



BUTTE COUNTY ADMINISTRATION
Finance and Risk Management

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PAUL HAHN
Chief Administrative Officer

Date: February 29, 2012
To: Butte County Board of Supervisors
Paul Hahn, Chief Administrative Officer
From: Gregory G. Iturria, Chief Financial Officer
Subject: Second Quarter Financial Report

OVERVIEW

The 2nd quarter financial report for Butte County operations contains updates on the economy, expenditures, revenues, cash balances and long-term debts for the three month period that ended December 31, 2011.

Economy: There is mixed news from trends in the latest economic data. Economic output continues to rise, as is inflation, but both at a moderate pace. Consumer spending power and confidence remains low, but gradually improving. Purchases of homes, autos and other large items are still suppressed, despite historically low borrowing costs. Construction activity and home sales are slow, home prices continue to fall and joblessness remains high.

Expenditures: Expenditures by County departments were cumulatively on budget and on track in comparison to the same quarter of the prior fiscal year. Overall, the County has expended 39% of the budget through the end of the second quarter of this fiscal year. Last fiscal year, the County also expended 39% of its budget in the second quarter.

Revenues: About 46% of the annual estimated general purpose revenues have been received during the first two quarters. Departmental revenues are trending a little lower than this time last year, but still generally on track with the previous fiscal year. Through the second quarter of the fiscal year, the County has received 32% of budgeted revenues. Last year at this time, the County had received 34% of budgeted revenues.

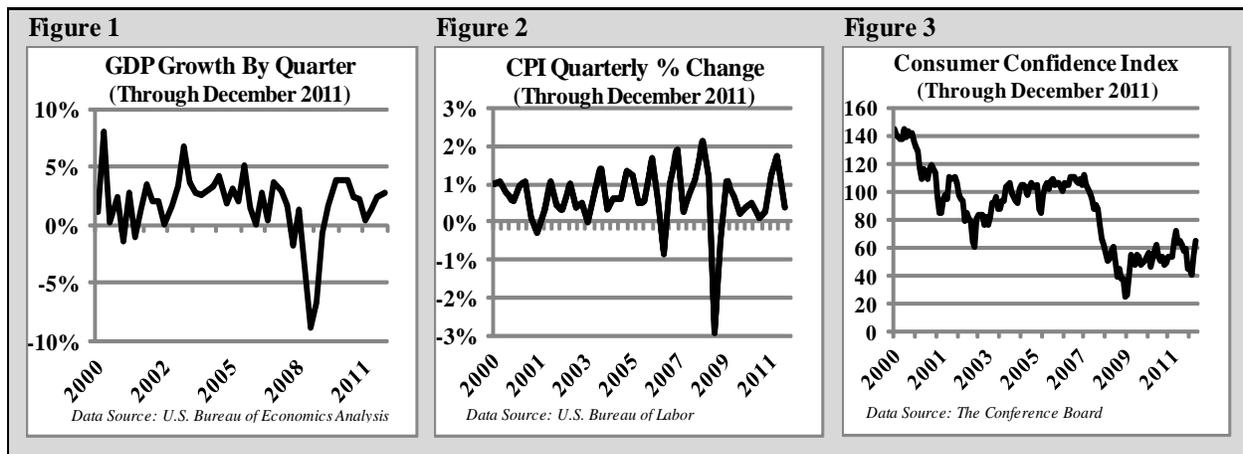
Multi-year Budget Trend Analysis: The Budget Trend Analysis forecasts, based on current trends, future appropriations and revenues in the General Fund. The result of the multi-year trend analysis is a forecasted \$700,000 to \$1.6 million annual gap between anticipated on-going expenses and revenues in the General Fund. The projected gap between ongoing expenses and revenues in the General Fund has improved significantly in the last year due to a variety of factors, including the reduction of employee compensation costs and increasing statewide sales tax receipts.

Cash Balances: General Fund operating cash was higher in the second quarter of fiscal year 2011-2012 compared to fiscal year 2010-2011. In October, November and December of 2011, no use of Tax Revenue Anticipation Note (TRAN) funds were needed in the General Fund. A transfer of TRAN funds is still possible for the third quarter of the fiscal year. A \$3.8 million cash advance was made from the General Fund to the Behavioral Health Fund in the second quarter, but this cash advance is significantly less than the second quarter of last fiscal year.

Debt: During the second quarter, interest payments were made against the County’s pension obligation bonds, and principal and interest payments were made against other debt obligations. No new loans were secured in October, November or December of 2011.

ECONOMIC REPORT

National Economy: The U.S. Gross Domestic Product (GDP), which measures the market value of all final goods and services produced within the country, increased at an annual rate of 2.8% in the quarter ending December 31, 2011. This increase marks the tenth straight quarter of positive GDP growth and is primarily the result of increased consumption, private investments, and exports. Imports, which are a subtraction in the calculation of GDP, also increased.

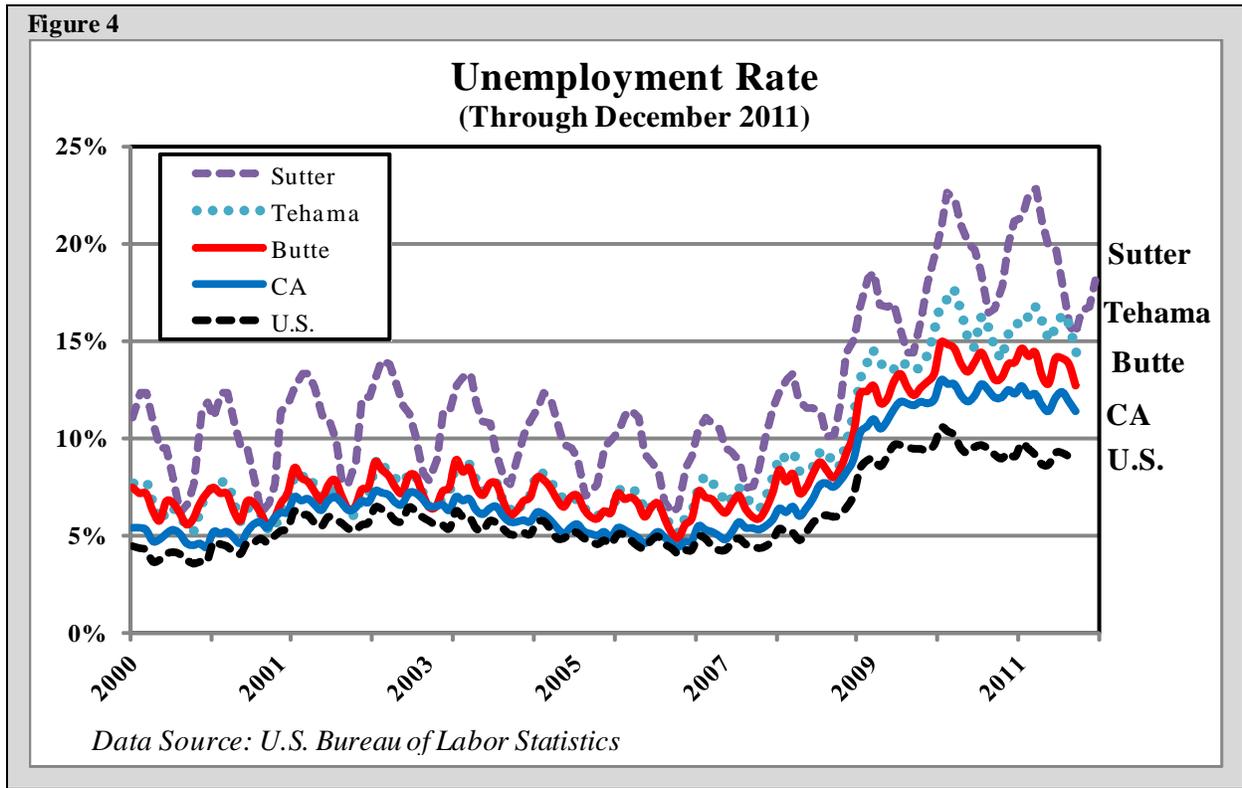


Food prices continue to create signs of some inflation. However, energy and gasoline prices declined in the second quarter but have since risen considerably. The national Consumer Price Index (CPI) has increased since the first quarter after a volatile five year period, as seen in Figure 2 above. CPI measures the average change over time in the prices paid of a variety of consumer goods and services.

In December 2011, the Conference Board’s Consumer Confidence Index (CCI) measure was 64.5 (100 = normal). The CCI measures the relative financial health, spending power, and confidence of the average consumer. After two months of sizeable gains in the CCI, the CCI is back to levels last seen in April 2011. Consumer's assessment of current business and labor market conditions improved this quarter. This is an important measurement, because consumer confidence drives large personal purchases such as houses, automobiles and recreational vehicles.

Employment: The State’s unadjusted unemployment rate in December 2011 was 11.1%, down from December 2010. The countywide unemployment rate in December 2011 was 12.6%, which was also a decline from December 2010. Butte County had 13,000 employable residents considered unemployed in

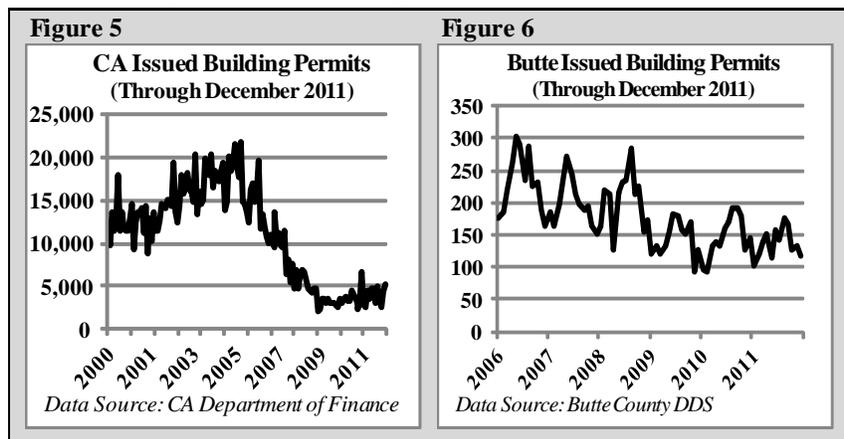
December 2011; unchanged from September 2011. While unemployment in Butte County is higher than state and national averages, it continues to remain lower than rates experienced in adjacent counties.



Other State and Local Economic Indicators: The pace of statewide homebuilding during the three-month period ending December 31, 2011 improved from the previous three-months. About 12,500 residential building permits were issued statewide during this period. While the number of permits issued during the last quarter of 2011 was almost the same as the same period of 2010, it is approximately 60% less than the number of permits issued for the same period in 2006.

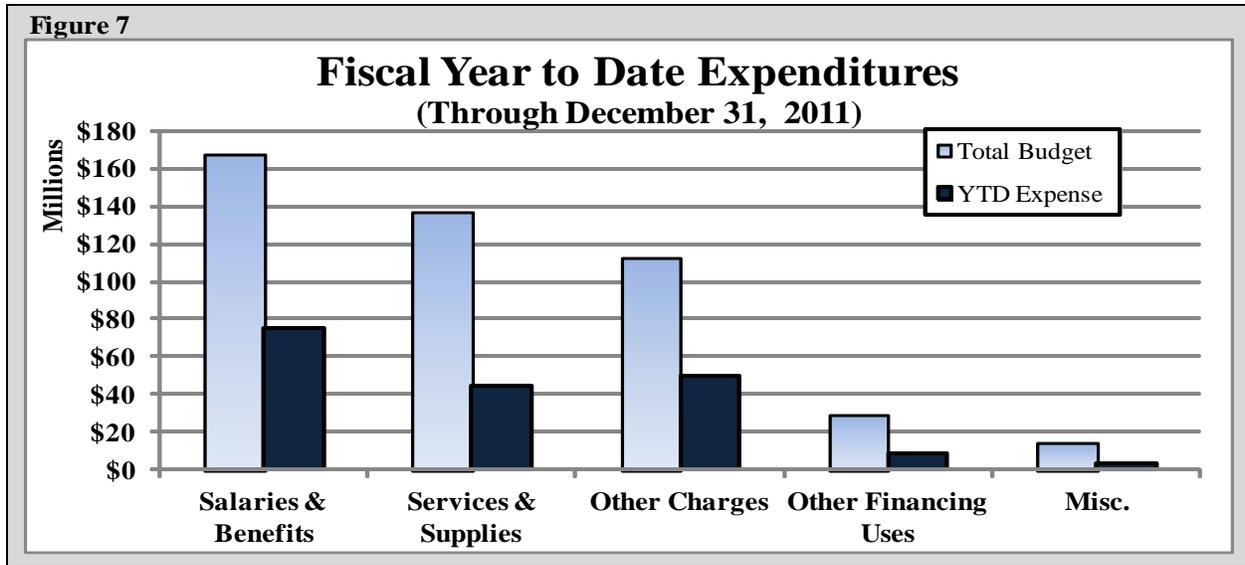
Local construction permitting in the unincorporated area of the County in the 2nd quarter was 16% lower than the same quarter one year earlier. Although this figure is down 34% from the same period in 2006, building appears to continue to achieve modest gains since the low point at the end of 2009.

The median price of existing, single-family homes sold in California during the month of December 2011 was \$285,920, a 1.8% increase from the previous month and a 6.2% decrease from a year earlier. Existing home sales statewide during December increased by 3.3% compared to November.



EXPENDITURE REPORT

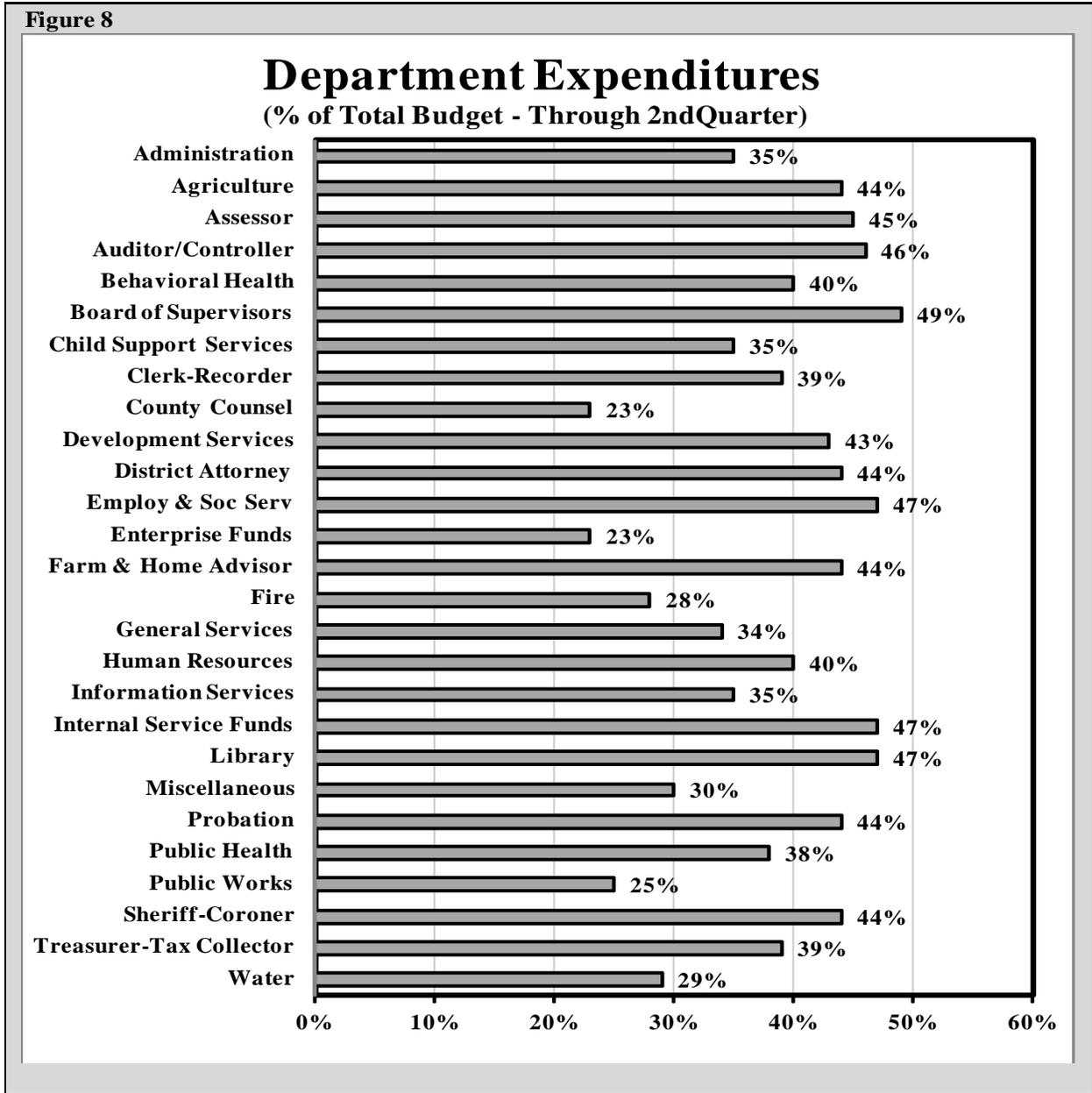
At the end of the 2nd quarter of the 2011-2012 fiscal year (July 1 through December 31, 2011), the County had expended \$182.2 million¹ from a budget totaling \$462 million. As shown in the graph below, the County spent \$76 million on salaries and benefits, \$45 million on services and supplies, and \$50 million on other charges, such as payments between funds and contributions to other agencies. The remaining \$3 million in expenditures were for other financing uses and miscellaneous expenditures. Other financing uses are primarily operating transfers and other charges between budget units. Miscellaneous expenses include fixed assets and building depreciation.



Overall, the County expended 39% of the budget through the 2nd quarter of the 2011-2012 fiscal year. Although 50% of the fiscal year elapsed between July 1 and December 31, it is typical for expenditures overall to be less than 50% at the end of the second quarter. For example, many services and supplies are based on monthly billings that, by their nature, are paid at least a month after the service was provided. Additionally, normal staff turnover creates some salary savings. Last year at this time the County had similarly expended 39% of its budget.

¹ For the purpose of this report the County budget includes all departmental operating budgets, internal service funds (for example Workers' Compensation and General Liability), enterprise funds (Neal Road Waste and Recycling Facility) as well as a number of miscellaneous budget units such as capital projects, CDBG grant programs and Debt Service. County Service Areas and appropriations for contingency are excluded.

Figure 8



The graph above shows the percentage of budget expended by each County department. Most departments have expended between 35% and 50% of their budget through the second quarter, which is similar to prior years. A number of departments have expended less than 35% of their budget for the year. Although there are a variety of reasons, they all related to an uneven flow of expenditures through the course of the year. The Fire Department and Water and Resource Conservation Department have budgeted professional services that are primarily unspent at this point, but are expected to be utilized later in the year. The Fire budget, for example, includes the State CalFire agreement, and only one quarterly payment had been made to CalFire by the end of the 2nd quarter. Similarly, the budget for County Counsel includes appropriation for a court-ordered payment to the State Department of Water Resources, which was made after the end of the second quarter. The General Services and Public Works Departments have budgets that include a number of projects. Many of these projects will not begin until later in the fiscal year when fair weather may be reasonably expected.

The enterprise funds (Neal Road Recycling and Waste Facility) include capital purchases and improvements of over \$3 million. However, due to the accounting requirements of enterprise funds, annual depreciation is recorded as an expense for capital purchases and improvements and not the entire project costs. Additionally, the budget includes over \$800,000 in principal debt payments that will not be recorded as current year expenditures.

The Miscellaneous budget units overall have expended 30% of their budget. Miscellaneous budget units include a wide variety of budget units not directly related to the operations of a particular department such as capital projects, Community Development Block Grants, grand jury expenses, debt service, and General Revenues and Transfers. One of the largest Miscellaneous budgets is the Community Development Block Grants program which has a budget of \$5.3 million primarily related to the Disaster Recovery Initiative Grant. It is anticipated that expenditures for the Disaster Recovery Initiative Grant will increase in the third and fourth quarter as home rehabilitation and road improvement projects get underway.

Another large Miscellaneous budget unit is General Revenues and Transfers which has a budget of \$4.6 million. It accounts for all general purpose revenues received, as well as General Fund transfers to other funds. Through the 2nd quarter, only 11% of the budgeted transfers to other funds have occurred. The budgeted General Fund transfer to the Welfare Fund is \$3.4 million. No transfers have been made to date as the Department of Employment and Social Services has had sufficient cash to cover operations so far this fiscal year. It is anticipated that by the end of the year, approximately \$2.2 million of the budgeted transfer will be required to support mandatory expenditures in the Department. Public Health and Behavioral Health have both received 50% of the budgeted transfers which are used to meet the County's required Maintenance of Effort.

REVENUE REPORT

Through the 2nd quarter of the fiscal year, the County has received 32% of budgeted revenues². This is consistent with the same period last year when the County had received 34% of budgeted revenues.

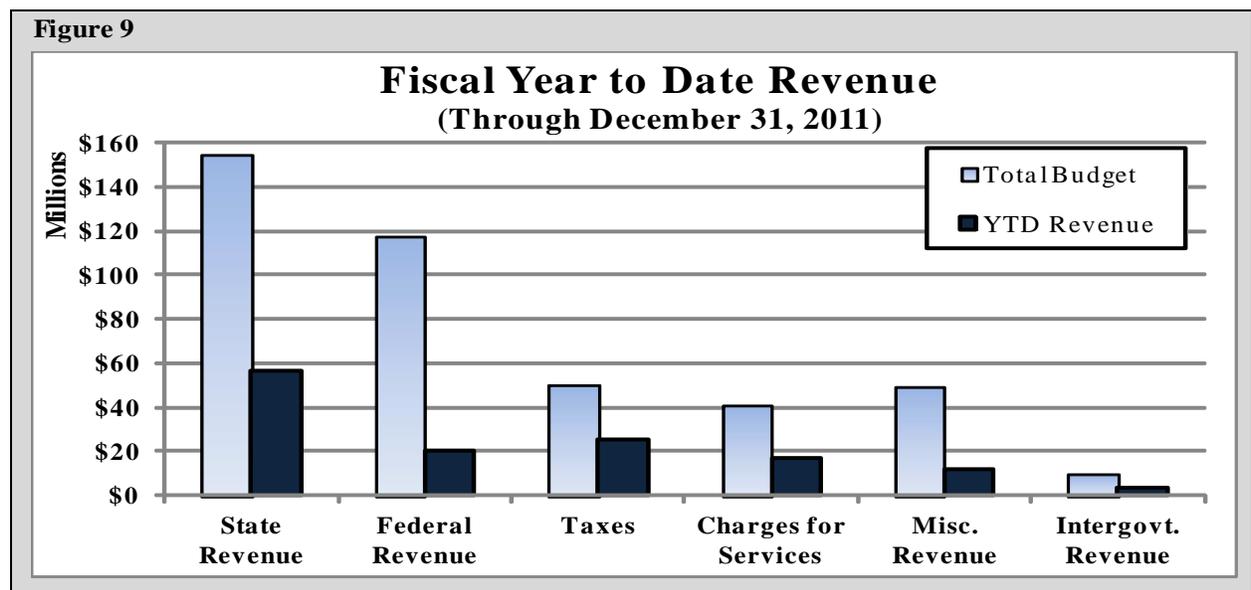
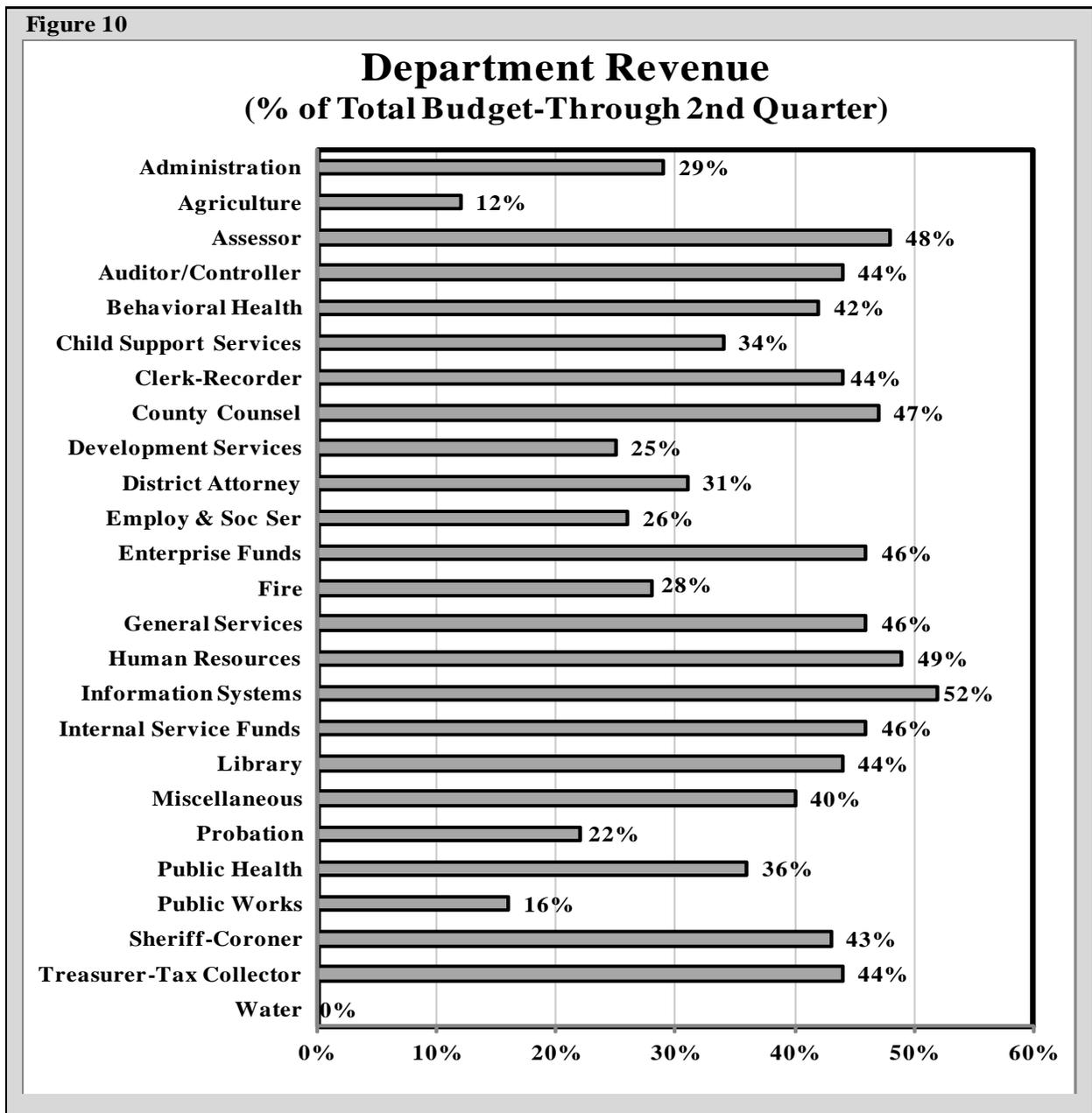


Figure 10 below shows revenues received by each County department to date as a percentage of budget.



Most department revenues are between 30% and 50% of budget through the second quarter, consistent with revenue patterns from previous years. A number of Departments have received less than 30% of budgeted revenue. Development Services revenues are low, in part, because of reduced user fee revenue. However, much of the impact of this shortfall will be made up for with reduced expenditures. Otherwise, the Departments that have received less than 30% of budgeted revenues are primarily due to timing issues. For example, the Water and Resource Conservation Department revenue consists primarily of grant funds. Due to the timing of claiming those expenditures, the department has not yet received the grant revenues. Similarly, the Probation Department receives State and Federal funds for Juvenile Hall

services at the end of the fiscal year after a lengthy claiming process. In another example, a change in accounting practices in the Agriculture Department has resulted in a significant portion of Departmental revenues received in July and August being accounted for as fiscal year 2010-2011 revenue, when it was earned.

General Purpose Revenues, included in Figure 10 above as part of the miscellaneous budget unit, are coming in much as anticipated. Following the receipt of the first property tax installment, 46% of budgeted general purpose revenue has been received through the end of December. Current projections indicate actual year end revenues may come in somewhat higher than budgeted revenues due in part to stronger than anticipated Public Safety Sales Tax revenues in the first half of the year. Figure 11 below shows year to date receipts of general purpose revenue.

Figure 11

General Purpose Revenue Receipts (Through 2nd Quarter)			
Account Title	Budget	YTD Receipts	YTD %
Property Taxes	44,740,491	23,712,913	53%
Teeter Plan Proceeds	1,000,000	0	0%
Local Sales Tax	3,586,000	1,505,541	42%
Other Taxes	1,059,200	573,607	54%
Licenses & Permits	1,546,873	314,141	20%
Fines, Forfeitures & Penalties	1,338,900	383,331	29%
Interest-County Treasury	1,000,000	167,938	17%
Local Public Safety Sales Tax	13,004,500	4,427,253	34%
RDA City of Chico	4,600,000	2,680,061	58%
Tobacco Settlement Funds	2,000,000	0	0%
Other Misc. Revenue	1,216,325	553,643	46%
Total General Purpose Revenue	\$75,092,289	\$34,318,427	46%

MULTI-YEAR BUDGET TREND ANALYSIS

The Budget Trend Analysis is a tool which forecasts, based on current trends, projected future appropriations and revenues in the General Fund. Based upon the fiscal year 2011-2012 Adopted Budget, current trends are analyzed and projected through the fiscal year ending June 30, 2016. The result of the multi-year trend analysis is a forecasted \$700,000 to \$1.6 million annual gap between anticipated ongoing expenses and revenues in the General Fund.

The projected gap between ongoing expenses and revenues in the General Fund has improved significantly in the last year. The analysis performed last spring forecasted an ongoing gap of \$3 to \$4 million. The improvement is due to a variety of factors, including the reduction of employee compensation costs and increasing statewide sales tax receipts that result in higher general purpose revenue to the General Fund and reduced operating transfers to the Department of Employment and Social Services. Based on this analysis, it appears that the County's multi-faceted plan to reduce the budget gap through decreased expenditures and increased revenues is working.

The analysis does not attempt to quantify or propose additional measures to further close the expenditure – revenue gap, but there exist opportunities to do so. Over the last twelve months, the Board of Supervisors and County employees agreed to new contracts for five of the County’s nine employee groups, significantly reducing County costs. Negotiations are ongoing with the remaining employee groups, leaving opportunity for further changes to ongoing expenses that are not incorporated into the trend analysis. Additionally, also not incorporated into analysis, is the potential for the County to temporarily lease a portion of the County’s Table A water allocation which, if successful, would bring in approximately \$2 million in additional revenues to the County.

The County is also facing a number of risks that could increase the gap between ongoing expenditures and revenues. The most prominent of these is the ongoing implementation of public safety realignment which shifts responsibility from the State to the County for certain prisoners and parolees. The program is funded in the current year, but there is no guarantee of funding in future years. Additionally, there is concern that funding levels will be inadequate to cover the new costs of the program and that an existing federal revenue stream could be in jeopardy. Currently, the County leases up to 120 local jail beds to the federal government, but it is unclear whether or not the jail can continue to do so. This budget trend analysis assumes \$2.8 million in federal revenue will continue annually for housing federal inmates.

In addition to the opportunity and risks described above, the budget trend analysis is based upon a number of assumptions. If any of the assumptions do not pan out, the projections will be adjusted accordingly.

Key assumptions for projected expenditures include:

- Negotiated employee compensation savings for all units with multiyear agreements. Status quo for units without multiyear agreements.
- No increase to the County’s share of health insurance costs.
- Relatively flat CalPERS pension contributions in fiscal year 2012-2013 with increases in subsequent years based on estimates from CalPERS. These estimates assume no changes to the CalPERS earnings target and assume that CalPERS will meet its current earnings target of 7.75%.
- The Pension Obligation Bond charges to County departments will gradually increase each year to an average collection of 3% of payroll based on the strategy recently adopted by the Board of Supervisors.
- Worker’s Comp premiums will increase by approximately 40% in 2012-2013 and increase 10% annually starting in 2013-2014 due to insurance pool losses and decreased interest earnings.
- Cost for services, supplies and other charges will increase 2% per year.
- The General Fund transfer to the Welfare Fund will decrease by \$2,000,000 for fiscal year 2012-2013 and 10% per year thereafter due to improvements in statewide sales tax receipts.
- The \$1.38 million annual payment to the California Department of Water Resources (DWR) for the County’s Table A Water allocation will be paid primarily with general purpose revenues.
- Ongoing major building maintenance of approximately \$500,000 annually funded with general purpose revenues.
- The General Fund Appropriation for Contingencies will be unspent and be available to fund future year budgets.
- Any State grant or allocation cuts will not be backfilled with County funds.

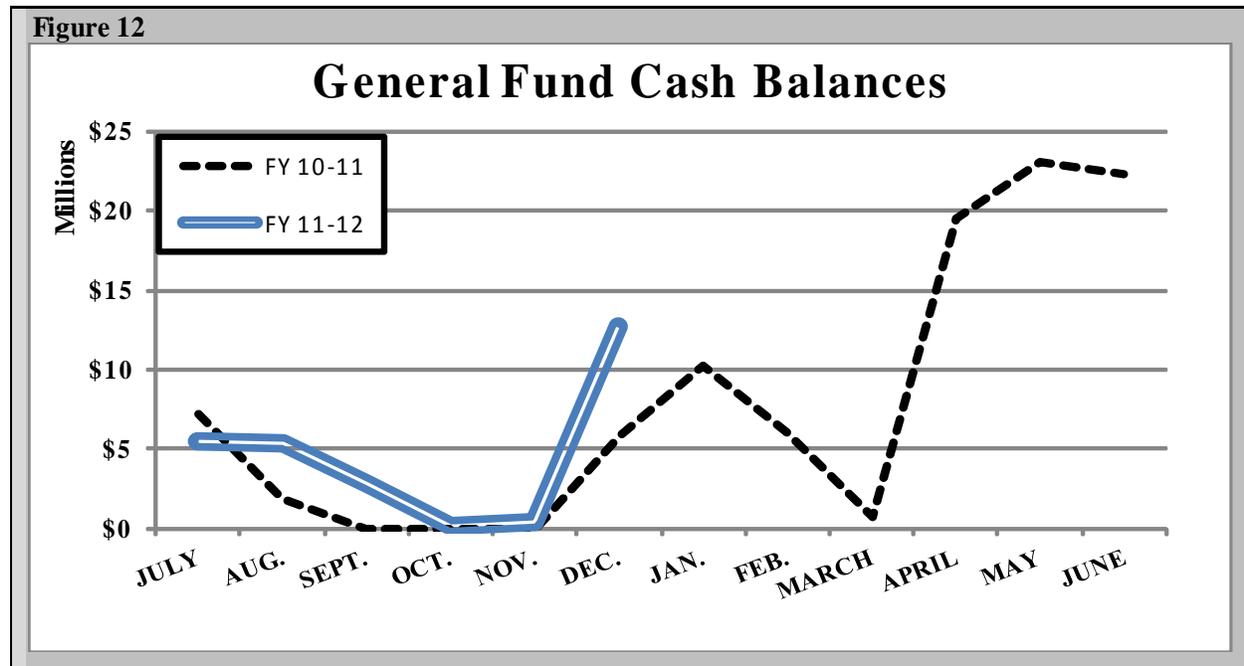
Key revenue assumptions include:

- Relatively flat property tax growth, with a .5% increase in fiscal year 2014-2015 and a 1% increase in 2015-2016.
- Federal and State program subventions will stay flat.
- On-going transfer of 10% annual realignment revenues from the Public Health Fund and 5% of annual realignment revenues from the Behavioral Health Fund to the Welfare Fund.
- Local and Public Safety sales tax receipts will grow by 3% per fiscal year.
- Ongoing receipt of \$2.8 million in Federal revenues for housing federal inmates in the County Jail (the 2011-2012 adopted budget assumed \$3.4 million).
- General Fund carryover available fund balance of \$12.5 million in 2012-2013 including \$9 million in department budget savings plus \$1 million in unused contingencies, \$1.5 million for stronger than budgeted general purposes revenues, and a \$1 million adjustment to fund balance.
- Future General Fund carryover available fund balance will be comprised of \$8 million in annual department budget savings plus \$3.5 million in unused contingencies appropriation.

County of Butte General Fund Budget Trend Analysis Through Fiscal Year 2015-2016					
GENERAL FUND	Adopted Budget 2011-12	Forecasted Budget 2012-13	Forecasted Budget 2013-14	Forecasted Budget 2014-15	Forecasted Budget 2015-16
ESTIMATED DEMAND:					
Employee Compensation	71,949,591	73,063,412	73,157,947	73,659,081	74,192,082
Contingency	1,559,485	3,500,000	3,500,000	3,500,000	3,500,000
General Reserve	5,000,000	-	-	-	-
Other Expenditures	54,185,596	50,639,373	51,293,620	52,176,348	53,092,655
Use of Departmental Revenue & Restricted Cash	<u>(40,131,423)</u>	<u>(38,059,245)</u>	<u>(38,254,016)</u>	<u>(38,980,681)</u>	<u>(39,740,211)</u>
Net Demand For Resources	92,563,249	89,143,539	89,697,551	90,354,748	91,044,526
ESTIMATED RESOURCES:					
Carryover From Prior Year*	17,639,485	12,500,000	11,500,000	11,500,000	11,500,000
Property Taxes	44,740,491	44,740,491	44,740,491	44,964,193	45,413,835
Sales Taxes	16,590,500	17,088,215	17,600,861	18,128,887	18,672,754
Other Discretionary Revenues	<u>13,592,773</u>	<u>14,145,873</u>	<u>14,255,480</u>	<u>14,397,484</u>	<u>14,572,455</u>
Net Available Resources	92,563,249	88,474,579	88,096,832	88,990,565	90,159,044
Surplus / (Deficit) Trend	\$0	(\$668,960)	(\$1,600,719)	(\$1,364,183)	(\$885,482)
* Carryover from Prior Year includes unexpended Contingency appropriations and departmental savings from prior year.					

GENERAL FUND OPERATING CASH REPORT

Fiscal Year 2011-2012 began with an operating cash balance \$3,380,743 higher than the operating cash balance at the beginning of Fiscal Year 2010-2011. This trend continued through the first quarter of the current year. The balances at the end of October and November were close to zero, although not low enough to require the use of external cash flow loans (TRAN).



Advancing of cash from the General Fund to other funds significantly decreased compared to the second quarter in the prior year. The Behavioral Health Department continues to experience cash deficits due to State deferrals. However, the advance made at the end of the second quarter was almost \$4.5 million less than the advance made for the same time period of the prior year. As seen in the graph, the current year trend is comparable to the prior year, but reflects the higher balances.

As a result of lower advance activity from the General Fund in the second quarter, no transfer of TRAN funds has been necessary. A transfer of TRAN funds is available for operations during the third quarter, if needed, prior to receipt of the second installment of property taxes.

Figure 13

GENERAL FUND - CASH ADVANCES AT DECEMBER 31, 2011	
Advances To General Fund:	
From TRAN* proceeds	\$ -
Advances From General Fund:	
To: Behavioral Health	\$ 3,799,025.00
Total Advances from General Fund	<u>\$ 3,799,025.00</u>
* Tax Revenue Anticipation Note	

LONG-TERM DEBT

Long-term debt information is valuable internally, as well as to outside agencies such as credit rating agencies that monitor the fiscal health of the County, in order to provide the public, including holders of debt, accurate, timely, and transparent financial data. During the second quarter of the current fiscal year, principal payments totaling \$115,833.32 were made towards the solar project notes payable.

The County is in the process of applying for loan funds from the United States Department of Agriculture for the construction of a Hall of Records. The total costs of the project or financing terms have not been determined at this time.

The following Long-Term Debt schedule, Figure 14, and Ratio of Outstanding Debt and Ratios schedule, Figure 15, present data as of December 31, 2011.

Figure 14				
Type of Debt	Original Loan Amount	Current Balance	Avg. Annual Payment*	Maturity Date
Bonds Payable				
Pension Obligation Bonds				
-Series A	28,020,000	28,020,000	2,475,316	6/1/2034
-Series B	21,875,000	21,875,000	1,692,500	6/1/2034
Total Bonds Payable	\$ 49,895,000	\$ 49,895,000	\$ 4,167,816	
Certificates of Participation				
2003 Certificates of Participation	5,150,000	1,205,000	421,140	7/1/2014
2010 Bangor Fire Station #55 COP	1,100,000	1,088,000	55,379	8/1/2050
Total Certificates of Participation	\$ 6,250,000	\$ 2,293,000	\$ 476,519	
Capital Leases				
Chico Memorial Hall - 492 Rio Lindo	583,400	391,755	61,156	4/10/2020
Chico Memorial Hall - 554 Rio Lindo	670,900	438,720	62,275	4/10/2020
Ford Motor Credit	32,581	-		8/20/2011
Total Capital Leases	\$ 1,286,881	\$ 830,475	\$ 123,431	
Notes Payable				
California Energy Commission				
-Solar Project Phase 1	2,777,000	1,680,565	277,181	12/22/2018
-Solar Project Phase 2	390,000	256,225	35,786	6/22/2020
Total Notes Payable	\$ 3,167,000	\$ 1,936,790	\$ 312,967	
Neal Road Recycling and Waste Facility				
2006 Certificate of Participation	12,025,000	9,770,000	1,193,436	7/1/2021
Loan - California Integrated Waste Mngt Board	500,000	250,000	50,000	6/1/2016
Total Neal Road Recycling and Waste Facility	\$ 12,525,000	\$ 10,020,000	\$ 1,243,436	
TOTAL LONG-TERM DEBT	\$ 73,123,881	\$ 64,975,265	\$6,324,169	

Figure 15

Outstanding Debt and Ratios

(In Thousands, Except Debt Ratios)

Fiscal Year	Government Activities (A)				Neal Road Recycling and Waste Facility (B)			Total Outstanding Debt (A+B)	Debt Ratios	
	Bonds	Loans/ Notes	Certificates of Participation	Capital Leases	Loans	Certificates of Participation	Capital Leases	Primary Government	Debt as a % of Assessed Property Values	Debt per County Resident
2005	\$ 61,515	\$ 4,111	\$ 4,540	\$ 688	\$ -	\$ -	\$ 1,289	\$ 72,143	0.4894%	\$ 332
2006	\$ 57,212	\$ 3,935	\$ 3,920	\$ 1,479	\$ 500	\$ -	\$ 784	\$ 67,830	0.4123%	\$ 311
2007	\$ 56,424	\$ 2,903	\$ 3,290	\$ 1,097	\$ 450	\$ 12,025	\$ 303	\$ 76,492	0.4649%	\$ 351
2008	\$ 50,575	\$ 2,703	\$ 2,650	\$ 1,134	\$ 400	\$ 12,025	\$ 20	\$ 69,507	0.3854%	\$ 315
2009	\$ 50,492	\$ 2,494	\$ 2,300	\$ 1,029	\$ 350	\$ 12,025	\$ 20	\$ 68,710	0.3680%	\$ 311
2010	\$ 50,403	\$ 2,278	\$ 1,945	\$ 922	\$ 300	\$ 11,300	\$ -	\$ 67,148	0.3739%	\$ 308
2011	\$ 49,895	\$ 2,053	\$ 2,680	\$ 832	\$ 250	\$ 10,550	\$ -	\$ 66,260	0.3634%	\$ 299
2012	\$ 49,895	\$ 1,937	\$ 2,293	\$ 830	\$ 250	\$ 9,770	\$ -	\$ 64,975	0.3623%	\$ 293