

2017-2018

COUNTY BUDGET SUMMARY

Update

The Recommended Budget document was created prior to the Board of Supervisors action to maintain the Amador Program in the Fire Department. No reductions will be made to the Amador Program.

The Butte County Recommended Budget contains the proposed spending authority for all County departments. Compared to the prior fiscal year, the Recommended Budget reflects a 1.3% decrease in total spending authority. The Recommended Budget reduces ongoing costs which is necessary to maintain a balanced budget.

Recent Achievements

For the past several years, the County has been recovering from a severe economic downturn, getting the organization on solid financial footing, and preparing to meet future challenges. Sound fiscal decisions have resulted in a stronger and more stable organization. Key achievements include:

- Maintained a balanced budget, making difficult decisions to reduce the budget when resources were insufficient.
- Increased the General Fund Reserve to \$8 million.
- Reduced the County's retiree healthcare unfunded liabilities and implemented a plan to them pay down.
- Implemented a plan to pay down the County's Pension Obligation Bond debt.
- Negotiated multi-year labor agreements with all County labor organizations.
- Completed several building projects and reduced the County's backlog of deferred maintenance.
- Approved a project to replace the County's outdated public safety radio system.

Years of responsible financial choices have enabled the County to address current and future challenges head on.

Challenges Remain

The County is prepared to meet new and evolving challenges over the next several years. Difficult decisions will need to be made along with careful planning.

These include:

- *Employee pension costs.* CalPERS reduced its interest earnings forecast for the foreseeable future, which significantly increases County costs.
- *In Home Supportive Services (IHSS).* The State has proposed shifting millions of dollars in increased costs to counties for this rapidly growing entitlement program.
- *Salary and benefit costs.* Much needed labor agreements increase the County's salary and benefit costs. The County has begun to make adjustments to offset increasing costs and additional reductions may be necessary.
- *Jail operating costs.* In fiscal year 2019-20, a new section of the County Jail will open. Despite technological improvements that will provide efficiencies, operating costs will likely increase.
- *Butte County Fire (CAL FIRE) contract costs.* CAL FIRE costs are anticipated to increase by 5% per year, which is a faster rate, than the County revenues that fund the agreement.

To address emerging challenges, the Recommended Budget includes organizational adjustments to reduce ongoing costs. These include:

- Eliminate 79.2 positions in the County workforce. Most (58 positions) are in the Departments of Employment and Social Services and Behavioral Health due to lower State and federal revenues. Additionally, there are 21.2 position eliminations in the General Fund, which include public safety and support departments.
- Restructure of the Butte County Fire Department including the recommended closure of Station 42 in north Chico, the requested transfer of Station 55 to the State for continued operation, a proposed reduction to the Amador program that funds rural stations during winter months, and a recommendation to initiate the process to develop a special district dedicated to the provision of Fire Service.
- Target of \$7.5 million General Fund contingency. Actual contingency level will be determined when the fiscal year 2016-17 fund balance is finalized.

Overview

The Recommended Budget for fiscal year 2017-18 for all funds totals \$528.5 million. This is a decrease of 1.3% from fiscal year 2016-17. Included in the Recommended Budget is a net decrease of 79.2 positions to meet available local, State, and federal resources. The Recommended Budget for the General Fund is \$163.9 million, which is a decrease of 2.9% from fiscal year 2016-17. This includes decreases in the targeted General Fund Appropriations for Contingencies, decreases related to one-time projects, and various other adjustments in departmental budgets.

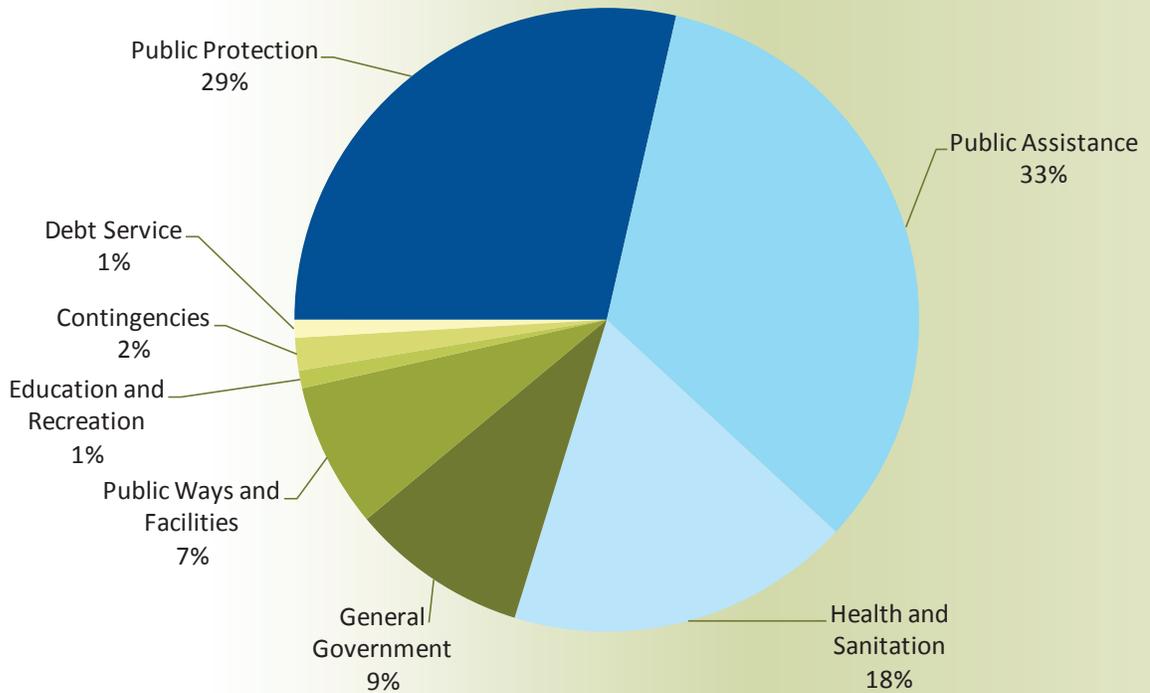
Appropriations

The fiscal year 2017-18 Recommended Budget is comprised of \$503.1 million in governmental funds, \$11.9 million in internal service funds, \$12.0 million in enterprise funds, and \$1.5 million in special district and other agency funds, for a total of \$528.5 million.

Figure 1 illustrates recommended spending in governmental funds among major program areas. As a political sub-division of the State of California, the County expends most of its funds on State and federal programs such as public assistance, mental health, public health, and other social services as mandated by law. The County spends most of its discretionary revenues on public safety, as discussed in detail later in this section and illustrated in Figure 6.

Figure 1 Governmental Funds Appropriations

\$503,121,212



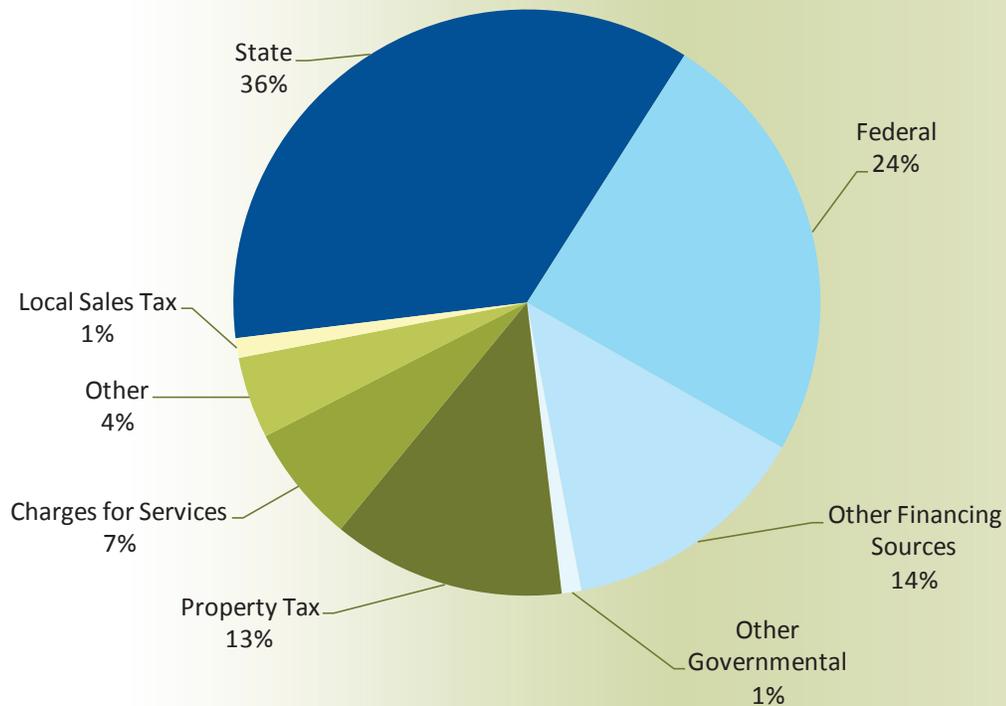
Revenues

Revenues in all governmental funds for fiscal year 2017-18 are estimated at \$475.6 million. These revenues are deposited into either the General Fund or into other governmental funds including special revenue funds, the Debt Service Fund, or the Capital Projects Fund. The \$475.6 million in revenue is comprised of \$410.0 million in outside revenues and \$65.6 million in other financing sources, which includes operating transfers between funds and anticipated loan proceeds for capital projects. The recommended spending plan is balanced by the use of anticipated revenues, an estimated \$16.6 million of available fund balance carryover from the General Fund, and \$13.7 million fund balance carryover from other funds.

Revenues in the General Fund support a wide variety of services and programs for Butte County residents, including law enforcement, fire protection, jail and juvenile hall operations, criminal prosecution, libraries, tax collection, building inspection, property assessment, agricultural regulations, and other essential support services. Revenues deposited into special revenue, capital project, and debt service funds are limited to specific purposes, such as the provision of health and human services, public works and transit, child support services, and capital projects. Operating transfers between governmental funds partially support the funding requirements. For example, transfers to the Capital Projects Fund help to fund planned capital projects. Operating transfers from the General Fund to the Public Health and Behavioral Health Funds are necessary to meet maintenance of effort (MOE) requirements. The General Fund receives operating transfers from special revenue funds for specific programs such as prison realignment (AB 109). Additional transfers between departments, included in Charges for Services, are made to account for the exchange of services between County departments in providing a cooperative service delivery system.

Figure 2 Governmental Funds Revenues

\$475,578,950



General Purpose Revenue

General purpose revenue is used to fund discretionary County services and programs, such as public safety and library services. It is also used to fulfill state mandated maintenance of effort (MOE), matching funds, and unfunded mandates. Once mandates are met, the Board of Supervisors can use discretion to determine which programs receive the remaining general purpose revenue.

Figure 3 illustrates that County general purpose revenue is relatively small compared to other revenues. The County is a political subdivision of the State and receives most of its funding from state and federal governments to run mandated programs.

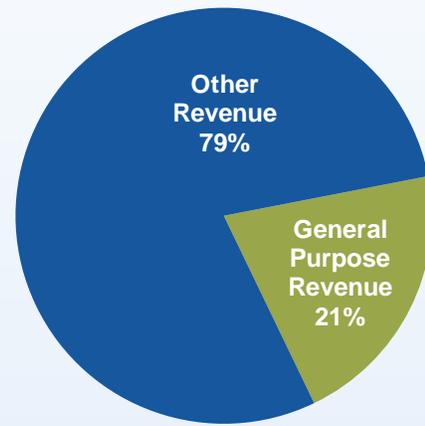


Figure 3 Governmental Funds Revenues

GENERAL PURPOSE REVENUE VS. NON GENERAL PURPOSE

\$475,578,950

Table 1 County General Purpose Revenue (GPR)

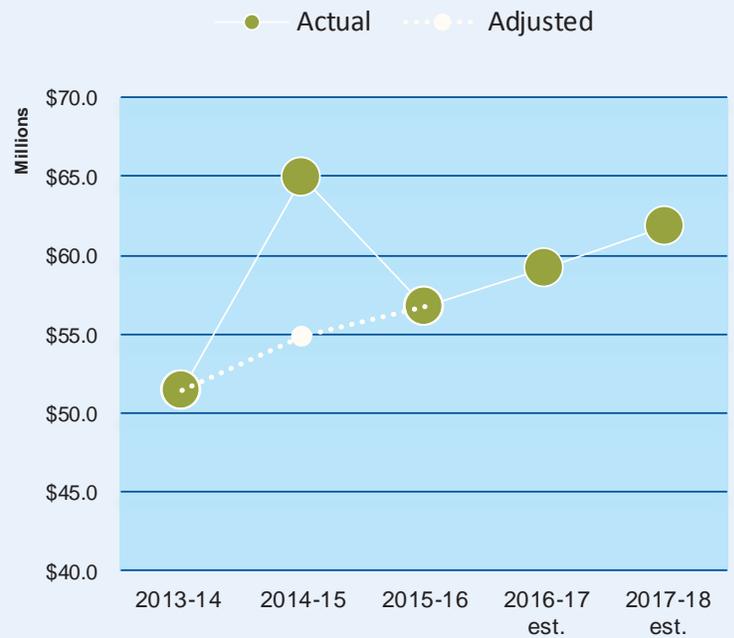
	Recommended Fiscal Year 2017-18
Property Tax	\$61,860,000
Proposition 172 Sales Tax for Public Safety	\$16,900,000
Local Sales Tax	\$5,152,000
Royalties (Table A Water Lease)	\$3,700,000
Fines, Foreitures, Penalties	\$3,399,000
Tobacco Settlement Funds	\$1,900,000
Property Tax Administration Fees	\$1,466,000
Property Transfer Tax	\$1,060,000
PG & E Franchise	\$970,000
State Stabilization Funds	\$631,000
Interest	\$477,000
Cable TV Franchise	\$468,000
Homeowners Property Tax Exemption	\$403,000
Other Miscellaneous Revenue	\$270,000
Open Space Act (Williamson Act)	\$234,000
Other Taxes	\$233,000
Federal Revenues	\$226,000
Motor Vehicle Revenue	\$76,000
Other Intergovernmental Revenues	\$20,000
Other Use of Money & Property	\$5,000
Business License	\$3,000
Total	\$99,453,000

As shown in Table 1, the largest source of general purpose revenue is property tax, which is 62% of total general purpose revenue. Public safety sales tax (from Proposition 172) is the second largest revenue source and accounts for 17% of total general purpose revenues. The public safety sales tax can only be received if the County funds public safety programs at the required MOE level. The Recommended Budget not only meets the MOE level but exceeds it by over \$40 million. The local share of sales tax; royalties that are primarily composed of Table A water lease revenue; fines, forfeitures and penalties that include penalties on late property taxes and some court fines; tobacco lawsuit settlement funds; property tax administration fees; and property transfer tax together account for another 17% of general purpose revenue. The remaining 4% of general purpose revenue is made up of various franchise fees, taxes, unrestricted state and federal revenues, interest earnings and miscellaneous revenues.

Property Tax

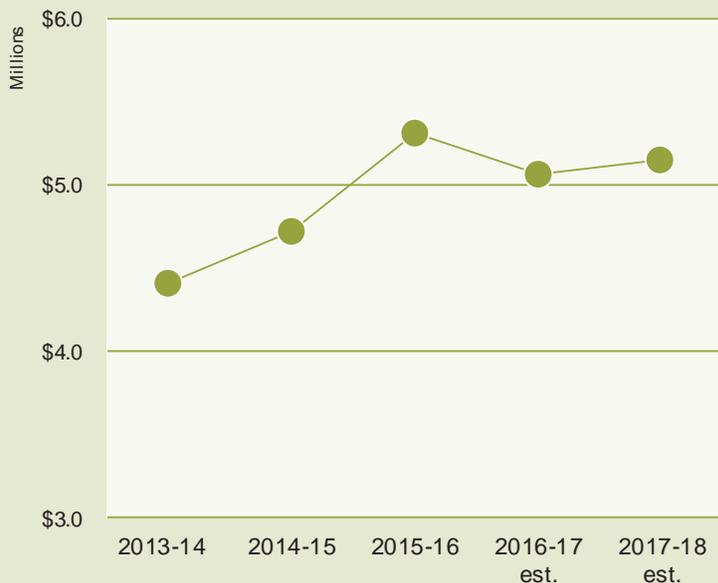
Property tax revenue is the largest single component of general purpose revenue. Butte County retains approximately 20% of all property tax revenues collected in the County, with the remainder going to support local schools, cities, and special districts. These tax receipts are used to support a wide variety of County programs. Figure 4 shows property tax revenues over a five year period reflected as both actual receipts and adjusted to remove one-time changes so the year over year trend is visible. In fiscal year 2014-15, the County recognized approximately \$10 million in one-time property tax revenue. Overall, property taxes are anticipated to continue to increase in fiscal years 2016-17 and 2017-18 due to continued gains in property values. Property tax revenues are expected to grow approximately 4% in both fiscal year 2016-17 and 2017-18.

Figure 4 Butte County Property Tax Revenue



*Property tax totals for all years reflect changes to which funds are included effective 2015-16 based on state guidelines.

Figure 5 Butte County Local Sales Tax Revenue



Sales Tax

State law levies taxes on the purchase of most tangible goods in the State. The State collects the sales tax and distributes the local portion to the jurisdiction where the purchase was made. Therefore, if the sale occurred within a city, that municipality would receive the local portion of the sales tax. If the sale occurred within the unincorporated area of the County, then the County receives the local portion of the tax. It should be noted that this arrangement is sometimes modified by tax sharing agreements between jurisdictions. For example, the County receives 5% of the sales tax collected in the City of Chico. Figure 5 shows total sales tax revenues for a five-year period. The relatively sharp increase in local sales tax revenue in fiscal year 2015-16 was due to a statewide accounting issue dating back several years and not indicative of a change in taxable sales. Revenues are expected to continue to increase gradually.

Available Fund Balance

Like most public agencies, Butte County relies on an available fund balance carryover in the General Fund to balance the budget. Available fund balance carryover occurs when the prior year Appropriation for Contingencies goes unspent, prior year revenues come in higher than budgeted, and/or prior year expenditures are lower than budgeted.

**Available fund balance
for 2017-18**

**\$16.6
million**

Available fund balance carryover can fluctuate significantly from year-to-year. Over the past five years, available fund balance carryover in the General Fund has ranged from \$13.8 million in fiscal year 2011-12 to \$24.0 million in fiscal year 2014-15. The estimated available fund balance carryover from fiscal year 2016-17 in the General Fund is \$16.6 million, in line with the 10-year average fund balance of \$16.4 million. The estimate assumes that there will be approximately \$8.4 million in unspent Appropriation for Contingencies at year end, County departments will accrue approximately \$8.2 million in General Fund savings, and total general purpose revenues will approximately equal the amount budgeted. The actual beginning available fund balance carryover in the General Fund will not be known until sometime in September 2017 when the fiscal year 2016-17 accounting is finalized and the books are closed.

General Purpose Revenue

General purpose revenue makes up the majority of the total discretionary resources available to fund County programs in any given year.

**Total general purpose
revenue for 2017-18**

**\$99.5
million**

As shown on Table 1, total anticipated general purpose revenue is \$99.5 million. This is an increase of \$3 million or 3% from the fiscal year 2016-17 Adopted Budget due primarily to continued growth of property tax and State/local sales and other tax revenues.

Total Discretionary Resources

**Total discretionary
resources for 2017-18**

**\$116.1
million**

The total discretionary resources available for the fiscal year 2017-18 Recommended Budget are \$116.1 million, comprised of an estimated \$16.6 million in available fund balance carryover in the General Fund and \$99.5 million in general purpose revenue. Overall discretionary resources available for the fiscal year 2017-18 Recommended Budget decreased 3% Budget due to a higher than typical available fund balance for fiscal year 2016-17.

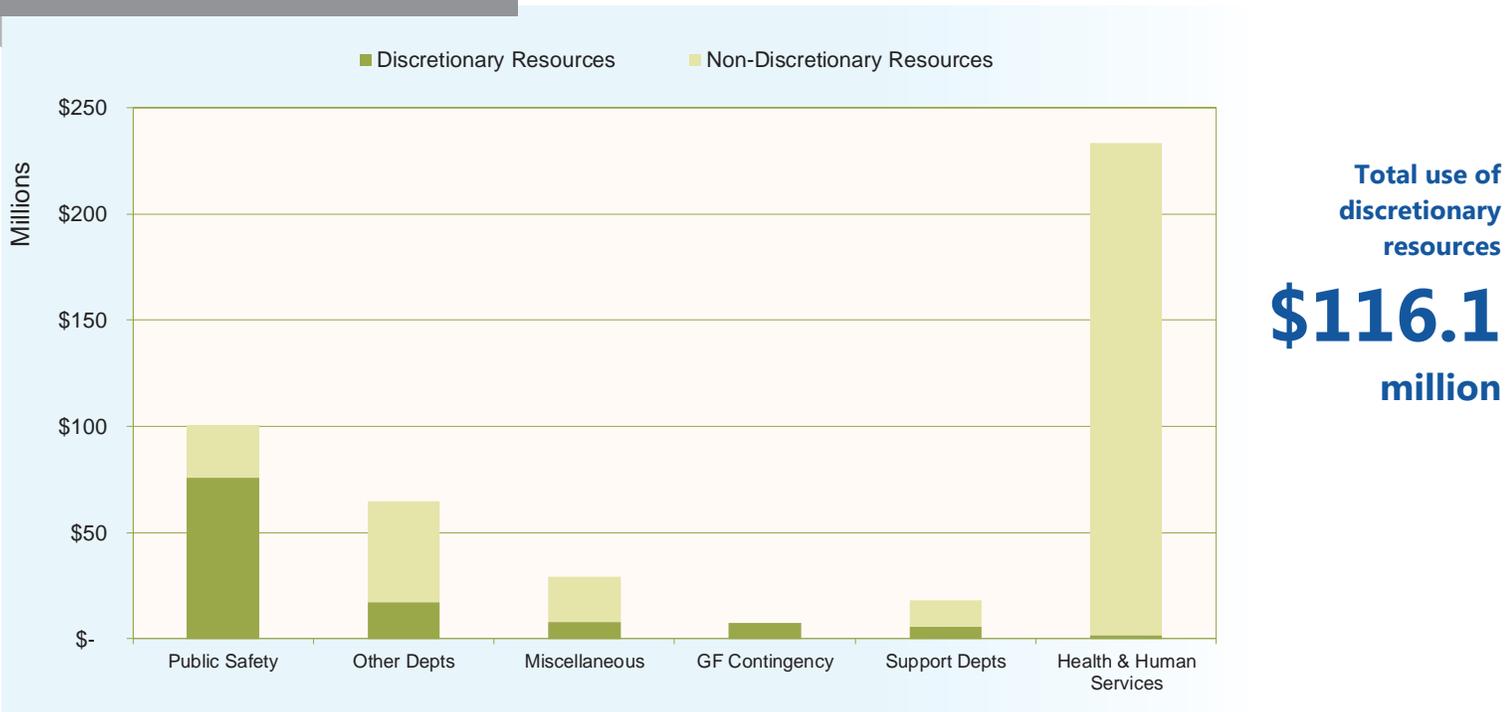
$$\$16.6 \text{ million} + \$99.5 \text{ million} = \$116.1 \text{ million}$$

Use of Discretionary Resources

The County has limited discretionary resources to fund local priorities. When State and federal mandates are imposed upon the County and not accompanied by adequate revenues, the County must utilize local general purpose revenue to meet the mandates. This limits local control over discretionary resources and decreases the amount available to fund local priorities. After funding the mandates, the remaining general purpose revenue can be used for public safety and other local needs.

Figure 6 shows the recommended allocation of discretionary resources compared to total budget by department group for fiscal year 2017-18. As in previous years, the vast majority of discretionary resources (\$75.8 million) are used to fund public safety. The remaining discretionary resources are dedicated to Other Departments (\$17.3 million) which includes Development Services, Assessor, Agriculture, and Library, among others; Miscellaneous (\$8.0 million) includes budget units such as Capital Projects, Public Defender, and Grand Jury; General Fund Contingency (\$7.5 million); Support Departments (\$5.8 million) includes budget units such as General Services, Information Systems, and Auditor-Controller; and Health and Human Services (\$1.7 million) which includes Employment and Social Services, Public Health, and Behavioral Health.

Figure 6 Use of Discretionary Resources



Indirect uses of discretionary resources by support service departments are not included in Figure 6 since they are already included in the costs for operating departments they support. If these costs were included in Figure 6, the use of discretionary resources related to support service departments would be double-counted. Most support service department costs are allocated to other departments based on the State Controller approved Countywide Cost Allocation Plan. Historically, approximately 40-45% of support service department costs are allocated to general purpose revenue supported functions and the remainder to federal, State and fee-supported functions.