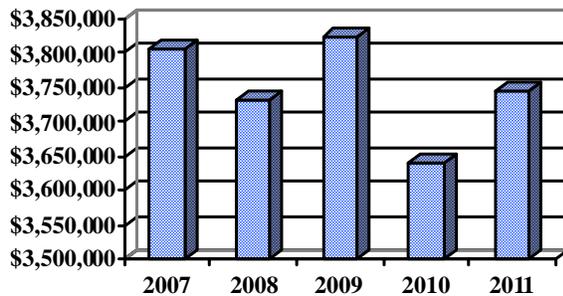
Workforce Investment Act (WIA) are federal funds received for training and employment programs for underemployed and economically disadvantaged citizens. The 2011 budget amount shows only the estimated revenues to be received from the State. Conservative budgeting requires the County to not budget carryover dollars until approved by the State. However, the County typically receives additional grants during the year in addition to the carryover dollars from the previous years. Beginning in 2008, revenue is increasing due to federal stimulus dollars the County has received/expects to receive, and these dollars continue in 2010 and 2011. Once the federal initiatives end, Intergovernmental revenue in these funds is expected to decrease.

Workforce Investment Act Funds - Intergovernmental Revenue



Child Care

Child Care Fund Intergovernmental Revenue



This revenue represents the 50% subsidy by the State for net child care costs excluding state institutions. Barring legislative changes, revenues in this fund are expected to rise in tandem with expenditures in the future. However, as discussed in the transmittal letter, there has been legislative action which may require the County to fund certain positions with General Fund dollars. This would decrease expenditures in this fund and the intergovernmental revenue would also decrease.

At this point, it is too early to know the revenue ramifications for this fund.

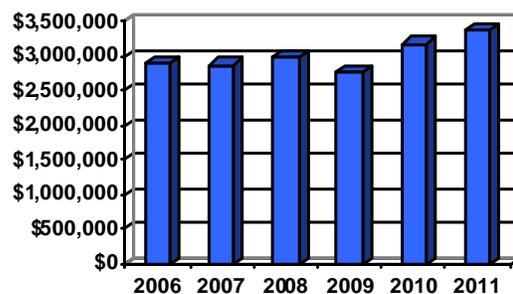
Charges for Services

General Fund: In the General Fund, there are three main sources of charges for services. Court Costs, Indirect Cost Allocation, and Register of Deeds revenue.

Court Costs

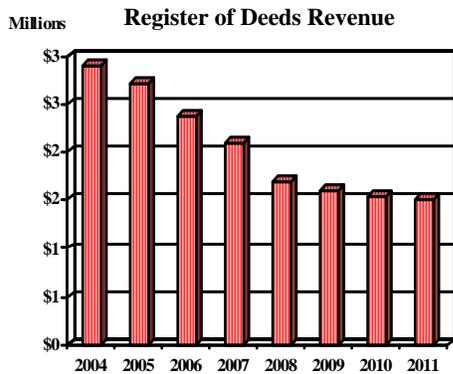
Court Costs are costs assessed for criminal and civil cases and traffic violations. The majority of these revenues are collected in the District and Circuit courts. This revenue source is on an upward swing. In the District Court, collections fell in 2009 because the State of Michigan increased the amount of money it collects by \$8 per ticket effective April 1, 2009.

Ottawa County Court Costs



However, in July of 2009, the District Court implemented revised court costs which should recoup the loss due to the State action and provide additional revenue as well. In July of 2010, the District Court increased fines for all civil infractions by 10 percent. In addition, a probation oversight fee of \$15 per month has been instituted for new probation cases. The economy has also increased the number of civil cases, increasing those collections.

Register of Deeds Revenue

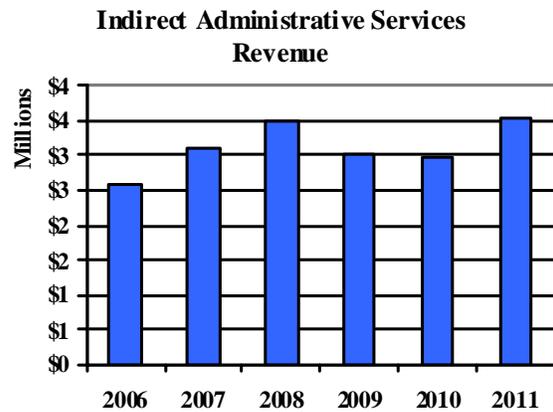


The Register of Deeds office collects fees for property services and transfer taxes. Under Public Act 134 of 1966, a fee of \$.55 for each \$500 of value of property transferred is assessed. In addition, new legislation enacted 10/1/03 allows the Register of Deeds to collect \$5 for each deed recorded and \$3 for each additional page. These revenue sources are highly dependent on interest rates and the economy. 2003 reflects the record low interest rates that resulted in an avalanche of mortgage refinancing documents. More recently, however, this revenue has been decreasing. The slow housing market has clearly affected this

revenue source negatively. Interest rates are unlikely to go lower, and most home owners who were able to refinance their mortgages have already done so. Consequently, until the local economy improves such that home sales accelerate and/or new construction resumes, the County is unlikely to see an improvement in this revenue. The County does not anticipate a turn around in this revenue source in the near future. However, the County does have significant land available for development, so once the economic recovery reaches West Michigan, revenues may grow substantially.

Indirect Administrative Services

This revenue represents reimbursement for indirect costs incurred by the County in the administration of grants and other contractual programs. A cost allocation plan is prepared annually by consultants to identify the costs. The revenue received in the General Fund is dependent on both the actual administrative costs and where the costs are allocated to since the County does not charge all departments. The graph shows increasing revenue beginning in 2007 which resulted from increased allocations to the District Court in connection with the expanded Hudsonville facility. The District Court allocation increased again in 2008 with the opening of the much larger Holland District Court building. The adjustments that were required to reflect the Hudsonville and District Court expansions were complete in 2009, so 2010 revenue is lower. However, the completion of the Grand Haven Courthouse has increased this revenue significantly in 2011, and revenue is anticipated to be higher for a few years, then decrease



slightly when all of the prior year adjustments have ceased. The expansion of the Grand Haven facility will likely bring in more grant dollars from the Friend of the Court grant.

Special Revenue Funds: Parks and Recreation, Health, Mental Health, and the Landfill Surcharge funds are the primary purveyors of Charges for Services revenue in the Special Revenue funds.

Parks and Recreation

Charges for Services in the Parks and Recreation fund include reservation and entrance fees for the use of county park facilities. Although highly dependent on the weather, entrance fees should continue to increase in the future due to the capital improvements made at the various parks. The budget is calculated by averaging historical information.

Health and Mental Health

For Health and Mental Health, the charges represent fees collected from private insurance as well as fees collected from clients. Clients are charged on a sliding fee scale based on income. Revenue is projected based on historical activity and projected caseload.

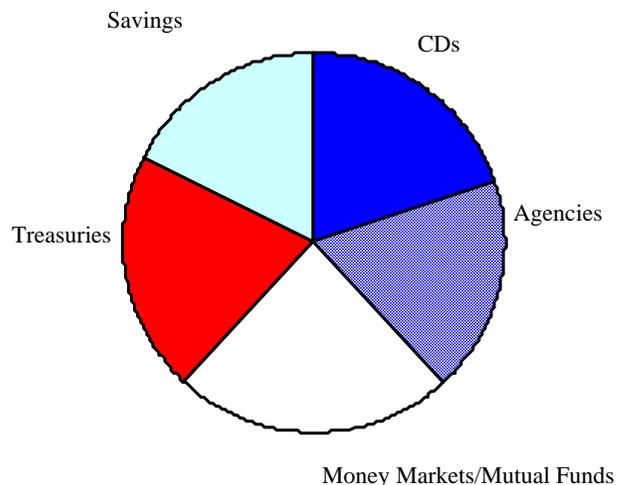
Landfill Tipping Fees

These fees represent the County portion of the surcharge fee collected by the landfills. The amount budgeted is based on historical collections and current year activity. This revenue has decreased because the volume of waste haulers has decreased primarily due to lower construction activity.

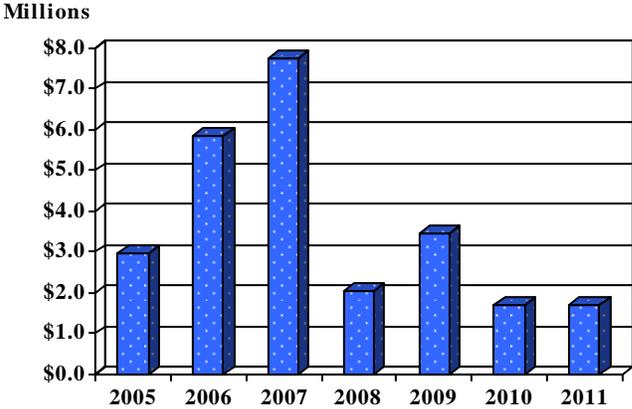
Interest on Investments

This revenue source represents both the interest earned on the investments of County funds as well as the changes in the market value of those investments at year end. Allowable investments are set by state statutes. The treasurer employs a laddered approach that results in the continuing maturity of investments in order to have the correct balance between liquidity and return. The graph to the right shows the components of the County's investment pool as of 7/31/10. Additional information on the County's investment policy can be found in the appendix section of this document.

Ottawa County Investment Portfolio Components – 7/31/10



Investment Revenue



The graph to the right shows the downturn in investment income that the County has experienced. The County records its investments in accordance with Governmental Accounting Standards Board Statement No. 31 which requires a fair market adjustment at year end. Since the market has been somewhat volatile, investment income has been fluctuating.

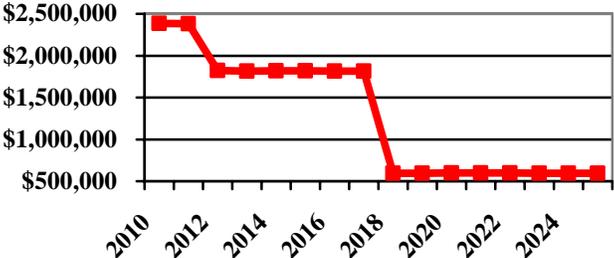
Market values at 12/31/07 were temporarily high, resulting in strong earnings. However, market values fell during fiscal year 2008. Beginning in 2008, cash balances were reduced as the County funded a portion of the Fillmore facility expansion and the new Grand Haven Facility. Planned fund balance use in other funds, the Revenue Sharing Reserve Fund in particular, has also reduced the investment balance and by extension, investment revenue. Unfortunately, the County does not anticipate significant improvement in interest rates in the near future.

Rent

Rent revenue is received from two sources. The County charges rent to grant funds for the use of County space. The budgets are based on the annual operating expenditures in the General Fund’s Building and Grounds departments plus a fixed charge for capital costs where appropriate. This rent revenue is expected to remain relatively steady over the next few years. In 2015, rent revenue may drop by \$200,000 and by an additional \$400,000 in 2016 as fixed charges on the Probate/Jail facility will have expired.

The second source of rent revenue relates to the Ottawa County Building Authority (the “Authority”), a blended component unit. Lease agreements exist between the Authority and the County which allow the Authority to charge the County rent for the buildings which is based on the debt service payments on the bonds the Authority issued. Decreases in rent revenue correspond to decreases in debt service payments. New bond issues are not anticipated at this time. Payments should remain fairly steady until 2012 and 2018, when certain issues are paid off. The graph that follows reflects anticipated rent revenue for the Building Authority:

Rent Revenue of the Ottawa County Building Authority



Component Units

Road Commission

The Road Commission receives funds from the state and local units for road improvements and repairs.

Drains

The drainage districts receive reimbursements for drainage projects or other services rendered. The budgets are based on anticipated projects of the drain commissioner.

Chapter 6 Drains - Projects petitioned for by individuals

Chapter 20 Drains - Intra-County projects usually petitioned for by townships

Chapter 21 Drains - Inter-County projects petitioned for by a governmental unit

Public Utilities System

Under Public Act 342 of 1937, the Public Utilities System records monies received to provide technical and administrative assistance to townships, cities and villages in regard to water and sanitation systems and facilities as well as operating costs.

Ottawa County Central Dispatch Authority (OCCDA)

In addition to the property tax levy in Ottawa County, OCCDA receives property taxes from Allegan County for the portion of the City of Holland that is in Allegan County.

OCCDA receives surcharge revenue from Allegan County which represents a designated amount charged to each landline phone at a business or residence. OCCDA also receives surcharge revenue from the State of Michigan. The State collects the revenue from wireless phone providers and allocates it to participating counties. Surcharge revenue must be used for capital expenditures, mainly technology.