

# Revenue Source Descriptions

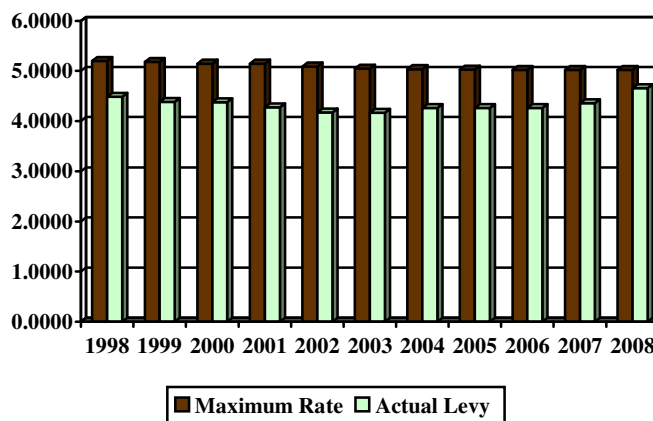
## Primary Government

### Property Taxes

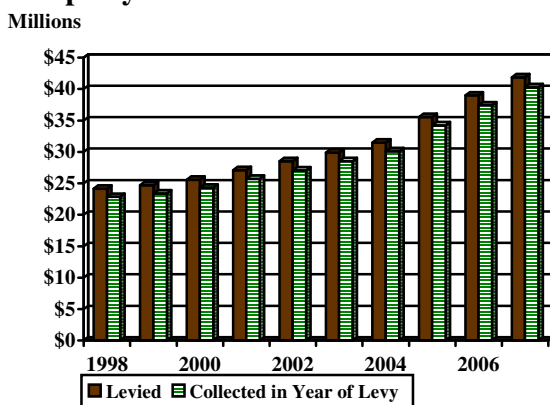
Property Taxes are levied against the assessed taxable valuation of real and personal property in the County. The tax rates are expressed in "mills" per one dollar of the assessed taxable valuation of the property; one mill of taxation is equal to one dollar on each one thousand dollars of assessed valuation. 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 lower millage rates County residents are enjoying. In 1998, the total levy was 4.4804 mills; in 2008, the levy has dropped to 4.3572 mills, a decrease of 13 percent. For the last twelve years, the County has levied less than its maximum allowed mills for operations. For the 2008 *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 \$6.8 million per year. The 2009 operating levy is expected to remain at 3.6 mills, so the "cushion" is expected to increase in proportion to taxable value.

**Ottawa County Millage Rates ( in mills)**



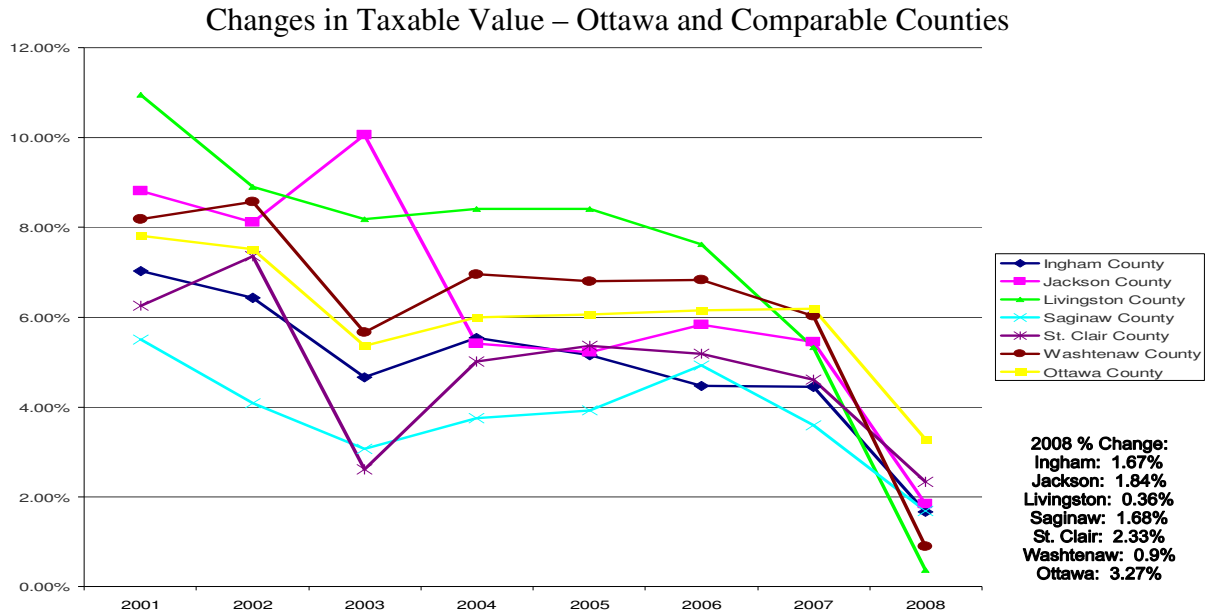
### **Property Tax Levies and Collections**



Like any municipality, Ottawa County is concerned with its tax collection rate. The County's collection rate today 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 94.61% in 1997; in 2007, 96.18%.

## Taxable Value

Like most every municipality, taxable value has become a major concern 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, 2008 represents the first year the County has seen the slower growth. After several years of approximately 6% growth annually, the 2008 taxable value grew by only 3.27%. The graph below shows the change in taxable value for Ottawa County (in yellow) and its comparable counties:



The good news is that Ottawa County’s growth was significantly higher than its comparable counties in the State. However, the slower growth necessitated additional analysis, particularly in light of taxable value legislation unique to the State of Michigan. 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 taxable value of the County by approximately \$2.1 billion which equates to over \$7.5 million in County operating taxes annually. Even though home prices are declining, they are not yet lower than the taxable value, so the County is seeing increases in the taxable value of 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 may remain flat or even decrease.

An example may be useful to illustrate this issue. Assume a home with a current assessed value of \$250,000 and a taxable value of \$200,000. Further assume that the consumer price index for tax calculation is 3.7% per year and that home prices (the assessed value) are falling 4% per year:

### Potential Effect of Declining Home Values on the Tax Base

Assume: CPI Increases 3.7% per year  
Home prices (assessed value) decreases 4% per year

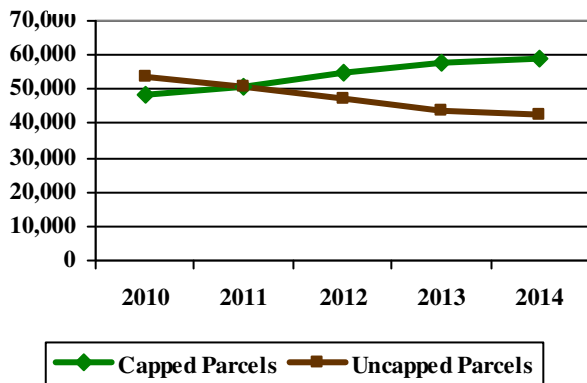
Year	Taxable Value Prior Year	Assessed Value Prior Year	CPI	Assessed Value Current Year	Taxable Value Current Year	% Change in Taxable Value
2007	\$200,000	\$250,000	3.7%	\$240,000	\$207,400	3.70%
2008	\$207,400	\$240,000	3.7%	\$230,400	\$215,074	3.70%
2009	\$215,074	\$230,400	3.7%	\$221,184	\$221,184	2.80%
2010	\$221,184	\$221,184	3.7%	\$212,337	\$212,337	-4.00%
2011	\$212,337	\$212,337	3.7%	\$203,844	\$203,844	-4.00%

Essentially this means that the effect of falling home prices has been delayed for Michigan municipalities. Determining when taxable value is affected by falling home prices became crucial to long term projections. Based on a model developed by Oakland County, Michigan, the County individually examined over 160,000 parcels of property to see how each parcel's taxable value and state equalized value (SEV) reacted when specific assumptions were applied. Next, data on the actual growth or decline by each property class within each local government unit was obtained. The Equalization department reviewed these rates by property class and by municipality to develop estimates for the next five years.

Based on the projections, the County can project when the taxable value of parcels will reach the assessed value. The table below shows the projected percentage of parcels whose taxable value has reached the assessed value (capped):

	2010	2011	2012	2013	2014
Estimated % Capped	47.33%	49.83%	53.72%	56.75%	58.13%

Ottawa County Projected Parcel by Status



The graph to the left reflects the rate at which parcels are projected to reach their assessed value. The future of tax revenue will depend on how quickly the housing market recovers. The longer it takes to recover, the more parcels that will become capped. This in turn limits increases in the tax base, and at some point may result in a decrease in the tax base.

When the results were consolidated to the County level and translated into total taxable value increases, the following projections were observed:

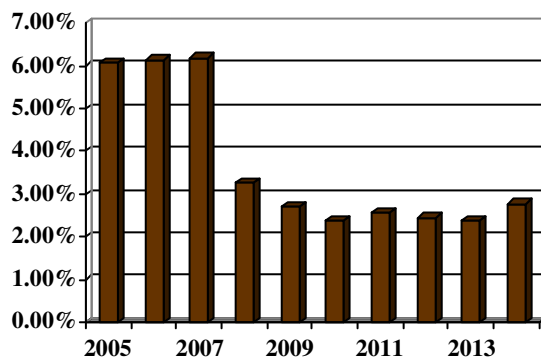
Percent of Tax Base	Property Class			
	Agricultural	Commercial	Industrial	Residential
	2.7%	12.5%	8.4%	70.3%
Year				
2009	2.0%	2.50%	0.7%	1.6%
2010	4.4%	1.40%	0.4%	0.7%
2011	2.5%	1.30%	0.3%	1.1%
2012	2.2%	1.20%	0.2%	0.9%
2013	2.2%	1.10%	0.2%	0.9%
2014	2.2%	1.00%	-0.1%	1.4%

These projections do not include estimates for new construction. Historically, sales and new construction have provided a significant amount of new taxable value in Ottawa County, so predicting new taxable value is an important part of the overall analysis.

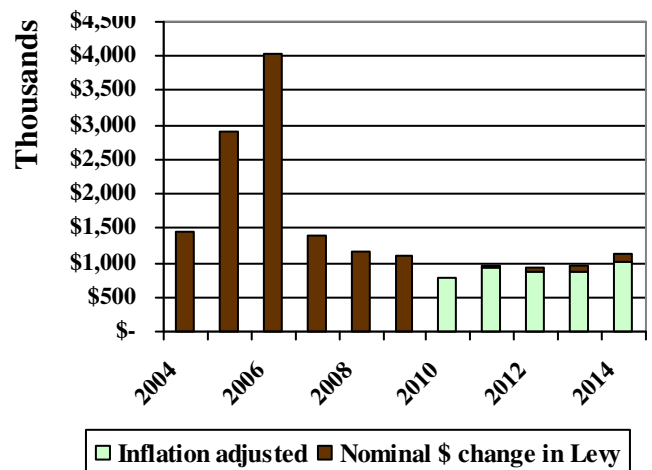
To forecast the impact of new construction, the County looked at the proportion of sales and new construction in relation to the overall change in taxable value from 2007 to 2008. Given the sharp economic decline, the County believes this one year of data is a better predictor of new growth than an average of the last five years. The conclusion of the analysis was that the County could project that increases due to new construction would equal 1.5 percent.

Obviously, all of this has a profound impact on tax revenue projections:

Ottawa County Percent Change in Taxable Value



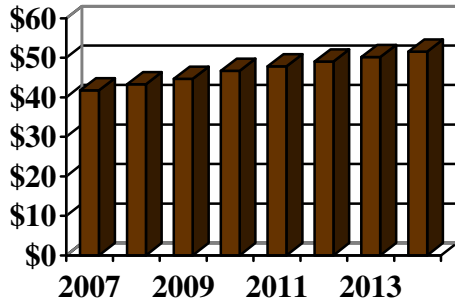
Change in Operating Tax Dollars Received





## Ottawa County Total Tax Revenue

Millions



The graph to the left shows the results of the projections on the tax base. Although the rate of growth in this revenue source is decreasing, tax revenue as a whole remains on an upward trend.

## 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 three main components to intergovernmental revenue in the General Fund. Major intergovernmental revenue sources in the General Fund follow.

### 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 2009 budget for this revenue source is \$1.1 million.

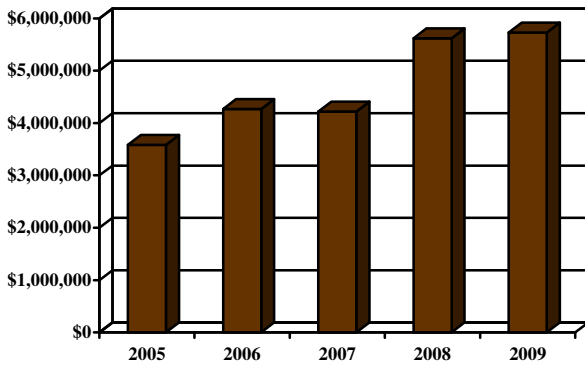
### Convention Facility Liquor Tax

The County share of distribution of revenues generated from the tri-county convention facilities tax levied under Public Act 106 and 4% liquor tax levied under Public Act 107 of 1985, when these revenues exceed the debt service requirements for convention facilities. The Public Act mandates 50% allocation for substance abuse programs and 50% for general County operations. Previously, the County Board would also direct the other 50% to be used for substance abuse. However, beginning with the 2007 budget, the County may use the other 50% for general operations. The 2009 budget of \$979,000 is based on information received from the State of Michigan.

### Contributions from Local Units

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

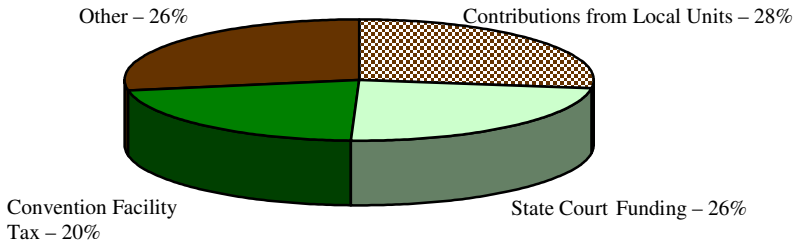
**Contributions from Local Units – All Funds**



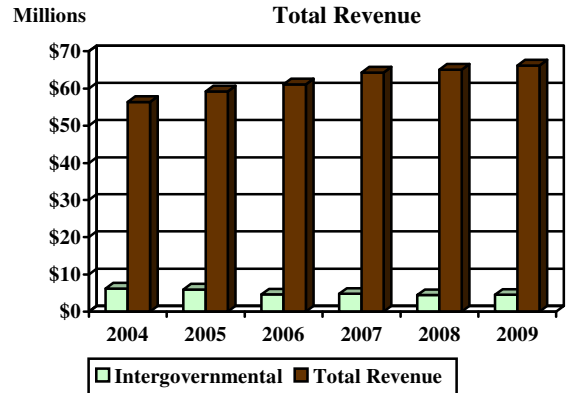
As communities have realized the value of Community Policing programs, the demand for these services has increased. The graph to the left shows the increasing dollars the County is receiving for these services. Many of these programs began with federal funding under the COPS Universal grant programs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

The graphs that follow summarize both the components of intergovernmental revenue and its importance to the General Fund. With the end of State Revenue Sharing, Intergovernmental revenues as a percentage of total General Fund revenue has decreased from 18% in 2002 to 7% in 2008.

**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 fund), public safety (community policing), health and welfare (Health, Mental Health, Community Action Agency, and Child Care funds), and employment services (Workforce Investment Act (WIA) funds). Budget amounts are based on State recommendations.

**Parks and Recreation**

The Parks and Recreation department receives funds from the State of Michigan for land purchases and capital improvements at County parks. Obviously, 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. In 2008, the Parks and Recreation department is anticipating a \$2 million grant from the Michigan Natural Resources

Trust Fund for the Olive Shores property acquisition. When the 2009 budget was being developed, the department was not made aware of any major capital funding grants.

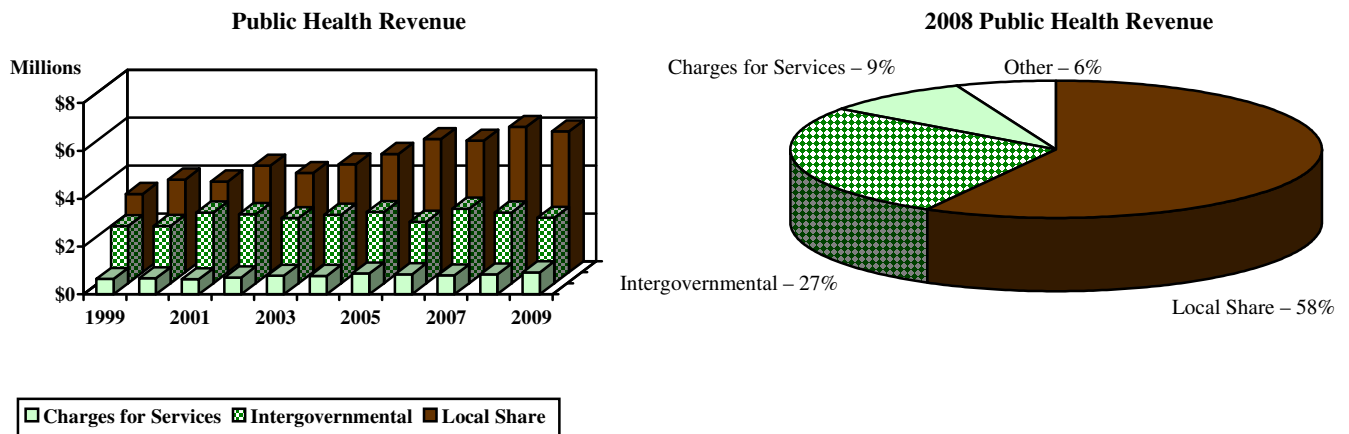
### Co-op Reimbursement

This revenue represents funds received from the state for 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. 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. The 2009 budget reflects a proposed change in the funding formula that would require counties to subtract out federal incentive payments they receive before calculating the IV-D revenue. The result of this proposed change is a decrease in projected revenue between 2008 and 2009 of nearly \$95,000

### Health Fund

Intergovernmental revenue in the Health fund includes various state grants, Medicaid reimbursements, and state cost sharing established by the Public Health code. Nine services identified by the state are reimbursed at a cost sharing level of 50%. This reflects increased emphasis on select Health programs from the Michigan Department of Health. Medicaid fees are likely to increase from the increased caseload and population. Unfortunately, state grants and cost sharing reimbursements have not kept pace with expenditures. Some of the difference has been made up in fees charged to the clients, but much of the difference is funded by local dollars.

The graphs that follow show that in 1999, Intergovernmental revenue funded 35% the Health fund's expenditures. In 2009, Intergovernmental revenue is funding 27% of expenditures.



### Mental Health

State funding for Mental Health 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. In addition, an Internal Service fund has been established to accommodate this risk.

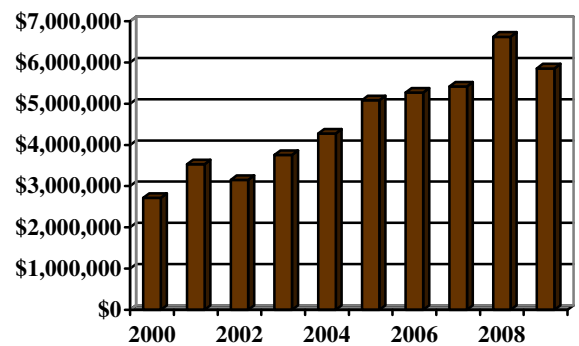
**COPS Universal/Sheriff Contracts**

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

**Workforce Investment Act Funds**

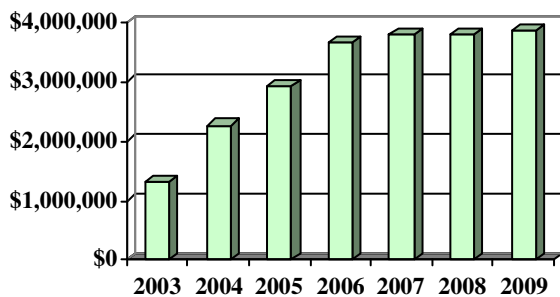
Workforce Investment Act (WIA) are federal funds received for training and employment programs for underemployed and economically disadvantaged citizens. The 2009 budget amount shows only the estimated revenues to be received from the State. Conservative budgeting requires the County to not budget carryover dollars until approved by the State. Consequently, 2009 revenues indicate a significant decrease. However, this decrease is unlikely to materialize since the County typically receives additional grants during the year in addition to the carryover dollars from the previous years.

**Workforce Investment Act Funds - Intergovernmental Revenue**



The graph above also shows that Intergovernmental revenue for the WIA funds has been increasing in the last couple of years. Future funding will depend on the availability of federal funds and the economic status of the County in relation to other Michigan Counties.

**Child Care Fund Intergovernmental Revenue**



**Child Care**

This revenue represents the 50% subsidy by the State for net child care costs excluding state institutions. By the end of 2006, a total of 10.25 full time equivalents were moved from the General Fund to the Child Care Fund to take advantage of the funding available for community intervention programs. These program adjustments have changed the funding formula for Juvenile Services overall. In the future, revenues in this fund are expected to rise in tandem with expenditures.

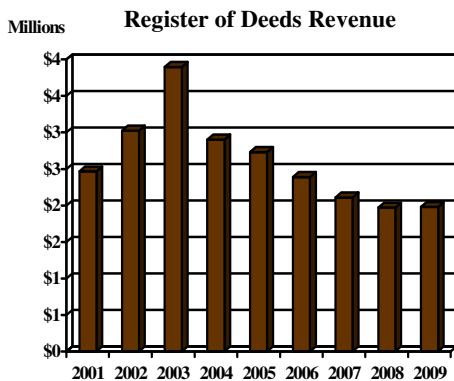
## Charges for Services

**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 court. The County anticipates moderate increases as population and thus caseload increases. More recently, the economy has increased the number of civil cases, increasing those collections. Conversely, higher gasoline prices have caused motorists to drive less and at lower speeds, reducing traffic fines.

### Register of Deeds Revenue

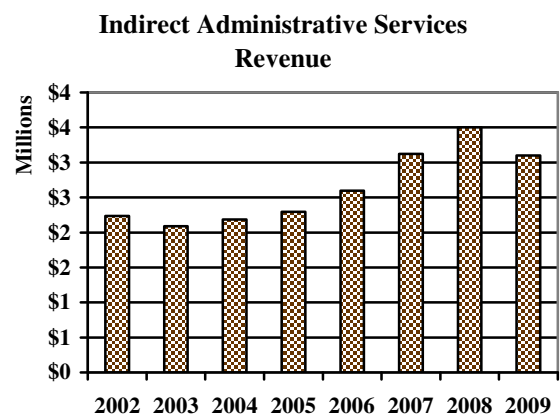


The Register of Deeds office collects fees for property services and transfer taxes. Under Public Act 134 of 1966, a fee of \$.55 for each \$500 of value of property transferred is assessed. In addition, new legislation enacted 10/1/03 allows the Register of Deeds to collect \$5 for each deed recorded and \$3 for each additional page. These revenue sources are highly dependent on interest rates and the economy. For the years 2001 – 2003, the record low interest rates resulted in an avalanche of mortgage refinancing documents. In the last few years, however, this revenue has been decreasing. With interest rates increasing, mortgage refinancing is less

advantageous. In addition, the slow housing market has also affected this revenue source negatively. However, the potential for more development should allow this revenue source to provide substantial funds for future operations and revenues will likely increase as the housing market recovers.

### Indirect Administrative Services

This revenue represents reimbursement for indirect costs incurred by the County in the administration of grants and other contractual programs. A cost allocation plan is prepared annually by consultants to identify the costs. The revenue received in the General Fund is dependent on both the actual administrative costs and where the costs are allocated to since the County does not charge all departments. The graph to the right shows increasing revenue as a result of increasing administrative expenditures, and, beginning in 2007, increasing allocations to the District Court in connection with the expanded Hudsonville facility. The District Court allocation is increasing



again in 2008 with the opening of the much larger Holland District Court building. This revenue will likely fluctuate over the next few years due to building projects. In addition, as the Grand Haven facility is rebuilt, a larger portion of the building will be allocated to judicial functions. Since these programs are charged indirect administrative expenditures, the revenue will increase. In fact, the expansion of the Grand Haven facility may bring in more grant dollars from the Friend of the Court grant.

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

**Parks and Recreation**

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

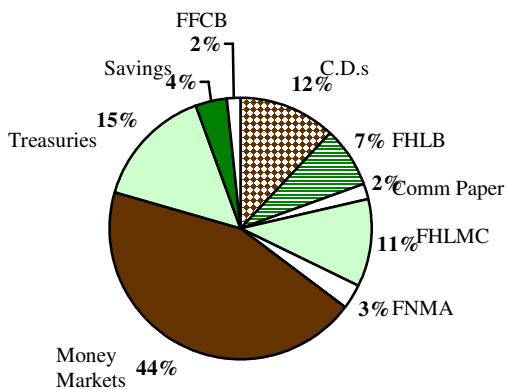
**Health and Mental Health**

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

**Landfill Tipping Fees**

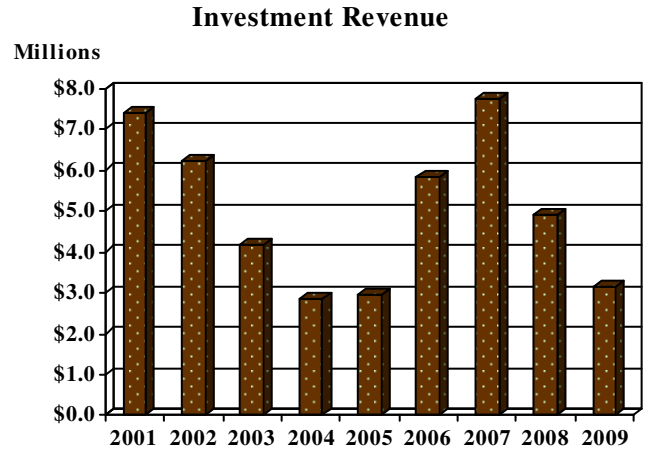
These fees represent the County portion of the surcharge fee collected by the landfills. The amount budgeted is based on historical collections and current year activity.

**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. Allowable investments are set by state statutes. The treasurer employs a laddered approach that results in the continuing maturity of investments in order to have the correct balance between liquidity and return. The graph to the left shows the components of the County's investment pool as of 9/30/08. Additional information on the County's investment policy can be found in the appendix section of this document.

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



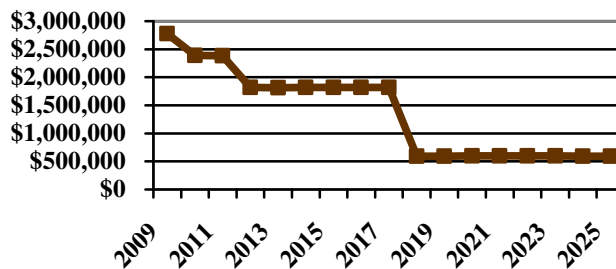
Market values at 12/31/07 were temporarily high, resulting in strong earnings. However, market values have suffered during fiscal year 2008. Moreover, beginning in 2008, cash balances are being reduced as the County funds \$20 million of the Fillmore facility expansion and the new Grand Haven Facility.

**Rent**

Rent revenue is received from two sources. The County charges rent to grant funds for 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. Building rent is decreasing by \$125,000 in the 2009 budget because the Health department will no longer offer clinic services at the Coopersville building.

The second source of rent revenue relates to the Ottawa County Building Authority (the “Authority”), a blended component unit. Lease agreements exist between the Authority and the County which allow the Authority to charge the County rent for the buildings the Authority owns. These rent charges are based on the debt service payments on the bonds the Authority issued. Decreases in rent revenue correspond to decreases in debt service payments. There are no new issues planned at this point, so payments should remain fairly steady until 2012, when one of the issues has been paid off. The graph that follows reflects anticipated rent revenue for the Building Authority:

**Rent Revenue of the Ottawa County Building Authority**



## **Component Units**

### **Road Commission**

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

### **Drains**

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

Chapter 6 Drains - Projects petitioned for by individuals

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

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

### **Public Utilities System**

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

### **Ottawa County Central Dispatch Authority (OCCDA)**

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

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