

Dollars and Sense: *How **Ottawa County** Spends Your Money*

2011 Citizen's Guide to
Ottawa County Financial Health

Presented by
County Administrator Alan G. Vanderberg



2011-2012 County Board of Commissioners

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KEY TERMS

There are a few key terms that may be helpful when reading this report. They include:

- **Budget deficit/surplus.** If there is less money received than paid out in a given fiscal year, there is a budget **deficit** or shortfall. If there is more money received than paid during the fiscal year, a budget **surplus** exists.
- **Debt.** Just like a homeowner takes out a mortgage, governments can borrow money to pay for certain types of projects. The County has both short-term debt (paid back within the fiscal year) and long-term debt. Debt can be either **general obligation** debt, meaning that the state pays back the debt with regular tax collections and other revenues, or **special revenue** debt, which is paid off over time with revenue from specified sources beyond the usual taxes and service fees.
- **Fiscal year (FY).** The 12-month period of time during which budgets are allocated or finances are planned. Most households have a fiscal year that runs from January 1 to December 31 (that's the period for which we pay personal income taxes in April), while state government uses an October 1 - September 30 fiscal year. Some local units of government, including public schools, use a July 1 - June 30 fiscal year, while others operate on a typical calendar year. **Ottawa County uses a January 1 through December 31 fiscal year**
- **Fund balance.** Once all the bills for the year have been paid out of a certain fund, whatever is left over is called the fund balance. When a fund balance is less than zero, you'll see the number shown with parentheses around it. Deficits cause fund balances to decrease, while surpluses cause them to increase.
- **Public budget gap.** A novel measure, similar to the deficit, used to measure the extent to which a government is falling short of covering its current and long-term obligations in a fiscal period. The budget gap takes into account the budget deficit, as well as any new obligations that the government has failed to cover such as **employee pensions or retiree health care.**
- **Reserved/Restricted funds.** Some funds are considered to be "reserved" or "restricted" for a specific purpose, and cannot be spent for anything else.

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Welcome

October 1, 2011

Dear Ottawa County Citizens,

Shortly after taking office earlier this year, Governor Rick Snyder issued a report called ***DOLLARS AND SENSE: HOW THE STATE OF MICHIGAN SPENDS YOUR MONEY***. This document reduced the State audit from hundreds of pages down to 20 pages to make the State fiscal condition more understandable to the average citizen. Governor Snyder further requested that other governments in Michigan do the same and the attached report ***DOLLARS AND SENSE: HOW OTTAWA COUNTY SPENDS YOUR MONEY*** represents your County governments' fulfillment of that request.

The Ottawa County Board of Commissioners and the County Administration have worked hard in recent years to make the County, its services, and financial condition more transparent. For the past three years the County has published the Budget in Brief which synthesizes the over 500 page annual budget and explains the County fiscal condition in 20 pages. This document is available for all to see at miOttawa.org. The full annual budget and the annual audit documents have also been available on miOttawa.org for many years.

We covet your opinions on how we are doing with communicating County fiscal condition and other aspects of service provision. Please contact us through miOttawa.org if you have suggestions.

Thank you for taking the time to learn more about Ottawa County.

Sincerely,

Alan G. Vanderberg
County Administrator

WHERE CITIZEN DOLLARS GO

The money that the County collects from its citizens pays for desired services for the safety and enjoyment of its residents.

SERVICES THAT OTTAWA COUNTY PROVIDES

Where does this money go? In general, county governments collect money in the form of taxes, fees for service, grants, and State and Federal Revenue among other sources to provide public services, including, but not limited to:

- *Courts including Circuit, District, Probate, and Juvenile*
- *Prosecuting Attorney*
- *Drug Enforcement*
- *Community health (mental health and public health services)*
- *Parks & Recreation*
- *Drains*
- *Hazardous Material Cleanups*
- *Equalization*
- *Clerks/Elections/Vital Records*
- *Register of Deeds*
- *Sheriff Road Patrol/Jail*
- *Emergency Services*
- *Treasury/Investments*
- *Fiscal Services*
- *Michigan State University Agricultural Services*

- *Planning/Economic Development*
- *Animal Control*

Ottawa County residents are blessed with one of the finest counties in the State and excellent services at an affordable tax rate. At 3.6 mills, Ottawa County has one of the lowest tax rates in the State.

County parks, supported by a dedicated millage, are also among the finest in the State. The County has continued to purchase and develop green space with funds from the Parks millage. Our parks and beaches are maintained and improved from this millage as well.

The 2010 census highlighted Ottawa as the fastest growing County over 200,000 in population and in the top five as far as all the counties in the State. Ottawa is the only county in Michigan to grow at a rate of 10% or more over each of the past 5 decades.

County citizen surveys have continually shown that residents are overwhelmingly satisfied or extremely satisfied with their county government.

Crime rates have continued to decline over several years. People in the County tend to feel safe in their homes, neighborhoods and communities. The County provides contracted road patrol services for all the townships in the county as well as two of its cities, Coopersville and Hudsonville.

The County has a healthy financial status with the highest credit ratings from Fitch Ratings and Moody's Investment Service and the second highest rating from Standard & Poor's which results in lower interest rates for the County and local units of government that use the County credit rating when selling bonds to construct municipal projects. Our bond interest rates are at the lowest levels due to these ratings. These lower rates have saved residents of Ottawa County several million dollars over the years. Through sound management and leadership by the Board of Commissioners and Administration, we intend to continue to maintain our high credit ratings.

The County continues to invest in technology to continually improve service provision to the residents of Ottawa County. Improvements in miOttawa.org online services and payment

options include applications for boards and commissions, park reservations, property lookup, marriage records, death records, community alerts, accident records, traffic ticket payment, and the new Ottawa County dashboard that replicates the State dashboard. The County website also contains other information relative to life in Ottawa County.

*How Taxpayer Money is Spent:
County Revenues and Expenditures*

COUNTY BUDGETS

Figure 1

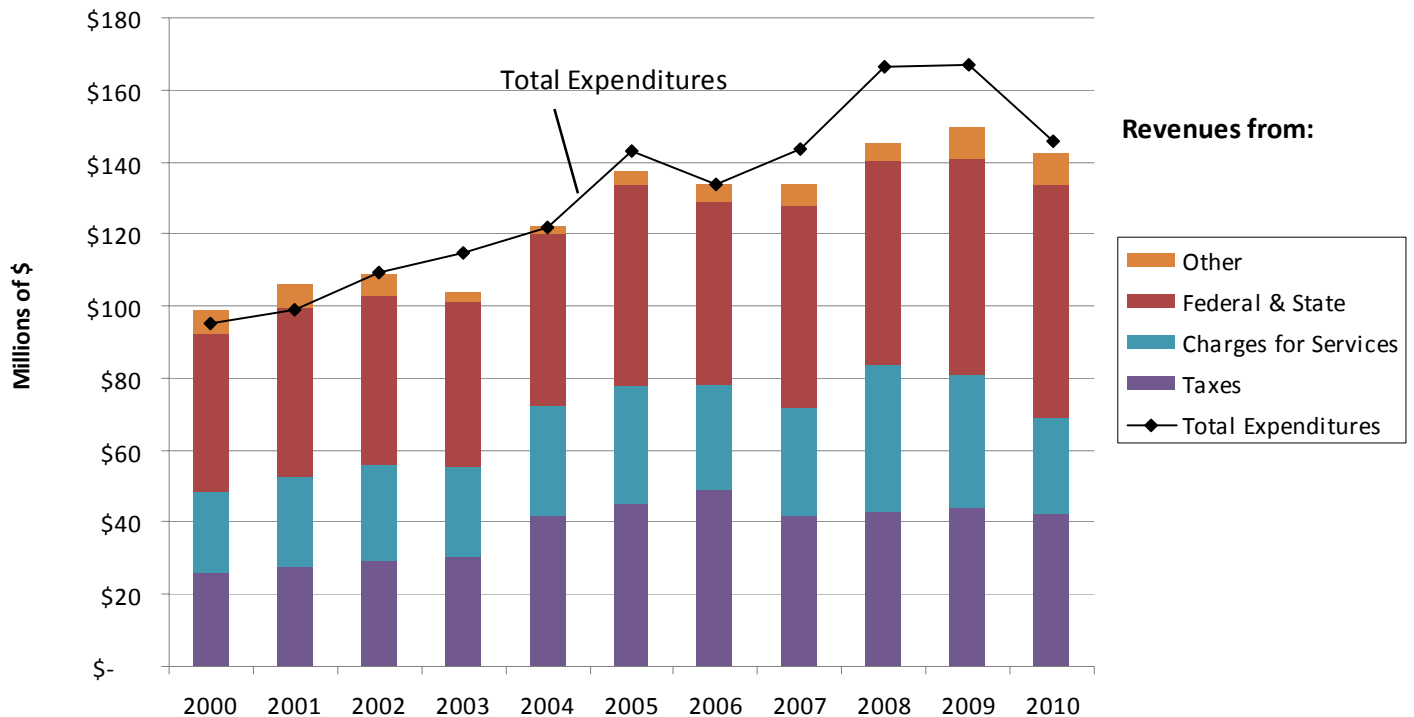


Figure 1 shows the Total Expenses and the Total Revenues, broken down by source, for years 2000 through 2010. As the chart indicates in the years 2003 through 2010, expenses have equaled or exceeded revenue for each year.

In 2008 and 2009, the expenses were larger than revenue only due to the construction of the new Ottawa County Courthouse in Grand Haven.

Due to the strong fund balances in the County’s various funds and excellent credit ratings, we are able to fund major county projects like the Ottawa County Courthouse at very low interest rates and/or with cash on hand.

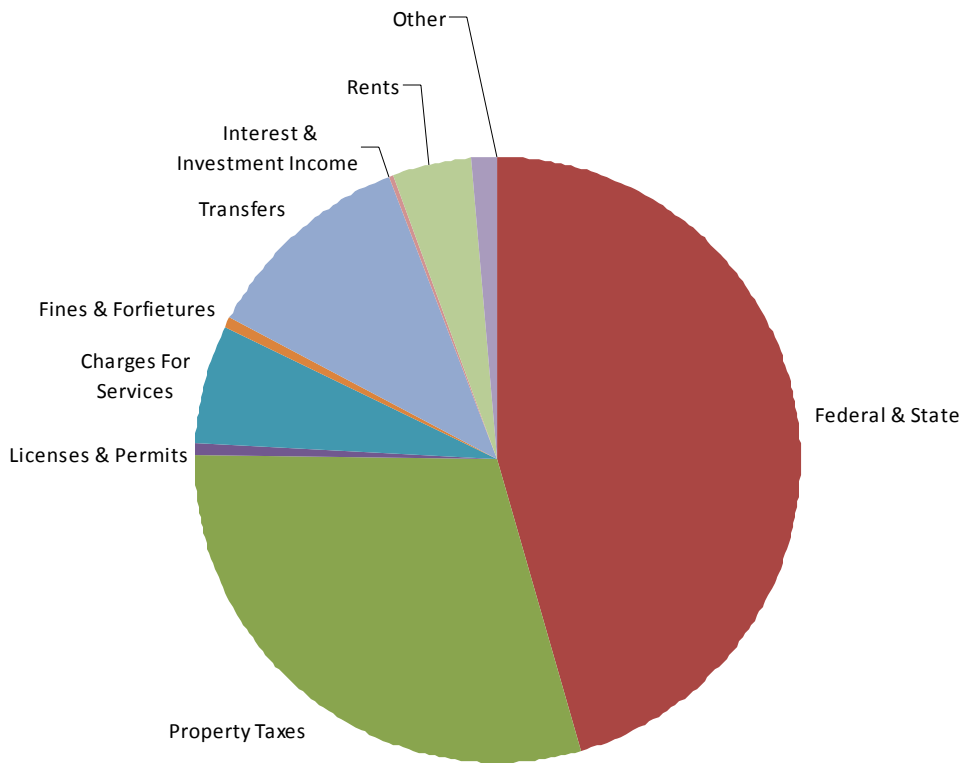
While the short term need for use of fund balance to balance the annual operating budget is possible, the County has been fiscally strong enough to get through the current economic conditions thus far without using any fund balance to subsidize operations.

REVENUES

As Figure 2 indicates, the County receives its revenue from many different sources. The major source of County revenue is from the State at 47%. This comes in the form of State Shared Revenue (SSR) and grants for county services and activities. State revenue sources have become unstable and unpredictable in these economic times. The State has reduced its SSR by millions of dollars over the last decade and grants have become harder to obtain for county services.

Property taxes at 30% are the next largest source of revenue for the County. With the current decline in housing prices, the County is not immune from the reduction in the taxable values of homes in Ottawa County. The County experienced its first taxable value decline of 4.05% in 2010 after many years of increases in the 3-5% range. The decline in 2011 was approximately one-half of the 2010 decline while the projected decline in 2012 is expected to be approximately 1%. These declines have had a significant impact on revenue for the County and its municipalities.

Figure 2



The remaining 23% of revenue is generated from various sources including parks, licenses, charges for services as well as interest on investments. These sources can also be unstable during difficult economic times.

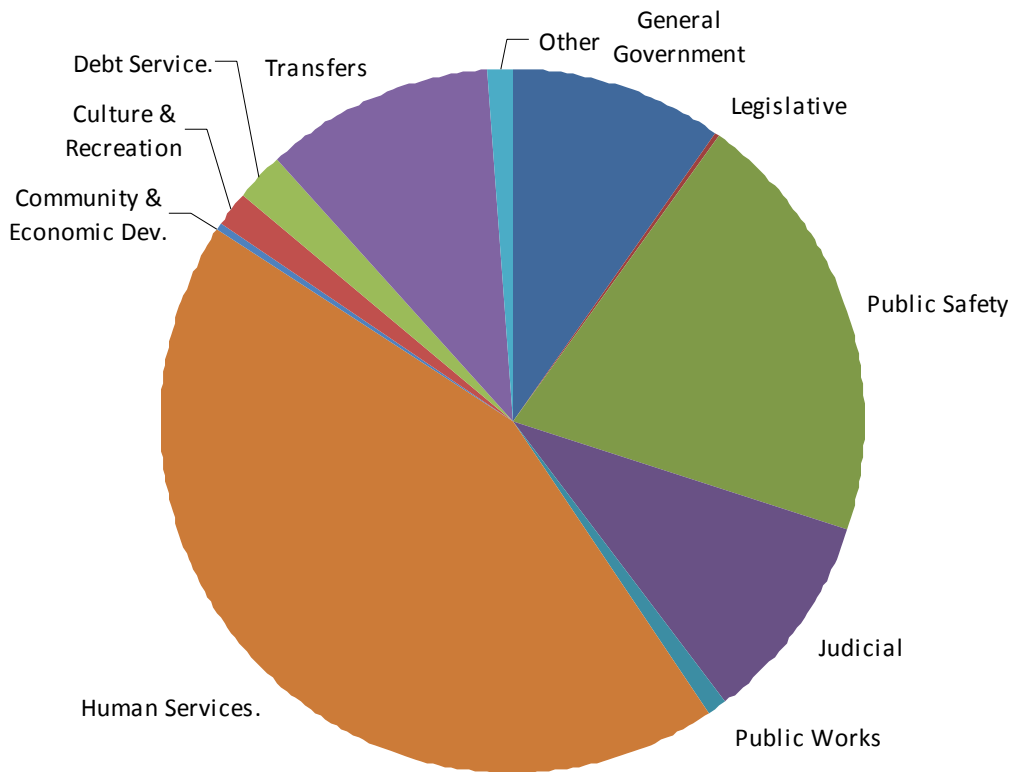
The County continues to monitor and review its sources of revenue to optimize funding for the services the County provides.

EXPENDITURES

As Figure 3 indicates, the County has many different categories of expenditures. The largest category at 43% is the social welfare of the residents of Ottawa County. This comes in the form of Community Mental Health (CMH) and Public/Environmental Health. In CMH, this comes largely from Medicare and

Medicaid funds from the Federal and State governments. The needs are great for clients of CMH and Public Health, particularly in this economy.

Figure 3



The second largest expense category in the County is Public Safety. When combined with Judicial in Figure 3, the total is 30%. We continue to expend funds to serve and protect County residents. While the County is generally a very safe place to live, there is a need to maintain and improve public safety services.

Employee Pensions at 11% is the next largest expense of the County. The Board of Commissioners and Administration has recognized this and have initiated change in the design and funding of this employee benefit. In 2012, we will be initiating a “defined contribution” program for all non-union new employee hires starting on July 1, 2012. The County will also be working with the various unions to implement this change. Rather than increasing pension expenses through an annual actuarial

evaluation, the County will establish a program that essentially caps the amount that is contributed into an employees account. Over the next 30 years, the County is projected to save \$30 million with this change.

The remaining 16% is for other services provided in the County including such areas as parks and other general government activities.

NUMBER OF COUNTY EMPLOYEES

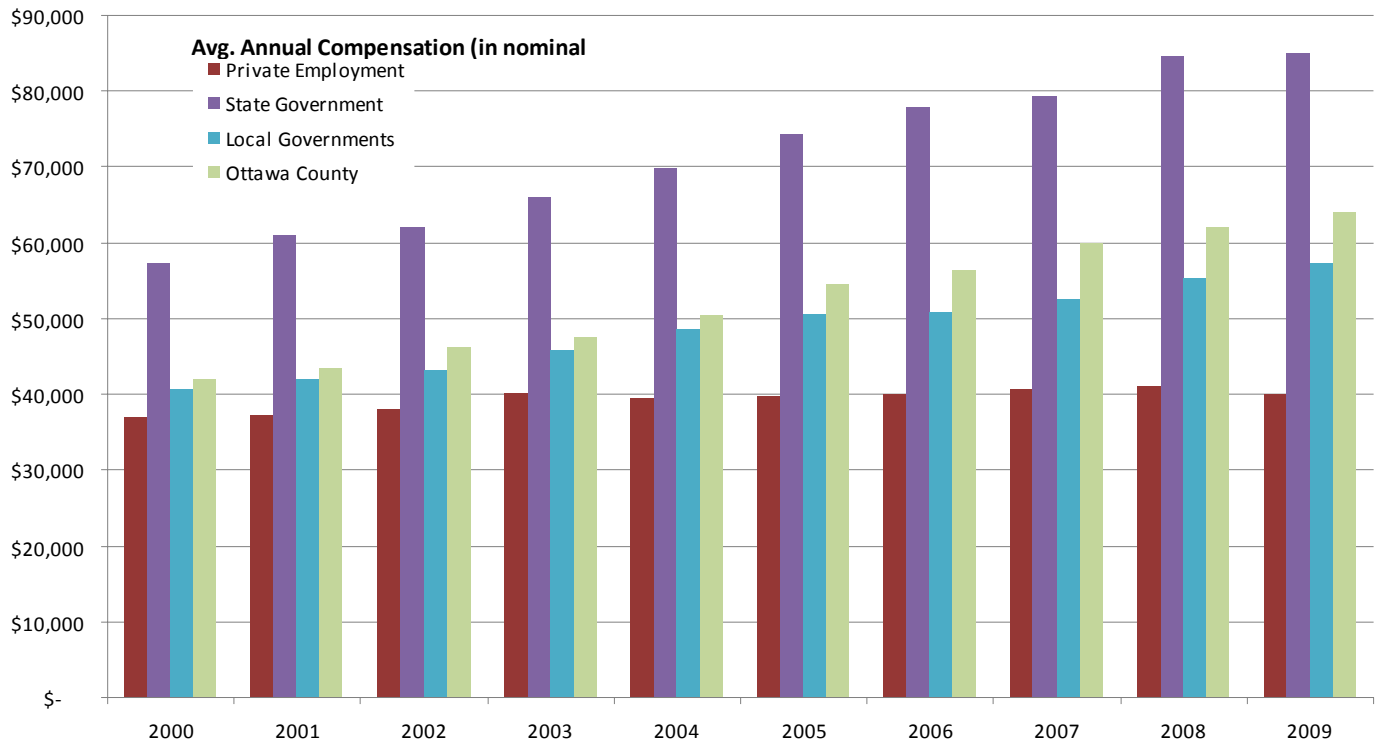
County services are by their nature labor intensive and the long-term economic stresses have resulted in reductions to the full-time equivalent (FTE) employees on hand to deliver services. In 2009, the County employed 939 FTE's as compared to 899 FTE's in 2011, a drop of 40 employees. In some cases, organizational and technological efficiencies have facilitated a drop in the number of employees necessary to deliver quality services. In other areas, employment has dropped below the level deemed necessary to deliver quality service and will be restored when economic improvement translates into increased County revenue.

DIFFERENCE IN PUBLIC AND PRIVATE SECTOR COMPENSATION

A graphical representation of annual compensation for the private sector, State government, local governments and Ottawa County is shown in Figure 4.

The chart indicates that private sector compensation is less than public sector compensation. While this may look significant in comparison, one has to understand the makeup of the demographics in each segment of the bar chart.

Figure 4



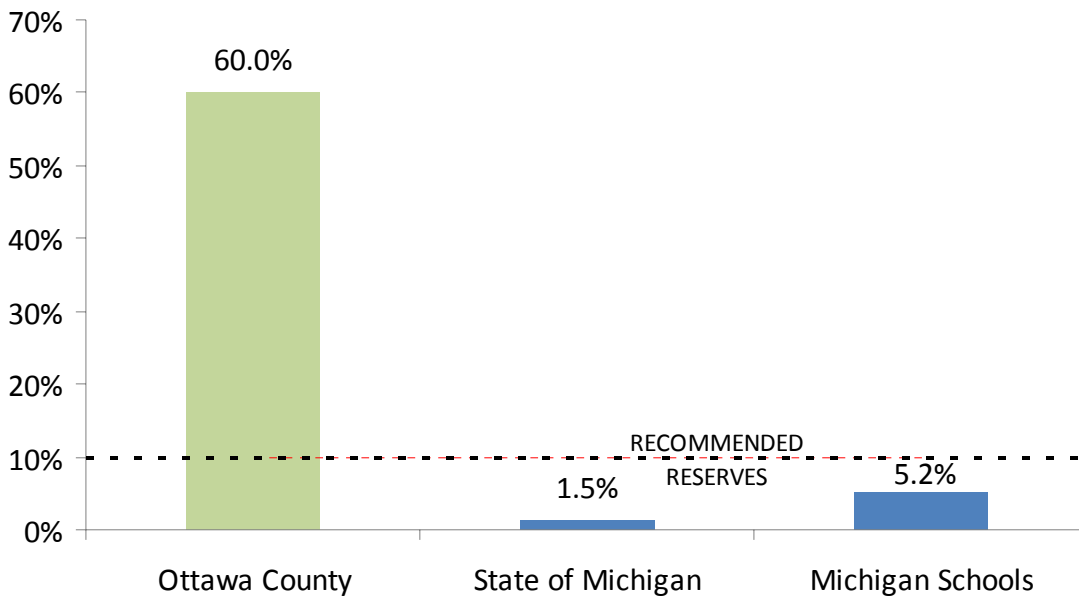
The private sector is made up of a vast variety of people. While there are some highly paid individuals in upper management in several entities in the United States, there are also many more people at the other end of the pay scale including fast food, housekeeping and other lower paying positions in this sector. The private sector data above includes a significant number of part-time employees as well.

In the State government, there are a number of higher paid positions that tend to raise the average annual compensation. Local government and Ottawa County compensation is far less than the State because budgets are tight and we have adjusted accordingly. One major difference between Ottawa County and the private sector is the large number of areas of County employment where specialized university education is required for a person to hold a position due to the nature and complexity of the work. Most positions require Bachelors, Masters, Doctoral, or Juris Doctor degrees. The County also employs a Medical Doctor and has positions requiring a Doctor of Psychiatry degree. The County has outsourced some expenditures such as building cleaning to save money.

RESERVES AND MAJOR FUND BALANCES

Fund balance reserves for all County funds are depicted in Figure 5. Total Ottawa County fund balance is at 60.0% compared to the State at 1.5% and Michigan Schools at 5.2%. Translated into days of cash on hand to operational expenses, it means that the State could operate for 5.5 days and Michigan Schools could operate for 19 days with little or no revenues. Ottawa County could operate for 219 days; however, some of the fund balances are restricted to special uses and may be unavailable for some situations. The figure does show that the County is able to provide services to its residents under almost any event if we are pressed to do so in the future.

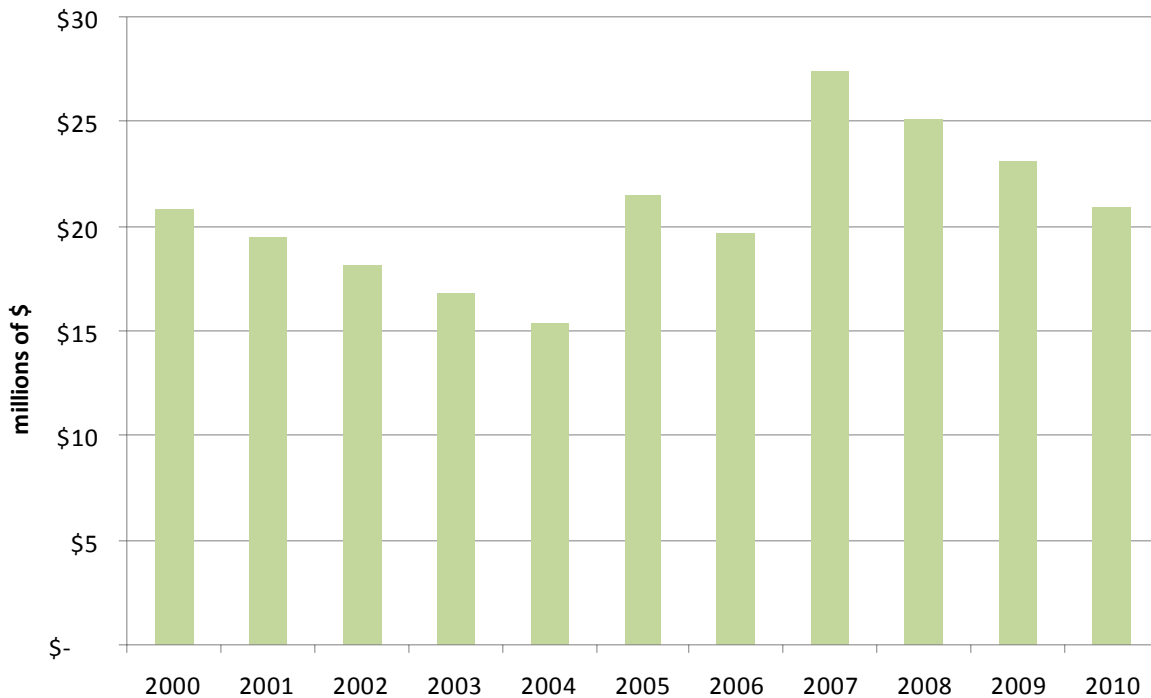
Figure 5



DEBT LEVELS

Figure 6 depicts County debt levels since 2000. As the chart indicates, Ottawa County debt has averaged between \$15 and \$20 million in the last decade.

Figure 6



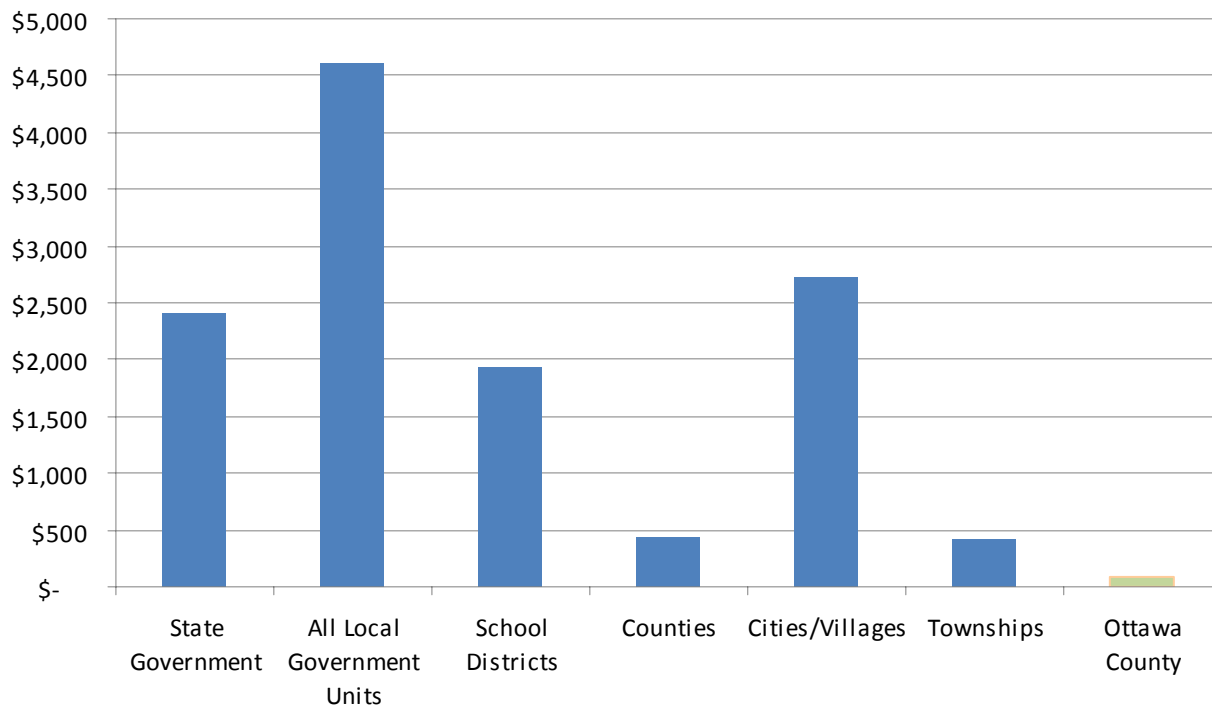
The County has always made its debt service payments in order to reduce its debt obligations.

When the opportunity existed for refinancing of older debt, the County has also used its excellent credit ratings to lower debt payments and further reduce expenses.

The County has very low debt compared to other counties of its size. We continue to be conservative with capital options and opportunities. This has served the County well for a number of years beyond the scope of the chart above.

Ottawa County debt is at \$87 per resident illustrated in Figure 7. All other counties in Michigan average \$438 per resident. Townships in Michigan average \$414 per resident. The other government entities in the chart are much higher.

Figure 7



PENSION AND OTHER RETIREE BENEFITS

Figures 8 and 9 illustrate the county's unfunded obligations for pension and retiree health benefits.

Figure 8 shows that the County is 82% funded with approximately \$33 million of unfunded pension obligations. Figure 9 shows that we are 32% funded with approximately \$6.2 million of unfunded retiree health obligations. The retiree health obligations are for employees who were in the plan a few years ago, the County no longer offers this benefit to new employees. The County made major changes in our health benefit plans effective January 1, 2011. Other Post Employment Benefit (OPEB) obligations, comparatively minimal to begin with, will be further decreased in the 2012 budget due to the reduced cost of County health insurance.

Figure 8

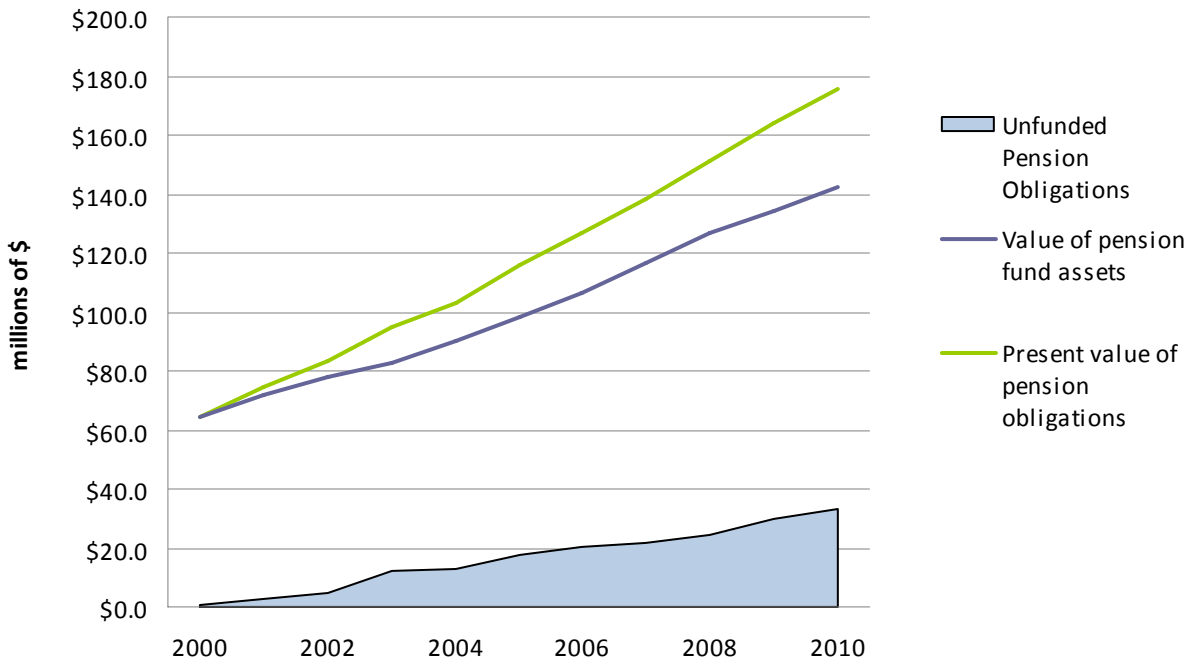
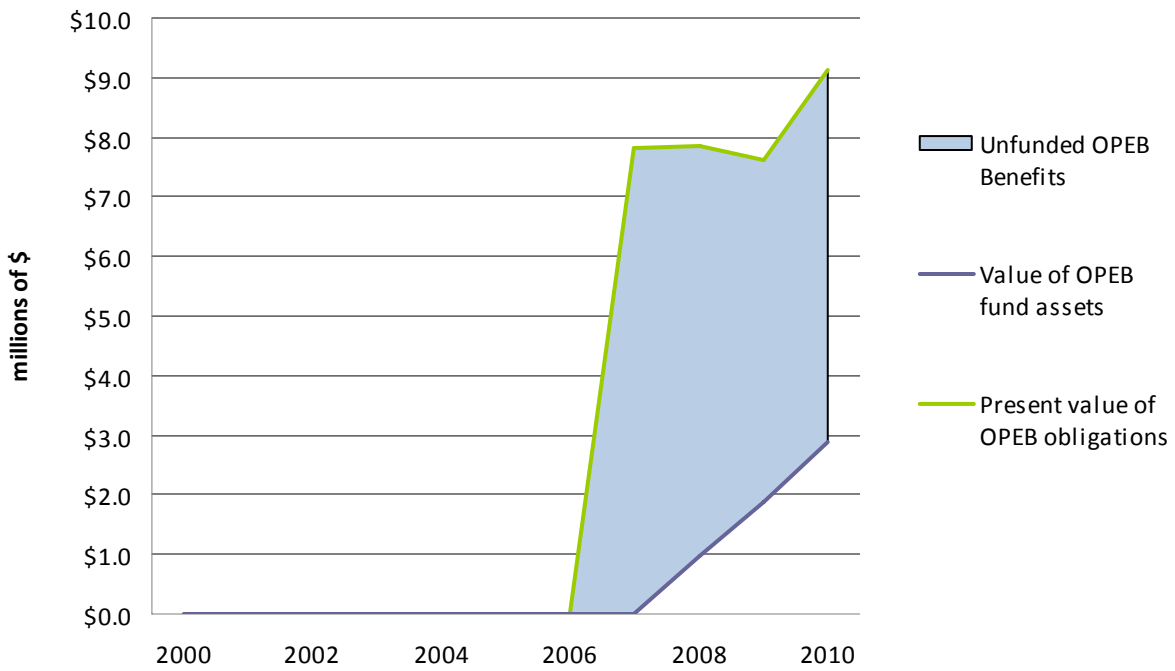


Figure 9



As stated earlier in this document, Ottawa County will be initiating a Defined Contribution (DC) plan to replace the Defined Benefit (DB) plan. While this transition requires some additional funds in the DB plan in the first few years, the net savings over the next 30 years is projected to be \$30 million.

PUBLIC BUDGET GAP

*The State requested that governments develop a bottom-line number to explain the status of their fiscal condition. This bottom-line number is called the “public budget gap” and is intended to represent all short-term and long-term aspects of fiscal condition in one number. Creating a number that includes all short and long-term obligations in one number can be confusing. Typically a “deficit” is defined as current expenditures being greater than current revenue in an individual budget or fiscal year, or the accumulation of annual budget deficits at the national level which is referred to as the “national deficit.” The County has never ended a fiscal year with a deficit; we have been in the “black” every single year. However, when you look at resources available to pay both short-term and long-term obligations, some which are not due for 30 plus years, a “deficit” is created per the definition of “public budget gap” utilized for this **DOLLARS AND SENSE** document.*

Figure 10 depicts the annual deficit and budget gap for the period 2001-2010. The “annual deficit” is defined as the actual expenses over revenue below the \$0.0 line and above the \$0.0 line revenue exceeded expenses. The public budget gap calculation adds the increase or decrease in the unfunded pension and retiree health obligations to the deficit number.

Generally speaking, this unique definition of public budget gap will always represent a worst-case scenario because the County has consciously maintained an 82% to 84% pension funding level instead of fully funding the pension. As the total pension obligation increases each year, the unfunded portion also increases which then increases the budget gap so the budget gap will be higher than the deficit.

This is done intentionally to minimize the Annual Required Contribution (ARC) by the County and still have a pension plan that is adequately funded actuarially.

FIGURE 10

Deficits and Budget Gaps in Ottawa County, 2001-2010

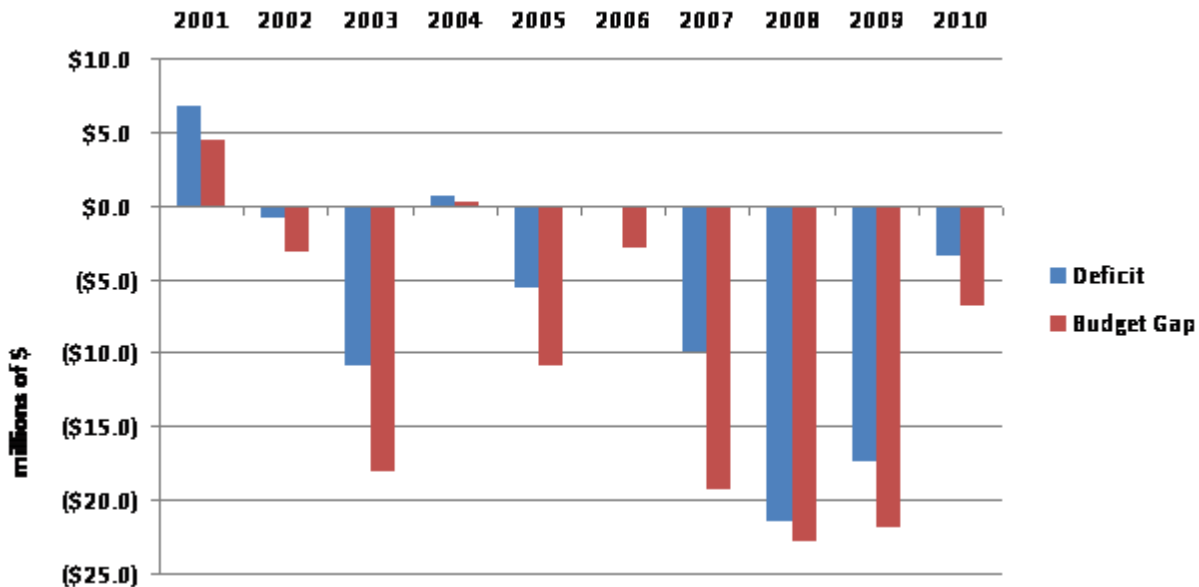
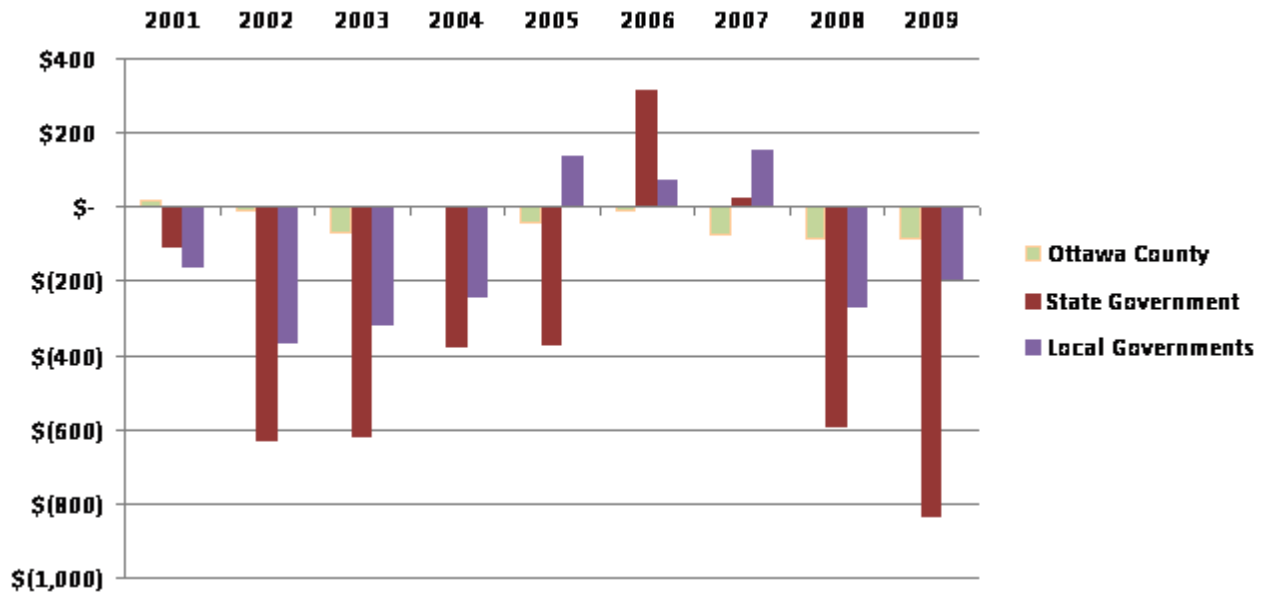


Figure 11, graphically illustrates the “public budget gap” between Ottawa County, State government and local governments in the last decade. For the most part, Ottawa County has fared better than the State government or local governments. In 2007 the Ottawa County gap was unfavorable due to the County setting aside funding to comply with GASB (OPEB) requirements.

FIGURE 11

Per Capita Budget Gap in Ottawa County vs. Local & State Government in Michigan, 2001-2009



How This Report Was Developed

The goal of this report was to provide the public with as much information as possible on the revenues, expenditures, and other financial activities of state and local governments.

DATA SOURCES AND NOTES

The data for this report came from the County's Comprehensive Annual Financial Report (CAFR). The CAFR is OTTAWA County's annual audit report for which the county has received the GFOA Certificate of Achievement for Excellence in Financial Reporting for 27 years.

OTHER SOURCES AND LINKS

Ottawa County website

www.miottawa.org

State of Michigan website

<http://michigan.gov/>