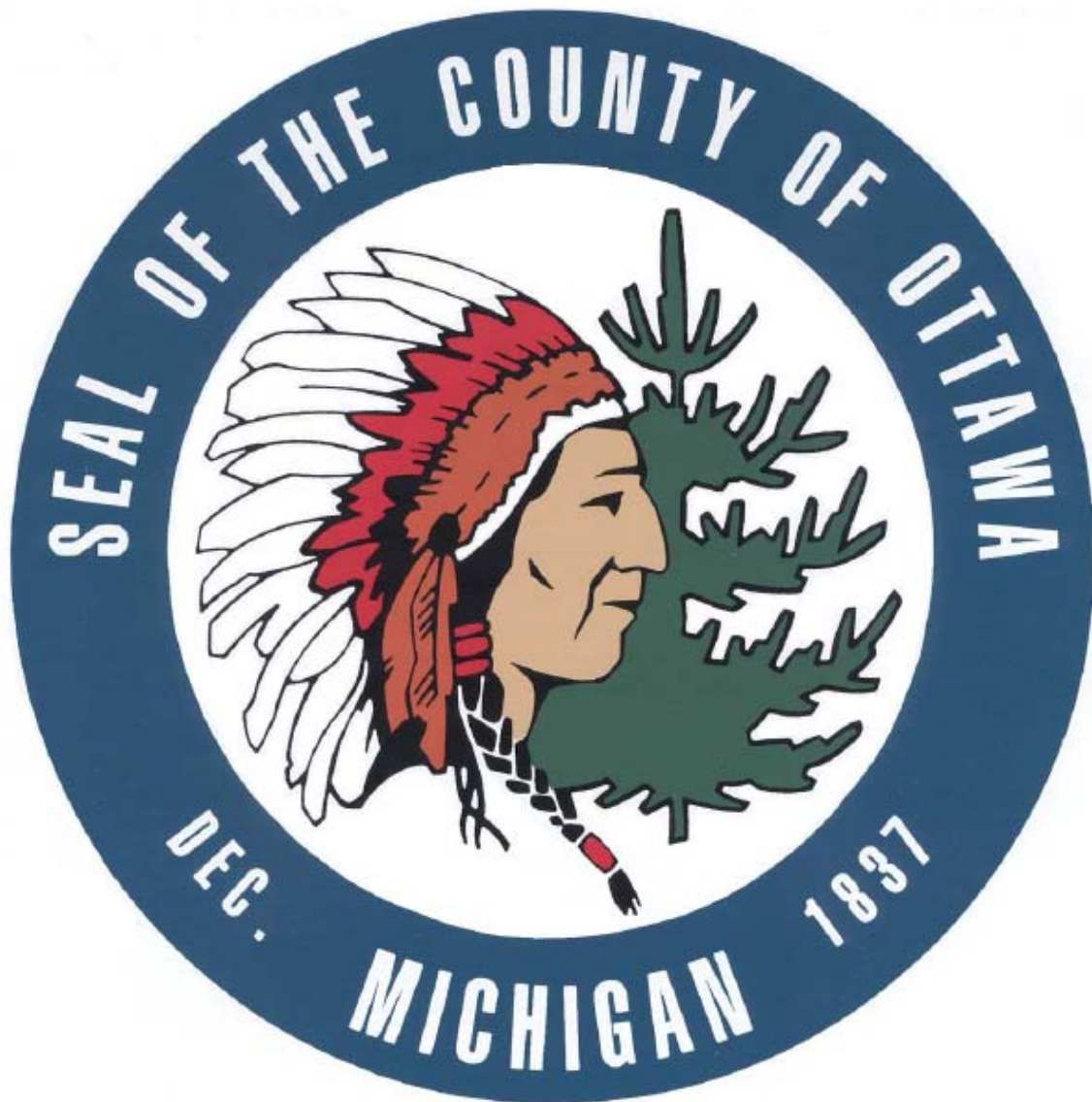


**County of Ottawa
Grand Haven, Michigan**

2013 Budget



2013 BUDGET
for
OTTAWA COUNTY
GRAND HAVEN, MICHIGAN
www.miottawa.org

2012 BOARD OF COMMISSIONERS

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FISCAL SERVICES DIRECTOR
ROBERT SPAMAN

PREPARED BY:
THE FISCAL SERVICES DEPARTMENT

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County of Ottawa

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October 23, 2012

Board of County Commissioners and Citizens of Ottawa County:

Transmitted herein are the 2013 Operating Budgets for County operations. The combined budget, including component units, totals \$212,943,956 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 2013 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 2013 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 department level.

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

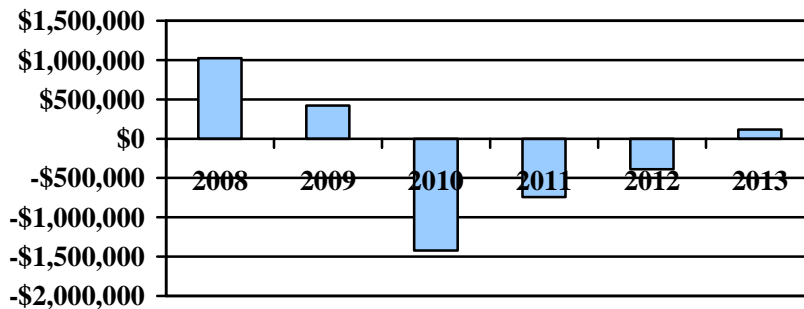
FINANCIAL ISSUES

The 2013 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 continue to feel the decline in property values and are developing strategies to address this issue. Other economy driven revenue as well as State revenues are also on the decline.

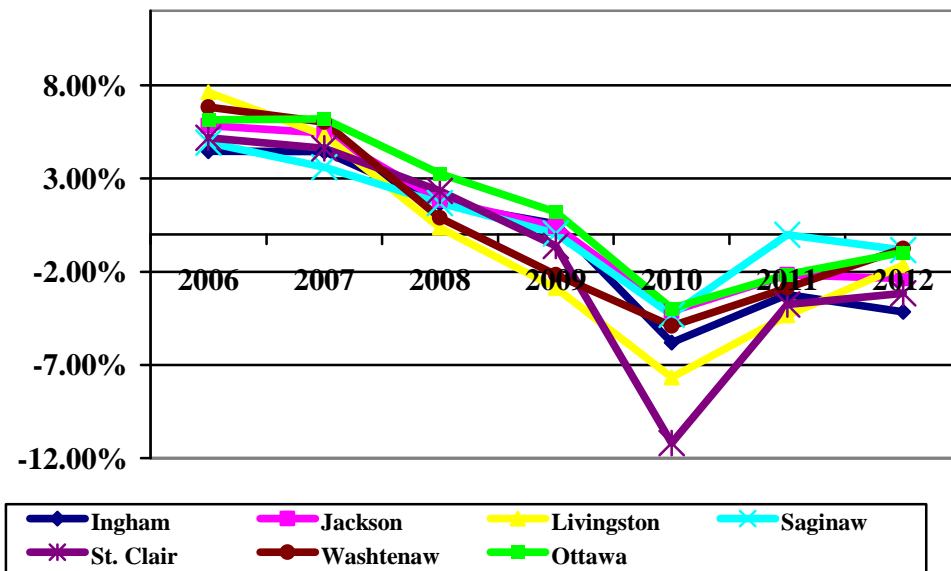
Tax Base: For many years, the County’s finances were robust and able to accommodate both mandated services as well as certain discretionary programs approved by the Board of Commissioners. Strong growth in population and by extension, the tax base, provided the necessary funds to cover programs on a consistent basis. Like most Michigan municipalities, the trend changed during the great recession.

Ottawa County Change in Operating Tax Revenue



Specifically, between 2009 (the last year of increasing taxable value) and projected 2013, the County’s operating tax revenue has declined by \$2.44 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. Other Michigan municipalities have felt the decline in the housing market more acutely than Ottawa County. In fact, the County believes Ottawa County housing has experienced its low and is now retaining value or increasing value slightly. 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 green) and its comparable counties:

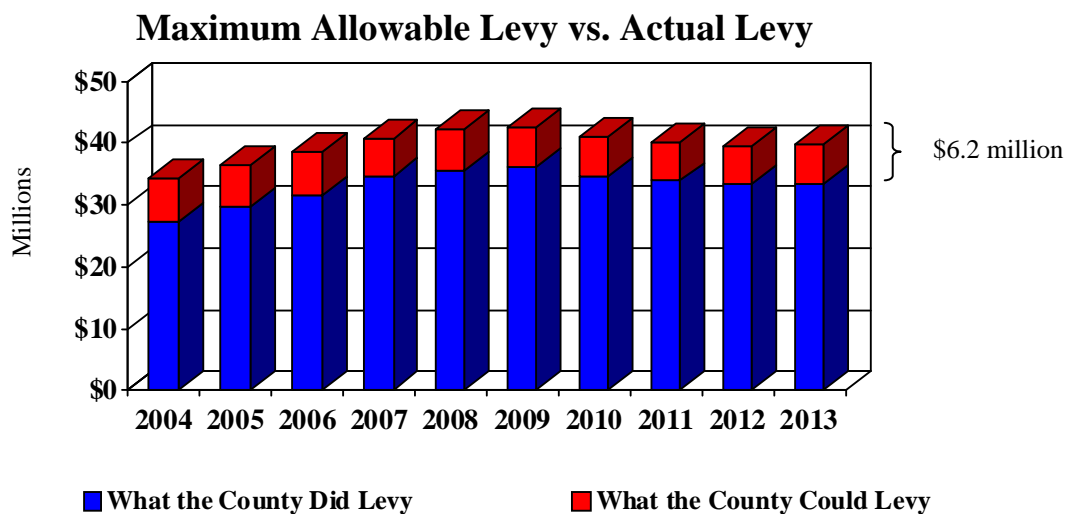
Changes in Taxable Value – Ottawa and Comparable Counties



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,

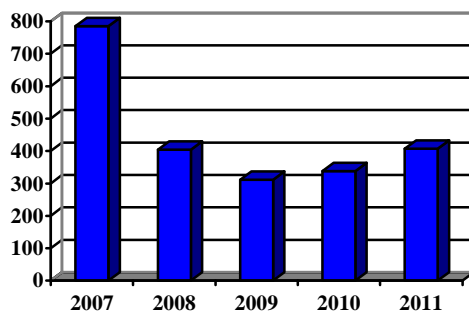
the County remains sensitive to taxpayer contributions. Ottawa County has a maximum tax limit of approximately 4.2650 mills for 2013 County operations. As part of the 2005 deficit reduction plan, the County had originally planned to increase the levy by .1 mill to 3.7 mills with the 2007 budget.

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 amount - 3.6 mills - for 2013 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 sixteenth 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 2004 - 2013:

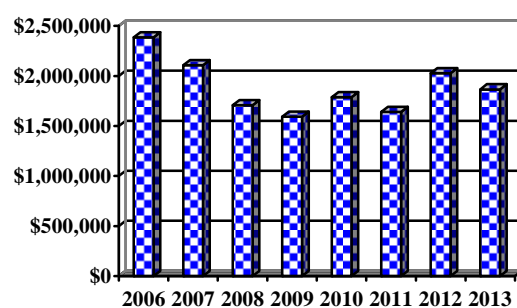


Housing Decline: The housing decline also impacts Register of Deeds revenue. A significant portion of County revenue comes from the Register of Deeds office for fees associated with the recordation of deeds, both for mortgage refinancing and new construction. After years of decline, the revenue is on an upward track. The 2013 budget is slightly lower than 2012 estimated in order to be conservative, but 2013 is still significantly higher than 2009 (the low point over the last several years).

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. Governor Rick Snyder has made restoring the State’s fiscal status is a top priority. In

order to achieve his goal, Governor Snyder essentially ended the revenue sharing program and replaced it with the County Incentive Program (CIP). In order to receive these funds (which are for general operations in the County), the County must meet the following three criteria:

1. **Accountability and Transparency:** By October 1, 2012, each County must produce a citizen's guide of its most recent local finances, including a recognition of its unfunded liabilities, a performance dashboard, and a projected budget report including at a minimum the current fiscal year and a projection for the immediately following fiscal year. The projected budget report shall include revenues and expenditures, a detailed listing of its debt service requirements, and an explanation of the assumptions used for the projections. The citizen's guide, performance dashboard, and projected budget report shall be made available for public viewing in the county clerk's office or posted on a publicly accessible Internet site. A sample of the dashboard is below:



Ottawa County COUNTY & STATE GOVERNMENT DASHBOARD

Economic Strength

Measure	Ottawa County			Michigan		
	Prior	Current	Progress	Prior	Current	Progress
Monthly unemployment rate ¹	9.2%	7.1%	+	11.1%	9.3%	+
	10 of 83 Counties					
Real Gross Domestic Product (GDP)	(8.7)%	5.2%	+	(5.0)%	2.9%	+
	1 of 13 MSAs			13 of 50 States		
Percent of structurally deficient bridges	2.9%	1.5%	+	13.5%	13.2%	+
				38 of 50 States		
Real personal income per capita	\$26,268	\$25,953	-	\$26,900	\$27,396	+
	20 of 83 Counties			39 of 50 States		
Children living in poverty	9%	11%	-	23%	23%	○
	2 of 83 Counties			34 of 50 States		

1. *Prior* represents the same month of the previous year. Ottawa's rate is not seasonally adjusted because seasonally adjusted rates are not available for counties

Value for Government

Measure	Ottawa County			Michigan		
	Prior	Current	Progress	Prior	Current	Progress
Bond rating (Standard & Poor's) ³	Aa1	Aaa	+	AA-	AA-	○
Government debt burden per capita	\$96	\$87	+	\$748	\$762	-
				36 of 50 States		
State gov't operating cost as a percent of GDP ⁴	1.7%	1.4%	+	12.8%	14.6%	-
State/local gov't operating cost as a percent of GDP	n/a	n/a	n/a	22.3%	23.3%	-
Access to state gov't – number of online services ⁵	40	48	+	357	385	+

3. Ottawa's rating is from Moody's
4. Ottawa's data reflects the County's operating cost as a percent of GDP
5. Ottawa's data reflects the County's online services

Health & Education

Measure	Ottawa County			Michigan		
	Prior	Current	Progress	Prior	Current	Progress
Infant mortality (Per 1,000 births)	6.7	4.9	+	7.7	7.7	○
	1 of 21 Counties w/≥ 6 deaths			39 of 50 States		
Obesity in the population	24.0%	23.1%	+	30.3%	31.7%	-
	3 of 44 Health Depts			42 of 50 States		
3 rd graders reading at grade level	95%	93%	-	90%	87%	-
	2 of 57 School Districts					
ACT college readiness benchmarks	23.6%	26.4%	+	16.0%	17.3%	+
	3 of 82 Counties w/schools					
Pop. w/bachelor's degree or higher (25+ yrs. old)	30.5%	29.5%	-	24.7%	24.6%	-
	9 of 29 Counties ²			36 of 50 States		

2. Ottawa's rank is among Counties with populations of 65,000 or more

Quality of Life

Measure	Ottawa County			Michigan		
	Prior	Current	Progress	Prior	Current	Progress
State park popularity – annual visits per citizen	n/a	n/a	n/a	2.2	2.3	+
Percent of residents satisfied with County parks	95%	85%	-	n/a	n/a	n/a
Population growth (Ages 25-34)	(1.1)%	(0.5)%	+	(1.2)%	(0.4)%	+
	60 of 83 Counties					
Clean/safe water resources – water quality index	n/a	n/a	n/a	85	85	○

Public Safety

Measure	Ottawa County			Michigan		
	Prior	Current	Progress	Prior	Current	Progress
Violent crimes per 100,000	155.6	169.1	-	499.8	490.3	+

2. **Consolidation of Services:** By February 13, 2013, the County must submit a consolidation plan to the State that is readily available for public viewing in the county clerk's office or posted on a publicly accessible Internet site. At a minimum, for a county that is submitting a consolidation plan for the first time, the plan shall include a listing of any previous services consolidated with an estimated cost savings amount for each consolidation. In addition, the plan shall include 1 or more new proposals to increase its existing level of cooperation, collaboration, and consolidation either within the jurisdiction or with other jurisdictions, an estimate of the potential savings amount, and a timeline for implementing the new proposal. In its strategic plan, the County board includes an objective to examine opportunities for service delivery with local units of government. During 2012, the County participated in a study to determine the feasibility of the County providing financial,

human resource, equalization and information technology services (for a fee) to the City of Grand Haven. The City now purchases equalization services from the County, and the cost and associated revenue is included in the 2013 budget. In addition, the Sheriff's department holds contracts with several municipalities in the County to provide policing services; these programs are included in the Sheriff Contracts fund (Special Revenue fund 2610).

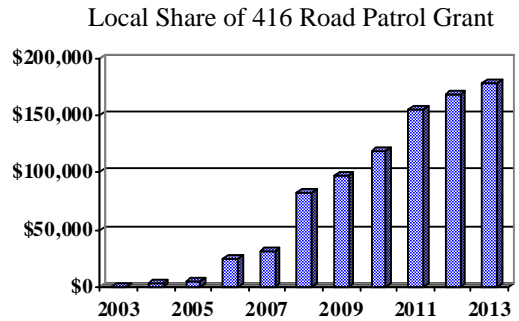
3. Employee Compensation: By June 1, 2013, the County must have developed and publicized an employee compensation plan that the county intends to implement with any new, modified, or extended contract or employment agreements for employees not covered under contract or employment agreement. This plan must be available for public viewing in the county clerk's office or posted on a publicly accessible Internet site and must be submitted to the department of treasury. The County is allowed to opt out of this criteria for 2012.
 - a. The plan must require that health care premium costs for new hires shall include a minimum employee share of 20%; or, an employer's share of the local health care plan costs shall be cost competitive with the new state preferred provider organization health plan, on a per employee basis.
 - b. New hires who are eligible for retirement plans are placed on retirement plans that cap annual employer contributions at 10% of base salary for employees who are eligible for social security benefits. For employees who are not eligible for social security benefits, the annual employer contribution is capped at 16.2% of base salary.
 - c. For defined benefit pension plans, a maximum multiplier of 1.5% for all employees who are eligible for social security benefits, except, where postemployment health care is not provided, the maximum multiplier shall be 2.25%. For all employees who are not eligible for social security benefits, a maximum multiplier of 2.25%, except, where postemployment health care is not provided, the maximum multiplier shall be 3.0%. In addition, final average compensation for all employees shall be calculated using a minimum of 3 years of compensation and shall not include more than a total of 240 hours of paid leave. Overtime hours shall not be used in computing the final average compensation for an employee.

The County's strategic plan includes the objective to advocate for the full reinstatement of State revenue sharing and mitigate any negative impacts of the shift of this funding to the CIP. The first criteria has been met, and the County website includes the required information. The County also meets the second criteria for all but couple coverage, and will opt out of this provision for 2012. The County does not provide post-employment health care, so the multiplier limits do not apply. The County meets the remaining pension criteria. The 2013 budget reflects the attainment of all the necessary criteria in its expenditures, and includes \$3.6 million in CIP revenue, representing a 1.7% increase over 2012.

Mental Health: Community Mental has had to reactivate their waiting list for adult mental health services during 2012 due to insufficient resources to cover the costs. Though revenue is rising, the increase is insufficient to cover the costs. 70 individuals are currently on the wait list.

Secondary Road Patrol:

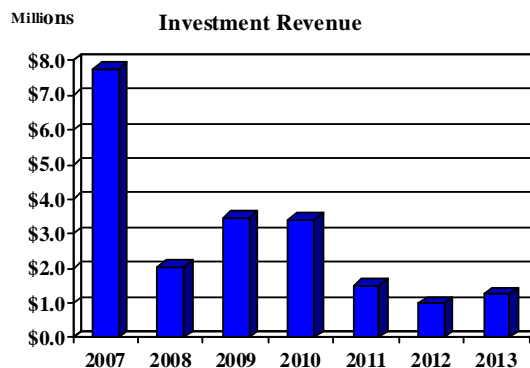
The P.A. 416 secondary road patrol grant from the State of Michigan is also falling. In 2003, the State paid for the entire cost of the grant which funds two road patrol officers and one sergeant. Because the Board believes the program is important to public safety, the County will cover the decrease in funding. With the 2013 budget, the County is now funding \$178,000 - 53% - of the program.



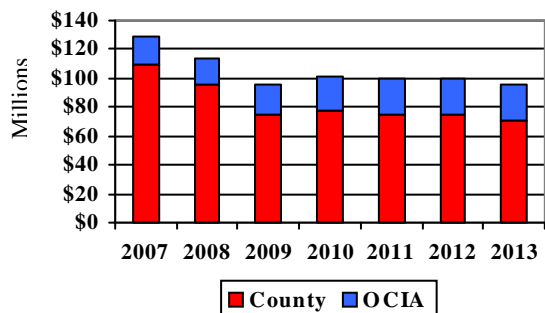
Survey and Remonumentation:

Ottawa County has invested nearly \$1.8 million dollars in excess of annual grant dollars to complete the State’s Remonumentation Program. Ottawa County “expedited” their program based on the premise that the State would allow the County to complete the program early and be reimbursed for those expenses by the State. Currently, the State is unwilling to repay these funds in a timely manner. In 2006, the State Legislature raided the Remonumentation Fund in order to balance their budget which eliminated the surplus balance in that Fund. In addition, declining revenue from deed registrations has reduced the State’s Remonumentation Program funding thereby significantly reducing State Remonumentation Grants. As a result, only a small repayment from the State is figured into the projections. However, Ottawa County has been instrumental in helping to draft new legislation which would require the state to repay these funds in a much quicker time period. At this point, it is uncertain whether or not this legislation will be passed.

Investment Revenue: Interest revenue includes realized and unrealized capital gains and losses reported through a change in fair 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 under 3 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 value has fallen, the County intends to hold these investments to maturity; therefore, the fair market losses are not expected to be realized.



Ottawa County Investment Portfolio



Investment markets remain challenging. Although market values improved significantly in 2007, subsequent years show more modest returns. Because the County is limited by the State of Michigan in its choice of investment vehicles, the County anticipates average return rates to remain low.

In addition to declines in market returns, the County’s portfolio size has also diminished. The portfolio reached a high of \$128 million in 2007, but is

expected to end fiscal year 2013 at just over \$96 million. The majority of this decline is the use of \$20 million for the construction of a new courthouse in Grand Haven and the addition at the Fillmore Street complex. The Parks and Recreation department has also made several capital improvements and purchases, and the County depleted its Revenue Sharing Reserve Fund in 2011 as planned.

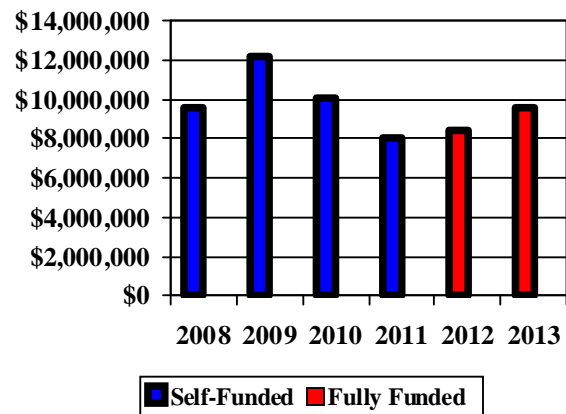
Expenditures: Like most organizations, the County faces continued increases in expenditures, and, over time, these increases can negatively impact the provision of services, especially in times of decreasing revenue. Since approximately 60 percent of General Fund expenditures are funded with property 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. Consequently, cost of living adjustments projected are modest. Originally, the 2013 budget included a 1% increase, but in connection with changes in health insurance, the increase is 1.75% as of January 1, 2013.

Fringe Benefits: The strategic plan directs the County to reduce the negative impact of rising employee benefit costs on the budget. Prior to 2011, the County self-insured health insurance costs. After putting it out for bid, the County saved money by changing to a fully insured plan through Priority Health, and the County expects to renew their contract with them later this year. During 2012, the County launched their health management initiative described as the “Know Your Numbers” campaign.

To cover the cost of this program for 2012, \$102,000 was added to the budget in the Employee Benefits fund (Internal Service Fund 6771). In 2013, the County has budgeted \$200,000 for health management costs. Nevertheless, the graph to the right shows that 2013 budgeted costs are still lower than 2009 and 2010. In fact, the costs in 2009 totaled \$12.2 million; the 2013 budget is \$9.6 million.

Ottawa County Health Care Costs



Other Post Employment Benefits: The County implemented Governmental Accounting Standards Board 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. However, of January 1, 2008, retirees over age 65 can only purchase insurance at the full actuarially determined cost, and the County no longer provides credits towards the premium. As a result, the County’s OPEB unfunded accrued actuarial liability at December 31, 2011 was just \$959,000. The annual required contribution (ARC) included in the 2013 budget is just \$203,000.

Tuition Reimbursements: The Board of Commissioners also decided to reinstate the tuition reimbursement program which had been suspended in 2010 – 2012. Accordingly, the 2013 budget includes \$125,000 overall for this cost

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 2012. 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/will continue annually in 2013. The rankings have provided an additional tool to identify reductions in the 2012 and will likely factor into future budget decisions.

Fund Balance/Net Assets: One of the objectives in the County’s strategic plan is to implement processes and strategies to address operational budget deficits with pro-active, balanced approaches. Significant, unplanned use of unassigned fund balance for operations should be avoided.

Fund Type	Total Equity 2009	Total Equity 2010	Total Equity 2011	Total Projected Equity 2012	Total Projected Equity 2013
General Fund	\$ 16,712,957	\$ 17,979,501	\$ 21,244,490	\$ 19,931,956	\$ 18,735,135
Special Revenue Funds	36,457,126	31,924,757	32,575,283	34,448,200	32,744,027
Delinquent Tax					
Revolving Fund	24,727,300	24,271,796	24,023,477	23,197,170	22,220,694
Internal Service Funds	28,842,629	32,657,693	34,045,916	34,204,453	34,123,156
Total Equity	<u>\$ 106,740,012</u>	<u>\$ 106,833,747</u>	<u>\$ 111,889,166</u>	<u>\$ 111,781,779</u>	<u>\$ 107,823,012</u>

Equity at the end of 2013 is expected to decrease by 3.5 percent. Total fund balance in the General Fund is budgeted to decrease by \$1.2 million, but the County has not historically had to use fund balance due to positive budget variances. However, \$197,000 is budgeted to come from previously committed/assigned fund balance. In the Special Revenue funds, the Solid Waste Cleanup fund is expected to use \$830,000 of fund balance in connection with capital improvements. The Parks fund is budgeted to use \$751,000 for various capital endeavors. As planned, net assets in the Delinquent Tax Revolving Fund (DTRF) are decreasing. Multiple bond payments, and 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. Net assets of the Internal Services are expected to stay steady.

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

	2013 Budgeted Expenditures	Estimated Equity	Equity as a % of Expenditures
General Fund	\$ 63,950,007	\$ 18,735,135	29.3%
Special Revenue Funds	80,872,255	32,744,027	40.5%
Delinquent Tax Revolving Fund *	2,900,833	22,220,694	766.0%
Internal Services Funds	18,791,393	34,123,156	181.6%
	<u>\$ 166,514,488</u>	<u>\$ 107,823,012</u>	64.8%

** 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.*

Financial entities 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 2013 Budget

The upward pressure on expenditures combined with flat or decreasing revenue results in a deficit for the 2013 General Fund budget as submitted by departments. Specifically, expenditure requests exceeded projected revenues by nearly \$4.0 million, not including personnel requests. The 2012 budget submitted by departments came in with expenditures exceeding revenues by nearly \$3.4 million.

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 2013 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	Accountant I	.50	\$37,368	Vacancy began in 2010
Treasurer	Clerical	1.00	\$57,840	Vacancy began in 2010
Sheriff – Jail	Corrections Officer	1.00	\$64,664	Vacancy began in 2009
Sheriff – Auto Theft	Road Patrol Deputy	1.00	\$87,559	Vacancy began in

Elected Official/Department	Position	Full Time Equivalent	Cost (2010)	Comments
Grant				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

Health Insurance: Like most entities, Ottawa County has become concerned about the rapid increase in health insurance costs. Effective with the 2013 budget, the County is reducing its contribution into health savings accounts from 100% of the minimum deductible allowed by the IRS to 75%. The associated savings for this change are approximately \$381,000.

In addition, through vacancies and other savings, the Information Technology fund had accumulated additional net assets over the last few years. Accordingly, IT charges were reduced by 7% (\$209,000) to all departments for 2013. Operational supplies in the Sheriff's department and the Jail were reduced by \$167,000 based on revised equipment needs and historical spending patterns.

Cost Refinements:

In 2007 through estimated 2012, savings from staff vacancies ranged from \$400,000 - \$545,000 per year. In the 2012 budget, the County reduced the budget by \$300,000 to reflect vacancies. Based on actual experience, the County has reduced the 2013 budget by \$400,000 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 28 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 \$267,000 in the General Fund, and the Operating Transfer from the General Fund to the Health Fund was reduced by \$145,000 to reflect anticipated opt out savings. Refinements were also made to the operating transfers to other funds. Additionally, the operating transfer to the Health fund was reduced by an additional \$55,000 and the Child Care fund was reduced by \$200,000 based on revised expenditure estimates. Other operating transfers decreased in total by \$302,000.

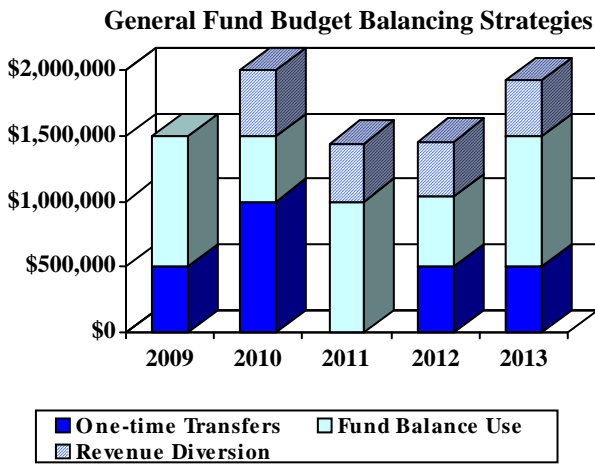
Revenue Adjustments:

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 1.0%. As the budget process progressed, the projections became more favorable. As a result, the estimated change in taxable value for 2013 has been changed to flat (0% increase). This change and other various adjustments/corrections are increasing the 2013 tax revenue budget by \$1.6 million 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. Prior to 2010, 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 facility 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 \$3.8 million in fund balance at 12/31/2012 and the General Fund is also projected to have \$1.9 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 2013. This is the fourth 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 - 2012, 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 \$2.7 million in retained earnings at 12/31/12, 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 2013. The County is projecting that this revenue may continue going to the General Fund for the next five years.

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 2013 budget includes a \$500,000 transfer from the Ottawa County Insurance Authority. At 12/31/11, the fund has net assets of \$13.9 million. The County contributed money to start the Authority in

1990, and the balance of that contribution is \$4.6 million. While not a permanent funding source, the fund is able to contribute to the General Fund at least through 2018. In addition, the 2013 budget includes the use of \$1 million 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 suggest 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 at least 15 percent for several years. If the County used the entire \$1 million, it would still be within the parameters of the financial policy.

It should also be noted that the one-time dollars of \$1 million represent less than 1.6% 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 2013 budget, the one-time transfers and the fund balance use total \$1.5 million. The table that follows summarizes the changes made to balance the General Fund.

Revenues:

2013 General Fund Budget Proposed by Departments	\$61,423,209
Correction, analysis and fine tuning of tax projections	1,588,000
Diversion of rent revenue from the Public Improvement Fund	300,000
Diversion of jail phone commission revenue from Telecommunications	125,000
Adjustment to Register of Deeds revenue	224,000
Revised County Incentive Program revenue estimate from State	103,000
Reflected use of unassigned (vs. committed) fund balance	(1,250,000)
Revised investment income projection	148,512
Revised Circuit Court revenue	52,000
Other miscellaneous adjustments	236,286
Total General Fund Revenue Proposed by Finance and Administration Committee	<hr/> 62,950,007 <hr/>

Expenditures

2013 General Fund Budget Proposed by Departments	\$65,463,412
Reduced IT charges by 7% based on vacancies	(209,000)
Reduction in health insurance net of .75% increase in salaries	(115,000)
Reduction to reflect health insurance opt outs	(267,000)
Reduction for anticipated vacancies	(400,000)
Transfer to the Health and Child Care funds budget decreased based on current/historical activity	(400,000)
Increased contingency from .5% to .9% of prior year expenditures	250,000
Decreased operating transfers to other funds for health insurance opt outs/other reductions	(302,000)
Reduction to Sheriff and Jail operational supplies based on historical needs	(167,000)
Other miscellaneous adjustments	96,595
Total General Fund Expenditures Proposed by Finance and Administration Committee	<u><u>\$63,950,007</u></u>

SPECIAL REVENUE, DEBT SERVICE, CAPITAL PROJECTS AND PERMANENT FUNDS

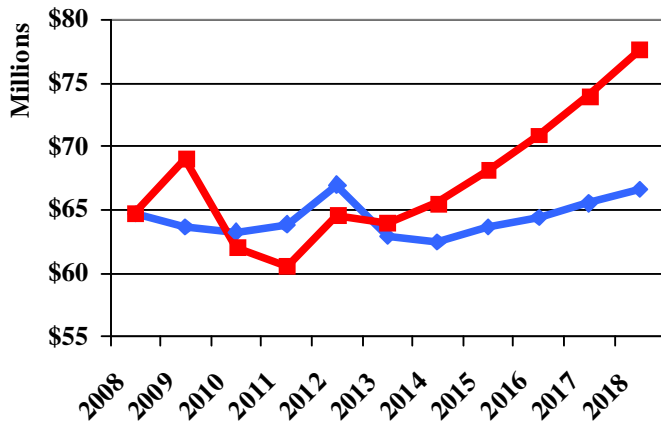
In addition to the changes made to operating transfers in to the Special Revenue funds discussed with the General Fund, the changes made in the General Fund for health insurance were also made in the Special Revenue funds. The remaining changes are corrections or refinements and do not reflect any changes in services.

FUTURE FINANCIAL PLANNING CONCERNS

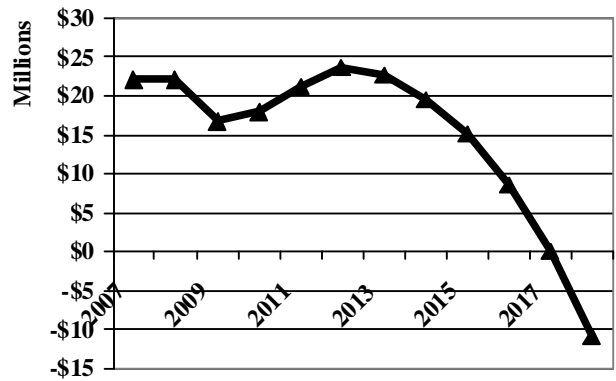
The County's strategic plan addresses the goal of maintaining and improving the financial position of the County. An objective is to identify financial threats, and one method used to identify threats is to project General Fund activity out five years.

The economic situation for the County government as well as the Country 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.

General Fund Revenues and Expenditures



Fund Balance - General Fund



Revenues
 Expenditures
 Total Fund Balance

The graphs above show an increasing gap between revenue and expenditures that widens to as much as \$10.9 million and total fund balance shows a deficit by 2018 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.

Revenues

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 \$945 million which equates to \$3.4 million in County operating taxes. Although the County believes it has seen the worst of the property value declines, the *Proposal A* legislation will make tax base recovery a long process.

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. From a management perspective, wellness programs have the potential to decrease absenteeism, reduce medical insurance costs, and improve employee productivity, recruitment, and retention. During 2012, the County launched their health management initiative described as the “Know Your Numbers” campaign. Specifically, County employees and their spouses were required to complete three items to avoid paying an additional 15% - 20% of their health insurance in 2013:

1. Participate in a biometric health screening between July 17 and August 6, 2012
2. Complete an online health risk appraisal by August 31, 2012.
3. Complete and submit your tobacco user certification form by August 31, 2012. If the participant uses tobacco products, he/she must participate in the “Tobacco Cessation Program” to secure the lower health insurance copay.

Plans for 2014 include the start of disincentives for employees by way of higher co-pays if three out of four health metrics are not met with no reasonable attempt at improvement identified by their doctor or if the covered person continues to use tobacco products. Noncompliance in 2014 will result in an additional 15% - 30% in the employee share of health premiums.

Legacy Costs: Ottawa County has historically had a defined benefit pension plan with the Michigan Employees Retirement System (MERS) that provides employees with a monthly stipend based on final average compensation and years of service. Employers bear the investment risk and cost for an employee's retirement, making this system costly to an employer, especially in a bad market. A study was completed to identify both the short and long-term cost ramifications of changing retirement plans for new employees, estimating that in the long-term, the change if made for all employee classifications could save \$30 million over 30 years. However, in the short-term, the change would actually increase costs for approximately 10 years. In order to plan for the short term increase anticipated, the County Board established the DB/DC Conversion funds with transfers of approximately \$4.6 million from various funds.

The County's strategic plan includes the objective to continue to implement the strategy to move employee groups to a defined contribution (DC) plan for new hires. On December 27, 2011, the County Board approved a series of resolutions to move new County employees in a majority of job classifications from a defined benefit pension to a defined contribution pension effective January 1, 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 clean-up. Significant capital improvements have been made to expedite the clean-up of the site. However, this has also resulted in higher annual clean-up costs. This, combined with extraordinarily low interest rates, is causing concern over the fund's ability to cover the clean-up costs. In May of 2012, the Board approved the transfer of \$2.34 million from the General Fund to the Solid Waste Clean-up fund to help fund 2013 capital improvements and long term operational costs. Nevertheless, projections indicate the fund may be depleted by 2024. Consequently, the County may need to provide additional funding if projections hold true.

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
- Complete the implementation of a defined contribution benefit for new hires in bargaining units 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
- Implementation of the Continuous Improvement/Lean Government initiative to improve efficiency in all County departments as part of the County's 4C initiative that also includes Customer Service, Communication, and Cultural Diversity.
- 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

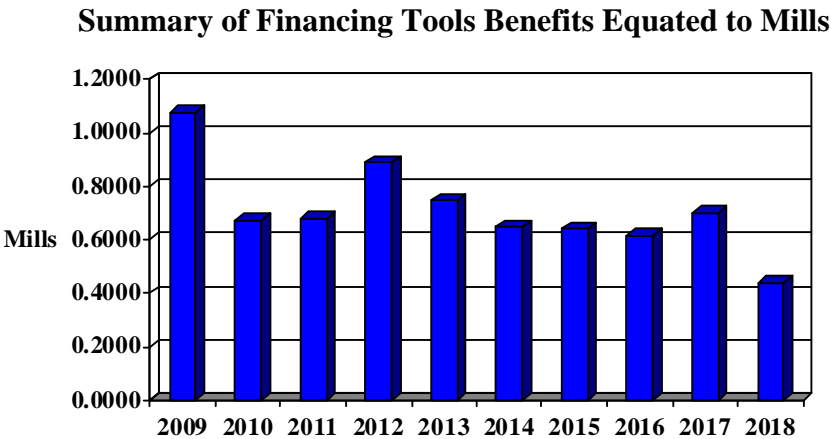
Financing Tools that Help Address Concerns

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 as well as a capital improvement project in 2013 (\$856,000).

- 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 2013 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 2013 budget also includes this revenue diversion, and the County anticipates this may continue through 2018.
- Stabilization Fund (2570) is providing the General Fund with approximately \$29,000 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 \$2.05 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 2013 is \$1.3 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 2013 equates to 0.7477 mills. The graph that follows shows the benefits, in lieu of millage, that the financing tools provide:



The amount for 2009 is 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. The amount decreases in 2018 because 2017 was the last year of bond payments on the 2005 refunding issue. Other variances are due primarily from differences in capital purchases.

LEGISLATIVE ISSUES

Personal Property Tax Revenue Replacement: The State of Michigan is considering eliminating Personal Property Tax (PPT) in the State. Legislators are discussing potential

replacements for the significant loss of revenue that all governmental entities, including counties, would experience. The total state-wide revenue from PPT is approximately \$1.1 billion with \$2.7 million attributed to Ottawa County. Ottawa County is strongly opposing this legislation and is working with state government leaders to ensure there is guaranteed replacement funding for local units of government.

Electronic Case Management: The County has implemented a Justice Imaging System which automates the processing and transfer of court and legal documents. Nevertheless, the law still requires courts to keep physical files rather than allowing the electronic storage of documents. In order for counties to utilize the technology to its fullest extent several legislative changes must be made to existing statutes and court rules which currently do not allow the use of these types of technology. 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 and cost savings. Ottawa County has been involved in helping advance legislation (House Bill 5795) that would allow for the electronic storage of documents. If approved this legislation would save Ottawa County alone approximately \$750,000 per year.

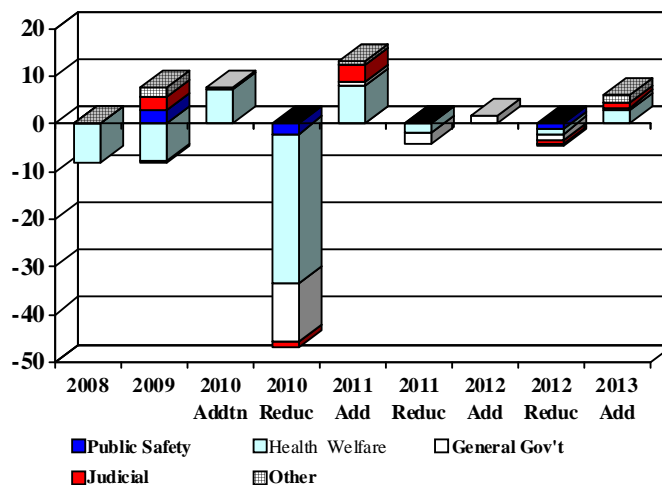
Child Care Fund: There are several areas of legislation that may impact the Child Care fund. The enforcement of a 1985 Supreme Court Administrative Order would require counties to maintain a ratio of one probation officer to every 6,000 children under the age of 19 within the County. The enforcement 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. Attempts by County Juvenile leaders to modify the order continue.

In addition, Senate Bill 246 & 247 (Competency) is supported by the Michigan Probate Judges Association (MPJA), and it does align the juvenile process with the adult system. However, the difference is that in the adult system, the state pays the bill for restoration services. In these bills, the courts/County would pay for all restorative services rendered to a child from age 10 and up, in an effort to make the child competent. The judges do not support the courts/counties paying for these services and have been very public about this. Further, the Michigan Association of Counties is opposing the fiscal impact portion of the bills. On behalf of Juvenile Justice Vision 20/20 and as directed by the County strategic plan regarding funding of mandates, County Juvenile leaders as well as those of other counties are drafting a letter to the MPJA and legislators, raising concerns about the fiscal impact to courts/counties and several other unanswered questions. If this legislation goes through, it could have a fiscal impact due to an increase in defense attorney requests, which are anticipated, and also, residential placements, if community programming/services are not available or appropriate. The cost for forensic exams may also increase because of the additional requirements for evaluators within these bills. The use of the Child Care Fund (which is funded 50% by the State) is not an option with this process due to competency being considered a judicial process.

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 2010 as well. 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. In 2013, the County is adding 6 full time equivalents in a variety of service areas, 3 of which are grant funded. The graphs that follow show the increase in total full time equivalents in the County for 2009 - 2013 added/subtracted through the budget process:

Positions Added by Function 2009-2013



Operational Efficiency: The County's Strategic Plan includes the objective to maintain system and programs of continuous improvement to gain efficiencies and improve effectiveness. In August of 2012 the County Administrator's office began implementation of the LEAN government plan which is a customer-driven waste reduction program. Specifically, the program:

1. Examines a current process
2. Improves efficiency by decreasing process time
3. Produces a product or service to the demand of internal and external customers
4. Initiates organizational change

The 2013 budget includes a .7 full time equivalent to coordinate the process and \$75,000 for consultants.

Communication: The County Strategic Plan directs the maintenance of a comprehensive communication plan and the consideration of expanding the marketing and communications manager position. The reduction in publication days of key print newspapers in the area and the increasing presence and influence of social media communication have necessitated a more aggressive approach to communicating with the public. As a result, the County added a part-time Marketing and Communications Manager position in the Administrator office charged with the following responsibilities:

1. Make communications services available to County departments and offices through the Administrator's Office much like GCSI lobbyist services are available to County departments and offices through the Administration.
2. Aggressively implement the Board of Commissioner's Communications Plan including new social media approaches.
3. Work to develop news stories with quotes and photos on important Board actions and other County business and submit these to the various media markets.
4. Manage and promote speaker's bureau.

The initiative began in the Spring of 2012 with the addition of .25 full time equivalents in the Administrator's office. The 2013 budget includes a full time position with half charged to the Administrator's office and half to the Parks and Recreation department.

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

A planned enhancement to the County infrastructure involves piloting virtual desktop technology using a virtual desktop infrastructure (VDI) appliance. To improve access due to a growing demand for internet bandwidth while providing appropriate security, firewall and web filtering will be installed on a planned MERIT network connection. As part of our infrastructure upgrades, IT will purchase the licensing necessary to bring the current servers running older operating systems up to Windows 2008R2. A more effective means of replicating the County's Enterprise Content Management System will be implemented by replacing the current program (Doubletake) with a less costly product (ViceVersa Pro). Over \$86,000 is included in the 2013 budget for these upgrades.

Employee Technical Knowledge

Improve the level of technical knowledge of County employees in County technologies, the IT Training room will be upgraded with a mobile lectern and laptop for the instructor, and a new projector. This is the first replacement for the original project which was installed in 1999. The 2013 budget includes \$4,100 for the upgrade.

Mobile Technology

Mobile technology provides an opportunity to enhance workflow and business processes, and it improves employee connectedness and communication with their home office. For several years this has been limited to select employees using Blackberry Encryption Services. In 2013, the County plans to expand this to other devices. The 2013 budget includes \$55,000 to support this endeavor.

Software Deployment

A planned enhancement to services involves the deployment of a customer service catalog. This module of our current Help Desk (Footprints) software will allow our customers to submit requests for support in a way that is less confusing and specific to their needs. The process is in line with Information Technology Infrastructure Library (ITIL) standards which are a set of practices for IT Service Management that focus on aligning IT services with the needs of business. The 2013 budget includes \$4,500 for this initiative.

County Website

The County strategic plan includes continued improvement to the County website. Since January, 2012 the following online applications have been added to the County web site:

- Campaign Finance Reporting
- Challenge of Children Conference Website & Registration (joint project of Ottawa, Allegan & Muskegon Counties)
- miOttawa Website Redesign
- Integration with Kent County's Reverse Auction System
- Integration w/ Munis (financial software)

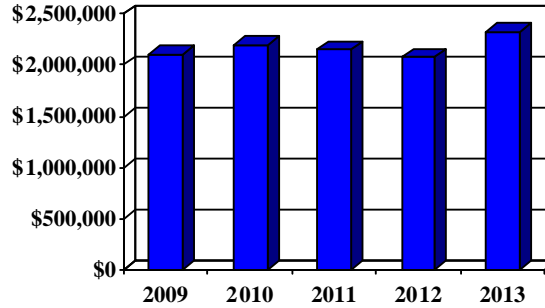
Scheduled for fourth quarter 2012 and 2013:

- Surplus Inventory Management
- Inmate Visitation Scheduling
- Plat Scan Access
- Jury Duty Management
- Prosecutor's Schedule

The 2013 budget includes \$234,000 for maintenance and continued development of the County website.

In addition to the initiatives above, the 2013 Budget includes approximately \$2.3 million for other equipment and technology needs. The following graph shows the dollar amount of equipment added each year from 2009 to 2013 during the budget process:

History of Approved Equipment



BUDGET SUMMARY

The 2013 budget reflects the on-going implementation and refinement of the action plans addressed in the Ottawa County Strategic Plan. The fluctuations between the 2012 amended and 2013 budgets are the result of the previous discussion. A comparison of the 2012 amended and 2013 budgets follows.

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

Source	2012 Amended Budget	2012 Percent of Total	2013 Proposed Budget	2013 Percent of Total	Percent Increase (Decrease)
Taxes	\$ 40,711,222	25.9%	\$ 40,728,767	28.8%	0.0%
Intergovernmental Revenue	73,703,989	46.9%	61,794,020	43.8%	-16.2%
Charges for Services	14,679,572	9.4%	14,251,689	10.1%	-2.9%
Fines and Forfeits	1,066,600	0.7%	1,075,600	0.8%	0.8%
Interest on Investments	399,832	0.3%	606,253	0.4%	51.6%
Rental Income	5,550,961	3.5%	5,430,804	3.8%	-2.2%
Licenses and Permits	825,676	0.5%	950,570	0.7%	15.1%
Other Revenue	1,821,826	1.2%	1,581,406	1.1%	-13.2%
Operating Transfers In	15,554,457	9.9%	12,117,637	8.6%	-22.1%
Fund Balance Use/(Contribution)	2,675,491	1.7%	2,900,950	2.1%	8.4%
Total Revenues	\$ 156,989,626	100.0%	\$ 141,437,696	100.2%	-9.9%

Taxes serve as the primary revenue source for the General Fund, E-911, and Parks and Recreation Fund. The 2013 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	<u>.3165</u>
	4.3572

As discussed earlier, the County is choosing to levy 3.6 mills rather than its maximum allowable. The County is estimating no change in taxable value in 2013. However, the E-911 and Parks tax revenue are based on the 2012 taxable value which decreased by .96%. 2013 tax revenue is increasing due to changes in estimated delinquencies, industrial facilities tax, changes in tax increment financing districts and various other adjustments.

Intergovernmental Revenue represents 43.8 percent of the Governmental funds revenue budget and is decreasing. Major fluctuations by fund/area follow.

<u>Fund</u>	<u>Change over 2012</u>
Parks and Recreation	(\$738,071)
Mental Health	\$1,456,120
Sheriff 9/30 Grant Programs	(\$644,234)
Friend of the Court	\$176,980
Child Care Fund	\$119,864
Workforce Investment Act (WIA) Funds/ Community Action Agency/Weatherization	<u>(\$12,094,944)</u>
	<u><u>(\$11,724,285)</u></u>

Intergovernmental revenue in the Parks and Recreation fund also varies significantly depending on grants. The budgets reflect the following major grants:

<u>Project</u>	<u>2012 Budget</u>	<u>2013 Budget</u>
Holland Country Club EPA Grant	\$646,800	\$0
Koster Property	\$200,000	\$0
Macatawa Greenway Trail	\$672,000	\$672,000
Ottawa Beach Waterfront Walkway	\$300,000	\$0
Grand River Open Space/Accessible		\$177,500
Total	<u>\$1,518,800</u>	<u>\$849,500</u>

More grants may come in during 2013 which would be added to the budget via budget adjustment. Intergovernmental revenue in the Friend of the Court and the Child Care fund is increasing in tandem with expenditures. Grant funding pays a percentage of eligible expenditures.

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 Port Security equipment grants of \$536,000.

In September of 2012, the Board approved a change in budgeting policy for Michigan Works! and Community Action Agency (CAA) funds in that these funds will not be part of the annual budget process. Instead, budget adjustments will be made as grant awards come in. The rationale for the change is:

- No County general fund dollars go to Michigan Works! or CAA.
- Michigan Works! and CAA revenue sources are primarily grants.
- Budgets for both are more of a guess than actual known amounts.
- Due to year-ends that are different than the County year-end, up to three separate budgets may be required in a year.
- Staff time for the aforementioned items are minimally 250 hours for guesses. Staff can better allocate time to other higher value tasks.
- Once grants are established, a budget amendment would take place that creates a budget on that specific grant. This is done for other grants the County receives during the budget year.
- With our new Financial System, we will use the Project/Grant accounting module to track revenue and expenses over multiple years, consistent with the grant award.
- This process improvement is in line with the 4-C plan involving continuous process improvement.

Consequently, there is nothing included in the 2013 budget for these funds.

Charges for Services revenue is 10.1 percent of total revenue for 2013 and is decreasing 2.9 percent. The main area of decrease is in the General Fund. Specifically, charges to departments for indirect administrative costs are decreasing by \$440,000. 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. Indirect administrative costs were temporarily high over the last two years to reflect roll forward adjustments in the plan to accommodate these depreciation charges. The revenue will have a smaller decrease in 2014 due to the depreciation corrections, but should stabilize after that.

Interest on Investments reflects a 51.6 percent increase in the amount of \$206,000. The increase is due to a slight improvement in projected return rates in 2013. Cash balances are expected to remain steady.

Licenses and Permits revenue is increasing primarily due to increases in the estimated number of Food licenses and Private Sewage Permits, as well as increased rates charged for Vending Machines.

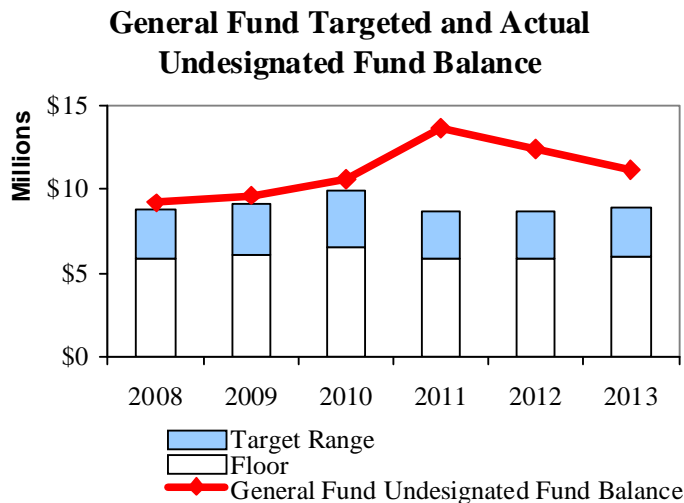
Operating Transfers In revenue is decreasing in the Stabilization fund (\$886,000) and the Solid Waste Clean-up fund (\$2.34 million) as those were Board approved transfers from 2011 revenue over expenditures (i.e., one-time transfers). Transfers to the County's financing tools are based on revenue available in the General Fund after their audit.

Fund Balance usage is increasing slightly overall. The Solid Waste Clean-up fund is using a total of \$830,000 in connection with capital improvements to the clean-up system. Both the Health fund and the Child Care fund are budgeted to each use \$200,000 of fund balance. The County does not anticipate that either fund will need to use fund balance due to historical

variances due to cost settlement revenue and vacancies. The General Fund anticipates good results in 2012 for the following reasons:

- Medicaid Cost settlement dollars received in 2012 for prior periods (resulting in a decrease in the operating transfer to the Health fund)
- Delay of the Park West drain project (and the County share of costs) to 2013
- Unused contingency
- Vacancy savings in several funds
- Higher Register of Deeds revenue due to high numbers of warranty deeds being recorded

Although \$1 million from unassigned fund balance is budgeted in the General Fund for 2013, the County does not anticipate using it based on prior years' experience. The \$1 million represents 1.6% of the total General Fund budget. The Public Improvement fund anticipates adding \$260,000 to fund balance from rent revenue. There are no capital projects scheduled out of this fund for 2013.



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	2012 Amended Budget	2012 Percent of Total	2013 Proposed Budget	2013 Percent of Total	Percent Increase (Decrease)
Legislative	\$483,503	0.3%	\$429,309	0.3%	-11.2%
Judicial	15,761,485	10.0%	15,475,760	10.9%	-1.8%
General Government	16,804,420	10.7%	16,312,715	11.5%	-2.9%
Public Safety	30,400,375	19.4%	30,149,049	21.3%	-0.8%
Public Works	1,961,583	1.2%	1,932,629	1.4%	-1.5%
Health & Welfare	67,906,171	43.3%	57,556,980	40.8%	-15.2%
Culture & Recreation	5,686,868	3.6%	5,035,433	3.6%	-11.5%
Community & Economic Development	879,347	0.6%	700,508	0.5%	-20.3%
Other	433,403	0.3%	735,405	0.5%	69.7%
Debt Service	2,585,920	1.6%	2,578,644	1.8%	-0.3%
Operating Transfers Out	14,086,551	9.0%	10,531,264	7.4%	-25.2%
Total Expenditures	\$156,989,626	100.0%	\$141,437,696	100.0%	-9.9%

Legislative expenditures are decreasing by 11.2% due to the end of health insurance benefits for Board members. Judicial expenditures are decreasing by 1.8% or \$286,000. As discussed under charges for services revenue, indirect cost charges are decreasing for occupants of the Grand Haven Courthouse (mostly judicial functions) because 2012 includes adjustments for prior years for depreciation. The 2013 charges for indirect administration in the judicial functions decreased in total by \$355,000. In addition, grant funding for the 9/30 Judicial Grants fund is down \$191,000 because funding has not yet been confirmed. These decreases were tempered by overall increases in other operational costs.

General Government expenditures are decreasing 2.9 percent. The 2012 budget includes \$157,000 for the remainder of the one-time Energy Efficiency Community Development Block Grant. In the General Fund, the Elections budget is \$126,000 lower since 2013 is not an election year. In addition, the Board approved the combining of the Register of Deeds and County Clerk positions which reduced costs by \$107,000. Expenditures in Facilities Maintenance are \$249,000 lower because the 2012 budget includes \$145,000 for roofing projects at two of the County facilities. However, the 2013 budget includes \$160,000 for new aerial maps; funding for the maps will come from committed fund balance. 2013 also include \$100,000 for the full year cost of equipment rental on the new financial software.

Public Safety expenditures, representing 21.3 percent of total expenditures, are essentially staying steady. As discussed under intergovernmental revenue, Sheriff 9/30 Grants fund is decreasing because the County received some one-time Port Security equipment grants of \$536,000 in 2012. However, the 2013 budget includes \$108,000 for E-ticketing equipment, and Medical care costs for jail inmates are also increasing based on more current expenditures. The remaining increases are normal, inflationary increases.

Public Works expenditures are decreasing by 1.5 percent. The 2012 budget includes an additional \$200,000 in the County share of drain assessments. The last few years have seen higher assessments due to the severe storms experienced in 2009 and 2010. However, expenditures in the Solid Waste Clean-up fund are \$145,000 higher in connection with capital improvements to the landfill clean-up effort.

Health and Welfare expenditures, representing 40.8 percent of total expenditures is decreasing by 15.2 percent. As discussed under intergovernmental revenue, the Board approved a change in budgeting policy for Michigan Works! and Community Action Agency (CAA) funds in that these funds will not be part of the annual budget process (\$12.1 million). However, the Mental Health budget is increasing by \$1.3 million or 1.9%. Significantly more will be spent on developmentally disabled client care. Institutional costs for delinquent juveniles are increasing due to higher numbers of placements as well as higher per diems.

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 variances in capital projects was discussed in part under intergovernmental revenue. The 2012 capital outlay budget is \$3.1 million which includes \$451,000 on various land improvements, \$600,000 for the Ottawa Beach Board Walk, \$651,000 for the Holland Country Club restoration, \$434,000 for the Connor Bayou project and various other, smaller projects. The 2013 capital outlay budget is \$2.4 million and includes just \$1.54 million for the construction of a 2.5 mile paved trail through the Upper Macatawa Natural area to link the Meijer Kenowa Trail to Adams Street paths. In addition, \$300,000 is included for the Holland Pumphouse Museum project.

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.

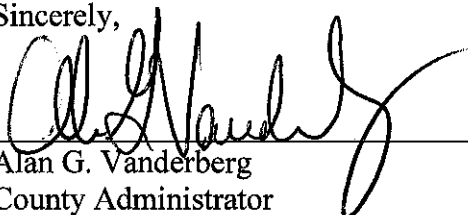
With financial forecasting and the creation of long-term financing tools, the County has positively impacted future financial decisions and the County's financial stability. These tools permit the County to reduce taxes to County residents, maintain the County's bond rating, and control costs to departments. 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 stagnate tax revenue 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 2013 budget continues to address 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, 2012. This was the seventeenth 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

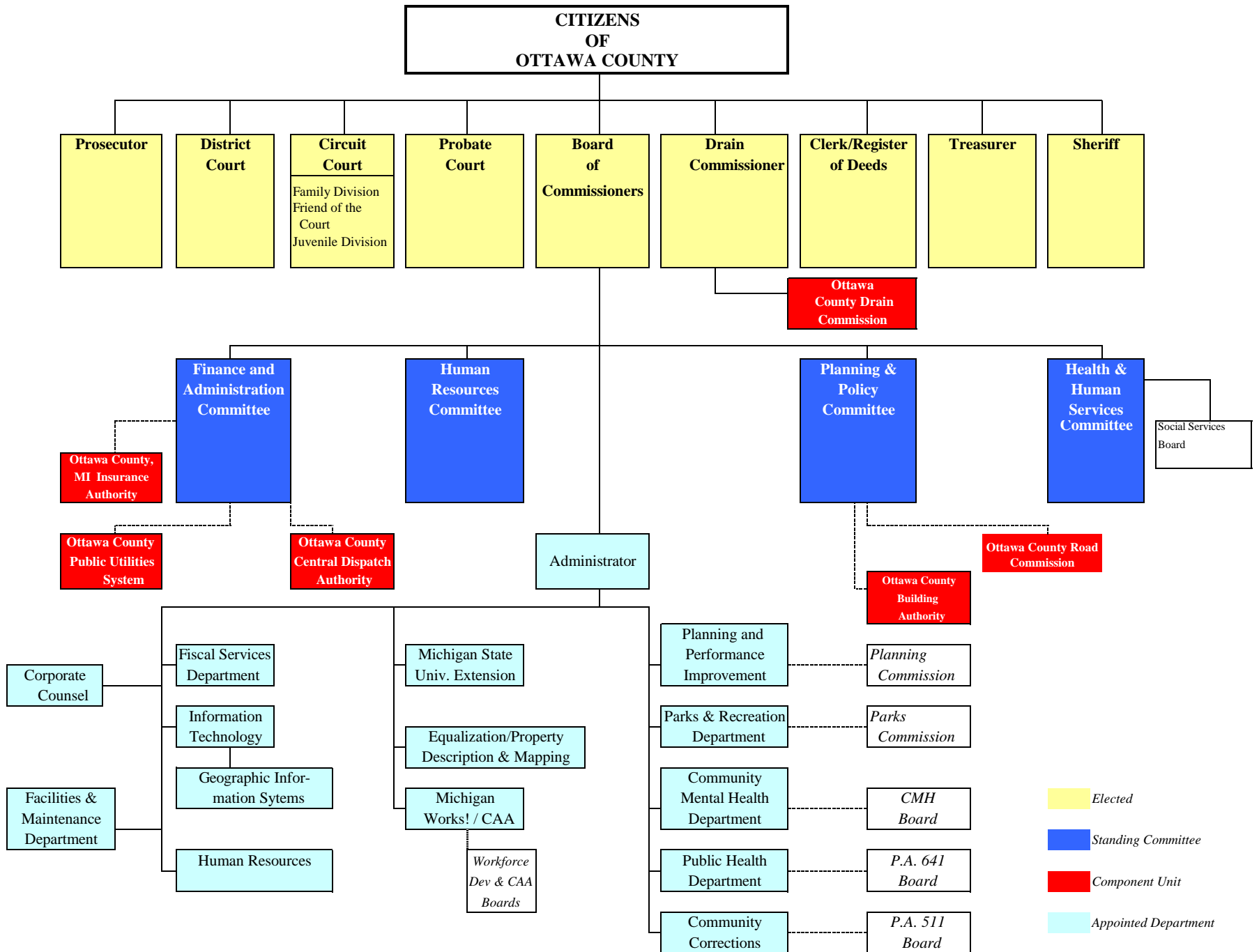
January 1, 2012

Linda C. Danson Jeffrey R. Egan

President

Executive Director

2013 ORGANIZATIONAL CHART



- Elected
- Standing Committee
- Component Unit
- Appointed Department