

Dollars and Sense:
How Ottawa County Spends Your Money

2013 Citizen's Guide to
Ottawa County Financial Health

Presented by
County Administrator Alan G. Vanderberg



2013-2014 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 government 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, 2013

Dear Ottawa County Citizens,

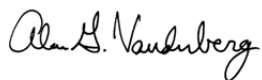
Shortly after taking office, Governor Rick Snyder issued a report called ***DOLLARS AND SENSE: HOW THE STATE OF MICHIGAN SPENDS YOUR MONEY***. This document reduced the State audit from hundreds of pages down to 14 pages to make the State fiscal condition more understandable to the average citizen. Governor 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 County Administration has worked hard in recent years to make the County, its services, and financial condition more transparent. For the past six years the County has published the Budget in Brief which synthesizes the over 500 page annual budget and explains the County fiscal condition in less than 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

How Ottawa County Spends Your Money

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 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. This 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. 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 over several decades, we intend to continue to maintain our high credit ratings.

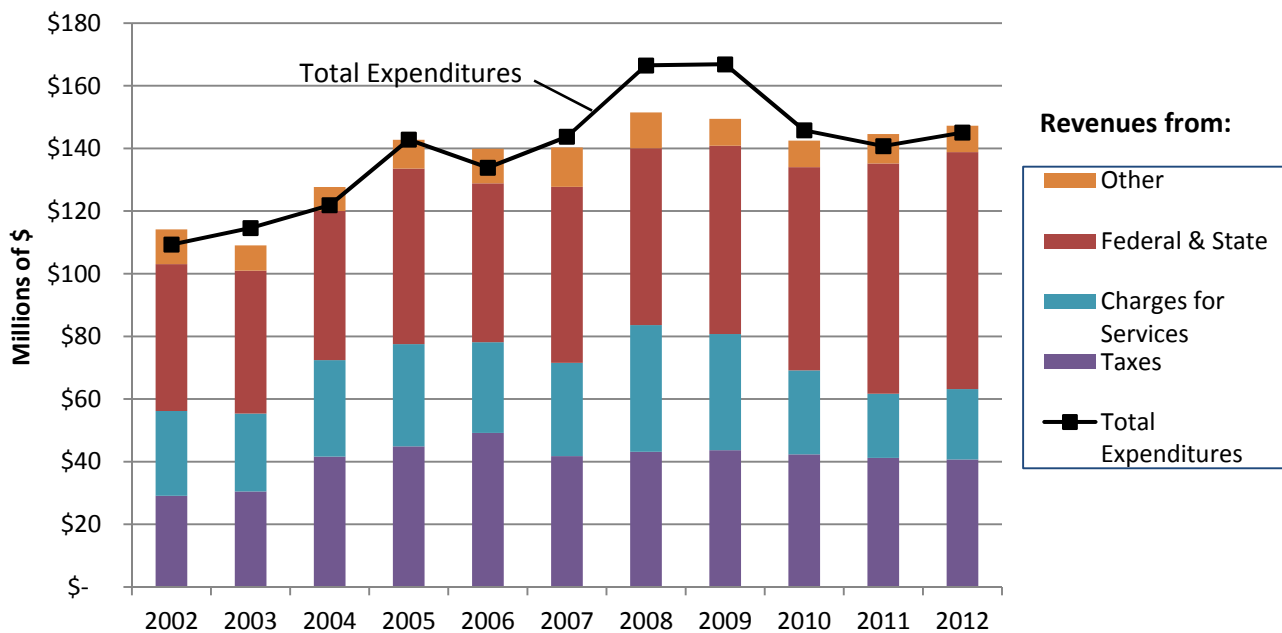
The County continues to invest in technology to continually improve efficiency and effectiveness of service provision to the residents of Ottawa County. Improvements in miOttawa.org online services and payment options include applications for boards and commissions, park reservations, property lookup, marriage records, death records, community alerts, accident records, traffic ticket payment, and the Ottawa County dashboard. The newly remodeled 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 shows the Total Expenses and the Total Revenues, broken down by source, for the years 2002 through 2012. Expenses exceeded revenues in 2008 and 2009 because of the construction of the Ottawa County Courthouse in Grand Haven, with the allocation of funds saved for this purpose.

Figure 1



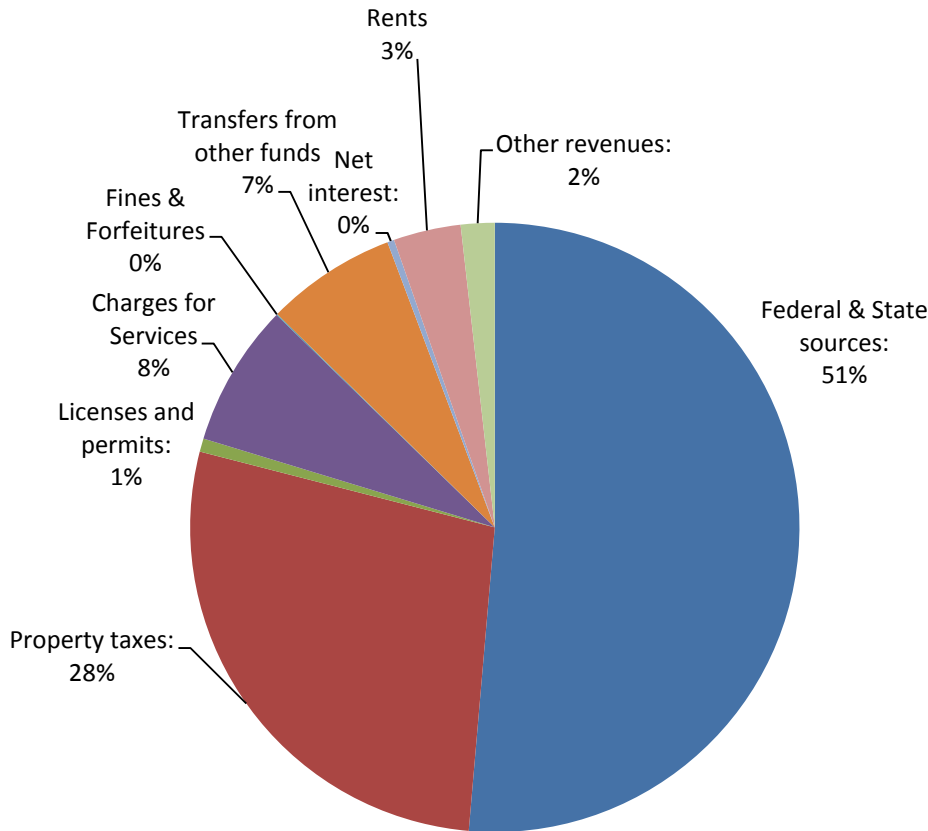
Due to the strong fund balances in the County's various funds and excellent credit ratings, we were able to pay for major county projects like the Ottawa County Courthouse at very low interest rates and/or with cash on hand.

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.

Figure 2



Federal and State funding is the major source of County revenue at 51%, and included are grants for county services and activities, and also State Shared Revenue (SSR) now referred to as Economic Vitality Incentive Program (EVIP) and grants for county services and activities. State revenue sources have become unstable and unpredictable in recent years. 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 28% are the next largest source of revenue for the County. The County is not immune from the reduction in the taxable values of homes in Ottawa County, and is recovering from a recent decline in housing prices. The County experienced its first taxable value decline of 4.05% in 2010 after many years of increases in the 3-6% range. The decline in 2012 was less

than 1%, while a projected increase in 2013 is expected to be 1.44%. In 2014, the County projects a property tax value increase of 3%.

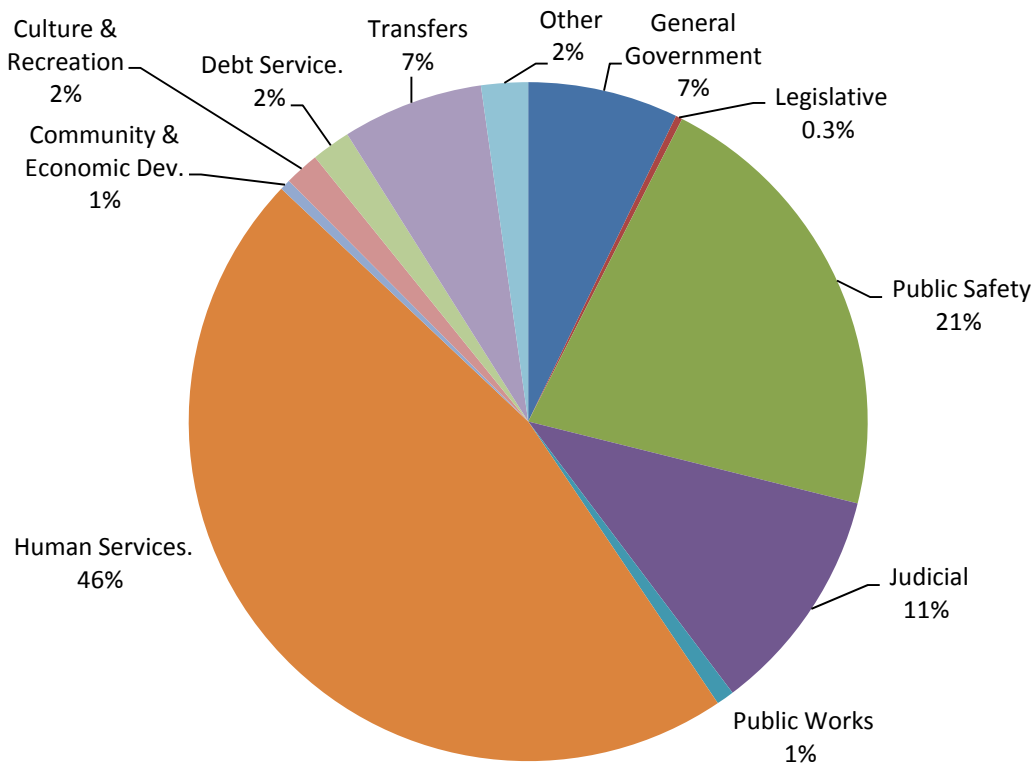
The remaining 21% of revenue is generated from various sources including parks, licenses, charges for services, as well as interest on investments, and these sources can also be unstable during difficult economic times.

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.

Figure 3



The largest category at 46% is the Human Services for the residents of Ottawa County. This comes predominately in the form of Community Mental Health (CMH) and Public/Environmental Health. In CMH, Medicare and Medicaid funds from the Federal and State governments comprise the majority of funding. The needs are great for clients of CMH and Public Health, particularly in this economy.

The second largest expense category in the County is Public Safety. When combined with Judicial in Figure 3, the total is 32%. 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 is a large expense that spans across all functional areas 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, a “defined contribution” program was initiated for all non-union new employee hires starting on January 1, 2012. The County also implemented this change for union groups beginning in 2013. 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 employee’s account. Over the next 30 years, the County is projected to save a net \$30 million due to this change.

The remaining 22% of the expense category is for other services provided in the County including such areas as parks and other general government activities.

NUMBER OF COUNTY EMPLOYEES

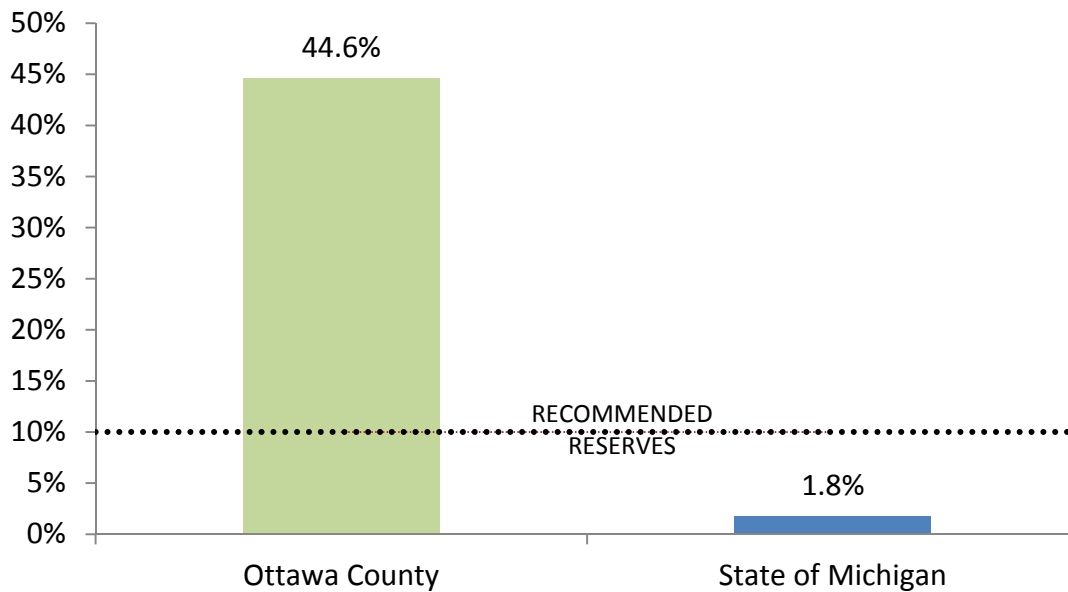
County services are by their nature labor intensive and the long-term economic stresses have resulted in reductions to the full-time equivalent (FTE) employees on hand to deliver services. In 2009, the County employed 939 FTE’s as compared to 926 FTE’s in 2013. In 2010, the FTE’s dropped primarily in the Community Mental Health agency due to an ongoing reorganization.

Ottawa County's Fiscal Health

RESERVES AND MAJOR FUND BALANCES

Fund balance reserves for all County funds are depicted in Figure 4. The total Ottawa County fund balance for all 53 funds is at 44.6% compared to the State at 1.8%. Translated into days of cash on hand to operational expenses, it means that the State could operate for 6.6 days with little or no revenues. Ottawa County could operate for 163 days, if the restricted fund balances for special uses were used to meet a cataclysmic type situation. The figure does show that the County is able to provide services to its residents under almost any event if pressed to do so in the future.

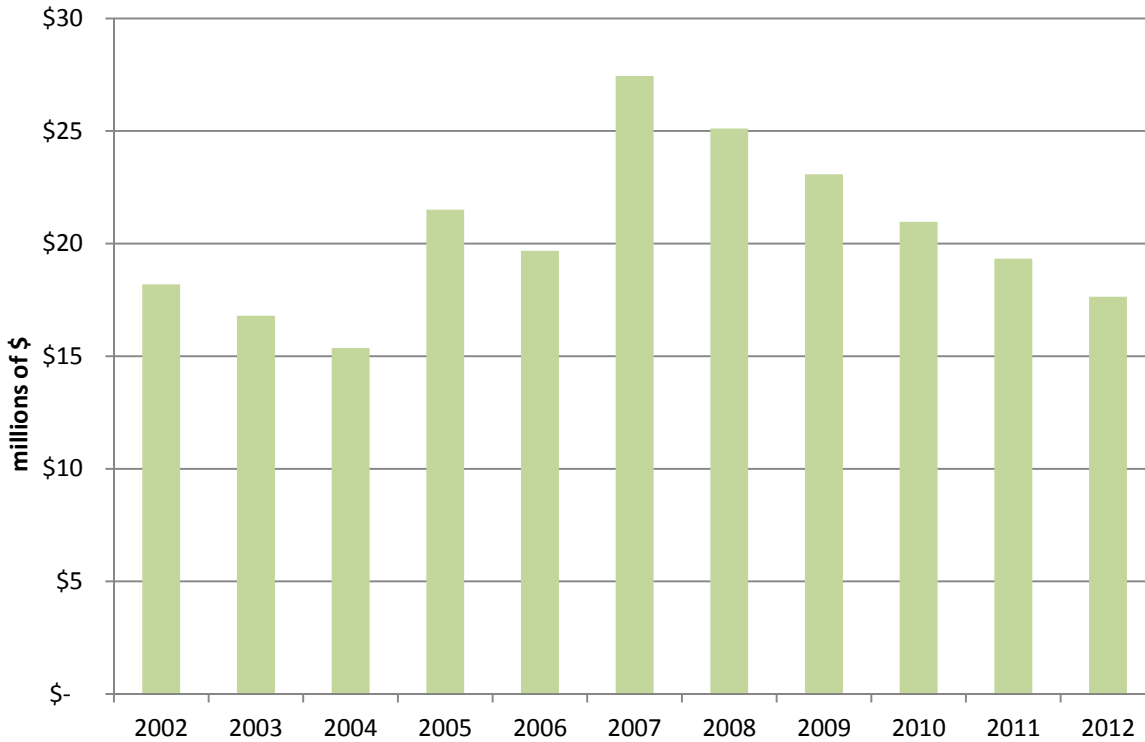
Figure 4



DEBT LEVELS

Figure 5 depicts County debt levels since 2002. As the chart indicates, Ottawa County debt has averaged between \$15 and \$20 million in the last decade.

Figure 5



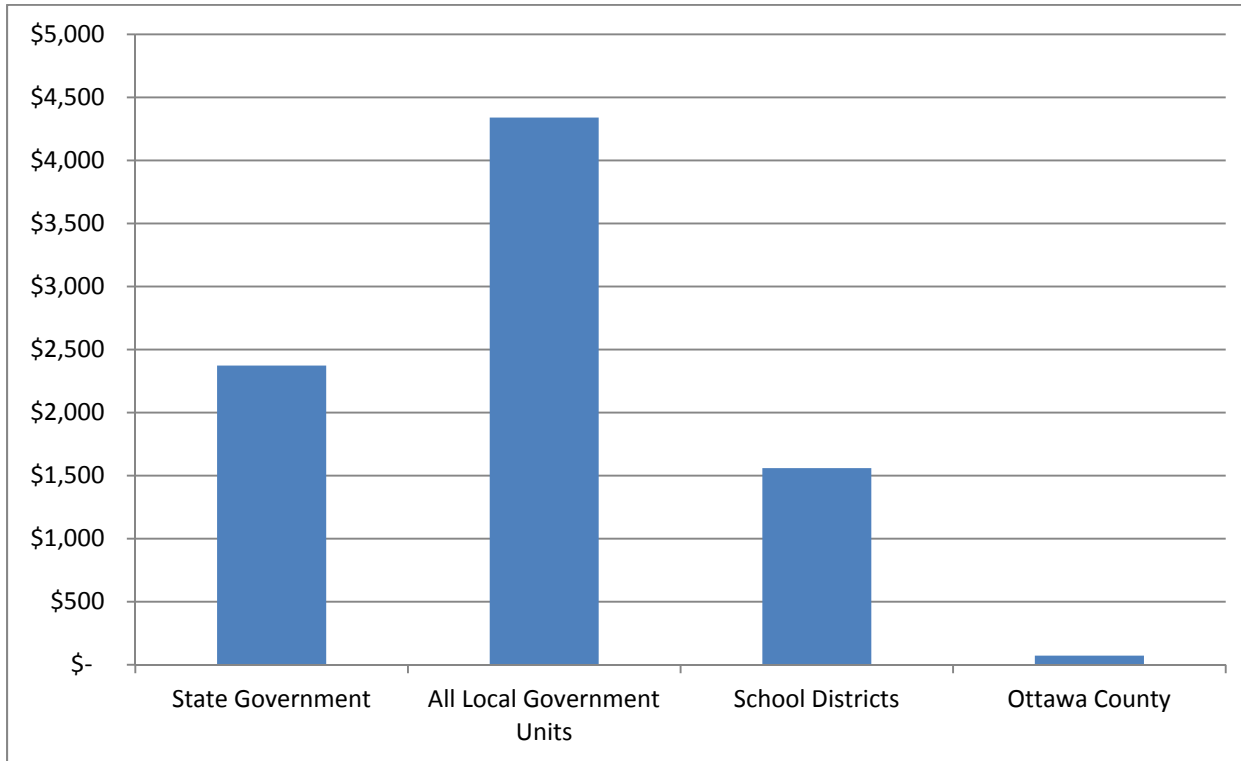
The County has always made its debt service payments in order to reduce its debt obligations.

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 and continues 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.

As illustrated in Figure 6, a comparison of debt per capita shows the State of Michigan debt at \$2,373 per resident, Local Government Units (which includes Counties, Cities/Villages and Townships) at \$4,340 per resident, School Districts at \$1,559 per resident and Ottawa County debt at \$72 per resident.

Figure 6



PENSION AND OTHER RETIREE BENEFITS

Figures 7 and 8 illustrate the county’s unfunded obligations for pension and retiree health benefits.

Figure 7 shows that the County pension is 81% funded with approximately \$36.7 million of unfunded pension obligations.

Figure 8 shows that Other Post Employment Benefits is 87% funded with \$563,549 of unfunded retiree health obligations. The very limited retiree health obligations are for employees who were in the plan a few years ago, and 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, were further decreased in 2012 due to the reduced cost of County health insurance.

Figure 7

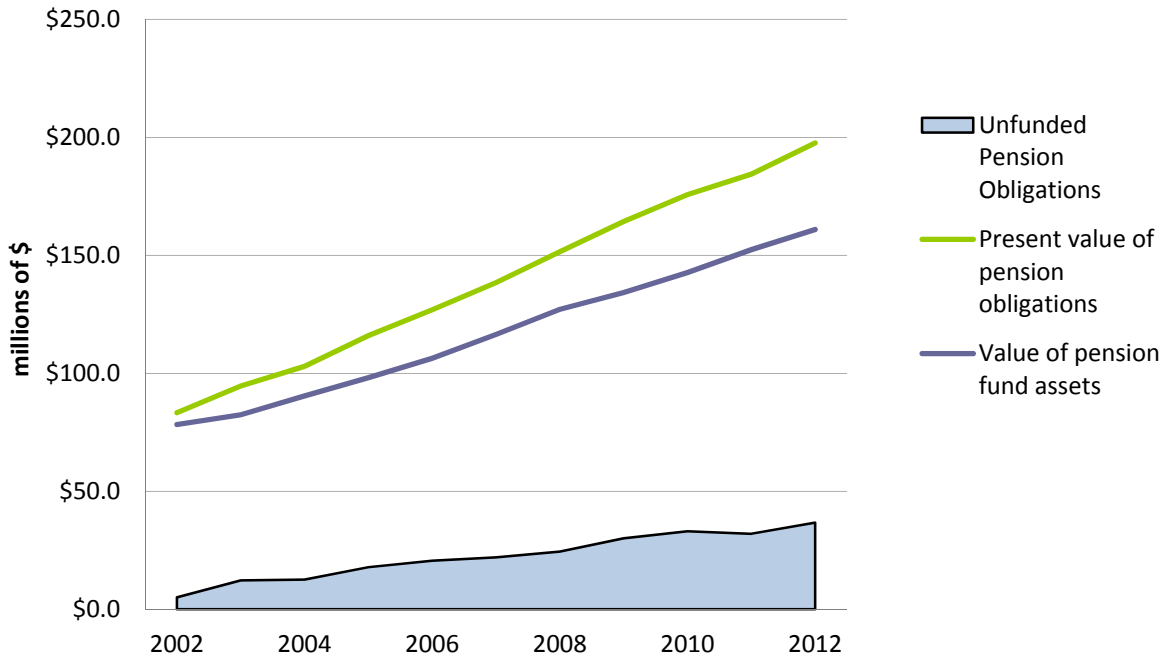
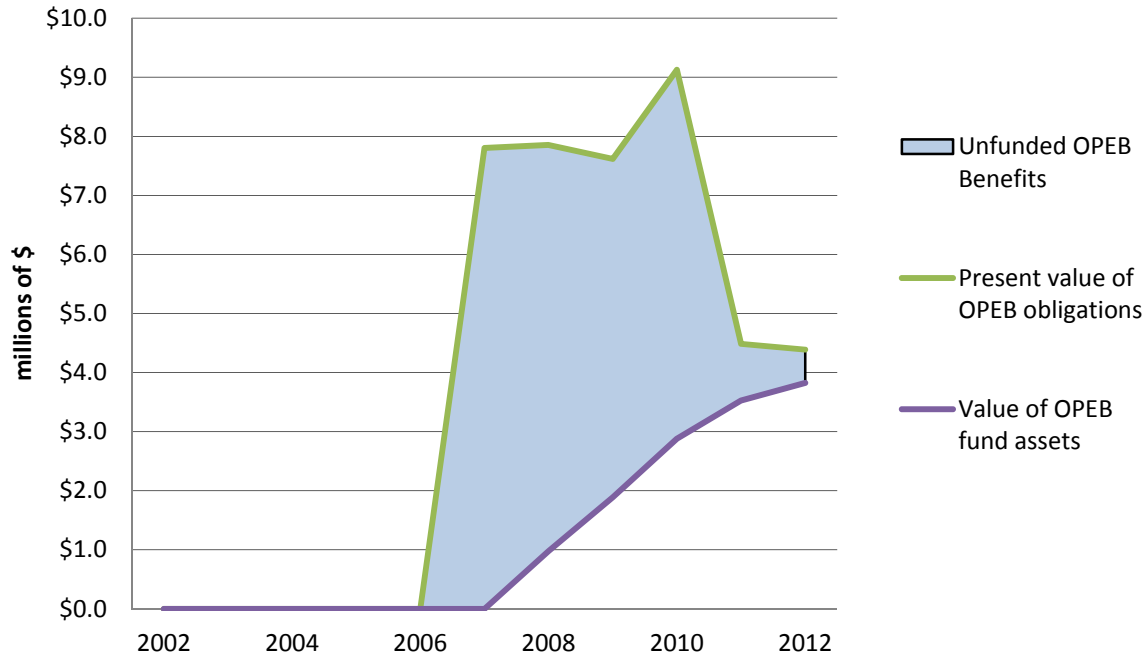


Figure 8



As stated earlier in this document, Ottawa County has initiated a Defined Contribution (DC) plan to replace the Defined Benefit (DB) plan for Unclassified and Group T employees (non-union employees) in 2012 and now to union groups in 2013. 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 9 depicts the annual deficit and budget gap for the period 2003-2012. 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. When the total pension obligation increases, 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 9
Deficits and Budget Gaps in Ottawa County, 2003-2012

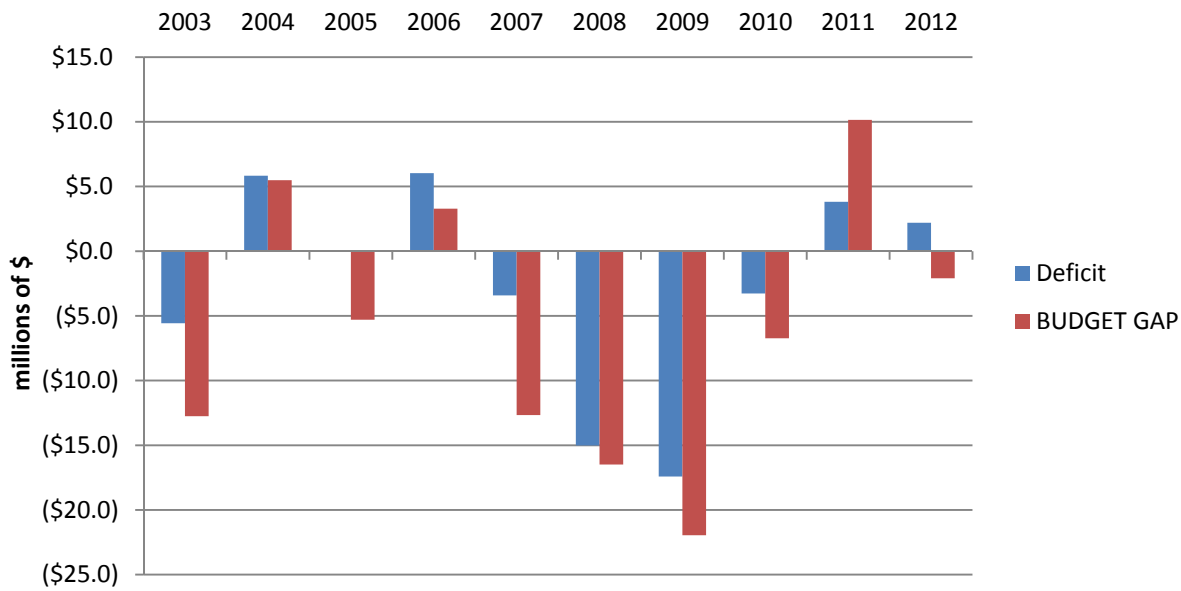
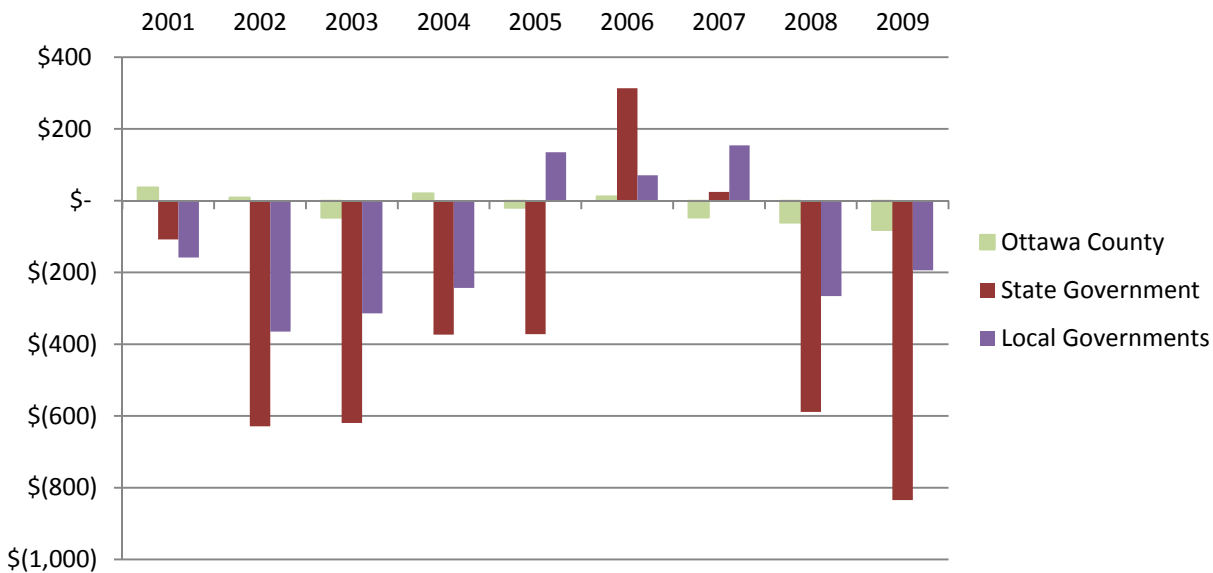


Figure 10, graphically illustrates the “public budget gap” between Ottawa County, State government and local governments in the last decade. For the most part, Ottawa County has fared better than the State government or local governments. In 2007, the Ottawa County gap was unfavorable due to the County setting aside funding to comply with GASB (OPEB) requirements.

Figure 10
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 28 years.

OTHER SOURCES AND LINKS

Ottawa County website

www.miottawa.org

State of Michigan website

<http://michigan.gov/>