

Revenue Source Descriptions

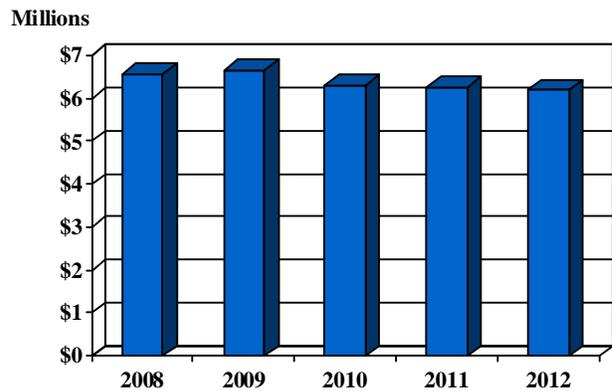
Primary Government

Property Taxes

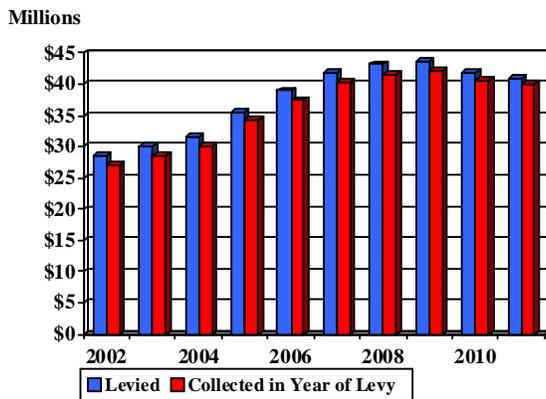
Property Taxes are levied against the assessed taxable valuation of real and personal property in the County. The tax rates are expressed in "mills" per one dollar of the assessed taxable valuation of the property; one mill of taxation is equal to one dollar on each one thousand dollars of assessed valuation.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

The graph to the right highlights the millage "cushion" for Ottawa County. For the last twelve years, the County has levied less than its maximum allowed mills for operations. For the 2012 *operating* levy, the current maximum is 4.2650 mills; the County is levying 3.6 mills. Consequently, the County has a substantial "cushion" available for funding operations that equates to approximately \$6.3 million in 2011. This "cushion" can be accessed with a vote of the Board of Commissioners. The 2012 operating levy will remain at 3.6 mills, so the "cushion" is expected to change in proportion to the taxable value change.

Ottawa County Millage Cushion
Difference between Maximum and Actual Levy



Property Tax Levies and Collections

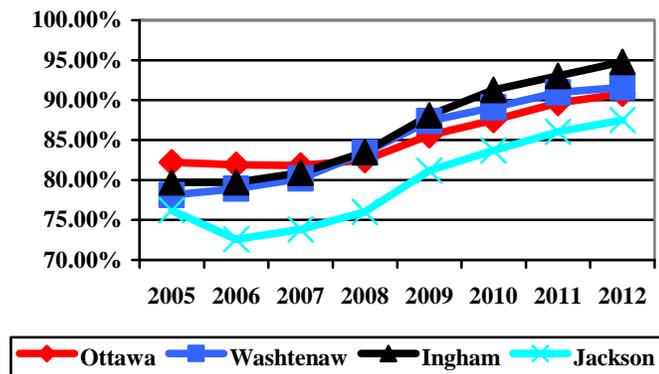


Like any municipality, Ottawa County is concerned with its tax collection rate. The County's current collection rate is slightly higher than it was in the late nineties. The graph to the right provides a ten-year history of collections for the County. The collection rate for the year the levy was made was 94.8% in 2002; in 2011, 97.5%.

Taxable Value

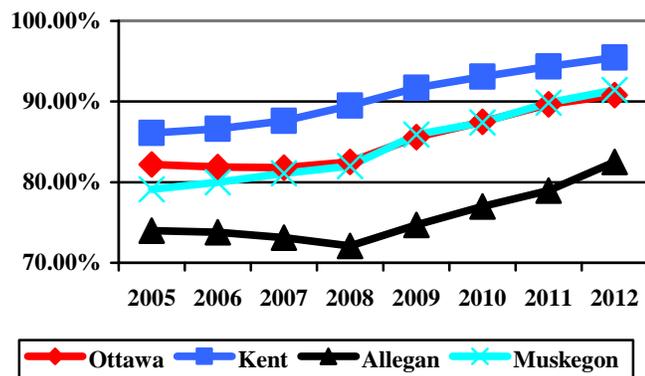
Proposal A of 1994 limits increases in the taxable value of property to the lower of the consumer price index or 5%. This has artificially lowered the 2012 taxable value of the County by approximately \$945 million which equates to over \$3.4 million in County operating taxes annually. Even though home prices are declining, they are not necessarily lower than the taxable value, so the County is seeing increases in the taxable value of such property even though the assessed value may be decreasing. However, if home prices continue to fall, the gap between the taxable value and the assessed value will be closed. At that point, the taxable value will change in concert with housing prices. This means that the effect of falling home prices has been delayed for Michigan municipalities. In comparing Ottawa County to some of its comparable Michigan counties, Ottawa County (in red) had a smaller gap between taxable and assessed value from 2004 - 2007, but it has maintained the gap better than the comparable counties. In fact, based on the 2012 values, Ottawa's gap is now slightly larger than Washtenaw and Ingham Counties:

Taxable Value as a % of State Equalized Value



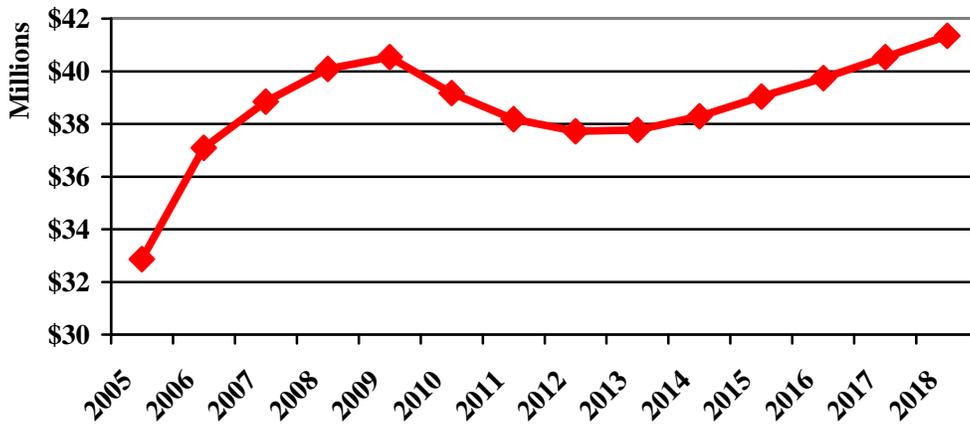
However, the comparable counties are in the middle and east side of the State which has been more acutely impacted by the troubled auto industry. It may be more relevant to look at Ottawa's gap in comparison to its adjacent counties. The chart that follows shows that Ottawa's experience is in line with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

Taxable Value as a % of State Equalized Value



As discussed in the transmittal letter, Ottawa County is concerned about its taxable value-much like other Michigan municipalities- due to falling home values. In Ottawa County, 70 percent of the tax base is residential. Although other Michigan municipalities have felt the decline in the housing market for a few years, Ottawa County experienced its first decrease in taxable value of 4.01 percent in 2010 followed by a 2.15% decrease in 2011 and a .96% decrease in 2012. Taxable value is remaining steady in 2013. Going forward, the County anticipates only small changes for at least the next ten years. It has become increasingly difficult to project property values due to the volatility in the housing market, not just in Ottawa County, but in the national economy as well. Other factors play a role as well. If unemployment continues to rise in the County, it may cause property values to decrease further (due to additional foreclosures). The chart below reflects a range of taxable value changes of 1.5 percent to 2.0 percent for 2014 – 2018.

Estimated General Fund Tax Revenue



Intergovernmental Revenue

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

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

State Court Fund Distribution

Revenue received from the State under Public Act 374 of 1996 for reimbursement of allowable costs of court operations, pursuant to a formula. The budget is based on information received from the State of Michigan. The 2013 budget for this revenue source is \$887,000, a 3.6 percent decrease from the adopted 2012 budget. Lower caseloads and collections are the reason for this decrease.

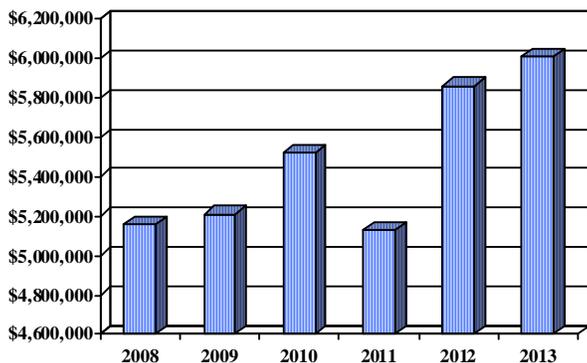
Convention Facility Liquor Tax

The County share of distribution of revenues generated from the tri-county convention facilities tax levied under Public Act 106 and 4% liquor tax levied under Public Act 107 of 1985, when these revenues exceed the debt service requirements for convention facilities. The Public Act mandates a 50% allocation for substance abuse programs and 50% for general County operations. Previously, the County Board would also direct 100% to be used for substance abuse. However, beginning with the 2007 budget, the County may use 50% for general operations. The 2013 budget of just \$1,372,000 is based on information received from the State of Michigan and represents a 17.5% increase.

Contributions from Local Units

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

Contributions from Local Units – All Funds



As communities have realized the value of Community Policing programs, the demand for these services has increased. The graph to the left shows the increasing dollars the County is receiving for these services. Many of these programs began with federal funding under the COPS Universal grant programs that expired after three years. As the grants have expired, the municipalities have continued to fund the programs from their own resources. In 2011, certain contractual arrangements were transferred to a fund with a different year end, so 2011 is low because the number does not represent a full reporting year. As

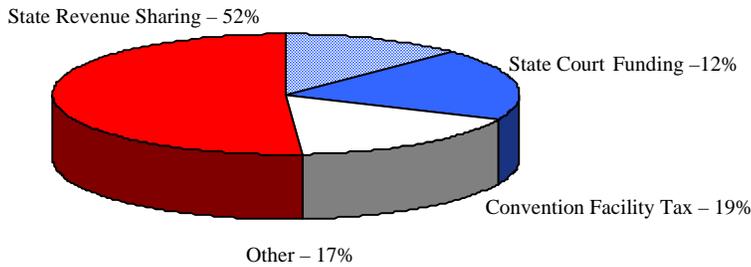
for the future, the County expects this revenue source to increase steadily over the next few years in tandem with public safety expenditures.

State Revenue Sharing

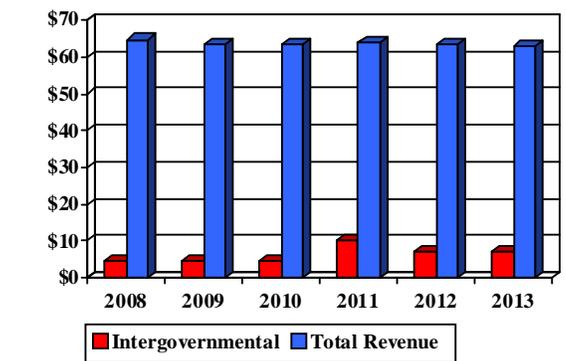
Since 2005, State Revenue Sharing payments from the State of Michigan had been suspended. Beginning in 2011, payments have resumed once again. As discussed in the transmittal letter, there are significant concerns about the State's ability to make these payments. For 2013, the County is budgeting a 1.8 percent increase as estimated by the State.

The graphs that follow summarize both the components of intergovernmental revenue and its importance to the General Fund. With the reinstatement of State Revenue Sharing, Intergovernmental revenues as a percentage of total General Fund revenue is increasing from 7.3 percent in 2010 (estimated) to 11.3 percent in 2013.

General Fund Intergovernmental Revenue



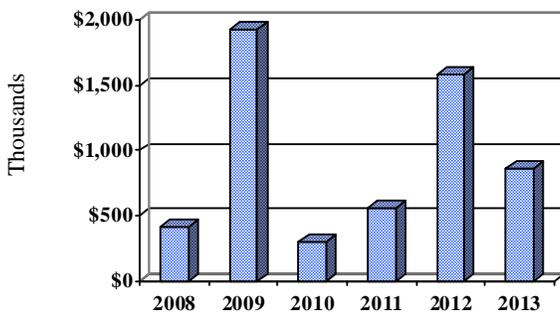
General Fund Intergovernmental Revenue and Total Revenue



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

Parks and Recreation

Parks and Recreation Intergovernmental Revenue



The Parks and Recreation department receives funds from the State of Michigan and/or the Federal government for land acquisition and capital improvements at County parks. The revenue source can and does vary substantially from one year to the next depending on both the applications submitted and the ranking and availability of State funding for the projects. The 2013 budget includes a \$672,000 request to the State of Michigan for the Macatawa Greenway Trail and \$130,000 for the Grand River Open Space Expansion.

Friend of the Court Co-op Reimbursement

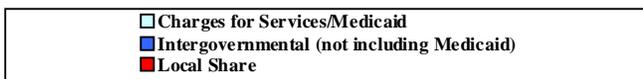
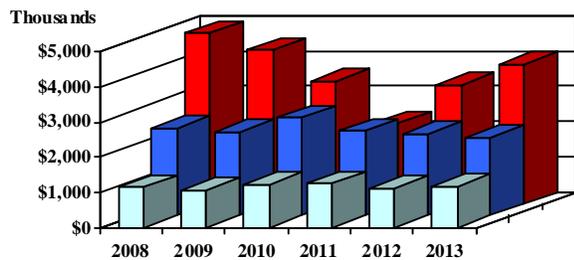
This revenue represents funds received from the state for title IV-D child support enforcement. The program is a federal, state and county cooperative effort to collect child care support from parents who are legally obligated to pay. This is accomplished through services provided to establish paternity,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

There remains one major concern with the revenue. Currently, the Friend of the Court collects incentive payments based on the office's performance (federal guidelines). In the future, these revenues may need to be subtracted from expenditures before applying the 66 percent reimbursement calculation. This subtraction would cost the County approximately \$217,000 for 2013. Currently, the State of Michigan is making up this difference, but it is unknown if this will continue.

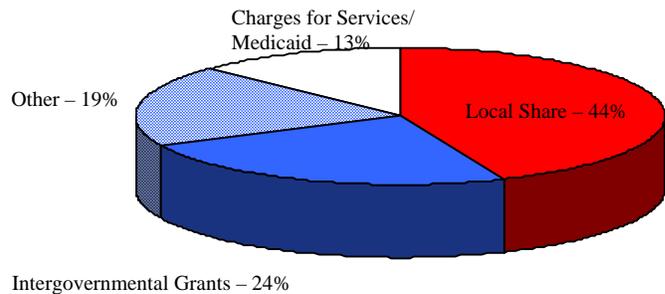
Health Fund

Intergovernmental grant revenue in the Health fund includes various state grants and state cost sharing established by the Public Health code. Nine services identified by the state are supposed to be reimbursed at a cost sharing level of 50%. Unfortunately, state grants and cost sharing reimbursements have not kept pace with expenditures. The Health department also collects charges for services and bills Medicaid for eligible clients. Medicaid fees are likely to increase due to the increased caseload and Medicaid eligible population. During 2010 and 2011, the Health department was the recipient of special funding for H1N1 programs and emergency preparedness programs, respectively. The graph below shows the 2013 increasing local share in red. The 2013 budget shows Intergovernmental grant revenue funding 24 percent of expenditures, and the local share funding 44 percent of expenditures.

Public Health Revenue

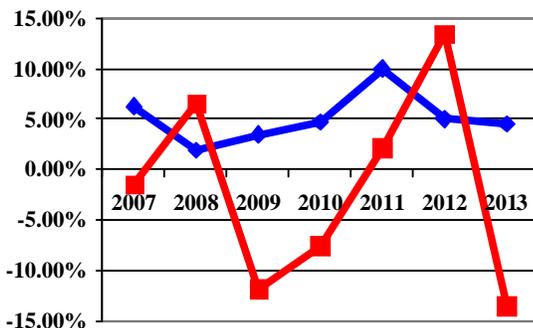


2013 Public Health Revenue



Mental Health

% Change in Mental Health Intergovernmental Revenue



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

Capitation for Medicaid is an "at risk" funding. State general fund revenues are to serve priority population residents up to resources available. If overspending occurs in either funding stream, Mental Health has a fund balance of State

and non-County dollars that can be used. Grant dollars show a large increase in 2012 due to the carry-over of prior year dollars. 2013 does not include any carry-over dollars. In addition, an Internal Service fund has been established to accommodate this risk of capitation of Medicaid. Although Medicaid dollars have increased due to increased enrollment, grant dollars, including those from the State of Michigan, have declined as illustrated by the previous graph.

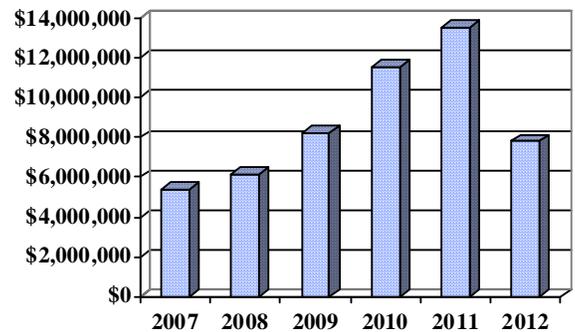
Sheriff Contracts

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

Workforce Investment Act Funds

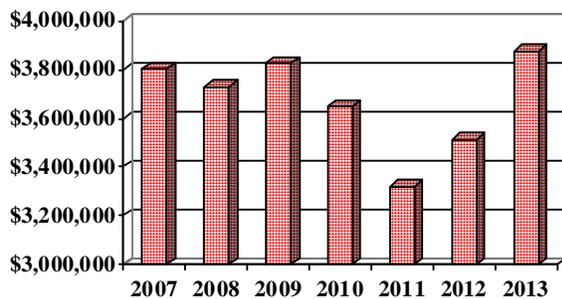
Workforce Investment Act (WIA) are federal funds received for training and employment programs for underemployed and economically disadvantaged citizens. Beginning with the 2013 budget, these funds are not included in the annual budget process because it was not cost effective to include them. Instead, budgets will be established once the grant award has been made. Beginning in 2008, revenue is increasing due to federal stimulus dollars the County has received. The 2012 estimate includes minimal stimulus dollars.

Workforce Investment Act Funds - Intergovernmental Revenue



Child Care

Child Care Fund Intergovernmental Revenue



This revenue represents the 50% subsidy by the State for net child care costs excluding state institutions. Barring legislative changes, revenues in this fund are expected to rise in tandem with expenditures in the future. However, as discussed in the transmittal letter, there has been legislative action which may increase the County share.

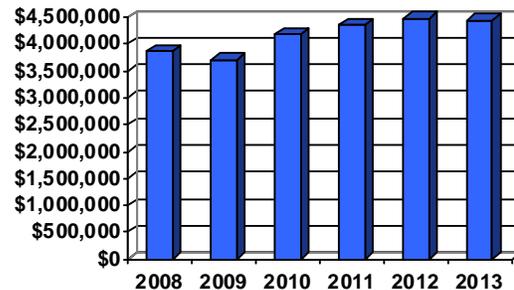
Charges for Services

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

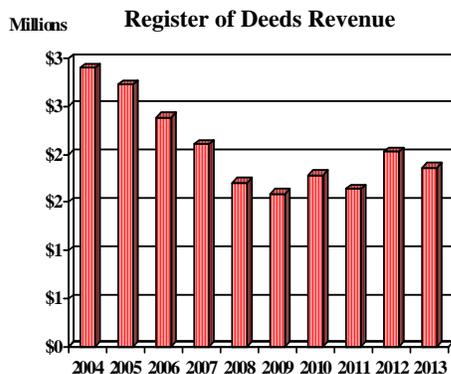
Court Costs

Court Costs are costs assessed for criminal and civil cases and traffic violations. The majority of these revenues are collected in the District and Circuit courts. This revenue source is on an upward swing. In the District Court, collections fell in 2009 because the State of Michigan increased the amount of money it collects by \$8 per ticket effective April 1, 2009. However, in July of 2009, the District Court implemented revised court costs which should recoup the loss due to the State action and provide additional revenue as well. In July of 2010, the District Court increased fines for all civil infractions by 10 percent. In addition, a probation oversight fee of \$15 per month has been instituted for new probation cases. However, caseloads have been dropping in the District Court, so revenue has not increased as much as anticipated.

Ottawa County Court Costs



Register of Deeds Revenue



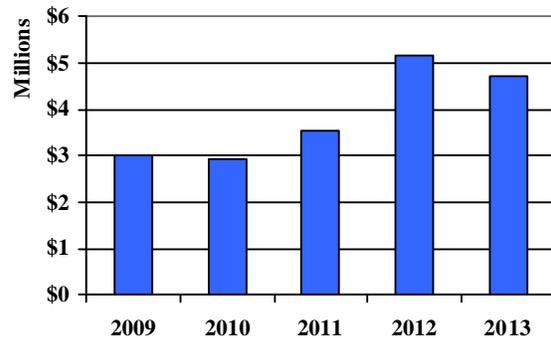
The Register of Deeds office collects fees for property services and transfer taxes. Under Public Act 134 of 1966, a fee of \$.55 for each \$500 of value of property transferred is assessed. In addition, new legislation enacted 10/1/03 allows the Register of Deeds to collect \$5 for each deed recorded and \$3 for each additional page. These revenue sources are highly dependent on interest rates and the economy. 2004 reflects the record low interest rates that resulted in an avalanche of mortgage refinancing documents. After 2004, revenue dropped through 2008, and has since been stable, though low. The slow housing market has

clearly affected this revenue source negatively. Interest rates are unlikely to go lower, and most home owners who were able to refinance their mortgages have already done so. Consequently, until the local economy improves such that home sales accelerate and/or new construction resumes, the County is unlikely to see an improvement in this revenue. Revenue has increased in 2012, but to be conservative, a lower amount has been budgeted for 2013. However, the County does have significant land available for development, so once the economic recovery reaches West Michigan, revenues may grow substantially.

Indirect Administrative Services

This revenue represents reimbursement for indirect costs incurred by the County in the administration of grants and other contractual programs. A cost allocation plan (CAP) is prepared annually by consultants to identify the costs. The revenue received in the General Fund is dependent on both the actual administrative costs and where the costs are allocated to since the County does not charge all departments. Charges in the CAP are based on audited activity for two years prior. For example, charges made in 2013 are based on actual results for 2011. There are also roll forward adjustments to capture the differences between what was charged in a year versus what the actual charges were. Roll forward charges included in the 2013 study reflect the difference between what was charged in 2011 versus the actual cost. The graph shows increasing revenue beginning in 2011 due to depreciation on the Grand Haven Courthouse which opened in July of 2009. The prior Grand Haven facility was fully depreciated. Since the 2012 revenue reflects a roll forward adjustment of \$925,000 for this building's depreciation, revenue is expected to decrease beginning with the 2013 budget year, and continue to decrease in 2014, stabilizing after that. In any case, the new Grand Haven Courthouse will likely bring in more grant dollars from the Friend of the Court grant.

Indirect Administrative Services Revenue

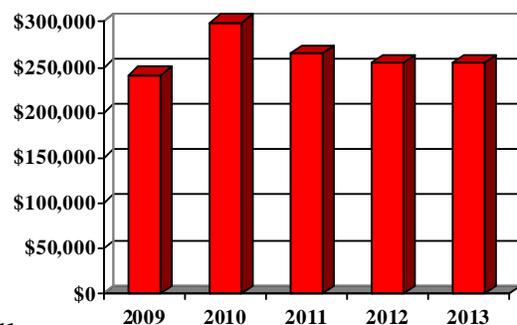


Special Revenue Funds: Parks and Recreation, Health, Mental Health, and the Landfill Surcharge funds are the primary purveyors of Charges for Services revenue in the Special Revenue funds.

Parks and Recreation

Charges for Services in the Parks and Recreation fund include reservation and entrance fees for the use of county park facilities and are highly dependent on the weather. The budget is calculated by averaging historical information. Recently, the State of Michigan instituted a new program. Instead of purchasing a State Motor Vehicle Permit for park or boat launch entry (\$6/day or \$24/year) motorists can pay \$10 (\$5 for motorcycles) when they renew their license plates through the Secretary of State. This will allow entry into State parks and boat launches for the period of the registration. It is unclear what the exact impact will be on County parks, but it will likely dampen future increases in entrance fees. The County does not anticipate a significant drop in revenue as the County's parks are targeted to families by including playground equipment, picnic benches, etc.

Ottawa County Park Entrance Fees



Health and Mental Health

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

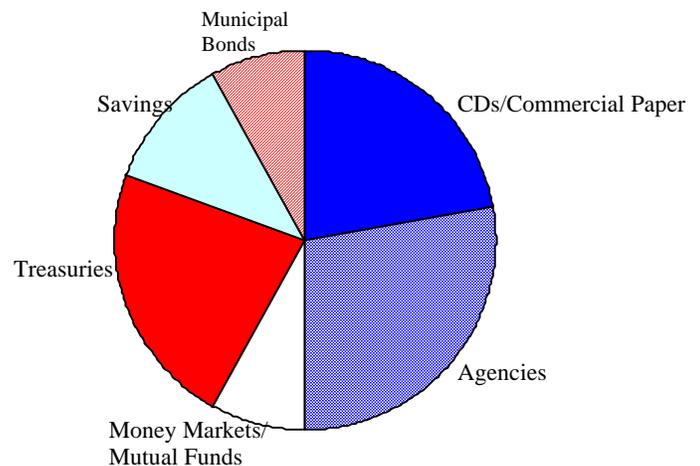
Landfill Tipping Fees

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

Interest on Investments

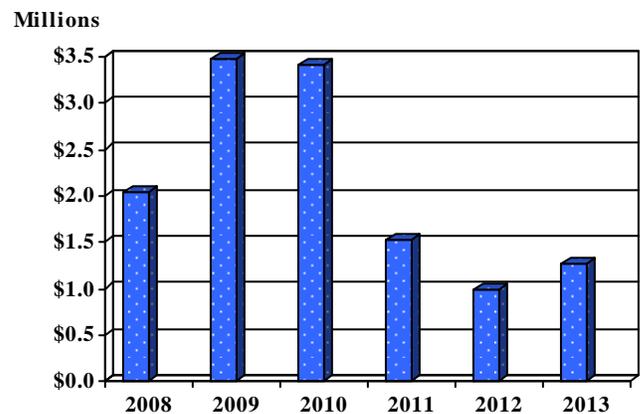
This revenue source represents both the interest earned on the investments of County funds as well as the changes in the market value of those investments at year end. Allowable investments are set by state statutes. The treasurer employs a laddered approach that results in the continuing maturity of investments in order to have the correct balance between liquidity and return. The graph on the previous page shows the components of the County's investment pool as of 6/30/12. Additional information on the County's investment policy can be found in the appendix section of this document.

Ottawa County Investment Portfolio Components – 6/30/12



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

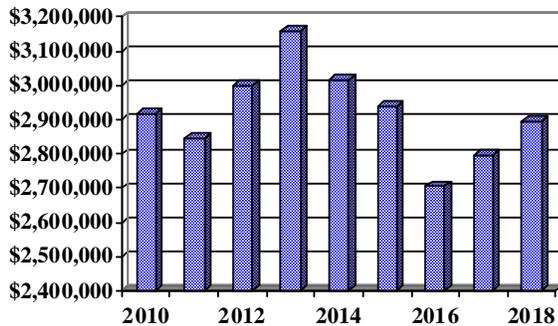
Investment Revenue



Much of the fluctuation is in the Ottawa County, Michigan, Insurance Authority (an internal service fund). The Insurance Authority is not required to adhere to Public Act 20 which limits the investment instruments available to municipalities in Michigan. Consequently, the variations are the result of the change in fair value primarily from the Insurance Authority. Unfortunately, the County does not anticipate significant improvement in interest rates in the near future.

Rent

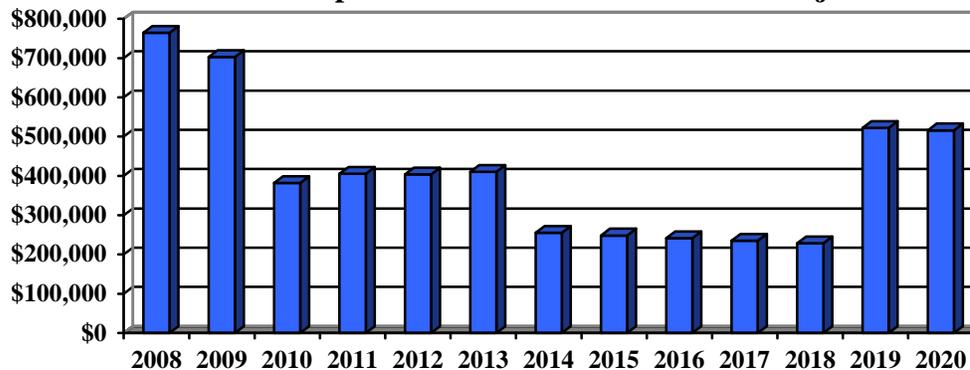
General Fund Rent Income



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

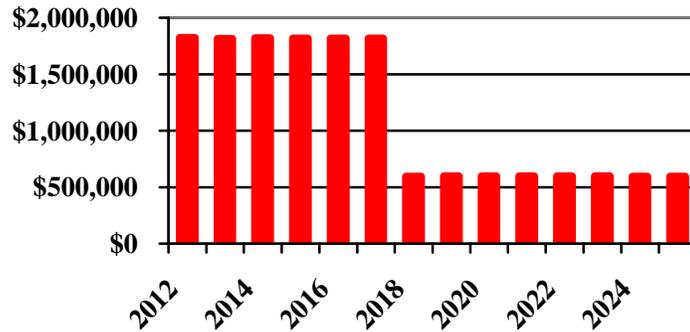
The second source of rent revenue is in the Public Improvement fund (Special Revenue fund 2450). The Public Improvement fund has paid for several building projects, and in order to replenish the fund, such projects are charged over time to repay the fund. As indicated in the transmittal letter, beginning in 2010, \$300,000 of such rent is going to the General Fund in order to assist with balancing the budget. This reassignment is projected to continue through 2018. Rent revenue may fall again in 2014 in connection with contracts that will come due.

Public Improvement Fund Rent Revenue Projections



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

Rent Revenue for the Ottawa County Building Authority



Component Units

Road Commission

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

Drains

The drainage districts receive reimbursements for drainage projects or other services rendered. The budgets are based on anticipated projects of the drain commissioner and include: Chapter 6 Drains - Projects petitioned for by individuals, Chapter 20 Drains - Intra-County projects usually petitioned for by townships, or Chapter 21 Drains - Inter-County projects petitioned for by a governmental unit

Public Utilities System

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

Ottawa County Central Dispatch Authority (OCCDA)

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

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