

**County of Ottawa
Grand Haven, Michigan**

2012 Budget



**2012 BUDGET
for
OTTAWA COUNTY
GRAND HAVEN, MICHIGAN
www.miottawa.org**

**2011 BOARD OF COMMISSIONERS
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**PREPARED BY:
THE FISCAL SERVICES DEPARTMENT**

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County of Ottawa

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October 25, 2011

Board of County Commissioners and Citizens of Ottawa County:

Transmitted herein are the 2012 Operating Budgets for County operations. The combined budget, including component units, totals \$225,295,280 and is balanced in that revenues and fund balance in all funds are anticipated to meet or exceed expenditures. The budget is presented in conformance with Public Act 2 of 1968 and in accordance with Public Act 621 of 1978, known as the "Uniform Budget and Accounting Act."

Included in the 2012 document is a User's Reference Guide to assist the reader through the document and address a variety of commonly asked questions and concerns. Also included in the User's Reference Guide is the County's updated strategic plan. Summary information is provided to give the reader a broad overview of the County's 2012 budget. The Revenue Sources section provides information on key revenue sources.

The budget document is organized by fund type. All governmental funds contain a summary of revenues and expenditures by type (e.g., taxes, intergovernmental, personnel services, supplies). The General Fund and certain large special revenue funds (e.g., Health, Mental Health) also include departmental summaries by revenue/expenditure type. Although the budgets are reported by revenue/expenditure type, the legal level of control is at line item.

An appendix and an index are also included to provide other information and assist in locating desired information.

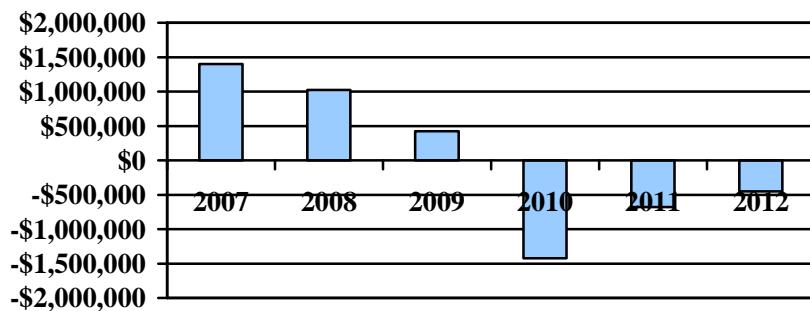
FINANCIAL ISSUES

The 2012 budget process focused on providing quality services and programs amidst continued fiscal challenges. Multiple revenue sources are on a flat or declining trend while certain expenditures such as health insurance and retirement are increasing in excess of inflation. Unfortunately, this trend is not expected to end soon.

Revenues: There are several downward pressures on multiple revenue sources. Municipalities state-wide, including Ottawa County, have felt the decline in property values and are developing strategies to address this issue. Other economy driven revenue as well as State and Federal revenues is also on the decline.

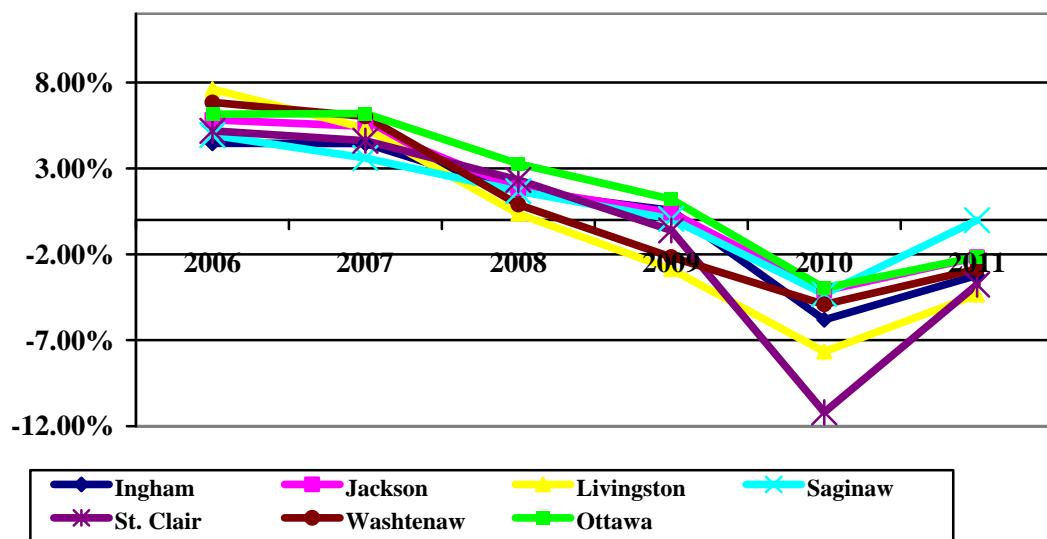
Tax Base: For many years, the County's finances were robust and able to accommodate both mandated services as well as certain discretionary programs approved by the Board of Commissioners. Strong growth in population and the tax base provided the necessary funds to cover programs on a consistent basis. However, this trend has changed.

Ottawa County Change in Operating Tax Revenue



Specifically, between 2009 (the last year of increasing taxable value) and projected 2012, the County's operating tax revenue has declined by \$2.55 million. The operating levy tax revenue is falling in part because home values are falling, and 70 percent of the County's tax base is residential. Although other Michigan municipalities have felt the decline in the housing market for a few years, Ottawa County has had a slower rate of decline. Prior to 2008, the County experienced 6 percent growth in taxable value for the four preceding years. In 2010, the County experienced its first decline in taxable value of 4.05 percent followed by a 2.15 percent decline in 2011. The prediction for 2012 is a 1.0 percent decrease in taxable value. Nevertheless, the tax base in Ottawa County has retained its value better than that of comparable Michigan counties. The graph that follows shows the change in taxable value for Ottawa County (in red) and its comparable counties:

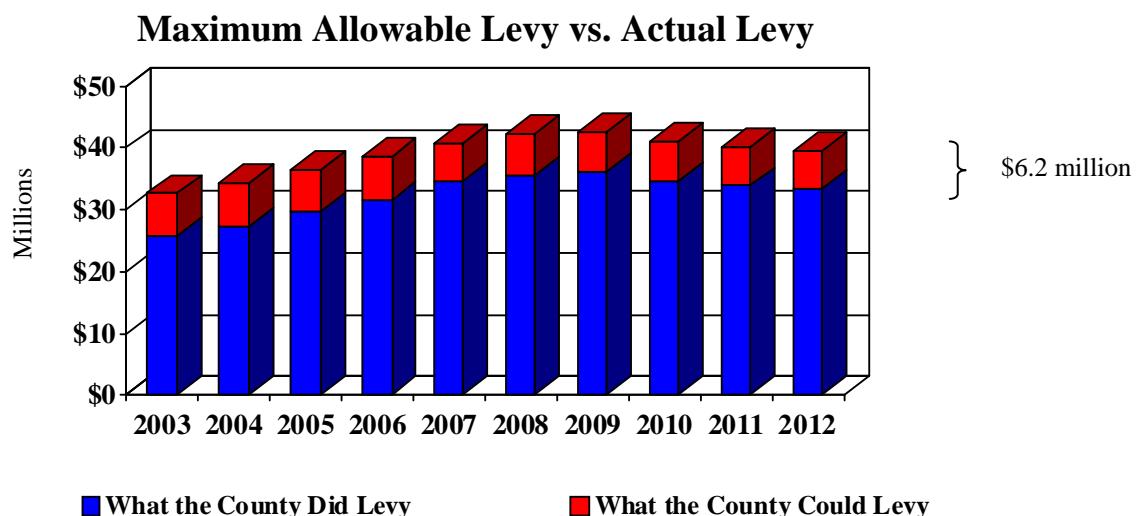
Changes in Taxable Value – Ottawa and Comparable Counties



Property Tax Revenue and the Citizen Tax Burden: There are several ways to address this trend of decreasing revenues including increasing the operating tax levy. However,

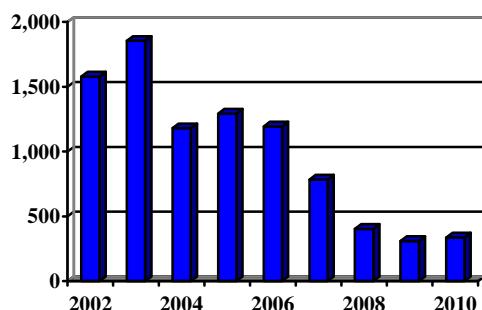
the County remains sensitive to taxpayer contributions. Ottawa County has a maximum tax limit of approximately 4.2650 mills for 2012 County operations and an actual levy of 3.6 mills. As part of the 2005 deficit reduction plan, the County had originally planned to increase the levy by .1 mill to 3.7 mills with the 2007 budget.

However, the County's strategic plan directs us to implement processes and strategies to address operational deficits with pro-active, balanced approaches. Consequently, the Board of Commissioners has chosen to continue to levy the lower 2006 amount - 3.6 mills - for 2012 operations. The County continues to levy well below its legal maximum levy. **Specifically, the difference in the levy from the maximum of 4.2650 mills to 3.6000 mills represents a 16% savings to the taxpayers.** This is the fifteenth consecutive year that the County has levied less than the maximum. The following graph shows a history of the maximum allowable millage rate for County operations versus the actual levy for budget years 2003 - 2012:

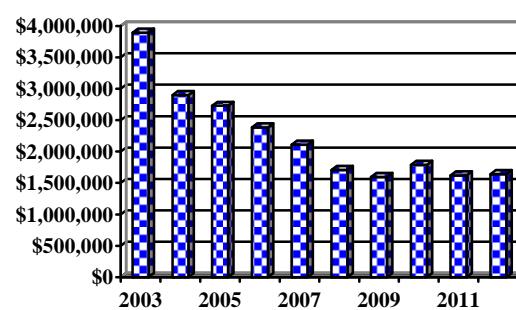


Housing Decline: The housing decline also impacts Register of Deeds revenue. A significant portion of County revenue comes from the Register of Deeds office for fees associated with the recordation of deeds, both for mortgage refinancing and new construction. Specifically, the 2012 budget is nearly \$2.3 million less than the revenue high recorded in 2003.

Reported Privately Owned Residential Building Permits



Register of Deeds Revenue



State and Federal Funding: The State of Michigan continues to experience major challenges in balancing its budget, and these challenges have been ongoing for the last several

years. New Republican Governor Rick Snyder has made restoring the State's fiscal status his top priority. The budget was signed June 21 – the earliest completion date in recent memory. Highlights of the new budget include 1) a revamped State tax structure, 2) a spending plan that balances ongoing spending and resources mainly through significant appropriation reductions; 3) a down payment on future long-term obligations; and 4) a deposit in the State's rainy day fund. The early completion of the State budget facilitates the County's budget process and that of all municipalities in the State of Michigan.

The County's strategic plan includes the objective to advocate for the full reinstatement of State Revenue Sharing. The State's 2012 budget includes revenue sharing payments of \$3.6 million, a decrease of 9% when comparing 12 months of payments for both years. Though counties were not required to participate (under threat of lost State Revenue Sharing) in some of the Governor's initiatives (see legislative issues), it does open the door for changes in the future.

Public Health:

Other County departments also have state and federal funding concerns. For Public Health programs, the following reductions are reflected in their 2012 budget:

1. \$104,980 in various grants as the funding remains tenuous.
2. 4% reduction in Essential Local Public Health Services funding
3. 16% decrease in Public Health Preparedness funding.

The programs above are both state and federally funded, and the County does not intend to pick up the funding for these programs. There will be an impact on services. Specifically, the grant funding provided free vaccines to many adults who would not have been able to afford them, including visits to homeless shelters. The loss of other grants will reduce the capacity to implement policy and environmental change to reduce obesity and tobacco reduction. The reduction in Essential Local Public Health Services funding necessitated the elimination of one clerical position, possibly resulting in longer wait times for clients and slower responses to requests for information. The loss of Public Health Preparedness funding will not likely affect services to the public, but it does impede the County's ability to create and update plans for emergency response.

Michigan Works!/Community Action Agency:

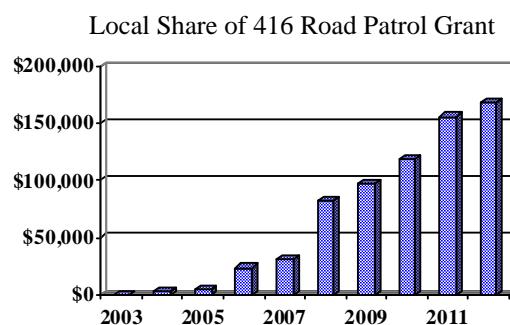
Michigan Works! and the Community Agency show the largest of all reductions in the 2012 budget - \$6.2 million. Some of the decline is due to the expiration of American Recovery and Reinvestment Act (federal stimulus) funding, and at this point there is no replacement funding on the horizon. However, other programs are not budgeted because it is unknown how much funding will be received for the next fiscal year. In any case, the reductions are significant. Since the County does not provide funding for these services, the impact will be significant. Some of the larger reductions are in the following areas:

1. Trade Program – (\$1 million): provides funding for job training of dislocated workers
2. National Emergency Grant (\$2.2 million) provides job training for a variety of eligible clients
3. 2nd Chance Administration (\$750,000): provides funding for job training, housing and other needs for prisoner re-entering the community

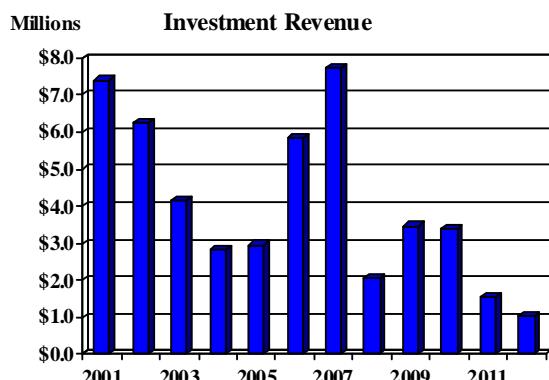
4. Michigan State Housing Development Authority - Homeless Prevention (\$197,000): provides funding to address and prevent homelessness
5. Incumbent Worker (\$175,000): provides job training for a variety of eligible clients
6. Various weatherization and low income heating assistance programs (\$454,000): provides funding for home repairs and improvements to make/keep dwellings habitable

Secondary Road Patrol:

The P.A. 416 secondary road patrol grant revenue from the State of Michigan is also falling. In 2003, the State paid for the entire cost of the grant which funds two road patrol officers and one sergeant. Because the program is important to public safety, the County will cover the decrease in funding. With the 2012 budget, the County is now funding \$168,000 - 49% - of the program.



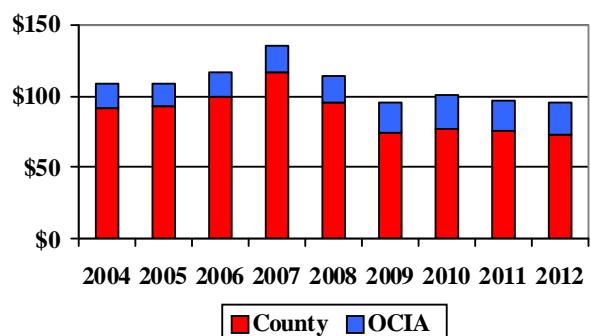
Investment Revenue: Interest revenue includes realized and unrealized capital gains and losses reported through a change in fair market value as well as actual interest received. The County's investment portfolio is laddered over a 5 to 7 year period with an average maturity just over 2 years. By laddering the portfolio, the changes in interest rates are averaged while providing opportunity for swings in fair market value. It is important to note that although the fair market value has fallen, the County intends to hold these investments to maturity; therefore, the fair market losses are not expected to be realized.



In fiscal year 2001 and prior, the County's portfolio reported significant gains of nearly \$7.4 million dollars (including the Ottawa County Insurance Authority). Over the subsequent 3 years, unrealized capital losses were reported causing a decline in investment earnings while maintaining a positive cash flow in interest revenue. Market values improved in 2006 and especially in 2007, but have since declined significantly.

In addition to declines in market returns, the County's portfolio size has also diminished. The portfolio reached a high of \$135 million in 2007, but is expected to end fiscal year 2012 at just over \$95 million. The majority of this decline is from the use of \$20 million for the construction of the Grand Haven Courthouse and the expansion at the Fillmore Street Administrative Complex. The Parks and Recreation department has also made several large land

Ottawa County Investment Portfolio



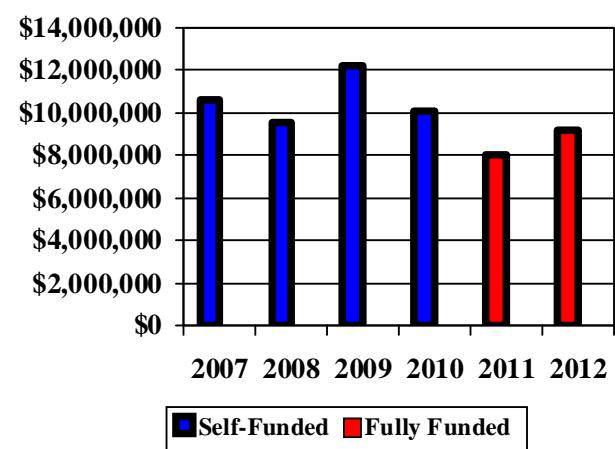
purchases and has completed several park improvement projects. The County has depleted its Revenue Sharing Reserve Fund as planned.

Expenditures: Like most organizations, the County faces continued increases in expenditures, and, over time, these increases can negatively impact the provision of services, especially in times of decreasing revenue. Since approximately 60 percent of General Fund expenditures are funded with property tax, increases in expenditures should also approximate the change in taxable value. Prior to the problems in the housing market, taxable value generally increased by the CPI plus any new construction.

Wages: Due to the decline of taxable value, County Administration knew that budgets would be very tight over the next few years. Original budget projections reflected a much larger gap between revenues and expenditures than what the County experienced. Consequently, as projections improved during the budget process, wages were increased from a 0% cost of living adjustment to reflect a 1% adjustment effective January 1, 2012.

Fringe Benefits: The strategic plan directs the County to approve strategies to contain health benefit costs. Prior to 2011, the County self-insured health insurance costs. Alarmed by the actuary projections, the County engaged a consultant to complete a review of the County's healthcare and related benefits and the self-insured status in the summer of 2010. In reviewing the options provided in the consultant report, changing from a self-insured program to a fully funded program with Priority Health would result in significant savings. Priority Health is able to offer larger discounts under their plan not offered by our current plan and would also partner with the County in wellness initiatives. The 2011 estimate reflects a reduction in costs of nearly \$2 million over 2010.

Ottawa County Health Care Costs



Other Post Employment Benefits: The County implemented Governmental Accounting Standards Board (GASB) Statement # 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, also known as OPEB, with the 2008 budget. Ottawa County has two sources of OPEB. Retirees of certain employee groups receive a credit of \$8-\$10 per month per year of service on their health insurance. In addition, the County allows retirees under age 65 to purchase health insurance at group blended rates. The change in health care plans discussed previously has resulted in a significant reduction in the annual required contribution. For calendar year 2012, the County's annual required contribution (ARC) for all funds of \$215,465 – a 75% reduction from the \$866,087 ARC for 2011.

Unfunded Mandates: Unfunded mandates are state or federal legal requirements which result in service and financial obligations on local governments without corresponding revenue. The concern over unfunded mandates is identified in the County's Strategic Plan and continues to be monitored as new legislation is considered. During 2005, County departments identified mandated and discretionary services. Discretionary services were further categorized as essential or non-essential. During 2007, the Board of Commissioners completed their first

ranking of discretionary services. Additional rankings have been completed in 2008 through 2011. During 2009, work was completed on discretionary functions. In January of 2010, the Board of Commissioners completed the first ranking of all County services (mandated and discretionary). Rankings of both mandatory and discretionary services have continued annually in 2011 and are planned in 2012. The rankings have provided an additional tool to identify reductions in the 2011 and 2012 budgets.

Fund Balance/Net Assets: Equity at the end of 2012 is expected to decrease by 1.9 percent. Total fund balance in the General Fund is anticipated to decrease by \$1.35 million, but most of the decrease is coming out of committed fund balance. In fact, only \$537,000 is budgeted to come out of unassigned fund balance. Historically, General Fund unassigned fund balance has not been used to fund the budget due to positive variances. As planned, net assets in the Delinquent Tax Revolving Fund (DTRF) are decreasing. Multiple bond payments, and, beginning in 2012, operating transfers to the General Fund, are paid from the fund. Consequently, net assets are expected to decrease through 2017, after which one of the larger bond issues will be paid off. Special Revenue and Internal Service funds are anticipating only minor changes in fund balance and net assets.

Fund Type	Total Equity 2008	Total Equity 2009	Total Equity 2010	Total Projected Equity 2011	Total Projected Equity 2012
General Fund	\$ 22,084,426	\$ 16,712,957	\$ 17,979,501	\$ 20,910,254	\$ 19,557,912
Special Revenue Funds	48,494,841	36,457,126	31,924,757	32,026,108	32,208,397
Delinquent Tax Revolving Fund	24,562,182	24,727,300	24,271,796	23,586,210	22,789,457
Internal Service Funds	28,328,085	28,842,629	32,657,693	32,446,023	32,347,193
Total Equity	<u>\$ 123,469,534</u>	<u>\$ 106,740,012</u>	<u>\$ 106,833,747</u>	<u>\$ 108,968,595</u>	<u>\$ 106,902,959</u>

In 2009, equity fell significantly in conjunction with the construction of the Grand Haven Courthouse for which the County contributed \$20 million in cash. Fund balance and equity accounts were allowed to grow specifically to provide funds for the building projects, so the corresponding decreases in equity were anticipated and considered in the analysis of the long-term financial stability of the County.

In addition, equity also decreased through 2010 due to planned depletion of the Revenue Sharing Reserve Fund. In 2011, State revenue sharing was reinstated for Ottawa County. The County had budgeted based on the State's estimate. However, due to the timing of payments and differences in the fiscal year of the State and the County, the County will receive approximately \$2.2 million more than originally included in the 2011 adopted budget. Further, taxable value did not decline as far as anticipated with the original adopted budget. On the expenditure side, there were more vacancies than planned and contingency was not utilized as budgeted. However, in late September, the Board approved the transfer of \$1 million of committed fund balance to the DB/DC Conversion fund. As a result of all of these factors, equity in the General Fund is anticipated to increase by \$2.9 million in 2011. The 2012 General Fund budget, however, reflects fund balance use of \$537,000.

Despite the decreases, the County still has considerable equity in relation to expenditures. The table that follows illustrates this point:

	2012 Budgeted Expenditures	Estimated Equity	Equity as a % of Expenditures
General Fund	\$ 63,986,817	\$ 19,557,912	30.6%
Special Revenue Funds	77,962,609	32,208,397	41.3%
Delinquent Tax Revolving Fund *	2,923,279	22,789,457	779.6%
Internal Services Funds	17,576,673	32,347,193	184.0%
	<u>\$ 162,449,378</u>	<u>\$ 106,902,959</u>	<u>65.8%</u>

* It is important to note that the fund equity in the Delinquent Tax Revolving fund is significantly more than the cash balance since the fund has a large receivable.

Local Governments should ideally have sufficient fund balance to cover 15 percent of expenditures. The County continues to exceed this standard. However, it is important to note that a significant portion of the equity is not available for operations or is designated in some way. Consequently, although these funds may be accessible to the County, using them may have significant ramifications (i.e., increased expenditures) for future operations.

Balancing the 2012 Budget

The upward pressure on expenditures combined with flat or decreasing revenue results in a deficit for the 2012 General Fund budget as submitted by departments. Specifically, expenditure requests exceeded projected revenues by nearly \$3.4 million, not including personnel requests. The 2011 budget submitted by departments came in with expenditures exceeding revenues by nearly \$4.4 million. The gap is decreasing because departments were asked to budget based on tax projections. As directed by the County's strategic plan, a combination of cost reductions, cost refinements, and revenue adjustments - a balanced approach - was used to balance the budget.

Cost Reductions:

Beginning in 2010 a number of elected officials/departments agreed to temporarily leave an approved position vacant. All of the following General Fund positions will continue to be held vacant with the 2012 budget:

Elected Official/Department	Position	Full Time Equivalent	Cost (2010)	Comments
Prosecutor	Assistant Prosecuting Attorney I	1.00	\$88,700	Vacancy began in 2009
Fiscal Services/Administrator	Financial Analyst	1.00	\$81,960	Vacancy began in 2010
Fiscal Services	Accountant I	.50	\$37,368	Vacancy began in 2010
Treasurer	Clerical	1.00	\$57,840	Vacancy began in 2010

Elected Official/Department	Position	Full Time Equivalent	Cost (2010)	Comments
Sheriff – Jail	Corrections Officer	1.00	\$64,664	Vacancy began in 2009
Sheriff – Auto Theft Grant	Road Patrol Deputy	1.00	\$87,559	Vacancy began in 2009
Sheriff - Road Patrol	Cadet (Part-time, unbenefitted)	N/A	\$8,872	Vacancy began in 2009
Sheriff – Administration	2 Clerical (Part-time, Unbenefitted)	N/A	\$19,233	Vacancy began in 2009
Geographic Information Systems	Intern (Part-time, Unbenefitted)	N/A	\$1,850	Vacancy began in 2009

In addition, the 2012 General Fund budget reflects a net decrease of 14.795 full time equivalents (FTEs). Of that total, 13 ftes were moved, along with their dedicated funding source, to different funds. The table below details the reduction of FTEs funded by the General Fund:

Fund	Position	Estimated Cost	Comments
District Court	1 Abstracting and Indexing Clerk	\$54,220	Current employee retired; decrease in workload, so it will be unfilled
Register of Deeds	.35 Public Service Center Clerk	\$19,961	Will now be funded from the Register of Deeds Technology fund
Treasurer	.7 Delinquent Property Tax Specialist	\$43,510	Will now be funded from the Delinquent Tax Revolving fund
Treasurer	.7 Warranty Deed Clerk	\$37,520	Will now be funded from the Delinquent Tax Revolving fund
MSU Extension	1.25 Extension Clerks	\$68,289	Positions eliminated/reduced
Jail	1 SWAP Officer	\$66,687	Position Eliminated

The Board of Commissioners also decided to continue the suspension of the tuition reimbursement program which began in 2010, resulting in approximately \$65,000 in savings for the General Fund. In addition, a total of \$315,000 was reduced from operational supplies, mostly in the Sheriff's department and the Jail. The reductions were based on revised equipment needs, grant funding received to cover some of the equipment, and historical spending patterns.

Cost Refinements:

In 2007 through estimated 2011, savings from staff vacancies ranged from \$400,000 - \$545,000 per year. In the 2011 budget, the County reduced the budget by \$122,000 to reflect vacancies. Based on actual experience, the County has reduced the 2012 budget by \$300,000 to reflect vacancies.

Departmental charges for health insurance are significantly reduced when employees opt out of coverage. Employees that opt out of health insurance coverage currently receive \$2,400

annually which is significantly less than the amount to insure them. In the General Fund, just over 26 full time equivalents opt out of health insurance coverage. In the Health Fund, just under 16 full time equivalents opt out. As a result, the health insurance budget line items have been decreased by \$166,000 in the General Fund, and the Operating Transfer from the General Fund to the Health Fund was reduced by \$126,000 to reflect anticipated opt out savings. Refinements were also made to the operating transfers to other funds. Additionally, the operating transfer to the Child Care fund was reduced by \$141,000 based on revised expenditure estimates.

Revenue Adjustments:

Because there has been significant volatility in the housing market, the County reviews property sales figures monthly during the budget process. Originally, taxable value was estimated to decrease by 1.5%. As the budget process progressed, the projections became more favorable. As a result, the estimated change in taxable value for 2012 has been reduced to a 1.0% decrease. This change and other various adjustments are increasing the 2012 tax revenue budget by \$177,000 from the initial projection.

As part of the County's long range plan to limit program reductions, certain revenues will be redistributed over the next few years until the economy recovers. Currently, the Public Improvement fund (2450) receives rent from various County departments to reflect the costs the Public Improvement fund paid for construction or remodeling facilities. The revenue had been credited to this fund to provide money for future capital improvement. Given that the County just completed a major addition to the Fillmore Street Administrative Complex and the construction of a new Grand Haven Courthouse, significant additional construction needs are not anticipated in the next few years. Since the fund is projected to have \$3.3 million in fund balance at 12/31/2011 and the General Fund is also projected to have \$1.4 million available in designated fund balance, funds are available should an unanticipated need arise. As a result, \$300,000 of rent revenue that had been going to the Public Improvement fund (prior to 2010) will continue to be credited to the General Fund in 2012. This is the third year of the revenue diversion, and the County is projecting that this rent may continue going to the General Fund for the next five years.

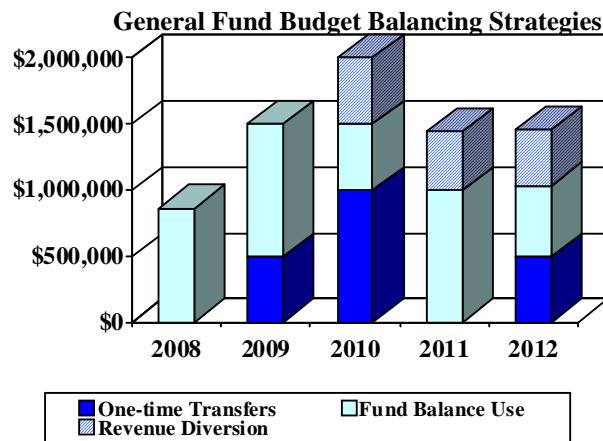
The County is also changing the distribution of the commission revenue it receives on phone calls made by inmates at the County jail. Prior to 2010, this revenue had been credited to the Telecommunications fund (6550) to provide funds for telecommunication infrastructure purchases. In 2010 and 2011, General Fund financial results allowed the County to continue to credit the Telecommunications fund with this revenue. Given that the fund is projected to have over \$3.2 million in retained earnings at 12/31/11, funds are available for additional infrastructure purchases. As a result, the estimated \$125,000 of inmate phone commission revenues will continue to go to the General Fund in 2012. The County is projecting that this revenue may continue going to the General Fund through 2014.

Also during the 2012 budget process, the County reviewed projections in its Delinquent Tax Revolving Fund (DTRF). Throughout the years, the DTRF has contributed on and off to the General Fund, the most recent transfer done in 2005. After careful analysis, it was determined the fund could accommodate additional transfers for operations for the foreseeable future, so the County anticipates transfers from DTRF's revenue stream indefinitely. Although equity will

decrease in the fund through 2017, equity should rise after that even with transfers to the General Fund. The 2012 budget includes a \$625,000 transfer from the DTRF.

One-time Dollars:

County financial policies stress the importance of matching operating revenues to operating expenditures. However, the County and the State are in a period of significant transition. Our long term financial picture has several unknowns. Rather than eliminate programs based on projections, the County is continuing to fund some of them with the use of



one-time dollars. The 2012 budget includes a \$500,000 transfer from the Ottawa County Insurance Authority. At 12/31/10, the fund has net assets of \$12.1 million. The County contributed money to start the Authority in 1990, and the balance of that contribution is \$4.5 million. While not a permanent funding source, the fund is able to contribute to the General Fund at least through 2017. In addition, the 2012 budget includes the use of \$537,000 of unassigned General Fund fund balance. Historically, the County has budgeted the use of fund

balance but has only rarely used a small portion because expenditures have come in lower than anticipated.

The County's financial policies require an undesignated fund balance between 10 to 15 percent of the most recently audited expenditures of the General Fund. The County has maintained an undesignated fund balance of 15 percent for several years. If the County used the entire \$537,000, it would still be within the parameters of the financial policy. It should also be noted that the one-time dollars of \$500,000 represent less than 1.2% of the General Fund budget. While not a long-term solution, fund balance use does allow for the continuation of programs until our long-term financial picture becomes clearer. In fact, the County General Fund has been able to significantly decrease its use of fund balance and one-time dollars. Specifically, the 2004 budget as adopted included one-time transfers of \$2.9 million for operations. With the 2012 budget, the non-recurring funding sources, the one-time transfers and the fund balance use total \$1.46 million. The table that follows summarizes the changes made to balance the General Fund.

Revenues:

2012 General Fund Budget Proposed by Departments	\$60,711,187
Analysis and fine tuning of tax projections	177,000
Diversion of rent revenue from the Public Improvement Fund	300,000
Diversion of jail phone commission revenue from Telecommunications	125,000
Correction to Register of Deeds revenue	92,000
Adjustments to District Court projections	(235,000)
Reflected use of committed fund balance as approved by the Board	815,000
Increases in rent revenue resulting from corrections to utilities and other expenditure adjustments	157,000
Reflected contract with Grand Haven City for Assessing Services	149,000
Established Transfers In from OC Insurance Authority & the Delinquent Tax Revolving Fund	1,125,000
Other miscellaneous adjustments	32,630
Total General Fund Revenue Proposed by Finance and Administration Committee	<u>63,448,817</u>
Budget use of fund balance	538,000
Total Revenues and Use of Fund Balance	<u><u>\$63,986,817</u></u>

Expenditures

2012 General Fund Budget Proposed by Departments	\$64,153,809
Adjusted departments for final indirect cost figures	164,000
Increased operating transfer to the Friend of the Court based on revised revenue estimates	129,000
Reduction to reflect health insurance opt outs	(166,000)
Reduction for anticipated vacancies & reduced rate for unemployment	(368,000)
Transfer to the Child Care Fund budget decreased based on current activity	(141,000)
Increased contingency from .5% to .8% of prior year expenditures	175,000
Adjusted for higher anticipated utilities costs	209,000
Reduction to Sheriff and Jail operational supplies based on historical needs	(333,000)
Other miscellaneous adjustments	164,008
Total General Fund Expenditures Proposed by Finance and Administration Committee	<u><u>\$63,986,817</u></u>

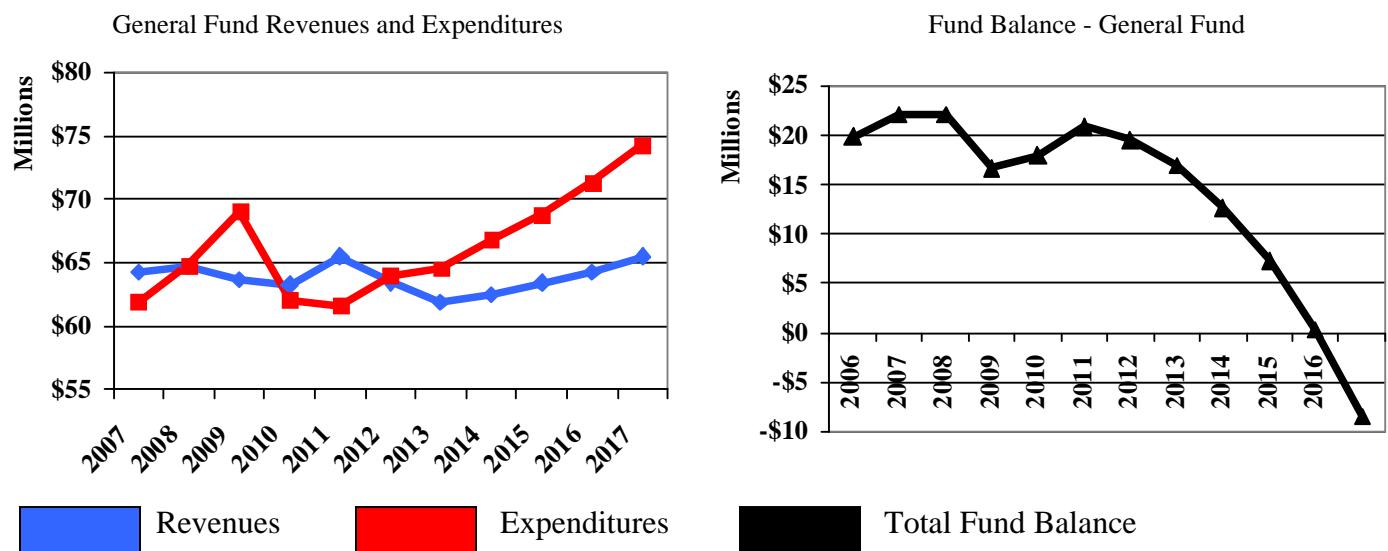
SPECIAL REVENUE, DEBT SERVICE, CAPITAL PROJECTS AND PERMANENT FUNDS

As discussed in the budget balancing for the General Fund, \$300,000 of rent revenue will be diverted from the Public Improvement Fund, so the fund's revenue is lower than originally budgeted. Certain Workforce Investment Act Funds were increased from the original departmental request upon notification of grant approvals (\$959,000). After submitting their budget, the Child Care fund was able to forego funding for two positions. This and other various changes resulted in a decrease in revenue and expenditures of \$192,000. The remaining funds had no significant changes made to their 2012 budget requests.

FUTURE FINANCIAL PLANNING CONCERNS

The County's strategic plan addresses the goal of maintaining and improving the financial position of the County. An objective is to identify financial threats, and one method used to identify threats is to project General Fund activity out five years.

The economic situation for the County government as well as the nation as a whole has been quite volatile in the last few years. The most significant impact of the economic downturn has been on the tax base, and tax legislation passed several years ago in the State of Michigan will make recovery in all Michigan municipalities slower than other sectors of the economy. The current projections show that expenditures will continue to outpace revenues, reducing the County's fund balance rather quickly if strategies are not developed to address this issue.



The graphs above show an increasing gap between revenue and expenditures that widens to as much as \$8.8 million and total fund balance shows a deficit by 2017 if revenue and expenditure assumptions prove true and no additional changes are made to operations. Several other options and combinations of options exist and will be explored for consideration by the Board of Commissioners. At this point, it appears the County may have difficult choices to make in the future.

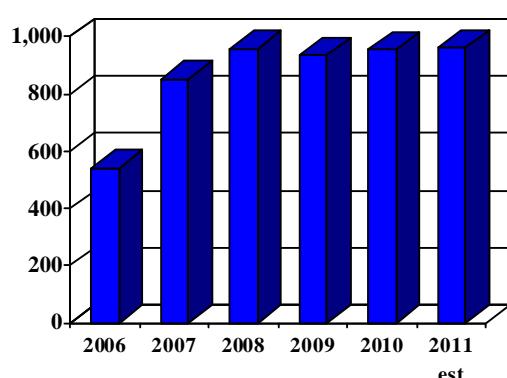
Tax Base: *Proposal A* limits increases in the taxable value of property to the lower of the Consumer Price Index or 5%. *Proposal A* has changed the value on which the County calculates its tax revenue by approximately \$1.4 billion which equates to nearly \$5 million in County operating taxes. Even though home prices are declining, the State Equalized Value (SEV) for all homes has not reached the Taxable Value (TV), so the County is seeing small increases in the taxable value of such property even though the assessed value may be decreasing. The table below reflects the decreasing gap between TV and SEV.

	2005	2006	2007	2008	2009	2010	2011
% of Parcels SEV>TV	84%	80%	75%	66%	47%	41%	34%
% of Parcels SEV=TV	16%	20%	25%	34%	53%	59%	66%

Analyzing the gap is important because as home prices continue to fall, the gap between the taxable value and the assessed value closes. At that point, the taxable value goes in the same direction as home prices, so if home prices continue to fall, the tax base will fall at the same rate. While most people believe home prices will eventually recover, at least partially, the recovery of the tax base will be much slower due to the *Proposal A* legislation.

There remains considerable uncertainty in projecting property values, particularly for 2013 and beyond. Certain federal initiatives aimed at keeping people in their homes have expired, and it is unknown what the effect on mortgage foreclosures will be. The first time home buyer tax credit expired during 2010, and it is difficult to project impact of the expiration on the tax base.

Ottawa County Mortgage Foreclosures



The graph to the left reflects the number of foreclosures in Ottawa County since 2002. It is unclear what the time delay between foreclosure activity and the actual foreclosure is, so it may be some time before the impact of the expiration of federal initiatives can be determined. The concern is that if banks gain a number of properties through foreclosure and flood the market with homes, there may well be additional downward pressure on home prices, and by extension, the tax base.

Expenditures

Like most organizations, the County faces continued increases in expenditures, and, over time, these increases negatively impact the provision of services.

Employee Insurance: Increases in health care costs have been problematic across all sectors of the economy, including Ottawa County. As a result, the County Strategic Plan directs the implementation of a health management plan. A study completed in the summer of 2010 identified the need for a health management which research shows to be an effective tool in lowering medical costs long-term because the earlier a chronic illness can be identified and

treated, the lower the resultant health claims attributed to that illness in the future, thus reducing medical costs.

From a management perspective, health management plans have the potential to decrease absenteeism, reduce medical claims costs, and improve employee productivity, recruitment, and retention. For maximum impact on employee health, a comprehensive wellness program should focus on: 1) increasing awareness of wellness issues (information) 2) supporting health management (personal change) and 3) promoting healthy work climates (organizational support). Ottawa County is still in the beginning stages of the plan, this year recognizing rewardable actions and beginning next some additional incentives and in future years, disincentives. In 2012, the committee will formulate more specifics for the initiative.

Legacy Costs: Government pensions have come under significant public scrutiny in the last couple of years. Defined benefit pensions offer little control over costs for employers, and market volatility and other factors have significantly increased costs. As a result, the County Strategic Plan directs that the Board approve a strategy to move to a defined contribution program for new hires. Based on information from a consultant, changing to a defined contribution for new employees would actually increase costs for approximately 10 years. However, after 10 years, the savings are significant. Consequently, the Board voted to go forward with the change once funding for the initial costs have been identified. The County made significant progress towards this goal during 2011 with transfer of approximately \$4.6 million from various funds to a separately established Special Revenue fund, DB/DC Conversion. The County plans to implement the plan for new hires of unrepresented employee groups as early as July 2012.

Landfill Clean-up Costs: In 1990, the County was established the Solid Waste Clean-up fund with money received by Ottawa County from the settlement of litigation over the Southwest Ottawa Landfill. The fund's goal is to use the interest generated from the principal to cover ongoing annual costs of the landfill remediation. Significant capital improvements have been made to expedite the remediation of the site. However, this has also resulted in higher annual costs to operate the ground water system. This, combined with extraordinarily low interest rates, is causing concern over the fund's ability to cover the clean-up costs. Current projections indicate the fund may be depleted by 2020. Consequently, the County may need to provide additional funding if necessary.

Revised Five Year Deficit Reduction Plan

Currently, Administration is developing a new five year deficit reduction plan to address the current projections. Specific strategies include:

- Continue a General Fund hiring freeze for new, full-time positions that result in a net increase in cost for the General Fund. Consideration will be given for positions that have an impact on service delivery. A review and analysis of need will be completed prior to filling vacant positions.
- Maintain five year projections with variables such as revenue sharing, commodity cost, millage rates, and funding sources to strategically determine the most fiscally responsible plan for millage increases and expenditure reductions

- Continue program evaluations to determine the costs and benefits provided by programs as a basis for the possible elimination or restructuring of programs that are not performing effectively and efficiently
- Implement a defined contribution benefit for new hires to replace the current defined benefit retirement system.
- Annual review of health insurance plan for appropriate changes
- Review and analysis of other fringe benefit costs
- Departmental efficiency studies to reduce cost
- Secure funding for technological advances that will create efficiencies and reduce future costs
- Comprehensive analysis of services provided by the County's departments and outside agencies to eliminate redundancy of services provided
- Performance measurements and ranking of mandated and discretionary services will be used in the analysis of programs for possible budgetary reductions
- Implementation of the budget principals approved by the Board of Commissioners to guide budget decisions

Financing Tools that Help Address Concerns

As budgeting becomes increasingly difficult, it is important to have alternate funding sources available. Long-term financial planning is addressed extensively in the County's Strategic Plan. The County Board adopted fiscal policies and procedures which specifically address the County's long-term financial needs through various Financing Tools which partially provide alternative funding sources. Funding provided by the Financing Tools for the 2012 Budget is as follows:

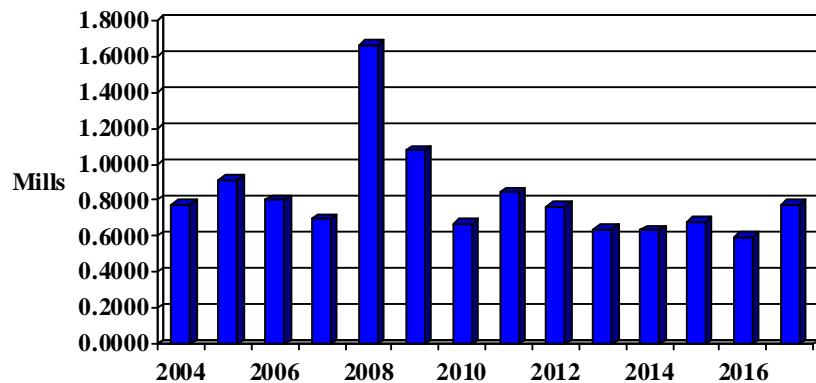
- Solid Waste Clean-up Fund (2271) is continuing to pay the clean-up cost on the Southwest Ottawa Landfill (\$292,000).
- Infrastructure Fund (2444) had been established to loan funds to municipalities for infrastructure development. The loans made since inception total \$2,155,000. Currently, the fund is also contributing \$125,000 per year toward the Fillmore expansion/Grand Haven building project for debt service payments. These payments will continue through 2027.
- Public Improvement Fund (2450) includes a portion (approximately \$188,000) of the 2012 debt service payments for the bonds issued in 2007 for the Fillmore/Grand Haven project. Beginning with the 2010 budget, \$300,000 of rent revenue that had previously been recorded

in this fund will now be recorded in the General Fund for operations. The 2012 budget also includes this revenue diversion, and the County anticipates this may continue through 2017.

- Stabilization Fund (2570) is providing the General Fund with approximately \$41,000 in interest earnings. In addition, the fund provides additional flexibility to deal with unexpected occurrences that have the potential to negatively impact finances.
- Delinquent Tax Revolving Fund (5160) is funding bond payments of \$2.1 million on four bond issues, and is contributing \$625,000 for General Fund operations.
- Duplicating (6450), Telecommunications (6550), and Equipment Pool Funds (6641) provide equipment replacement and enhancement funding. The total amount of equipment requested from these funds in 2012 is just under \$1.2 million. Telecommunications is also contributing approximately \$150,000 per year for debt service requirements on the Fillmore/Grand Haven project, and as discussed earlier, \$125,000 in inmate phone commissions.

The Financing Tools play a major role in reducing our tax levy. The amount for 2012 equates to 0.7642 mills. The graph that follows shows the benefits, in lieu of millage, that the financing tools provide:

Summary of Financing Tools Benefits Equated to Mills



The amounts for 2008 and 2009 are much higher as they reflect the construction of the new Grand Haven Courthouse and the Fillmore Street addition. Several financing tools have participated in this endeavor.

LEGISLATIVE ISSUES

Child Care Fund: There are several areas of legislation that may impact the Child Care fund. The enforcement of a 1985 Supreme Court Administrative Order would require counties to maintain a ratio of one probation officer to every 6,000 children under the age of 19 within the County. The enforcement would cost the County an estimated \$1 million because the employees meeting the education requirements for probation officers (per the SCAO order), detention workers and caseworkers who are currently charged to the Child Care Fund, would be ineligible for State funding. For now, the Department of Human Services (DHS) is not pushing for the enforcement, but the potential remains for significant cost increases.

In addition, the State of Michigan and Children's Rights, Inc. Settlement would require all foster home placements to be in licensed homes. In general, in Ottawa County, youth placed

with family are typically in unlicensed homes and youth in non-family placements are in licensed homes. Early estimates place the cost to the County at \$500,000 annually. Both of these issues are currently on the back burner, but the State's fiscal problems could rekindle efforts to enforce them.

There is also a concern that the DHS is seriously considering the privatization of the foster care system. This could mean significant dollars to the County since the County would be forced to pay \$37 per day per child for every child in care or under supervision of the private agency and all children would qualify. Currently, the County does not pay an administrative rate on DHS licensed homes. Also, DHS continues discussion on raising the percentage of privately supervised cases in order to force the larger counties to make-up for the lack of compliance of counties who have no private agencies. The County's strategic plan directs staff to identify other legislation that impacts our financial position and develop clear position statements on those issues. Consequently, the County continues to monitor activity.

On the positive side, there is talk of drafting legislation that would reimburse counties at a 75/25 split for community-based programming in order to encourage courts to develop and use these programs rather than residential placements. If such legislation goes through, the County stands to gain \$1.3 million per year as the County already emphasizes community-based programming. However, due to the aforementioned potential negative contingencies, the County is leaving significant fund balance in the fund (\$1.1 million) to provide time to develop a plan to deal with potential reductions.

Record Retention Legislation: The County has implemented a Justice Imaging System which automates the processing and transfer of court and legal documents. However, several changes are needed to update departmental rules and state legislation to recognize and approve technological advances in order for counties to utilize technology to its fullest extent. The County has been successful in obtaining legislative and administrative rule changes to allow the use of electronic seals, electronic signatures, and the utilization of electronic filing of documents such as court pleadings, motions, briefs, responses, orders, judgments, and notices. These changes have resulted in significant efficiencies. Nevertheless, the law still requires courts to microfilm files.

The 2012 Information Technology budget continues to include funds for the imaging program (approximately \$141,000). In addition, small replacement equipment (signature pads, scanners, etc.) are included in the 2012 departmental budgets. In anticipation of changes that would allow imaged (rather than microfilmed) records for retention, the request from the Probate Court for a part-time clerical position to assist with the microfilm was not approved (\$10,000).

Binding Arbitration for County Corrections Officers (Act 312): Legislation was passed that provides meaningful reforms to P.A. 312 of 1967 which addresses compulsory binding arbitration for public safety employees. New provisions make several important changes to the current binding arbitration process and the overall cost implications to local units of government:

1. The county or local unit's "ability to pay" must be weighted heavier than any other consideration when resolving contract disputes

2. The salaries and benefits of other public workers in the same community must be given equal consideration (internal comparables) to those of municipal police officers, firefighters, emergency management workers and dispatchers from other communities
3. The arbitration process, including the final rulings, must be concluded within 180 days of its commencement.

Though no specific impact can be identified in the 2012 budget, the County believes the legislation will have a significant, positive benefit for future negotiations with applicable employees.

Personal Property Tax: The State of Michigan is considering elimination of the Personal Property Tax (PPT). This effort is led by Lt. Governor Brian Caley. Legislators are discussing potential replacements for the significant loss of revenue that would occur with all governmental entities, including schools. The total state-wide revenue from PPT is approximately \$1.1 billion including Ottawa County's portion of \$2.7 million. Ottawa County will be working with other governmental units, its lobbyist, Governmental Consultant Services, Inc., and associations to ensure there is a viable solution to replace the revenue that will be lost if PPT are eliminated as directed by the County's strategic plan.

Employee Health Coverage: Legislation passed this year which requires all public employers to be subject to "hard caps" on their health care benefits. This would limit what local units of government are allowed to pay toward employee healthcare premiums. There are three options:

- 1) Employer caps are set as follows: \$5,500 for single coverage, \$11,000 for individual and spouse, and \$15,000 for family coverage. Employees would have to pay the difference if the plans exceed the caps, and the caps would be adjusted annually according to the medical care component of the Consumer Price Index.
- 2) A public employer may opt in to an 80%/20% cost share through a simple majority vote. Under this option, the employer would pay 80% of the total cost of the health insurance premiums, while the employees would pay 20%.
- 3) Public employers (not including schools) may opt out with a 2/3 majority vote of its board.

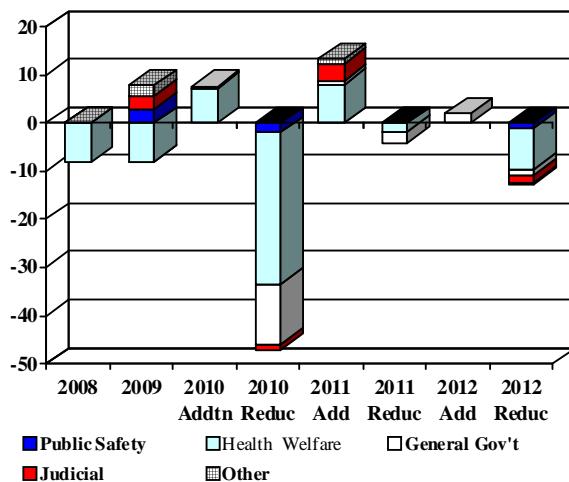
The law also provides that if an employer's share of the local health care plan cost is competitive with the new state preferred provider organization health plan, on a per-employee basis, the requirements of the law are considered met. Currently, the insurance rates the County pays are below the caps indicated above. The County plans currently meet the hard cap limits. The County also plans to increase co-pays from 10% to 20% for employees not enrolled in the H.S.A. health insurance plan. Co-pays for those in the H.S.A. plan will remain at 5% to encourage participation in the lower cost option.

PROGRAMMATIC ISSUES

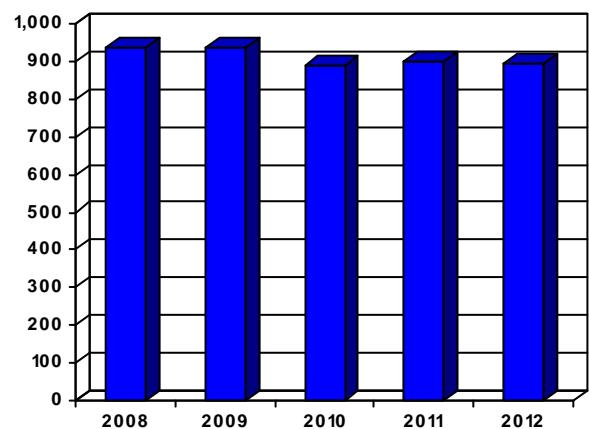
Staffing Needs: Ottawa County, the eighth largest county in the State of Michigan, is also the fifth fastest growing county in the State in 2011. The population has grown by more than 20,000 during the past 10 years, resulting in additional service demands. Due to the budgetary concerns of recent years, the County imposed a General Fund hiring freeze for the 2006, 2007, and 2008 budgets. The hiring freeze affected requests for new permanent, full-time

positions that would result in a net increase in General Fund expenditures unless the position is required for a new facility or required to meet critical citizen service needs. Due to increased service demands and community policing contractual requirements, the County added 6.3 full time equivalents in 2009. Full time equivalents decreased in 2010 mostly due to the reorganization of Community Mental Health that was in process at the time of adoption. New personnel approved with the 2011 and 2012 budgets include primarily grant funded positions. The graphs that follow show the increase in total full time equivalents in the County for 2008 - 2012 added/subtracted through the budget process and the total number of full time equivalents for 2008 – 2012:

Positions Added by Function 2008-2012



Ottawa County Full Time Equivalents



The 2012 budget process has resulted in a decrease of 6.05 full time equivalents overall from the 2011 adopted budget. Full time equivalents in the Mental Health department show the largest increase – 4 full time equivalents from the 2011 adopted budget. Mental Health is in an ongoing reorganization process and is adjusting staff as appropriate when funds are available. Michigan Works! reflects the elimination of nearly 6 full time equivalents in their 2012 budget due to deteriorating funding (mostly due to the end of federal stimulus dollars). Some of these positions may be reinstated if funding materializes. Positions budgeted in the General Fund are budgeted with a net reduction of 2.125 full time equivalents in 2012 (this does not include positions moved to a different fund but retaining the same funding source).

Equipment/Technology Needs: Although the County has been conservative with personnel additions, it has taken steps to help departments complete their work more efficiently. In many cases, the County, through the implementation and use of technology, has delayed or eliminated the hiring of additional staff. The County continues to look for opportunities to use existing technology to meet operational needs, improve efficiency and maintain a viable technical capability.

Infrastructure

With the completion of the 2010/11 network upgrades, the County has completed a main network design goal– all switches/routers at the County’s major facilities connect to the network backbone at gigabit speeds. Also, as part of the phone system upgrade, all of the County’s

network backbone hardware has been upgraded. Additional capabilities of the phone system and other infrastructure enhancements are either complete or are expected to be complete before year end:

- Geographical Redundancy (Telecommunications)
- Call Center, Voice Recording and Unified Messaging (Telecommunications)
- Wireless access improvements including managed wireless access at six County facilities(Telecommunications)
- OnBase (ECM) Servers were replaced with a combination of virtual and physical servers
- Additional virtual servers were created to support upgrades to the Avatar System and its test environment, as well as production and test environments for the MICA system.

Enterprise Resource Planning System (ERP)

The County's strategic plan directed staff to review the ERP system for organizational efficiency. For the last year, the EFP committee has been studying the financial software for possible replacement to manage an organization's resources, integrating most management functions including accounting and finance, purchasing, human resources and more. The new system will address the following goals:

- 1) Deliver a fully functional ERP solution that automates and standardizes Financial and Human Resource functions across the organization.
- 2) Reduce operating costs through streamlining of best practice processes and workflow.
- 3) Facilitate day-to-day management through real time capabilities.
- 4) Support organizational strategic planning and decision making through reporting tools.
- 5) Reduce redundant data entry and processing tools.
- 6) Improve internal and external customer service and satisfaction
- 7) Reduce future staffing requirements

On September 27, 2011, the County board voted to approve the \$1.2 million contract with Tyler Technologies, Inc. for the implementation of the Munis ERP system. An additional \$400,000 has been/will be spent on consultants, temporary staff replacements and hardware. Implementation is expected to be complete in 18 to 24 months. Funding for the project is included in the 2012 budget.

County Website

The County strategic plan includes continued improvement to the County website. Since January, 2011 the following online applications have been added to the County web site:

- Three Year Dog Licenses
- Spring Lake Village Online Payments (the County now provides hosting services for three municipalities)
- Community Alerts for Blackberry Devices
- Career Resource Management
- Digital Paystub
- Veterinarian Dog Licensing

- Alcohol Server Training Registration
- Civil Infractions Payment
- Pawnshop Inventory Tool

The County also collaborated with ImageSoft, the County's imaging software vendor, to enhance website services in the County Clerk's office with the development of TrueCertify software. TrueCertify allows courts and other government agencies to authenticate and deliver certified documents electronically via the Web; the County is the first to adopt the TrueCertify technology. The County will benefit from cost saving and process efficiencies, while the citizens of the County will enjoy improved service with the added convenience of receiving certified documents through e-mail.

MICA

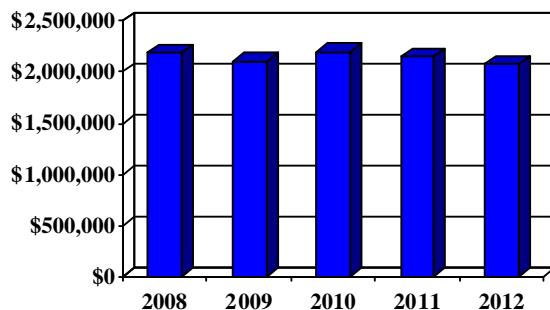
Ongoing process reviews within the justice area which includes all courts, prosecuting attorney and Sheriff's department; continue as part of the requirements gathering and development effort to upgrade the County's Justice System. This effort, referred to as Many Integrated County Applications (MICA), involves the development of solutions using existing capabilities as well as new development to tie disparate data sources together with functionality needed to support the operations of our justice departments. A Payroll Hours Entry application was developed as a result of this effort and is currently used by 20% of County employees, and a Judge's Calendar application is in testing.

Operating System Upgrade

During 2011 and 2012, new desktop systems are being deployed with Windows 7 and Microsoft Office 2010. This is the first change in desktop standards in eight years. By the end of 2012, the replacement of Office 2003 will be significantly complete. Since January 1, 2011 the IT Department has installed 550 new computer and related devices. Funds for the replacement are included in the 2012 budget.

In addition to the initiatives above, the 2012 Budget includes approximately \$2.1 million for other equipment and technology needs. The following graph shows the dollar amount of equipment added each year from 2008 to 2012 during the budget process:

History of Approved Equipment



BUDGET SUMMARY

The 2012 budget reflects the on-going implementation and refinement of the action plans addressed in the Ottawa County Strategic Plan. The fluctuations between the 2011 amended and 2012 budgets are the result of the previous discussion. A comparison of the 2011 amended and 2012 budgets follows.

Comparison of Revenues for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Permanent Fund - Primary Government

Source	2011 Amended Budget	2011 Percent of Total	2012 Proposed Budget	2012 Percent of Total	Percent Increase (Decrease)
Taxes	\$ 41,347,625	25.9%	\$ 40,702,722	28.2%	-1.6%
Intergovernmental Revenue	78,203,388	48.9%	66,356,711	45.9%	-15.1%
Charges for Services	13,627,528	8.5%	14,532,630	10.1%	6.6%
Fines and Forfeits	1,062,000	0.7%	1,066,600	0.7%	0.4%
Interest on Investments	768,557	0.5%	307,832	0.2%	-59.9%
Rental Income	6,018,254	3.8%	5,560,775	3.8%	-7.6%
Licenses and Permits	939,511	0.6%	825,676	0.6%	-12.1%
Other Revenue	2,119,977	1.3%	1,544,620	1.1%	-27.1%
Operating Transfers In	16,015,023	10.0%	12,467,747	8.6%	-22.1%
Fund Balance Use/(Contribution)	(304,767)	-0.2%	1,170,033	0.8%	-483.9%
Total Revenues	<u>\$ 159,797,096</u>	<u>100.0%</u>	<u>\$ 144,535,346</u>	<u>100.0%</u>	<u>-9.6%</u>

Taxes serve as the primary revenue source for the General Fund, E-911, and Parks and Recreation Fund. The 2012 tax revenue budget includes levies for the following purposes:

<u>Millage for 2012 Budget</u>	
General Operations	3.6000
E-911	.4400
Parks and Recreation	.3165
	4.3572

As discussed earlier, the County is choosing to levy 3.6 mills rather than its maximum allowable. Consequently, the decrease in revenue is due completely to the decrease in taxable value. The County is estimating a decline in taxable value of 1.0 percent in 2012. However, the E-911 and Parks tax revenue are based on the 2011 taxable value which decreased by 2.15%. Consequently, the decline in tax revenue for 2012 is slightly higher than the estimated 1.0% decline in the 2012 taxable value.

Intergovernmental Revenue represents 45.9 percent of the Governmental funds revenue budget and is decreasing. Major fluctuations by fund/area follow.

Fund	Change over 2011
General Fund	(\$2,635,000)
Parks and Recreation	(\$1,307,000)
Public Health	(\$1,200,000)
Mental Health	\$1,062,000
Sheriff 9/30 Grant Programs	(\$403,000)
Grant Programs - Pass Thru	(\$978,000)
Workforce Investment Act (WIA) Funds/ Community Action Agency/Weatherization	<u>(\$6,228,000)</u> <u>(\$11,689,000)</u>

2011 is the first year of Revenue Sharing reinstatement. The State's fiscal year is 9/30, but the County's is 12/31. The County will accrue half of the payments of the State's 2012 estimated payments into the County's 2011 fiscal year. Essentially, 2011 Revenue Sharing represents one and one half years of payments, so the 2012 budget is \$2.6 million lower. Intergovernmental revenue in the Parks and Recreation fund also varies significantly depending on grants. The budgets reflect the following major grants:

Project	2011 <u>Budget</u>	2012 <u>Budget</u>
Holland Country Club Restoration	\$647,000	\$0
Olive Shores Improvement	\$365,000	\$0
Grand River Ravines	\$595,000	\$0
Ottawa Beach Waterfront Walkway	\$0	\$300,000
Total	<u>\$1,607,000</u>	<u>\$300,000</u>

Public Health intergovernmental revenue is decreasing \$1.2 million. 2011 includes a \$871,000 Medicaid cost settlement amount for 2004 through 2007 that has been finalized. In addition, State funding reductions and grant expirations have resulted in an additional reduction of \$294,000. For Mental Health, the entire increase can be attributed to increases in Medicaid, primarily due to client counts. Sheriff 9/30 Grants fund is decreasing because the County received some one time equipment grants totaling \$371,000. The Grant Programs-Pass Thru fund budget for 2011 includes \$978,000 for the completion of a federally funded energy efficiency grant.

Workforce Investment Act (WIA) as well as the Community Action Agency (2870) and Weatherization (2890) programs reflect a decrease (\$6.2 million) primarily due to the anticipated end of federal stimulus dollars and tenuous nature of funding for these programs. Some funding may be carried over from 2011 to 2012, but in observance with the County's budgeting philosophy, nothing is budgeted in these funds until formal grant notification is received.

Charges for Services revenue, at 10.1 percent of total revenue, is increasing 6.6 percent. The main area of increase is in the General Fund. Specifically, charges to departments for indirect administrative costs are increasing \$1.6 million. 2012 indirect administrative costs are based on 2010 activity. 2010 was the first full year of occupancy at the new Grand Haven Courthouse. The previous facility was fully depreciated, so facilities charges for the departments that occupy the building (mainly the Courts) increased significantly. The new facility is also

significantly larger, resulting in greater operational charges as well. However, caseloads are down primarily in the District Court, decreasing revenue by \$215,000.

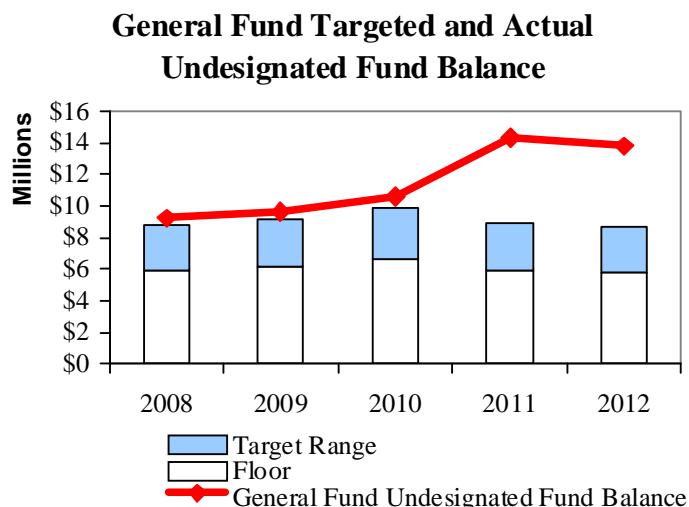
Interest on Investments reflects a decrease of \$461,000 or nearly 60 percent. The decrease is due to a combination of low return rates on allowable investments and the lower cash balances of the County discussed earlier. Specifically, some of the County's long term investments are coming due, and the investment vehicles available now have low interest rates.

Licenses and Permits revenue is decreasing because the County instituted a new 3 year dog license in late 2010. This change is resulting in a one year increase (primarily seen in 2011) followed by two years of substantially lower revenue.

Other Revenue is decreasing primarily in the Parks and Recreation fund. 2011 includes \$500,000 in anticipated donation revenue for the Holland Harbor Access Project.

Operating Transfers In revenue is decreasing in the DB/DC Conversion fund as the Board approved \$4.3 million in transfers from various funds to the DB/DC Conversion fund. However, beginning in 2012, the General Fund will receive \$500,000 in operating transfers from the Ottawa County Insurance Authority (blended component unit) and \$625,000 from the Delinquent Tax Revolving Fund for operations. In 2011, the General Fund did not receive transfers from these funds.

Fund Balance usage is increasing for several reasons. The General Fund anticipates good results in 2011 due to the one time increase in revenue sharing funds and assorted expenditure variances. The 2012 budget includes unassigned fund balance use of \$537,000 and committed fund balance use of \$815,000. In 2011, the Parks and Recreation fund is budgeted to use \$1.9 million of fund balance in connection with land purchases and capital improvements, but lower capital improvement plans have resulted in a fund balance contribution of \$263,000 for 2012. Fund balance usage of \$579,000 is budgeted in 2011 in the Landfill Clean-up fund for the completion of the upgrade to the clean-up project. The 2012 usage of \$278,000 is for operations only. The good news is that the County does not anticipate using significant fund balance in the General Fund in 2011 or 2012.



It is important to note that the unassigned fund balance will be maintained at the level indicated by County's financial policies (10% - 15% of the actual expenditures of the most recently completed audit). The graph to the left illustrates the County's compliance with the policy.

Comparison of Expenditures for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, and Permanent Fund - Primary Government

Use	2011 Amended Budget	2011 Percent of Total	2012 Proposed Budget	2012 Percent of Total	Percent Increase (Decrease)
Legislative	\$471,519	0.3%	\$466,020	0.3%	-1.2%
Judicial	14,905,749	9.3%	15,482,424	10.7%	3.9%
General Government	17,035,318	10.7%	16,286,046	11.3%	-4.4%
Public Safety	29,886,588	18.7%	29,750,219	20.6%	-0.5%
Public Works	1,655,351	1.0%	1,542,878	1.1%	-6.8%
Health & Welfare	68,389,708	42.8%	62,682,390	43.4%	-8.3%
Culture & Recreation	7,623,382	4.8%	3,477,831	2.4%	-54.4%
Community & Economic Development	690,598	0.4%	755,037	0.5%	9.3%
Other	807,548	0.5%	623,474	0.4%	-22.8%
Debt Service	3,145,464	2.0%	2,585,920	1.8%	-17.8%
Operating Transfers Out	<u>15,185,871</u>	<u>9.5%</u>	<u>10,883,107</u>	<u>7.5%</u>	<u>-28.3%</u>
Total Expenditures	<u><u>\$159,797,096</u></u>	<u><u>100.0%</u></u>	<u><u>\$144,535,346</u></u>	<u><u>100.0%</u></u>	<u><u>-9.6%</u></u>

Judicial expenditures are increasing by 3.9% or \$577,000. As discussed under charges for services revenue, indirect cost charges are increasing for occupants of the Grand Haven Courthouse (mostly judicial functions) due to reflection of the first full year of occupancy. Indirect charges for all judicial functions increased \$944,000. The overall increases were tempered by decreases in grant funding, mainly because funding has not yet been confirmed. Specifically, grant funding for the 9/30 Judicial Grants fund is down \$170,000, and various grants in the General Fund are down \$109,000. In addition, caseload is down significantly in the District Court; in fact, one clerical position has been eliminated. Other associated costs are lower or have not experienced the increases normally seen from year to year.

General Government expenditures are decreasing 4.4 percent. The 2011 budget includes \$993,000 million for the one time Energy Efficiency Community Development Block Grant (EECBG) discussed under intergovernmental revenue. The remaining budget for the grant to be spent in 2012 is \$30,000. As mentioned under “balancing the budget,” the Treasurer’s office has shifted personnel to the Delinquent Tax Revolving Fund, saving \$81,000 in the General Fund. In addition, staff reductions in MSU Extension reduced expenditures by \$67,000. However, costs for MSU Extension’s consultants increased \$104,000 due to State reduction at MSU Extension. Building and Grounds costs are increasing \$274,000 in total, \$157,000 due to higher utility costs and \$145,000 for two roofing projects.

Public Safety expenditures, representing 20.6 percent of total expenditures, are essentially staying steady. One Sentence Work Abatement Officer (SWAP) position was eliminated in the Jail. As discussed previously, the reduction for vacancies was increased considerably in the 2012 budget, and Public Safety functions reflect approximately \$110,000 more of the additional vacancies. However, indirect cost charges are increasing over \$190,000 in the General Fund due to changes in allocation bases and liability insurance costs are

increasing. The Sheriff 9/30 Grant Fund is \$403,000 less due to fluctuations in grant awards. Last, the payment to the Ottawa County Central Dispatch Authority, which is based on the tax levy associated with the function, is \$103,000 less due to declining taxable value. The remaining change is due to normal, inflationary increases.

Public Works expenditures are decreasing by 6.8 percent due to the completion of the recapping project at the landfill. The project began in 2005 and the County has paid over \$2.5 million to date, and the Ottawa County, Michigan Insurance Authority has paid an additional \$1.8 million. The project was the result of a lawsuit filed by the State of Michigan against the County.

Health and Welfare expenditures, representing 43.4 percent of total expenditures is decreasing by 8.3 percent. Expenditures for the Health fund are \$401,000 lower in total due to one time grant expiration or tenuous grant funding. As discussed previously under intergovernmental revenue, Michigan Works!/Community Action Agency programs are decreasing by \$6.2 million for reasons discussed under intergovernmental revenue. Conversely, the Mental Health budget is increasing by \$829,000 or 2.3%. Significantly more will be spent on developmentally disabled client care.

Culture and Recreation expenditures are recorded in the Parks and Recreation Fund (2081) and will vary depending on the land acquisition and capital improvement endeavors. The 2011 capital outlay budget is \$5.6 million which includes \$2.1 million for land purchases, \$730,000 for the Olive Shores improvement project, \$746,000 for the Holland Country Club restoration, and various other, smaller projects. The 2012 capital outlay budget is \$1.1 million and includes just \$200,000 for land purchases, \$600,000 for the Ottawa Beach Board Walk project and \$266,000 for other various projects.

Debt Service expenditures are decreasing because the last payment on Probate Court/Jail bond issue will be made in 2011.

Operating Transfers Out are decreasing for the same reasons discussed under operating transfers in. The amount is slightly different due to funds having different year ends and the exclusion of proprietary funds on this schedule.

CONCLUSION

Ottawa County's vision is *to be the location of choice for living, working, and recreation.* The mission states that *the County is committed to excellence and the delivery of cost-effective public services.* To accomplish the vision and mission of the County, long term strategies and financial planning have been implemented for several years.

Ottawa County, through its Strategic Plan and financing tools, has placed itself at the forefront by creating long-term strategies to address space needs, provide for equipment replacement, resolve insurance issues, meet human resource needs, fund statutory mandates, and provide public service and quality of life for our citizens.

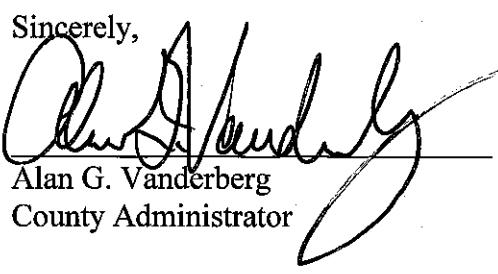
With financial forecasting and the creation of long-term financing tools, the County has positively impacted future financial decisions and the County's financial stability. These tools permit the County to reduce taxes to County residents, maintain the County's bond rating, and control costs to departments. Finances continue to be carefully balanced in order to maintain or improve the outstanding bond ratings that save significant taxpayer dollars when the County issues debt or when townships use the County bond ratings for water and sewer system bonds.

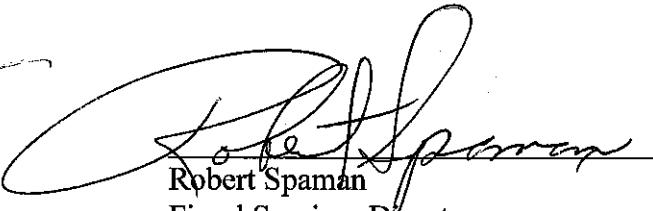
The County is projecting operational deficits over the next five years as a result of the declining tax revenue, possible reductions in State Revenue Sharing, and the increasing cost for employee benefits. Ottawa County also remains one of the fastest growing counties in Michigan which increases the need for services to the public, especially during economic downturns. With the increase in service requirements and the need to control expenditures, it is essential that the County keep pace with technology in order to improve efficiency and to deliver quality services to the public in a cost effective manner.

The 2012 budget continued addressing the projected operational deficits with a balanced approach of increasing revenues, reducing expenditures, and using one time dollars. The budget reflects the implementation of the County's strategic plan, long-range strategies, and an array of tools in balancing the budget. The budget continues to emphasize responsibility, restraint, and reinforcement of the County vision and mission.

The County has continued to control expenditures through long range planning to ensure the fiscal stability of the County. With Ottawa County's fiscal restraint and long-term planning, the County will continue to maintain its financial strength and tradition of providing exemplary services to the public.

Sincerely,


Alan G. Vanderberg
County Administrator


Robert Spaman
Fiscal Services Director

DISTINGUISHED BUDGET PRESENTATION AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to Ottawa County for its annual budget for the fiscal year ended December 31, 2011. This was the sixteenth year that the County has submitted and received this prestigious award.

In order to receive this award a governmental unit must publish a budget document that meets program criteria as a policy document, as an operational guide, as a financial plan, and as a communications medium.

The award is granted for a period of one year only. We believe our current budget continues to conform to the program requirements, and we are submitting it to the GFOA to determine its eligibility for another award.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Ottawa County
Michigan**

For the Fiscal Year Beginning

January 1, 2011

A handwritten signature in black ink, appearing to read "Jeff P. Egan".

President

Executive Director

