



BUTTE COUNTY ADMINISTRATION

Finance and Risk Management

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PAUL HAHN
Chief Administrative Officer

Date: February 12, 2013

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 second quarter financial report for Butte County operations contains updates on the economy, expenditures, revenues, budget outlook, cash balances and long-term debts for the three month period ended December 31, 2012.

Economy: There is mixed news from economic data trends through the second quarter of the fiscal year. National economic output, inflation and consumer confidence have all slowed. However, state and local economies are improving. Purchases of homes and construction activity are improving statewide and locally. Home prices continue to increase and the job market is continuing its gradual improvement.

Expenditures: Expenditures by County departments were on track, as anticipated, and very similar to the same quarter of last fiscal year. The County expended 39% of the budget in the first six months of the fiscal year. In the same two quarters of the prior fiscal year, the County also expended 39% of its budget.

Revenues: Discretionary revenues are trending to be approximately \$1 million higher than anticipated in the current budget, due to the receipt of water lease revenue which offsets a number of anticipated shortfalls. Departmental revenues were received as expected. Through the second quarter of the fiscal year, the County received 31% of budgeted revenues, which is about the same rate as the prior fiscal year. Through the same quarter of the previous fiscal year, the County had received 32% of budgeted revenues.

Budget Outlook: The County's outlook has stabilized, as many revenues begin to recover from the recent economic recession, pension costs are reduced and new water lease revenue is received. General Fund revenues are expected to approximately equal General Fund operating expenses next fiscal year.

Cash Balances: General Fund operating cash balance was \$22.9 million at the end of December 2012. This is about \$10 million higher than the ending balance one year prior, due to payroll timing, delayed billing by the State for fire services, and the use Public Health realignment restricted cash account to help the Behavioral Health Fund with cash flow rather than cash flow support from the General Fund.

Debt: During the second quarter of this fiscal year, principal payments totaling \$118,128 and interest payments of \$38,356 were made against long-term debt obligations. No new loans were secured during the second 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, decreased at an annual rate of .1% during the second quarter. The decrease in GDP primarily reflects downturns in private inventory investment, federal government spending, and exports. The GDP was largely impacted by federal government expenditures decreasing by 15% in the second quarter, in contrast to a 9.5% increase in the first quarter, largely due to a 22% decrease in defense spending. There were bright spots in the economy which partly offset the declines such as increases in personal consumption expenditures, residential and nonresidential fixed investment, and business investment in equipment and software. Imports, which reduce GDP, decreased.

Figure 1

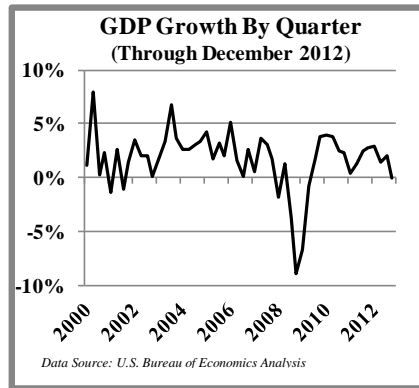


Figure 2

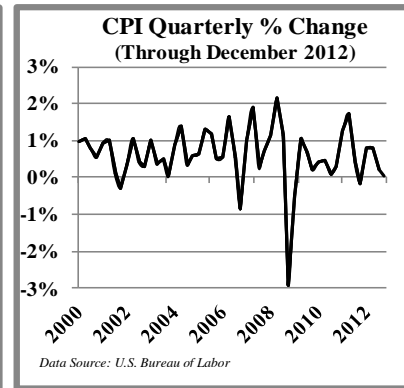


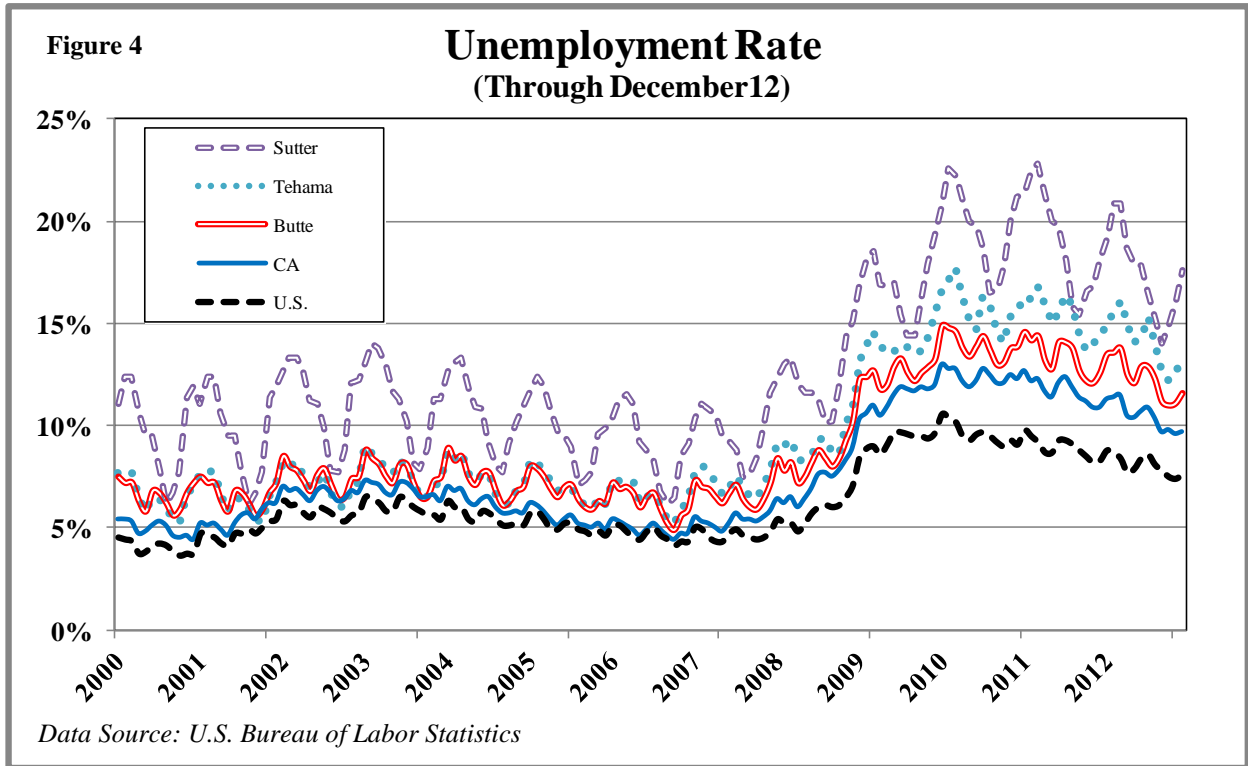
Figure 3



The national unadjusted Consumer Price Index (CPI) declined by .78% in the second quarter, but, increased by 1.7% over the last twelve months. That is the third smallest December to December increase of the past ten years. The CPI increased by 2.9% during 2011. The decline in the second quarter was due to an overall decline in the gasoline index. All other indexes, notably food and shelter, increased during the period. CPI measures the average change over time in the prices paid for a variety of consumer goods and services.

Consumer confidence, as reflected in the Conference Board's Consumer Confidence Index (CCI), started trending upward in September 2012, but declined from 73.10 in October to 65.10 (100=normal) in December. The CCI measures the relative financial health, spending power, and confidence of the average consumer. Consumers' expectations were significantly lower in December most likely due to the uncertainty surrounding the approaching fiscal cliff. Consumers in December seemed to be positive about the current business and labor market conditions, but their outlook regarding business and labor market conditions over the next six months turned more pessimistic.

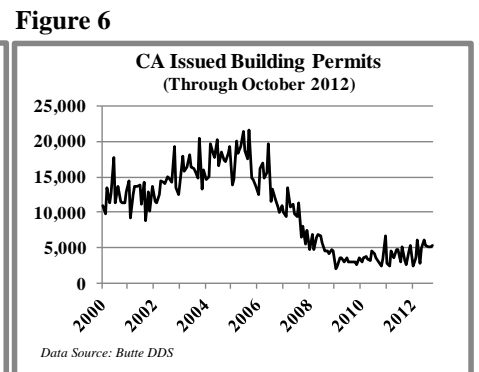
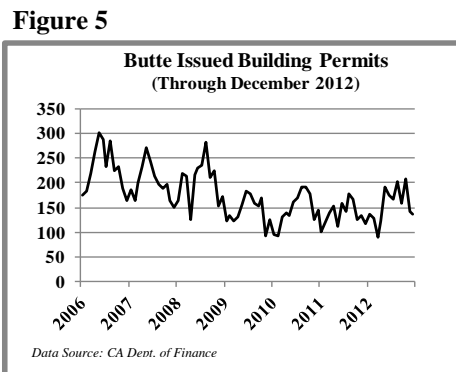
Employment: The State's unadjusted unemployment rate in December 2012 was 9.7%, essentially unchanged from the previous month and down 1.2% from December 2011. The countywide unemployment rate was 11.6%, down 1% from December 2011. According to preliminary data, 11,700 of the 101,300 person labor force in Butte County were unemployed during December 2012. While the unemployment rate in Butte County is higher than the State and national averages, it continues to remain lower than the rates experienced in adjacent counties.



Other State and Local Economic Indicators: The pace of statewide homebuilding continues to show some positive signs of improvement. 5,263 building permits were issued statewide during October 2012; an increase of more than 2,650 compared to October 2011.

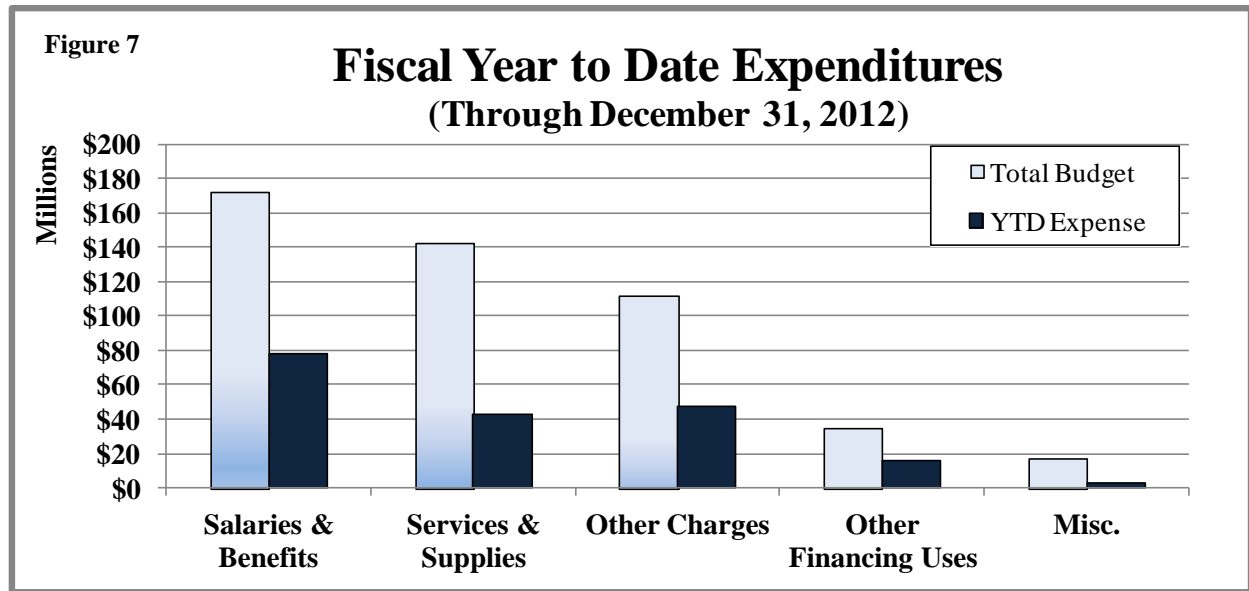
Local construction permitting in the unincorporated area of the County in the second quarter of this fiscal year was 8% lower than the previous quarter, but, 25% higher than the second quarter one year ago. Although issued permits are down 20% from the same period in 2006, building construction continues to improve.

The median price of existing, single-family homes sold in California during December 2012 was \$366,930, a 5% increase from the previous month and a 27% increase from a year earlier. Existing home sales statewide during December 2012 increased .78% over sales in November of 2012 and by .92% when compared to sales a year ago.



EXPENDITURE REPORT

At the end of the second quarter, the County had expended \$186.9 million from a budget totaling \$479.2 million. As shown in the graph below, the County spent \$78 million on salaries and benefits, \$43 million on services and supplies, and \$48 million on other charges, such as payments between funds and contributions to other agencies. The remaining \$19 million in expenditures were for other financing uses and miscellaneous expenditures, which are primarily operating transfers and other charges between budget units. The majority of these transfers are related to Realignment 2011. Miscellaneous expenses include capital assets.



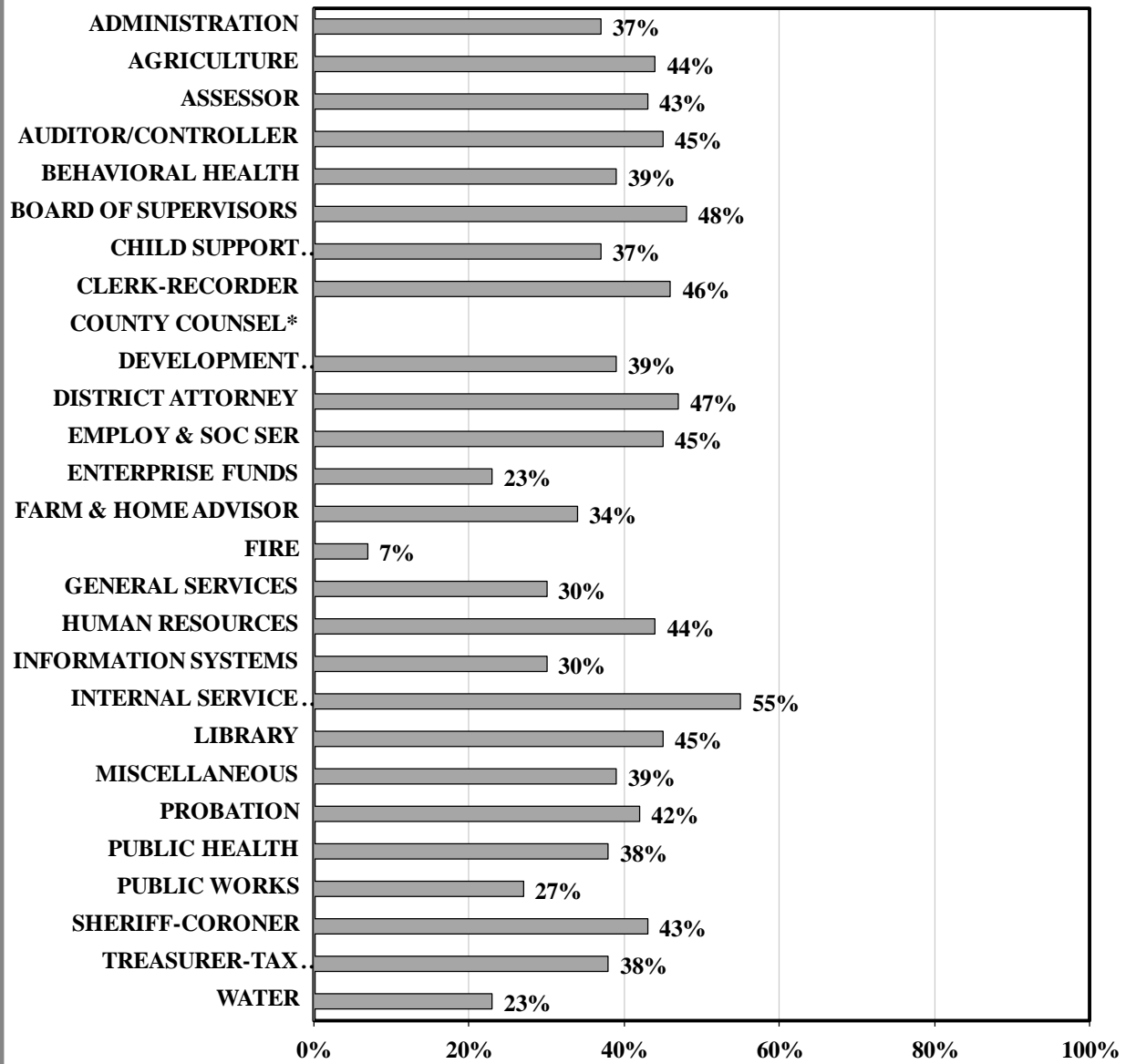
Overall, the County expended 39% of the budget through the second quarter of the 2012-2013 fiscal year. Although 50% of the fiscal year elapsed between July 1 and December 31, it is typical for expenditures overall to be less than 50% at the end of the second quarter. For example, many services and supplies 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.

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Figure 8

Department Expenditures

(% of Total Budget - Through December 31, 2012)



* County Counsel's budget currently reflects a -13% due to expenditure transfers posted in accordance with countywide cost allocations.

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 relate to an uneven flow of expenditures through the course of the year. The Fire Department, Water and Resource Conservation Department and County Counsel budgets all have budgeted professional services that are expected to be utilized later in the year. The Fire budget, for example, includes the State CalFire cooperative agreement, and the first quarterly

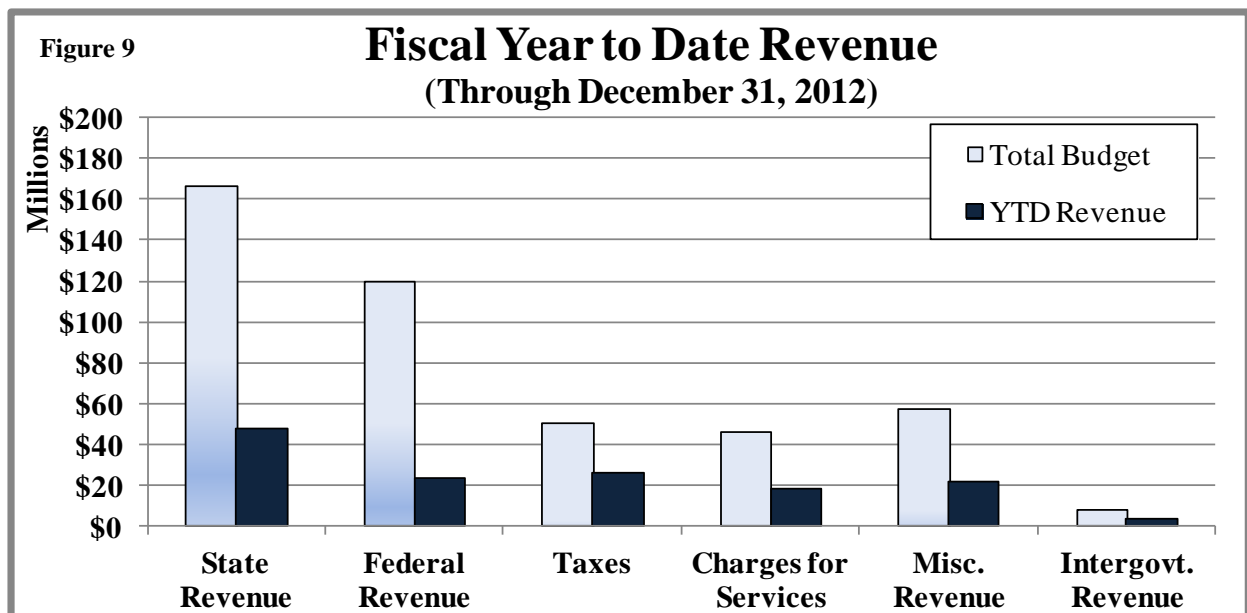
payment was not made until after the end of the second quarter due to a billing delay at the State. County Counsel reflects a negative percentage due to expenditure transfers posted in accordance with countywide cost allocations. The General Services and Public Works Departments have budgets that include 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 Information Systems Department budget includes a number of budgeted expenditures that are not anticipated until the second half of the fiscal year. For example, a transfer to the Capital Project fund for work related to the Bloomer Mt. Communications tower will not be made until the third quarter.

The enterprise funds (Neal Road Recycling and Waste Facility) include capital purchases and improvements of almost \$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 principal debt payments that will not be recorded as current year expenditures due to the accounting requirements for enterprise funds.

The internal service funds which include the budgets for general liability and workers' compensation have spent 55% of their budget through the second quarter. This is due to annual insurance premiums paid in the first half of the year and the payment of a large general liability claim. The County will be reimbursed for a portion of this payment through our insurer.

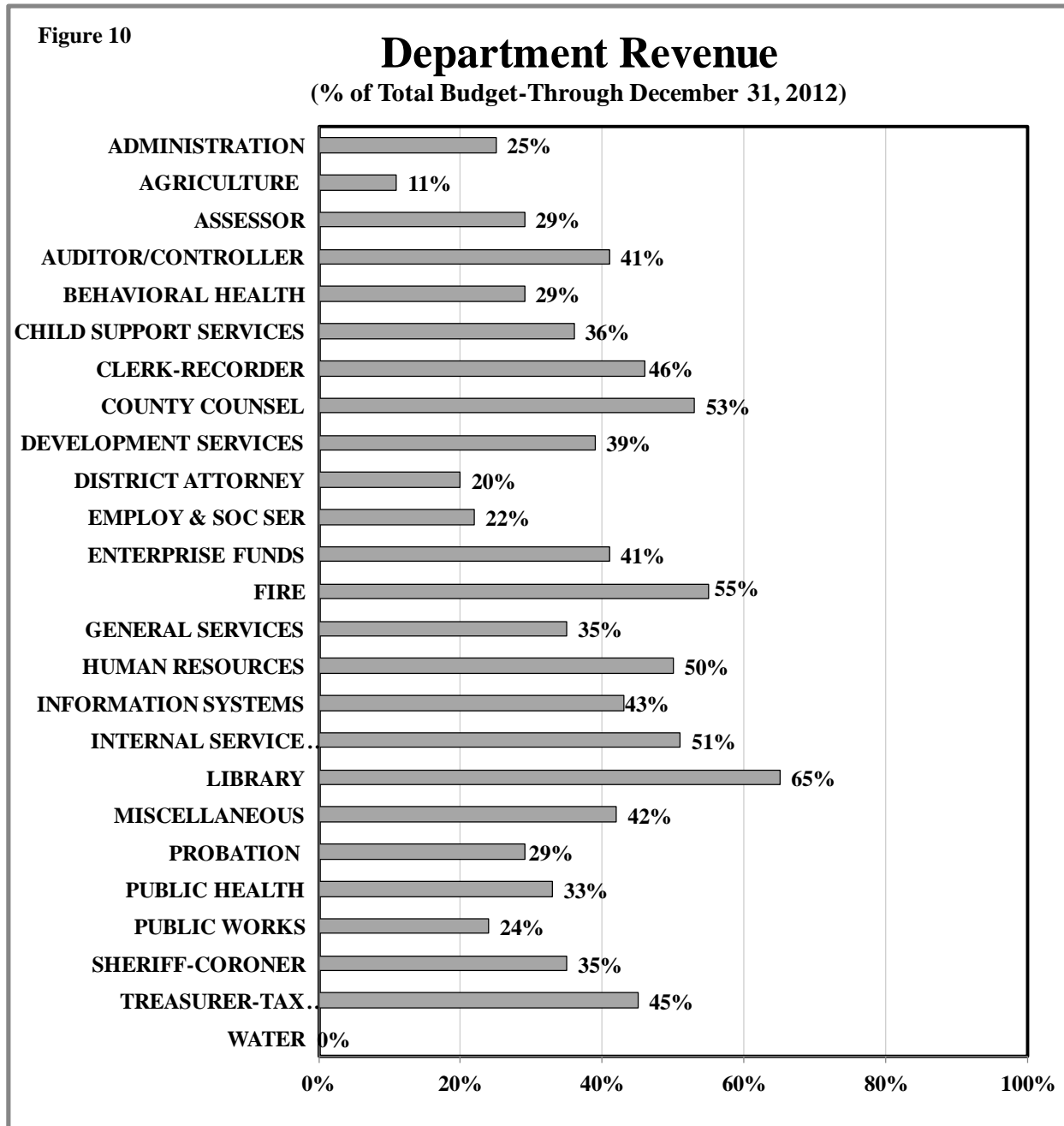
REVENUE REPORT

Through the second quarter of the fiscal year, the County has received 31% of budgeted revenues¹. This is consistent with the same period last year when the County had received 32% of budgeted revenues.



¹ 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 Recycling and Waste 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 through December 31, 2012 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. In most cases this is simply a timing issue. For example, in the Department of Employment and Social Services and the Behavioral Health Department, the transition to 2011 Realignment has altered the timing of Department revenues. For the Department of Employment and Social Services, no year-end shortfall is anticipated. However, the timing and receipt of revenues in the Behavioral Health Department is an ongoing challenge that staff continue to monitor. Grant funds and

other allocations budgeted in the Administration, Agriculture, District Attorney, Probation, Public Works and Water and Resource Conservation Departments were not received by the end of the second quarter, but have either been received in January or are anticipated prior to the end of the fiscal year.

Two anticipated potential year end revenue shortfalls have been identified. The County's contract to house federal inmates will not be fully realized due to the increasing need in the jail to house inmates related to the AB 109 prison realignment program. Some of this shortfall may be made up with AB 109 revenues, but a shortfall is anticipated. Property tax administration revenues are projected to be approximately \$500,000 less than anticipated due to the elimination of Redevelopment Agencies. This shortfall is primarily reflected in the Assessor's budget and appears to be an unanticipated result of the elimination of Redevelopment Agencies and a court case in Los Angeles that affected the calculation methodology in favor of cities.

Three departments have received in excess of 50% of budgeted revenues through the first half of the fiscal year. County Counsel has received somewhat higher than anticipated revenues from the Public Administration and Public Guardian related to legal services provided. The Fire Department's revenues are higher than anticipated due to a relatively higher number of summer fires in the state responsibility area (SRA). When the Fire Department sends staff and equipment to SRA fires the County is reimbursed by the state. These funds are held in reserved County Cost Share and Water Tender accounts. The Library has currently received 65% of budgeted revenues. This is primarily due to the receipt of an unbudgeted grant by the Library. The Library expects to be coming before the Board of Supervisors at an upcoming Board Meeting to increase anticipated expenditures and revenues related to this grant. Additionally, the donations received by the Library in the first half of the fiscal year were somewhat higher than anticipated.

General Purpose Revenues, included in Figure 10 above as part of the miscellaneous budget unit, are coming in overall much as anticipated, however there is variation with particular accounts. Year end estimated property tax revenues include approximately \$800,000 in residual revenue from the now eliminated Oroville Redevelopment Agency. Without these funds the County would be expecting a year end shortfall in Property Tax Revenues. Table A water lease revenues are included in the table below, but were not budgeted. The County will receive approximately \$2.3 million in revenue related to these leases. Additionally, Property Transfer Tax and Other Taxes are somewhat higher than anticipated. The increase in the Property Transfer Tax is a reflection of the improving real estate market and a positive indicator for future property tax growth. Year end shortfalls are anticipated in a number of accounts including interest, which based on first quarter interest revenues, is expected to be over \$500,000 short of the budgeted amount. Overall, with the inclusion of the water revenue, year end general purpose revenues are currently expected to be approximately \$1 million more than budgeted.

Figure 11

General Purpose Revenue Receipts (Through 2nd Quarter)			
Account Title	Budget	YTD Receipts	YTD %
Property Taxes	44,970,100	23,653,834	53%
Teeter Plan Proceeds	1,200,000	0	0%
Local Sales Tax	3,660,390	1,464,027	40%
Property Transfer Taxes	510,000	295,155	58%
Other Taxes	539,000	330,908	61%
Licenses & Permits	1,538,000	307,512	20%
Fines, Forfeitures & Penalties	1,188,724	332,989	28%
Interest-County Treasury	1,036,000	69,544	7%
Public Safety Sales Tax	14,158,000	4,702,099	33%
Lease-Table A Water	0	1,727,628	
RDA City of Chico	4,155,000	1,951,728	47%
Tobacco Settlement Funds	1,993,387	0	0%
Other Misc. Revenue	1,360,400	857,906	63%
Total General Purpose Revenue	\$76,309,001	\$35,693,331	47%

BUDGET OUTLOOK

On January 30th the County kicked off the fiscal year 2013-2014 budget process. The County's financial outlook has stabilized due to the sacrifices of County Employees, the prudent management of the Board of Supervisors and an improving economic outlook. In preparation of the 2013-2014 Recommended Budget, departments have been asked to provide a number of budget scenarios when they submit their requested budgets to the County Administrative Office in March. This includes a base scenario with less than a 1% increase in use of County discretionary funds. This base scenario reflects an essentially flat budget outlook for 2013-2014. The outlook for fiscal year's 2015-2016 and beyond appears stable as many revenues begin to recover from the recent economic recession and program costs grow moderately. The primary factors of this outlook include:

- Ongoing revenues of over \$2.3 million from the lease of the County's Table A Water Allocation. The County currently has a two year agreement to lease a portion of the County's Table A Water Allocation. A potential eight year extension with an option to increase the term for another 10 years is currently being explored.
- Modest anticipated growth in property tax revenues as the County's real estate market continues to stabilize and show signs of improvement.
- Residual revenues from the eliminated redevelopment agencies will continue to flow to the County. Anticipated revenues are still uncertain as the redevelopment agency successor agencies continue to work with the State to determine ongoing obligations and settle the disposition of assets now held by the successor agencies. \$800,000 is anticipated by the County in fiscal year 2012-2013.
- The County currently has an agreement to house federal inmates in the Butte County Jail. In recent years this agreement has provided over \$3.5 million revenue annually to the County and helped to avoid even deeper budget cuts during the recent recession. Due to the increasing need

to house inmates related to AB 109, the prison realignment program, the County is now expecting a significant reduction or elimination of the federal agreement over the next few years.

- Interest revenues are down significantly due to historically low interest rates. The current year shortfall is expected to be in excess of \$500,000.

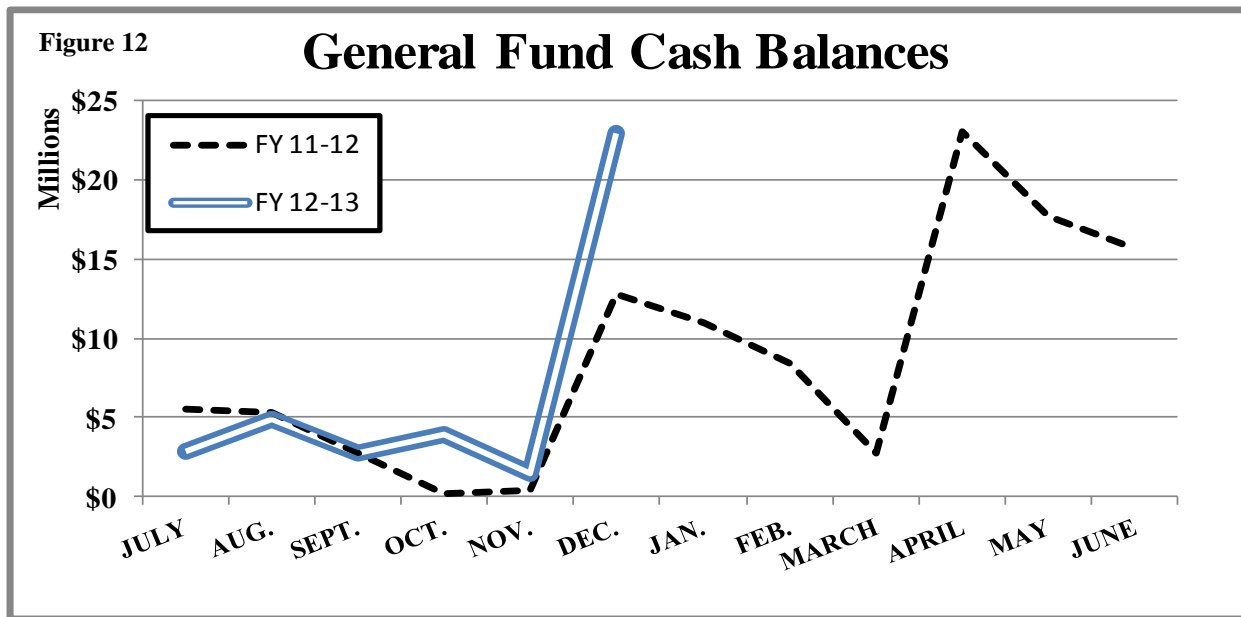
GENERAL FUND OPERATING CASH REPORT

The ending General Fund cash balance at the end of the second quarter of fiscal year 2012-2013 was \$22,882,743. One year ago, at December 31, 2011, the ending balance was \$12,736,319. The difference of approximately \$10,000,000 is the result of the following:

- In December of 2011 there were three payroll payments made instead of the typical two payments. Two months out of the twelve months in a fiscal year have a third payment. The average payroll is approximately \$2,500,000. There was not a third payment in December of 2012.
- At December 31, 2012, no payments to the State for fire services have been made for fiscal year 2012-2013. For fiscal year 2011-2012, the first payment for the year was made in December of 2011. The payment was \$3,000,000.
- In December of 2011, a cash deficit transfer was made from the General Fund to the Behavioral Health Fund for approximately \$3,800,000. The cash deficit transfer to Behavioral Health for December of 2012 came from Public Health realignment (see further discussion, below).

The total of the three items noted is \$9,300,000 which comprises the approximate \$10,000,000 difference.

The graph below reflects the typical cash fluctuation tendency observed during the second quarter, with the current year increase explained above. In general, the significant increase to cash in December is due to the first installment of property taxes paid in December.



No advances were necessary from the General Fund at December 31, 2012.

As discussed in previous quarterly reports, payments to counties from the State remain uncertain. This predicament has and continues to have the greatest impact on the Behavioral Health Fund. In the second quarter, all cash deficits for the Behavioral Health Fund were advanced from Public Health realignment. These advances have been returned to Public Health realignment in subsequent months.

Figure 13

GENERAL FUND - CASH ADVANCES AT DECEMBER 31, 2012	
Advances To General Fund:	\$ -
Advances From General Fund:	\$ -
Total Advances from General Fund	\$ -

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.

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 second quarter, the following payments on long-term debt resulted in principal reductions to two loans:

California Energy Commission Phase 1
Principal: \$105,309 Interest: \$33,282

California Energy Commission Phase 2
Principal: \$12,819 Interest: \$5,074

The following Long-Term Debt schedule, Figure 14, and Ratio of Outstanding Debt and Ratios schedule, Figure 15, present data as of December 31, 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	1,467,862	277,181	12/22/2018
-Solar Project Phase 2	390,000	230,333	35,786	6/22/2020
Total Notes Payable	\$ 3,167,000	\$ 1,698,195	\$ 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	\$ 63,380,694	\$ 6,341,729	

*From FYE 6/30/13 to maturity per amortization schedules

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	\$1,698	\$ 1,835	\$ 792	\$200	\$ 8,960	\$ -	\$ 63,380	0.3585%	\$ 286

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