



BUTTE COUNTY ADMINISTRATION

Finance and Risk Management

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PAUL HAHN
Chief Administrative Officer

Date: November 20, 2012

To: Butte County Board of Supervisors
Paul Hahn, Chief Administrative Officer

From: Gregory G. Iturria, Chief Financial Officer

Subject: First Quarter Financial Report

OVERVIEW

The first 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 ended September 30, 2012.

Economy: There is encouraging news from economic data trends through the first quarter of the fiscal year. Economic output continues to rise, as does inflation, but both at a moderate pace. Consumer spending power and confidence remains low but have improved considerably over the last year. Purchases of new homes and construction activity remain sluggish, but improving over recent years. Home prices continue to increase and the job market is showing signs of improvement.

Expenditures: Expenditures by County departments were on track, as anticipated, and very similar to the same quarter of last fiscal year. Overall, the County expended 18% of the budget in the first quarter. In the same quarter of the prior fiscal year, the County expended 19% of its budget.

Revenues: Discretionary revenues received during the first quarter of the fiscal year are lower than anticipated, due most prominently by the receipt of only one month of sales tax revenue when three months of sales tax revenues were expected to be delivered by the State Board of Equalization. Staff will continue to investigate this delay. Departmental revenues were also a little lower than expected. Through the first quarter of the fiscal year, the County received 8% of budgeted revenues, which is lower than anticipated. In the same quarter of the previous fiscal year, the County had received 10% of budgeted revenues.

Cash Balances: General Fund operating cash balance was \$2.7 million at the end of September 2012. While this is a similar ending balance as one year prior, the cash landscape is much different. Due in large part to delays in State reimbursements, the County has had to forward large cash advances to the Behavioral Health Fund and the Welfare Fund during the first quarter. The Public Health realignment restricted cash account has been the primary source for these short-term cash advances. This practice has been necessary since the start of the State cash delays that began last May.

Debt: During the first quarter of this fiscal year, principal payments totaling \$590,650 and interest payments of \$829,305 were made against long-term debt obligations. No new loans were secured during the first quarter.

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 2.0% in the quarter ending September 30, 2012¹. Although economic gains remain modest, this increase marks the thirteenth straight quarter of positive GDP growth and is primarily the result of increased personal consumption expenditures, federal government spending, and residential fixed investments. Imports, which reduce GDP, decreased.

Figure 1



Figure 2

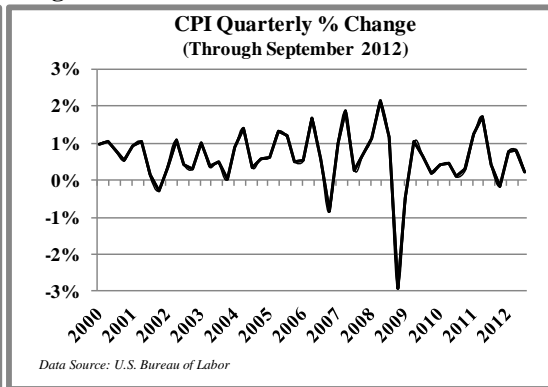


Figure 3



Rising gasoline, household energy, and food prices continue to create signs of some inflation. The national unadjusted Consumer Price Index (CPI) rose by .83% in the last 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.

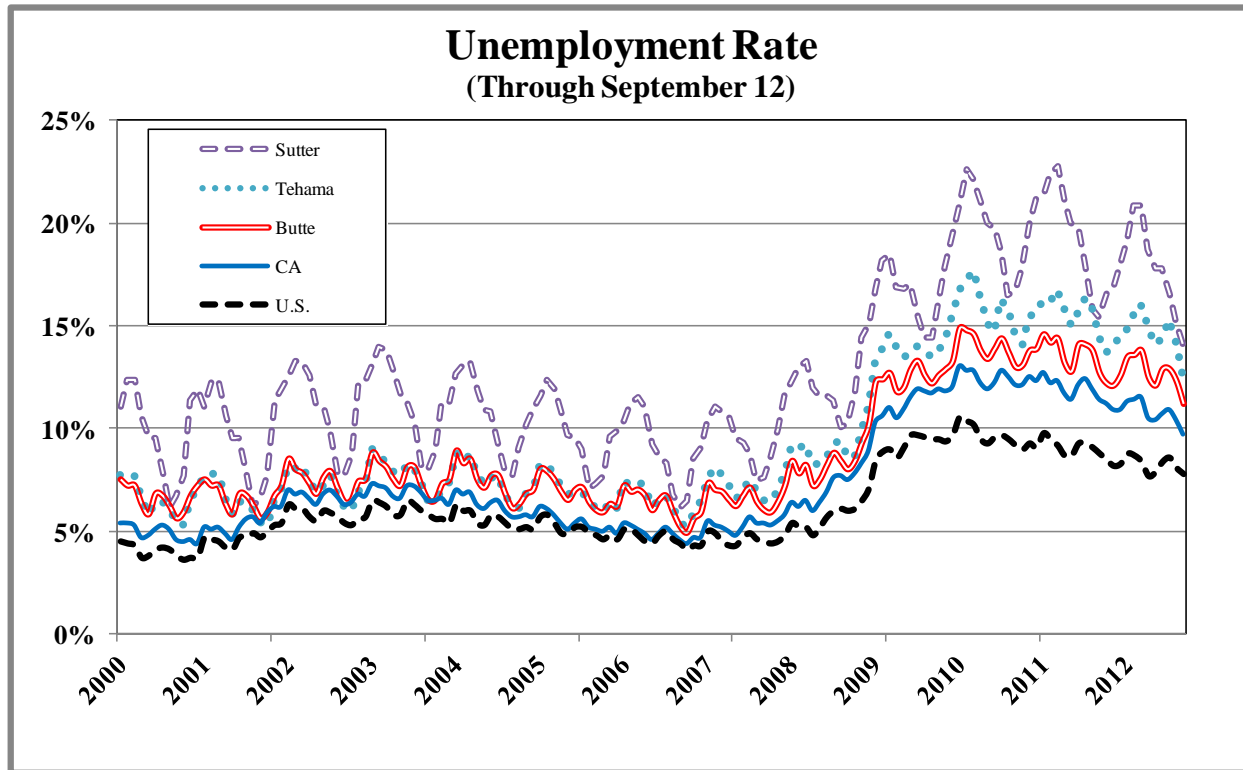
In September 2012, the Conference Board’s Consumer Confidence Index (CCI) measure was 70.3 (100 = normal). The CCI measures the relative financial health, spending power, and confidence of the average consumer. The CCI figure for September 2012 is up 9 points from the previous month. Compared to September 2011, the figure has gone up 29.4, showing a definite increase in consumer confidence. However, the index continues to show that consumers are concerned about their expected earnings and is a sign that spending decisions to buy items like houses and autos remain guarded.

Employment: The State’s unadjusted unemployment rate in September 2012 was 9.7%, down 1.7% from September 2011. The countywide unemployment rate in September 2012 was 11.2%, down 1.5% from September 2011 but still double the rate from September 2007. According to preliminary data, Butte County had 11,100 employable residents considered unemployed during September 2012. While unemployment in Butte County is higher than state and national averages, it continues to remain lower than unemployment rates experienced in adjacent counties.

¹ Figure 1 reflects annualized GDP growth during the period of July, August and September as reported by the Bureau of Economic Analysis. Previous quarterly financial reports released by the Finance Office included GDP growth reflected as a quarter to quarter increase as opposed to the annualized growth seen in Figure 1.

² For the purpose of this report the County budget includes all departmental operating budgets, internal service funds

Figure 4



Other State and Local Economic Indicators: The pace of statewide homebuilding during the three-month period ending September 30, 2012 showed some positive signs of improvement. 6,202 residential building permits were issued statewide during July 2012, an increase of more than 3,000 compared to July 2011.

Local construction permitting in the unincorporated area of the County in the 1st quarter of this fiscal year was 9% higher than the same quarter one year earlier. Although this figure is down 29% from the same period in 2006, building activity appears to continue to increase since the low point at the end of 2009.

The median price of existing, single-family homes sold in California during the month of September 2012 was \$345,000, a 0.3% increase from the previous month and a 19.5% increase from a year earlier. Existing home sales statewide during September 2012 declined by 5.2% compared to August of 2012 and decreased by 4.1% when compared to September 2011.

Figure 5

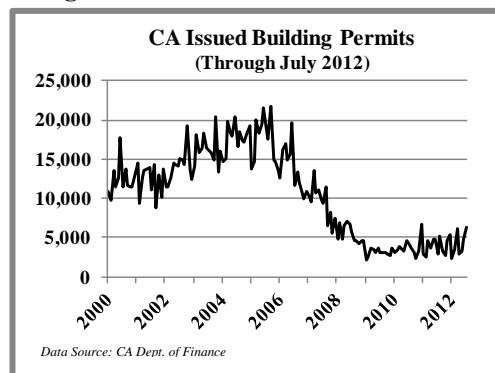
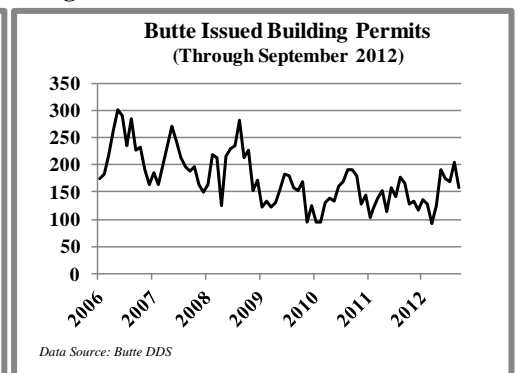


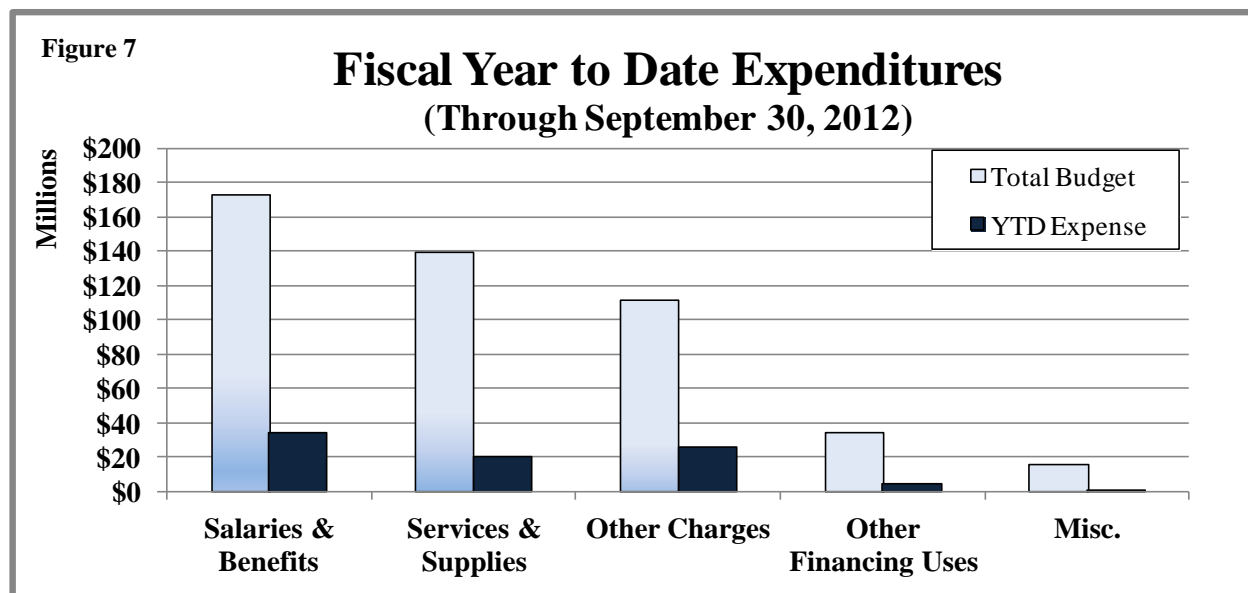
Figure 6



EXPENDITURE REPORT

At the end of the first quarter, the County had expended \$86.1 million² from a budget totaling \$475 million. As shown in the graph below, the County spent \$34.6 million on salaries and benefits, \$20 million on services and supplies, and \$25.8 million on other charges, such as payments between funds and contributions to other agencies. The remaining \$5.7 million in expenditures were for other financing uses and miscellaneous expenditures. Other financing uses are primarily operating transfers and charges between budget units. Operating transfers are significantly higher this year due to Realignment 2011 transfers totaling \$4.5 million in the first quarter. The transfers associated with Realignment 2011 did not begin until the second quarter of last fiscal year. Miscellaneous expenses include fixed assets and building depreciation.

Overall, the County expended 18% of the budget through the first quarter. Although 25% of the fiscal year elapsed between July 1st and September 30th, it is typical for expenditures to be less than 25% at the end of the first quarter. Last year at this time the County had expended 19% of its budget. The graph on the following page shows the percent of budget expended by each County department. The majority of departments expended 15% to 25% of their budget through September, which is typical for this early in the fiscal year.

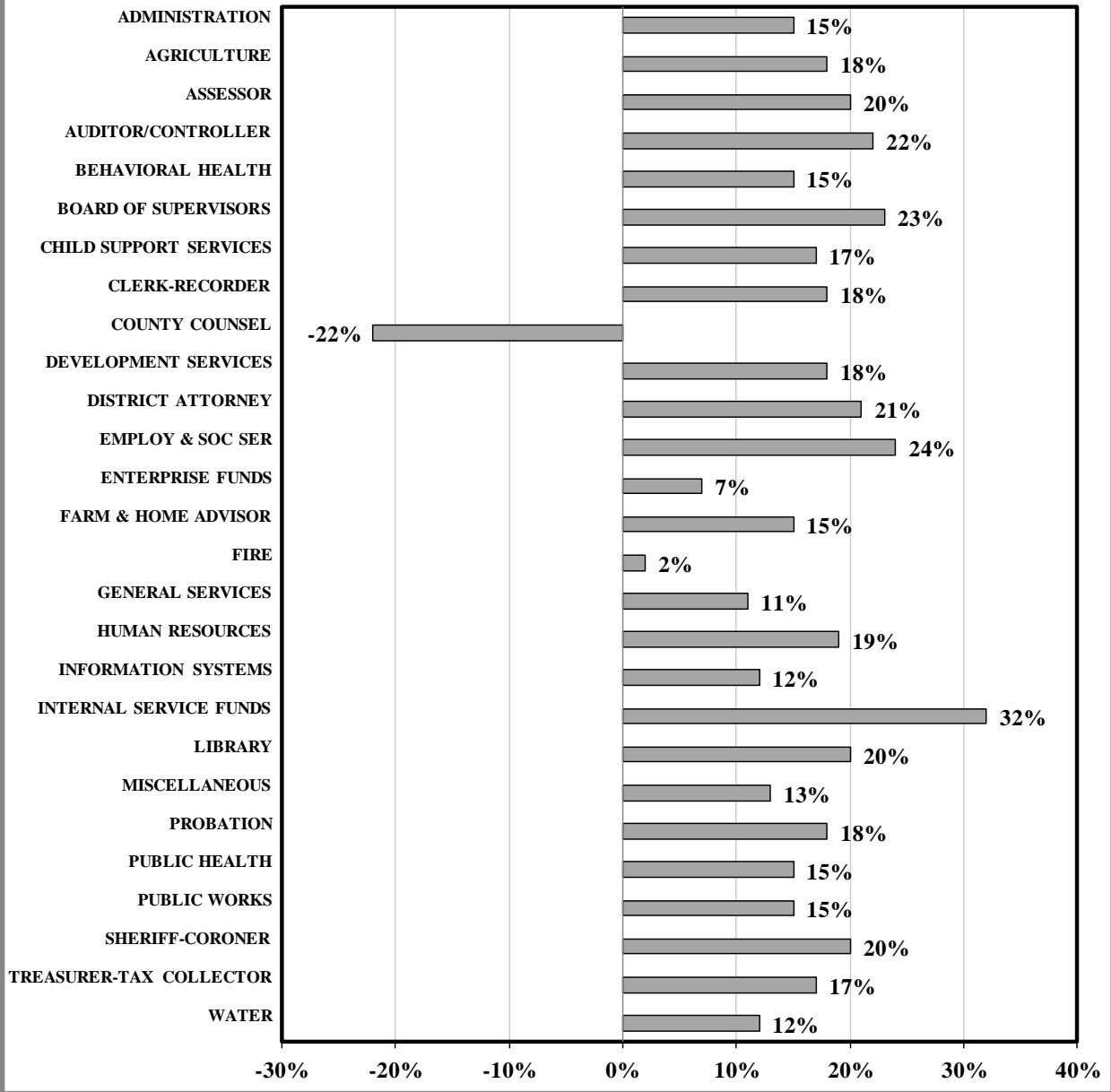


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² For the purpose of this report the County budget includes all departmental operating budgets, internal service funds (for example Workers' Compensation and General Liability), enterprise funds (Neal Road Waste and Recycling Facility) as well as a 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

Department Expenditures (% of Total Budget - Through September 30, 2012)



Through the first quarter, internal services funds used 32% of resources estimated in the operating plan for the year. The internal service funds include General Liability, Workers' Compensation and other risk management funds, and the Utilities Fund. Most of the County's insurance premiums are paid in the first quarter of the fiscal year which artificially inflates this percentage.

A number of departments expended less than 15% of their budget for the year. County Counsel, Fire, and Water and Resource Conservation have budgeted professional services that are expected to be utilized and paid later in the year. The Fire budget, for example, includes the State Cal Fire agreement and the first quarter invoice is not anticipated until December. County Counsel reflects a negative percentage due to expenditure transfers posted in accordance with countywide cost allocations. This figure will change as

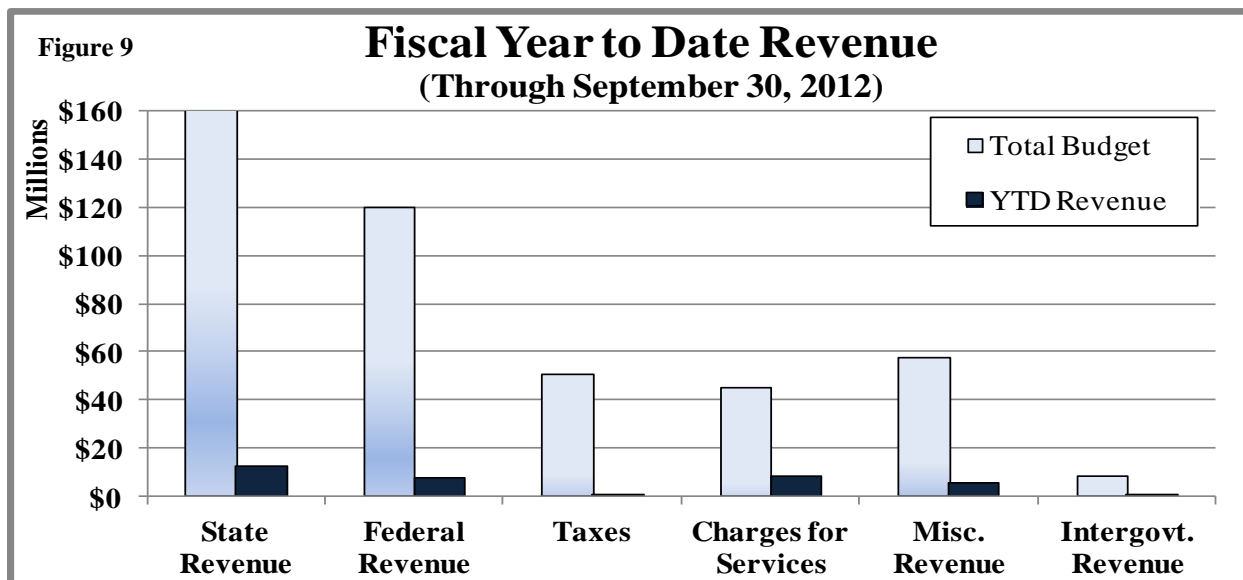
the year progresses and the department makes use of contracted professional services. The Information Systems department budget includes a couple of large projects to be expended later in the year as work is completed. General Services expenditures appear low due to expenditure transfers posted in accordance with countywide cost allocations. If the expenditure transfers are removed from consideration, the General Services department has expended 19% of budget.

The enterprise fund operating plan (Neal Road Recycling and Waste Facility) calls for capital purchases and improvements of more than \$1.5 million which will occur later in the year. The Neal Road Recycling and Waste Facility operating plan also includes estimated expenditures of more than \$800,000 for debt payments that have not occurred yet.

The Miscellaneous budget units overall have expended 13% of their budget. Miscellaneous budget units include a wide variety of budget units not directly related to the operations of a particular department. For example, capital projects, Community Development Block Grants, grand jury expenses, debt service, and General Revenues and Transfers are all included in Miscellaneous. The Community Development Block Grants program has a budget of almost \$4 million, a large part of which is the Disaster Recovery Initiative (DRI) Grant program. It is anticipated that a significant amount of DRI funds will be expended on public infrastructure improvements later in the year. General Revenues and Transfers has an expenditure budget of \$3.1 million, representing transfers of general purpose revenue to other funds. Through the first quarter, only 8% of the budgeted transfers to other funds have taken place. The budgeted General Fund transfer to the Welfare Fund is \$1.9 million.

REVENUE REPORT

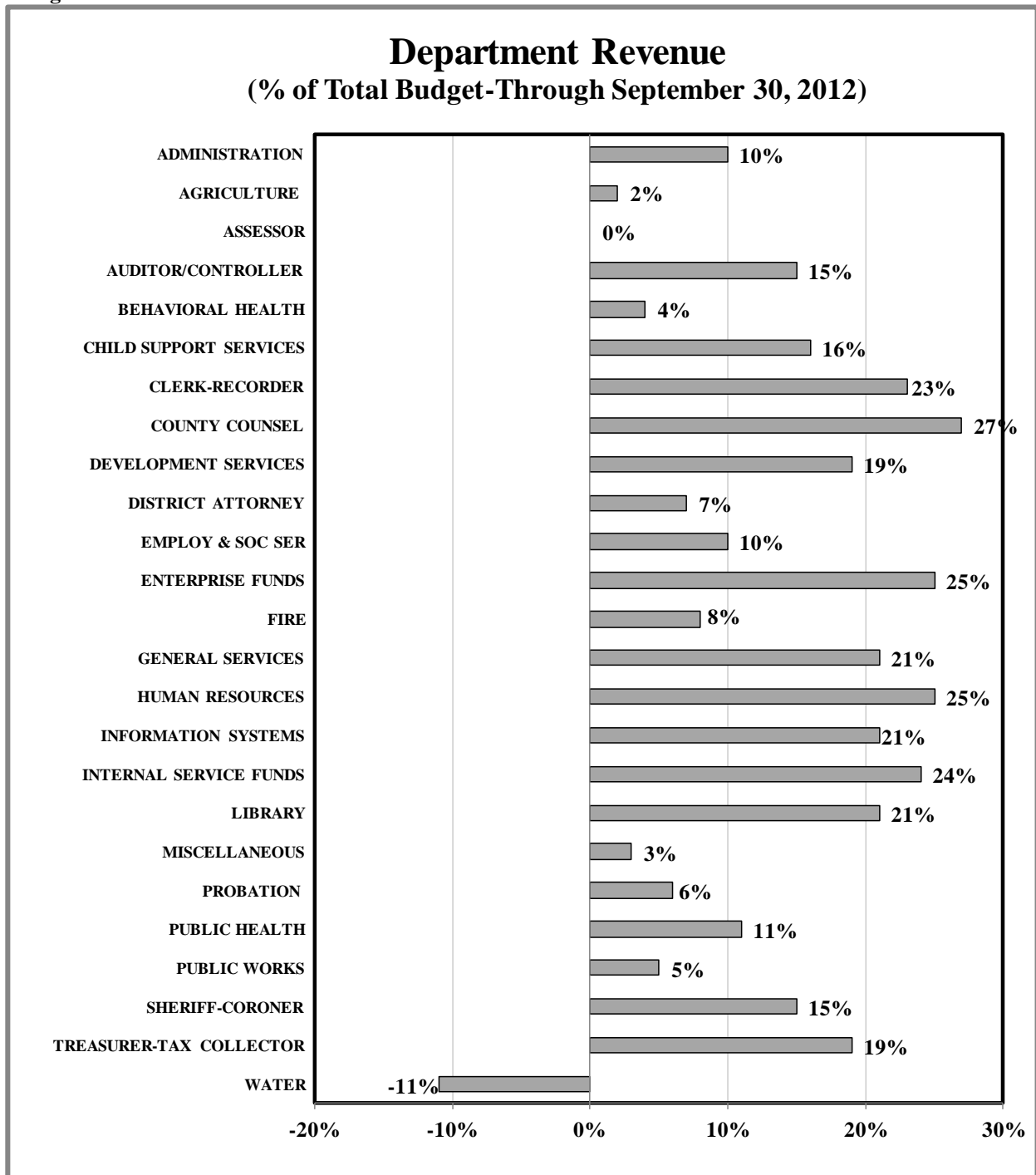
Through the first quarter of the year the County received 8% of budgeted revenues³. Although first quarter revenues appear low, the results are consistent with that of prior years. Last year at this time, the County had received 10% of budgeted revenues.



³ For the purpose of this report the County's budgeted revenues include 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 general purpose revenues, capital projects, CDBG grant programs and Debt Service. County Service Areas are excluded.

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

Figure 10



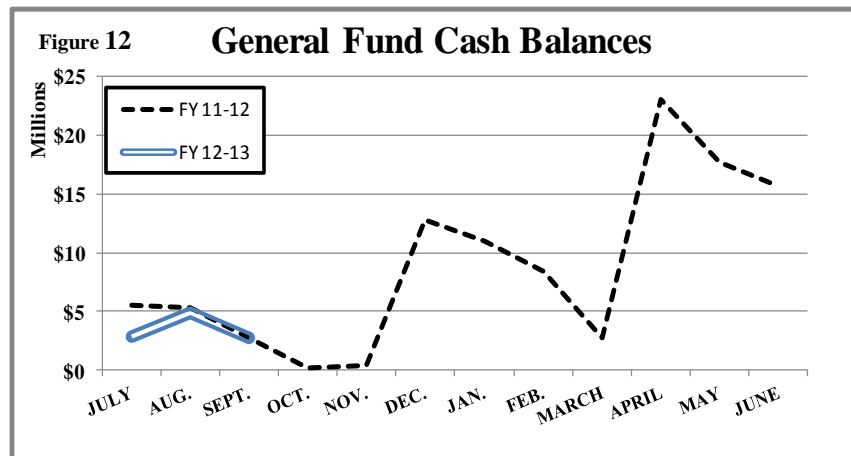
The Water and Resource Conservation Department is currently showing negative revenue receipts for the quarter. This is consistent with prior years and due to accrued fiscal year 2011-2012 revenues that have not yet been received.

Similar to overall County revenues in the first quarter of the fiscal year, general purpose revenue receipts are low. Through the first quarter, the County only received 2% of budgeted revenues. The single largest component of general purpose revenue is property tax, and less than 1% of property tax revenue has been received. Similarly, the County has only received one month of sales tax revenues. The table below shows year to date receipts of general purpose revenue. Staff will continue to closely monitor these revenues throughout the year.

Figure 11			
General Purpose Revenue Receipts			
(Through 1st Quarter)			
Account Title	Budget	YTD Receipts	YTD %
Property Taxes	44,970,100	129,822	0%
Teeter Plan Proceeds	1,200,000	0	0%
Local Sales Tax	3,660,390	345,209	9%
Other Taxes	1,049,000	147,166	14%
Licenses & Permits	1,538,000	152,551	10%
Fines, Forfeitures & Penalties	1,188,724	76,816	6%
Interest-County Treasury	1,036,000	86	0%
Public Safety Sales Tax	14,158,000	1,120,165	8%
Lease-Table A Water	0	0	0%
RDA City of Chico	4,155,000	0	0%
Tobacco Settlement Funds	1,993,387	0	0%
Other Misc. Revenue	1,360,400	(143,059)	-11%
Total General Purpose Revenue	\$76,309,001	\$1,828,756	2%

GENERAL FUND OPERATING CASH REPORT

The ending General Fund cash balance at the end of the first quarter of fiscal year 2013 was \$2,767,879. One year ago, at September 30, 2011, the ending balance was \$2,781,528. The graph shows cash for both years trending downward as we finish out the first quarter, as is expected annually. Lower cash balances are typical until we receive the first installment of property taxes in December.



As discussed in the 4th quarter report for 2012, payments to counties from the State remain uncertain. This predicament has and continues to have the greatest impact on the Behavioral Health Fund. In July, the General Fund advanced the Behavioral Health Fund \$7,930,033 to cover the operating cash deficit. The advance was returned to the General Fund in August. The deficit at August 31 was covered with a \$7,000,000 advance from Public Health realignment, and the

September 30 deficit with a \$7,386,874 advance from Public Health realignment. These advances were also returned to Public Health realignment the following months, respective.

As shown in Figure 13, the General Fund did advance \$3,155,365 to the Department of Employment and Social Services at September 30, 2012. The advance was returned to the General Fund in October.

The County determined that it would not be necessary to secure a Tax Revenue Anticipation Note (TRAN) for short term borrowing needs for fiscal year 2012-2013. Staff continuously monitors operating cash for all funds, and maintains contingency plans in case advances are necessary from various cash accounts, in addition to the General Fund operating cash account and the Public Health realignment account, on a short term basis.

Figure 13 GENERAL FUND - CASH ADVANCES AT SEPTEMBER 30, 2012	
Advances To General Fund:	\$ -
Advances From General Fund:	
To: Other Funds - DESS	\$ 3,155,365.00
Total Advances from General Fund	<u>\$ 3,155,365.00</u>

LONG-TERM DEBT

To provide the public, including holders of debt, accurate, timely, and transparent financial data, long-term debt information is regularly recorded and reported for use internally, as well as by outside agencies, such as credit rating agencies, that monitor the fiscal health of the County. During the first quarter, the following payments on long-term debt resulted in principal reductions to two loans:

- 2003 Certificates of Participation
Principal: \$390,000 Interest: \$19,305

- 2006 Certificates of Participation
Principal: \$200,650 Interest: \$810,000

The Long-Term Debt schedule, Figure 14, and Ratio of Outstanding Debt and Ratios schedule, Figure 15, on the following pages present data as of September 30, 2012

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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	2,546,618	6/1/2034
-Series B	21,875,000	21,875,000	1,746,932	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	815,000	421,775	7/1/2014
2010 Bangor Fire Station #55 Renovation Project	1,100,000	1,020,333	55,368	8/1/2050
Total Certificates of Participation	\$ 6,250,000	\$ 1,835,333	\$ 477,143	
Capital Leases				
Chico Memorial Hall - 492 Rio Lindo	583,400	359,589	61,156	4/10/2020
Chico Memorial Hall - 554 Rio Lindo	670,900	399,259	62,275	4/10/2020
Ford Motor Credit	32,150	24,650	9,021	7/15/2014
Megabyte	26,000	8,668	8,668	7/9/2012
Total Capital Leases	\$ 1,312,450	\$ 792,166	\$ 141,120	
Notes Payable				
California Energy Commission				
-Solar Project Phase 1	2,777,000	1,575,257	277,181	12/22/2018
-Solar Project Phase 2	390,000	243,406	35,786	6/22/2020
Total Notes Payable	\$ 3,167,000	\$ 1,818,663	\$ 312,967	
Neal Road Recycling and Waste Facility				
2006 Certificate of Participation	12,025,000	8,960,000	1,192,683	7/1/2021
Loan - California Integrated Waste Mngt Board	500,000	200,000	50,000	6/1/2016
Total Neal Road Recycling and Waste Facility	\$ 12,525,000	\$ 9,160,000	\$ 1,242,683	
TOTAL LONG-TERM DEBT	\$ 73,149,450	\$ 63,501,162	\$ 6,341,729	

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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	\$1,819	\$ 2,237	\$ 792	\$200	\$ 9,770	\$ -	\$ 64,713	0.3608%	\$ 292
2013	\$49,895	\$1,819	\$ 1,835	\$ 792	\$200	\$ 8,960	\$ -	\$ 63,501	0.3591%	\$ 287

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