

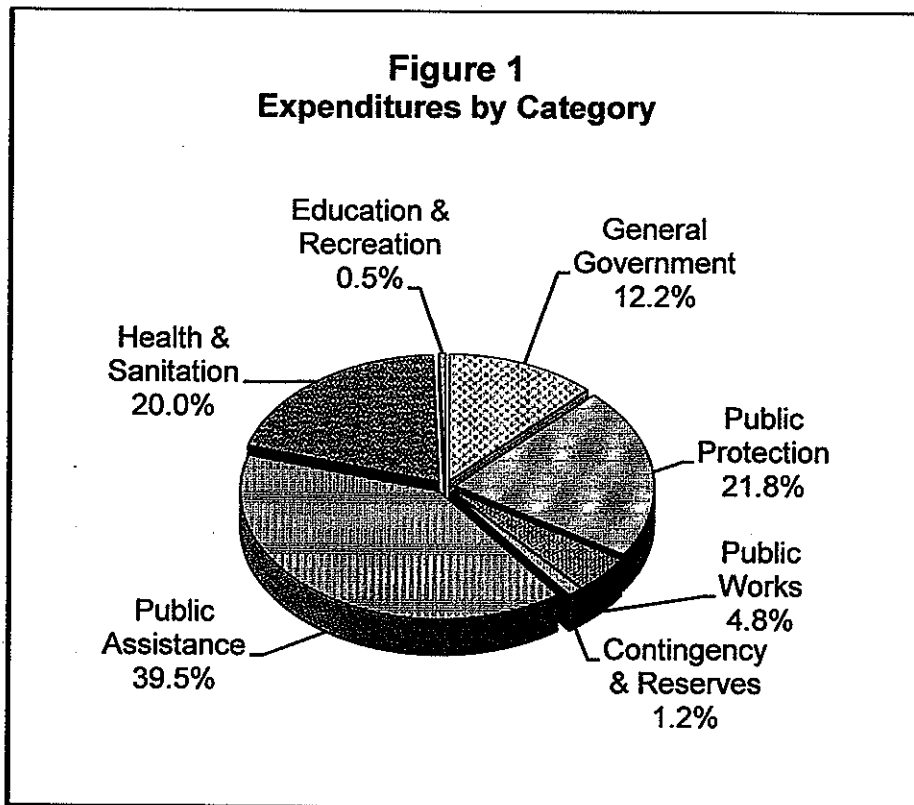
BUDGET OVERVIEW

OVERVIEW OF FISCAL YEAR 2009-2010 PROPOSED BUDGET

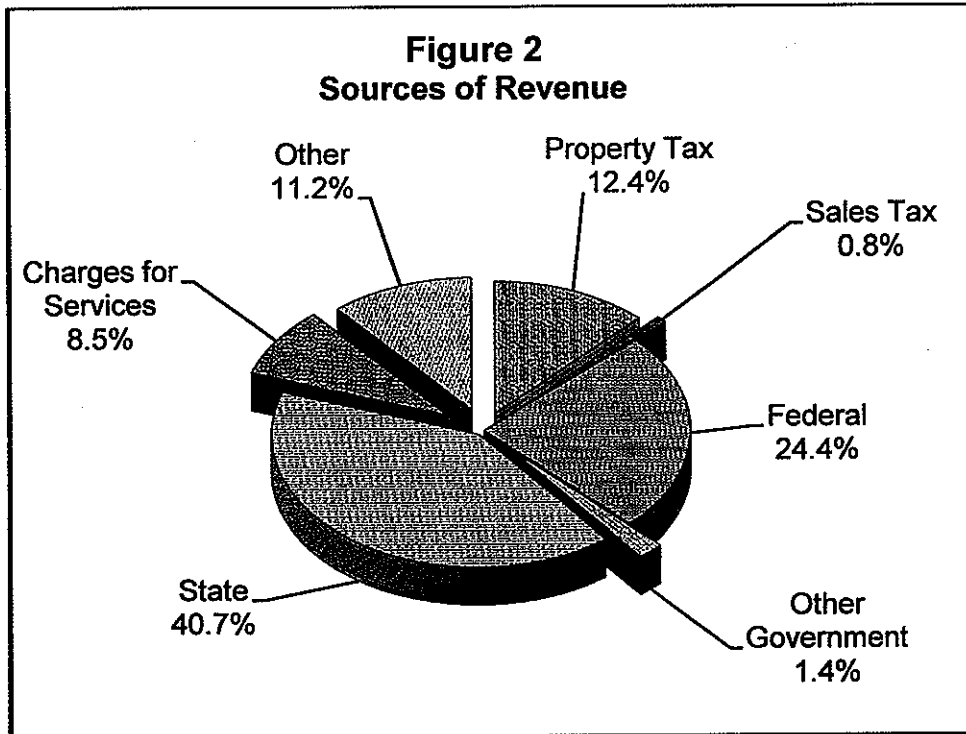
COUNTY OPERATING BUDGET

For fiscal year 2009-2010, the budget proposes a total County spending plan of \$381.6 million in the operating budget. However, \$17.2 million of this total is proposed as transfer of general purpose revenues from the General Fund to support expenditures in Special Revenue, Capital Projects, and Debt Service Funds, so direct appropriations are proposed at over \$364.4 million. As of the writing of this overview, the Proposed Budget does not consider all potential State budget impacts, as it may be amended based on the outcome of May 19th Special Election and the latest revenue projections.

How Total Spending Is Allocated. Figure 1 shows how spending is allocated among major program areas. It shows that health and social services programs, including the landfill, environmental health, mental health, and public assistance payments, account for 59.5% of the total budget, with public protection services accounting for 21.8%. Public Works operations, including road and bridge construction and maintenance, as well as transit services, account for 4.8% of the total budget. Expenditures for general government services, such as Human Resources, Auditor-Controller, Assessor, Treasurer, County Counsel, and Administration departments account for 12.2%, with the remainder allocated to the Library, Farm & Home Advisor, other recreation and education services, and contingencies.



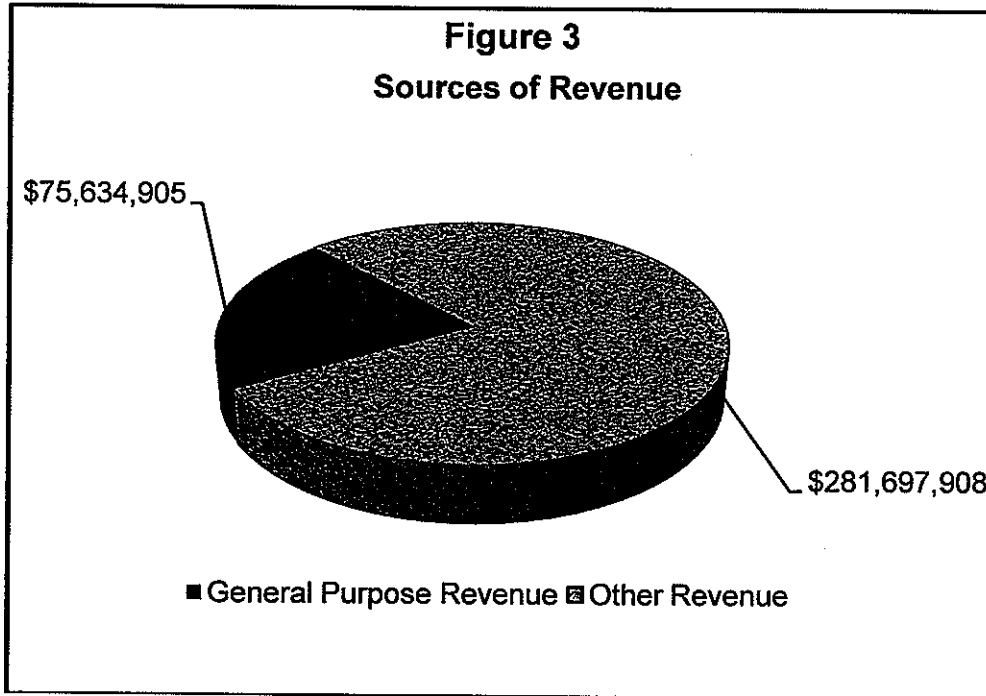
Projected Revenue for Fiscal Year 2009-2010. Among the most important assumptions underlying the Proposed Budget are its revenue projections. In fiscal year 2009-2010 Butte County will collect State and Federal revenues, taxes, fees, and other miscellaneous revenues which are deposited into either the General Fund, or into a variety of other separate special funds. Anticipated revenues for fiscal year 2009-2010, excluding general purpose revenue transfers, total \$357.3 million. In addition to the anticipated revenues, \$1.7 million of carryover fund balance from the General Fund and \$500,000 from special funds are used to cover the proposed expenditure plan. Total resources (revenues plus fund balance carryover and General Purpose Revenue transfers) are approximately \$376.6 million.



Revenues that are deposited into the General Fund support a wide variety of services and programs, including sheriff operations and patrol, jail and juvenile hall operations, district attorney services, probation, public defender, tax collection and the treasury, assessor, agricultural commissioner, farm and home advisor, and several essential support services. Revenues deposited into special funds are earmarked for specific purposes, such as public and behavioral health, public works and transit, welfare programs, child support services, capital projects, fire protection, water services, and the County libraries. Transfers of General Purpose Revenue are made to special funds to support their funding requirements, and transfers are made between funds as agreed to by County departments in providing a cooperative service delivery system.

Figures 2 and 3 provide two alternative perspectives on anticipated revenues in fiscal year 2009-2010. Over 65.1% of the County's budget is funded by State and Federal revenue sources. Property tax revenue accounts for 12.4%, sales tax accounts for 0.8% and charges for services

accounts for 8.5%. The remaining comes from miscellaneous revenues, such as interest earnings, licenses and permits, fines, forfeitures and penalties. County General Purpose Revenue is estimated at 21.1% of the total amount of anticipated revenue, excluding fund balance and General Purpose Revenue transfers, projected for fiscal year 2009-2010.

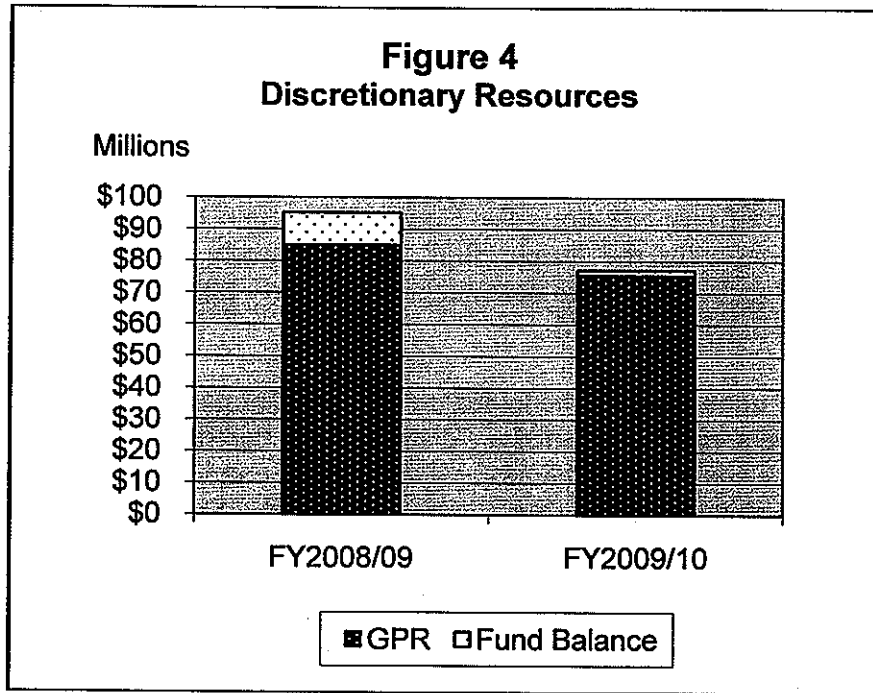


GENERAL PURPOSE REVENUE - Sources

Over 85% of County General Purpose Revenue is derived from three major taxes: property tax, public safety sales tax and the Chico area redevelopment agency pass-through of property taxes. As shown in Table 1, the largest of these is property tax, which is projected to account for 61.29% of total General Purpose Revenue. The second largest is the Proposition 172 Public Safety Sales Tax, which accounts for 15.32% of the total available. The third largest is the Chico area redevelopment agency pass-through of property taxes which accounts for about 5.3% of total General Purpose Revenue. In fiscal year 2009-2010, the Bradley-Burns Sales Tax contributes 4.03%, and tobacco lawsuit settlement funds will account for 3.32% of the total General Purpose Revenue available. Other various unrestricted State subventions, interest earnings and miscellaneous revenues comprise the remaining 10.74% of General Purpose Revenue. General Purpose Revenues are used to fund the net County costs of services and programs, including required maintenance of effort, matching funds and unfunded State mandated programs. It is important to note that the Public Safety Sales Tax can only be received if the County funds public safety programs at the required Maintenance of Effort (MOE) level. The Proposed Budget not only meets the MOE level but exceeds it by \$28.3 million.

Table 1	
County General Purpose Revenue (GPR)	
	2009-2010 Proposed
Property Tax	46,360,343
Sales Tax	3,048,455
Homeowners Property Tax Exemption	208,262
Teeter Plan Proceeds	1,657,157
State Stabilization Funds	631,000
Open Space Act (Williamson Act)	633,165
PG & E Franchise	995,115
Cable TV Franchise	613,353
Business License	1,200
Treasury Interest	990,000
Redevelopment – Chico	4,000,000
Tobacco Settlement Funds	2,511,160
Other Taxes	1,086,211
Other State Revenues	39,600
Federal Revenues	67,748
Other Intergovernmental Revenues	17,975
Fines, Forfeitures, Penalties	1,086,653
Other Use of Money & Property	9,000
Other Miscellaneous Revenue	94,381
Proposition 172 Public Safety Sales Tax	11,584,127
TOTAL	75,634,905

Trends in General Purpose Revenue. The total amount of discretionary resources available in the fiscal year 2009-2010 Proposed Budget is \$77.3 million, which includes an estimated \$1.7 million in fund balance carryover in the General Fund and the General Purpose Revenue described above. Figure 4 compares the discretionary resources between the 2008-2009 Final Budget and the budget year.



Fund Balance. Over the past five years, Butte County’s budget has relied on carryover fund balance ranging from \$8.8 million in fiscal year 2004-05 to \$17.2 million in fiscal year 2007-08.

The projected fund balance carryover for fiscal year 2009-2010 is significantly less than the actual fund balance carryover for fiscal year 2008-2009. Fund balance occurs when revenues come in higher than budgeted, and/or actual expenditures are lower than appropriations. Fund balance can fluctuate greatly from year-to-year.

For fiscal year 2008-2009 fund balance carryover from the previous year was \$10.2 million. In contrast, only \$1.7 million in fund balance carryover is estimated for fiscal year 2009-2010. The primary cause for the decrease in estimated fund balance for fiscal year 2009-2010 is significant declines in revenue due to the deepening global economic recession.

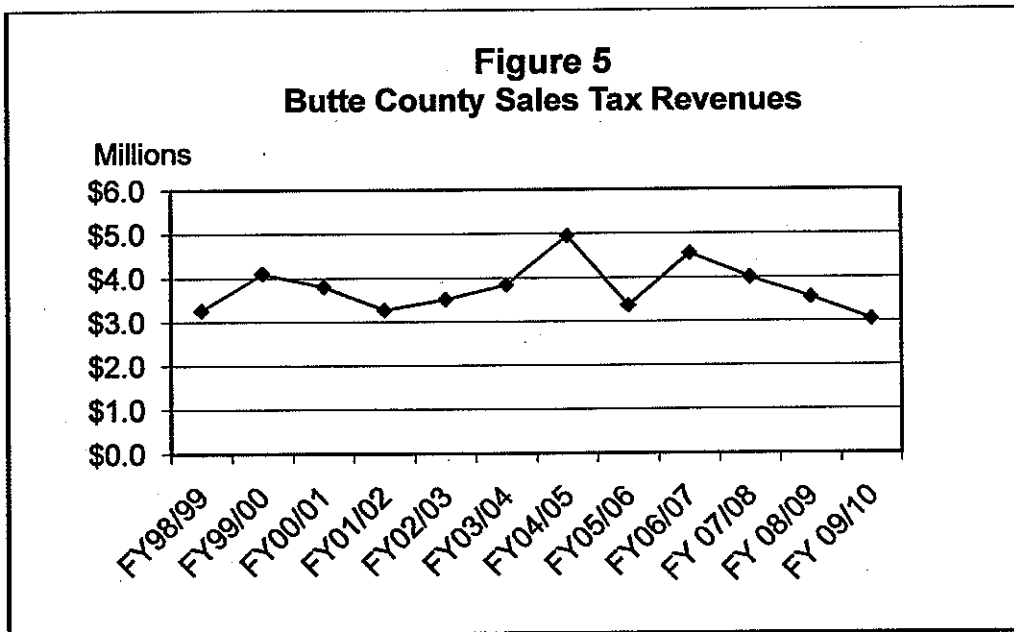
Property Tax. Property tax revenues are one of the most important components of General Purpose Revenue. Historically, the County’s share of each property tax dollar collected was only 13%; the vast majority of property tax receipts were distributed to K-12 education.

However, the distribution of property taxes changed significantly during fiscal year 2004-2005. The County’s share of property taxes increased due to the passage of Propositions 56 and 57 in

March 2004. The passage of these measures triggered the “triple flip” of local revenue which reduced the County share of the Bradley-Burns Sales Tax by ¼ cent. This allowed for the state to dedicate a ¼ cent sales tax towards payment of the voter-approved debt bonds provided by Proposition 57. To make up for the loss in sales tax revenue to local government, the “triple flip” also provided that local governments would contribute less property taxes to the Educational Revenue Augmentation Fund (ERAF) by an amount equal to the sales tax loss. The State thereafter provides an additional State General Fund allocation to local schools to make up for the decrease in ERAF revenue to the schools, so that local government and school districts are entirely made whole and do not suffer from the “triple flip” revenue transfers.

Vehicle License Fees. Another significant change in fiscal year 2004-2005 was the loss of revenue from the motor vehicle in-lieu fee (VLF) that is replaced with funding provided by an increase to the percentage of property taxes the County will retain to offset the VLF revenue loss. This in combination with the “triple flip” has effectively eliminated the County’s contribution to the ERAF and increase the percentage of property taxes retained by the County from the historic 13% to a much higher 25%.

Sales Tax. California law allows a tax to be levied on the sale of almost all tangible goods purchased in the state. The revenues collected are distributed by the State based upon where the purchase was made, or on a situs basis. Therefore, if the sale occurred within a city, that city would receive the local portion of the sales tax. Figure 5 shows the changes in Sales Tax revenues during the past eight years. The dip in the chart beginning in fiscal year 2000-2001 is due to annexations by the City of Chico. Reflected in fiscal year 2004-2005 data, and in fiscal years thereafter, is the “triple flip” described above which includes the regular sales and use tax revenue plus the shifted property tax that is received “in lieu” of sales tax. It is necessary to add the In-Lieu Sales Tax allocation in order to see trends due to local sales and use transactions. Actual sales tax revenues remain static through fiscal year 2006-2007. Actual revenues for fiscal year 2007-2008 begin to show signs of a softening economy. Significant decreases are anticipated for both fiscal years 2008-2009 and 2009-2010 based on current receipts.



GENERAL PURPOSE REVENUE – Uses

GPR Must First Be Used To Meet Mandates. When State and Federal mandates are placed upon the County without a dedicated revenue source, the County has no other option but to utilize local General Purpose Revenue to meet these mandated requirements. This results in a shift of local control over discretionary revenues to the State and Federal governments, and a decrease in the amount of discretionary General Purpose Revenue available to fund local priorities. After funding the mandates, the remaining General Purpose Revenue can be used for public safety and other public service demands. Table 2 shows the use of General Purpose Revenue decreased compared to fiscal year 2008-2009 final budget.

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Table 2**Use of General Purpose Revenue - Comparing Fiscal Year 2008-2009 Adopted Budget to Fiscal Year 2009-2010 Proposed Budget by Department**

(Does not include Internal Service Funds)

OPERATING DEPARTMENTS	Adopted FY 08/09 Use of GPR	Proposed FY 09/10 Use of GPR	Amount of Change
Agriculture	927,250	821,201	(106,049)
Assessor	2,903,293	2,115,312	(787,981)
Board of Supervisors	2,507,627	1,851,682	(655,945)
Child Support Services	-	-	-
Clerk-Recorder	(111,134)	1,457,491	1,568,625
Development Services	2,549,314	1,682,234	(867,080)
District Attorney	8,728,229	7,747,866	(980,363)
Farm, Home, & 4H Advisor	350,712	237,082	(113,630)
Fire	15,405,539	11,250,786	(4,154,753)
Library	2,531,983	1,533,576	(998,407)
Probation	10,639,846	8,873,848	(1,765,998)
Public Works	763,170	493,667	(269,503)
Sheriff-Coroner	30,691,686 (*)	25,567,451 (*)	(5,124,235)
Water & Resource Conservation	1,271,879 (*)	1,226,745 (*)	(45,134)
Total	79,159,394	64,858,941	(14,300,453)
SUPPORT SERVICE (A-87) DEPARTMENTS & MISCELLANEOUS DEPARTMENTS			
Administration	3,088,395	1,216,863	(1,871,532)
Auditor-Controller	(427,457)	(552,265)	(124,808)

County Counsel	(46,214)	(144,984)	(98,770)
General Services	1,695,408	782,982	(912,426)
Human Resources	(72,260)	(72,544)	(284)
Information Systems	-	(1,193,013)	(1,193,013)
Miscellaneous Budget Units	4,220,382	5,566,992	1,346,610
Non-Departmental Budget Unit	4,502,390	4,994,715	492,325
Treasurer-Tax Collector	817,202	518,761	(298,441)
Total	13,777,846	11,117,507	(2,660,339)
REALIGNMENT DEPARTMENTS			
Behavioral Health	424,727	424,727	-
Employment & Social Services	1,046,242	1,458,069	411,827
Public Health	911,867	724,304	(187,563)
Total	2,382,836	2,607,100	224,264
Use of Available Resources	95,320,076	78,583,548	(16,736,528)

() This includes some restricted revenues which overstate the use of GPR*

APPROPRIATION FOR CONTINGENCIES

For fiscal year 2009-2010, the targeted amount for General Fund contingency is approximately 4.0% of total General Fund expenditures or \$4.5 million. Also, the estimated beginning available fund balance in the General Fund is \$1.7 million. This is not a conservative or optimistic estimate. It is the best estimate given the information available at the time the recommendation was prepared. The actual beginning available fund balance in the General Fund (Fund Balance) will not be known until sometime in August 2009 when the fiscal year 2008-2009 accounting is finalized and the "books" are closed out.

If the actual Fund Balance is less than the estimated we recommend that the fiscal year 2009-2010 General Fund Contingency be lowered to make up the difference. However, if the actual Fund Balance is greater than the estimated \$1.7 million then we recommend that the fiscal year 2009-2010 General Fund Contingency be increased to make up the difference.

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