# BUTTE COUNTY ADMINISTRATION
## Finance and Risk Management

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PAUL HAHN
Chief Administrative Officer


Date: May 21, 2013

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

From: Gregory G. Iturria, Chief Financial Officer

Subject: Third Quarter Financial Report

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**OVERVIEW**

The third quarter financial report for Butte County operations contains updates on the economy, expenditures, revenues, cash balances and long-term debts for the nine month period ended March 31, 2013.

**Economy:** There is encouraging news from economic data trends through the third quarter of the fiscal year. Economic output continues to rise at a moderate pace, while inflation remains in check. Consumer spending power and confidence remains relatively low and fluctuates as consumers look for encouraging economic signs. Purchases of new homes and construction activity continue to improve in our region and State. Home prices continue to increase at a relatively high rate and the job market continues its slow but steady improvement.

**Expenditures:** Expenditures by County departments are on track, as anticipated, and very similar to the last fiscal year. Overall, the County expended 60% of the budget by the end of the third quarter. At the end of the third quarter of the prior fiscal year, the County also expended 60% of its budget.

**Revenues:** Discretionary revenues received during the first three quarters of the fiscal year are approximately $1.5 million higher than anticipated, due most prominently by the receipt of Table A water lease revenue, and higher than expected receipts for the tobacco lawsuit settlement and property transfer taxes. Departmental revenue receipts were lower than expected, due in large part to changes in the timing of receipts. A number of significant department revenues that have historically been received in the first part of the fiscal year are now received in monthly allocations as part of the State of California's 2011 realignment. Through the first three quarters of the fiscal year, the County received 51% of budgeted revenues, which is lower than the same period of the previous fiscal year, when the County had received 56% of budgeted revenues.

**Cash Balances:** General Fund operating cash balance was nearly $7 million at the end of March 2013. This is about $4.2 million higher than the third quarter ending balance one year prior. The cash flow landscape has changed dramatically over the last twelve months. The County is relying much more on cash advances from the Public Health realignment restricted cash account and less reliance on the General

Fund to address State payment delays for realigned programs. The County is also experiencing very different timing of payments between the State of California and County funds, due in large part to the 2011 realignment. While there is still volatility in the cash flow, the average balances are up from last year and it does not appear at this time that a cash flow loan will be needed next fiscal year.

**Debt:** During the third quarter of this fiscal year, principal payments totaling $16,742 and interest payments of $219,257 were made against long-term debt obligations. One new loan, in the amount of $558,924, was secured for a landfill dozer to be used at the Neal Road Recycling and Waste Facility.

## 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 2.5% during the third quarter. This positive growth was slightly weaker than the 3% expected. A major source of the growth was an increase in consumer spending, likely due to many American consumers having done the hard work of repairing their personal finances. The increase also reflects positive contributions in private inventory investment, exports, and residential investment. The slower than expected growth was largely due to all levels of government significantly reducing spending and, to a lesser extent, an upturn in imports and a deceleration in nonresidential fixed investment. It is expected the economy will continue to grow, but at a slow-moving pace.

**Figure 1**

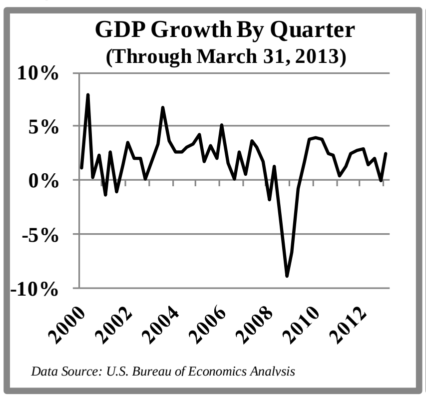



**Figure 2**

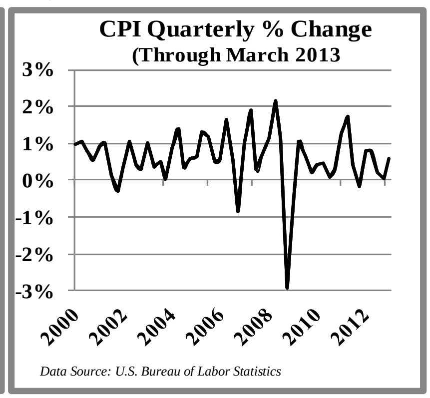
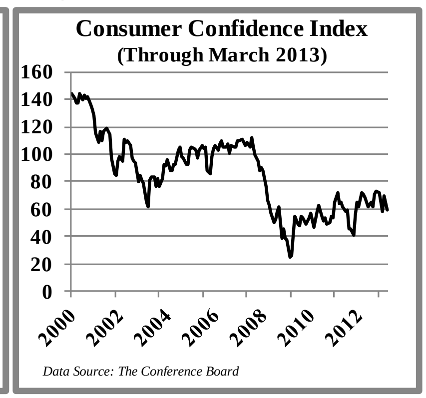


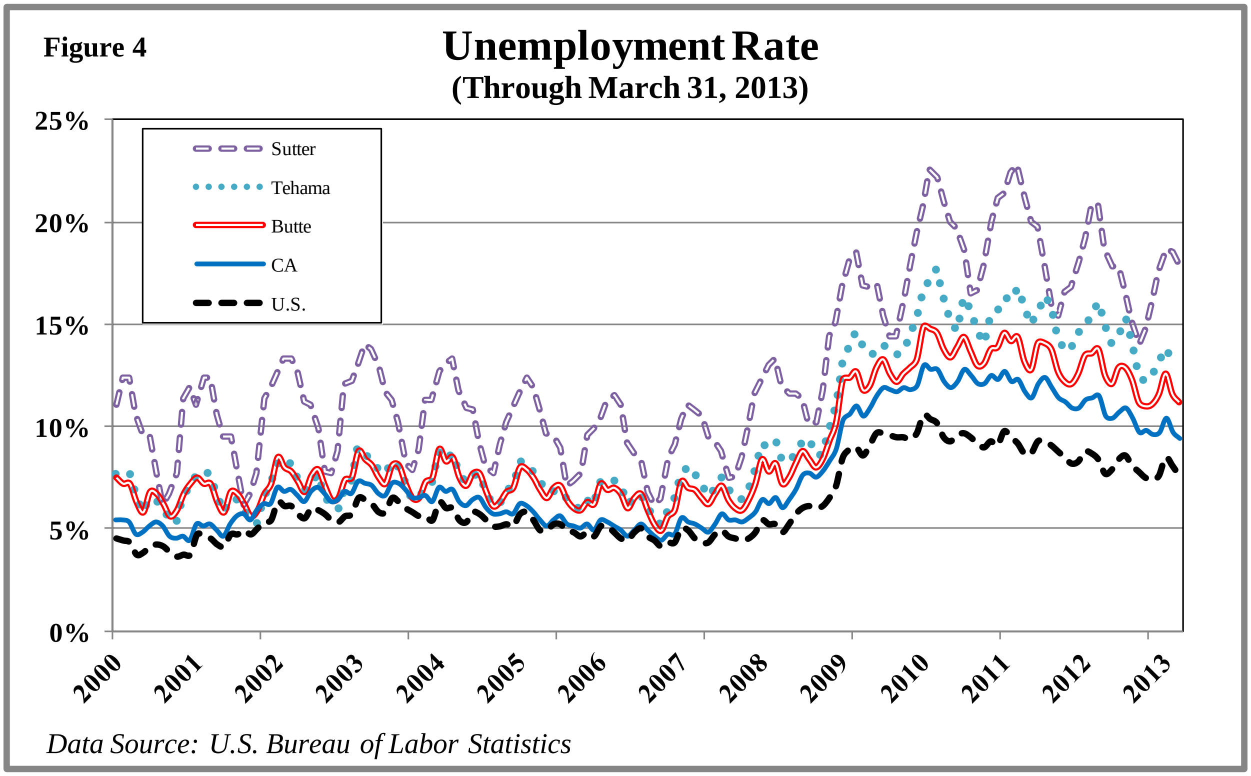

**Figure 3**




The national unadjusted Consumer Price Index (CPI) increased by .59% in the third quarter and by 1.5% over the last twelve months. The yearly increase is the smallest in eight months. It appears our slow growing economy is keeping inflation in check. CPI measures the average change over time in the prices paid for a variety of consumer goods and services. Figure 2, above, demonstrates the volatility of the index since 2007.

Consumer confidence, as reflected in the Conference Board's Consumer Confidence Index (CCI), fell sharply in March after a marked increase in February. The CCI measures the relative financial health, spending power, and confidence of the average consumer. Consumer confidence declined further in January from a four month low in December amid ongoing concerns regarding the effects of the fiscal cliff. In February, the index increased significantly to 69.60, from 58.40 in January (100=normal), most likely because the consequences of the fiscal cliff were not as significant as expected. However, the uncertainty created by the recent sequester resulted in a retreat in consumer confidence and a decline in the March CCI to 59.70. In March, consumers had a more pessimistic outlook regarding the current and longer term business and labor market conditions, which could result in consumers postponing purchases of large items such as houses and cars.

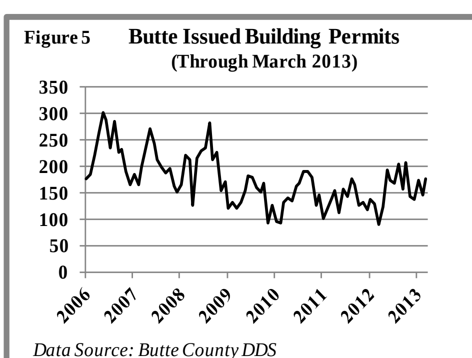
**Employment:** The State's unadjusted unemployment rate of 9.4% in March 2013 was down slightly from the previous month and 1.7% less than March 2012. The countywide unemployment rate has fallen from its January 2011 peak of 15.1% to 11.2% in March 2013. According to preliminary data, 11,400 of the

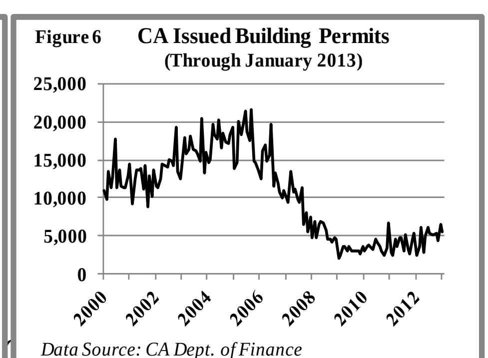



101,300 person labor force in Butte County were unemployed during March 2013; down 300 from December 2012. While the unemployment rate in Butte County is higher than the State and the national averages, it continues to remain significantly lower than the rates experienced in adjacent counties. (Figure 4)

**Other State and Local Economic Indicators:** The pace of statewide homebuilding continues to show some positive signs of improvement. 16,241 residential building permits were issued statewide during the period November 1, 2012, through January 31, 2013; an increase of 31% over the number issued during the same period one year ago.

A total of 496 construction permits were issued for the unincorporated area of the County in the third quarter of this fiscal year, which is a slight increase over the previous quarter and a 39% increase over the number of permits issued



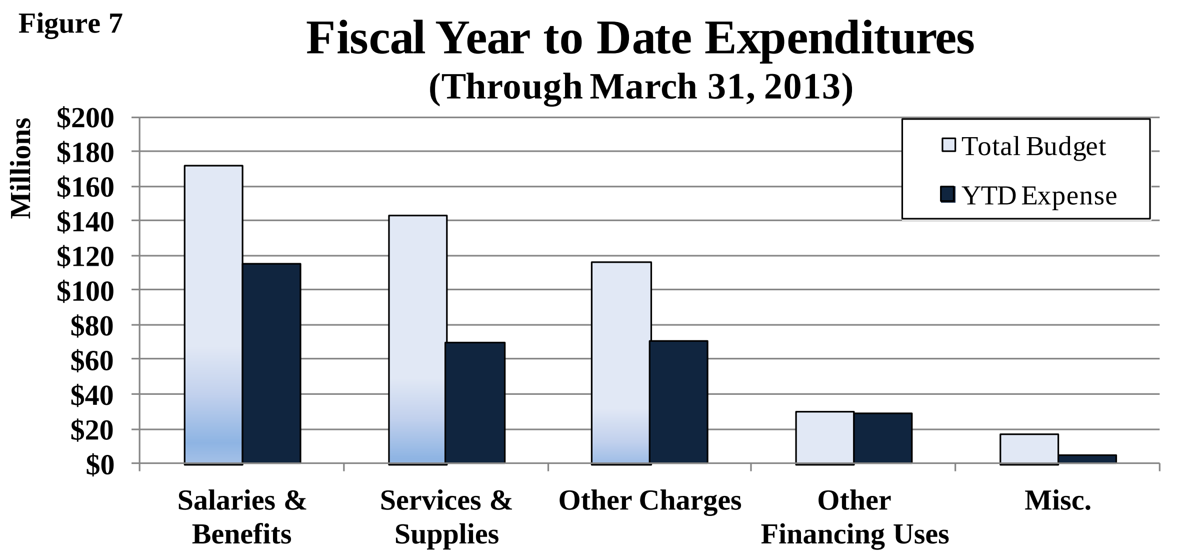
during the third quarter one year ago. Although issued permits are down 14% from the same period in 2006, building construction continues to improve.

The median price of existing, single-family homes sold in California during March 2013 was $378,960, a 14% increase from the previous month and a 28% increase from a year earlier. The number of existing home sales in California during March 2013 was unchanged from the prior month and down 5% from a year ago.

**EXPENDITURE REPORT**

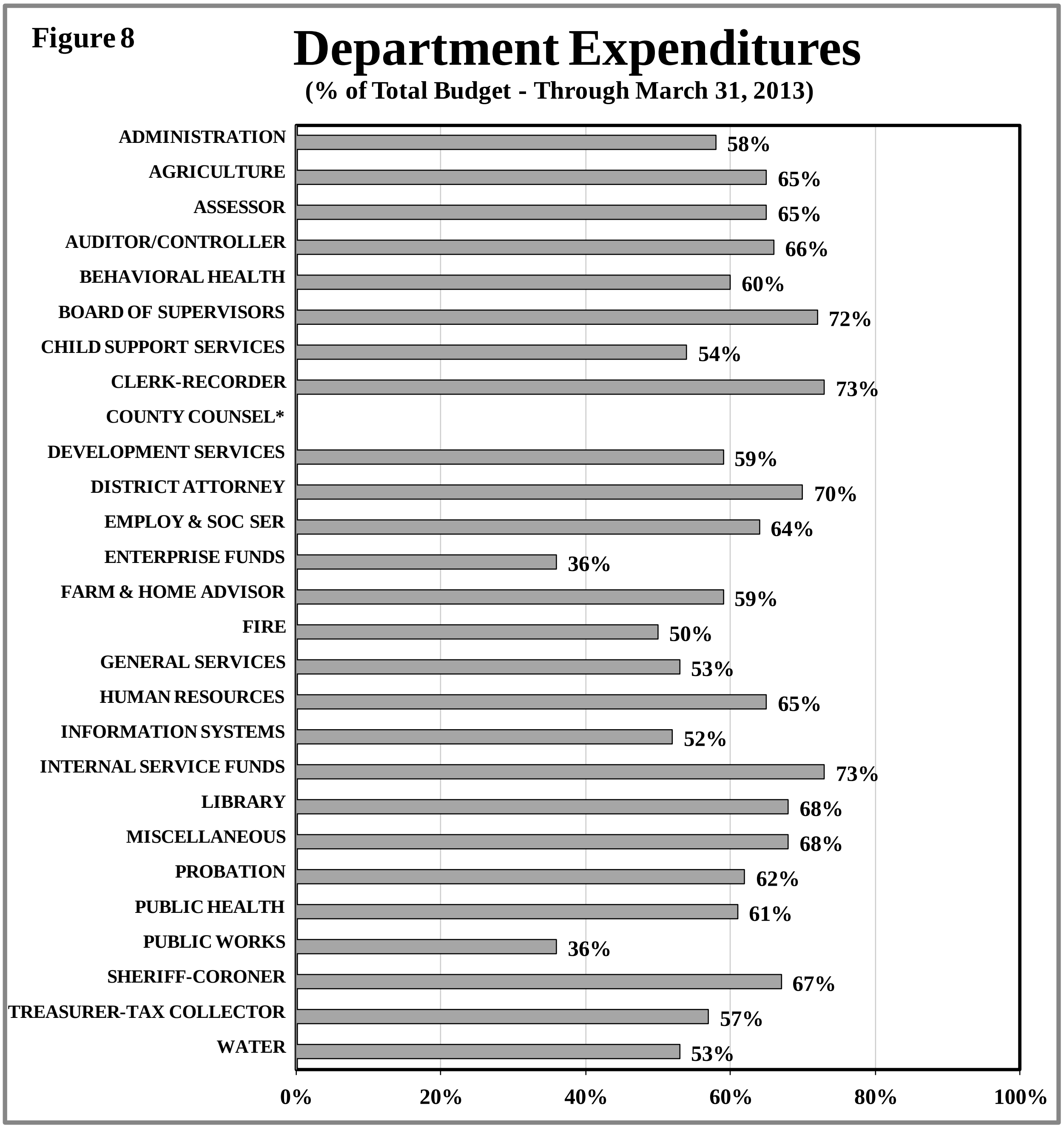
At the end of the 3rd quarter, the County had expended $289.5 million[1] from a budget totaling $480.4 million. As shown in Figure 7 below, the County spent $115.2 million on salaries and benefits, $69.7 million on services and supplies, and $70.9 million on other charges, such as payments between funds and contributions to other agencies. The remaining $33.7 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.

**Figure 7**



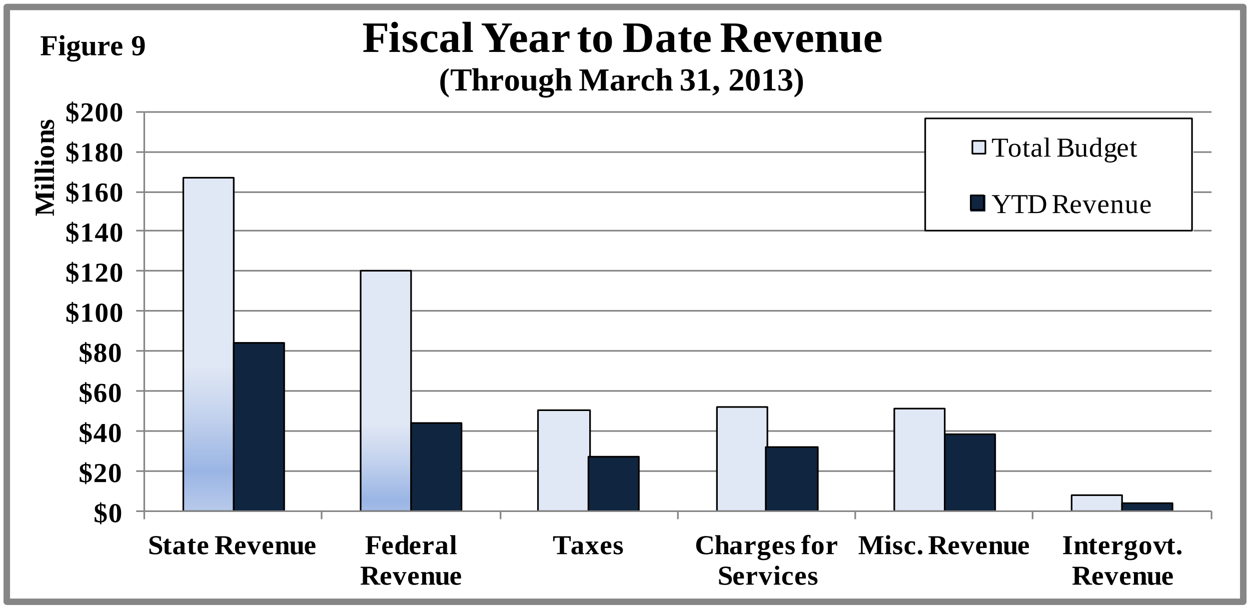

Overall, the County expended 60% of the budget through the fiscal year 2012-2013 third quarter. Although 75% of the fiscal year elapsed between July 1 and March 31, it is typical for expenditures overall to be less than 75% at the end of the third quarter. For example, many services and supplies are 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 60% 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.




** County Counsel's budget currently reflects a -9% due to expenditure transfers posted in accordance with countywide cost allocations.*

Figure 8 shows the percentage of budget expended by each County department. Most departments have expended between 50% and 75% of their budget through the third quarter, which is similar to prior years. The Public Works Department and enterprise funds have expended less than 50%. In the Public Works budget this is because some budgeted construction projects have been delayed and will be completed in the 2013-2014 fiscal year. The budget for enterprise funds (Neal Road Recycling and Waste Facility) includes capital purchases and improvements of almost \$1.5 million most of which will occur in the 4th quarter. 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 enterprise fund budget includes over $800,000 in principal debt payments that will not be recorded as current year expenditures.

**REVENUE REPORT**

Through the third quarter of the fiscal year, as reflected in Figure 9, the County received 51% of budgeted revenues[2]. Last year at this time the County had received 56% of budgeted revenues. This decrease in the receipt of budgeted revenues through the third quarter is primarily related to the timing of funds already received by the County being recorded as revenue. The Department of Employment and Social Services receives large advances to pay for state and federal programs. To comply with accounting rules these advances are not recorded as revenue until the funds are spent. An adjustment that typically happens in the third quarter to recognize these advances as revenues did not occur and will happened in the fourth quarter instead. Additionally, year to date revenues in the Behavioral Health Department are lower than last year at this time due to 2011 realignment. A number of significant department revenues that have historically been received in the first part of the fiscal year are now received in monthly allocations from September through August as part of 2011 realignment.

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[2] 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

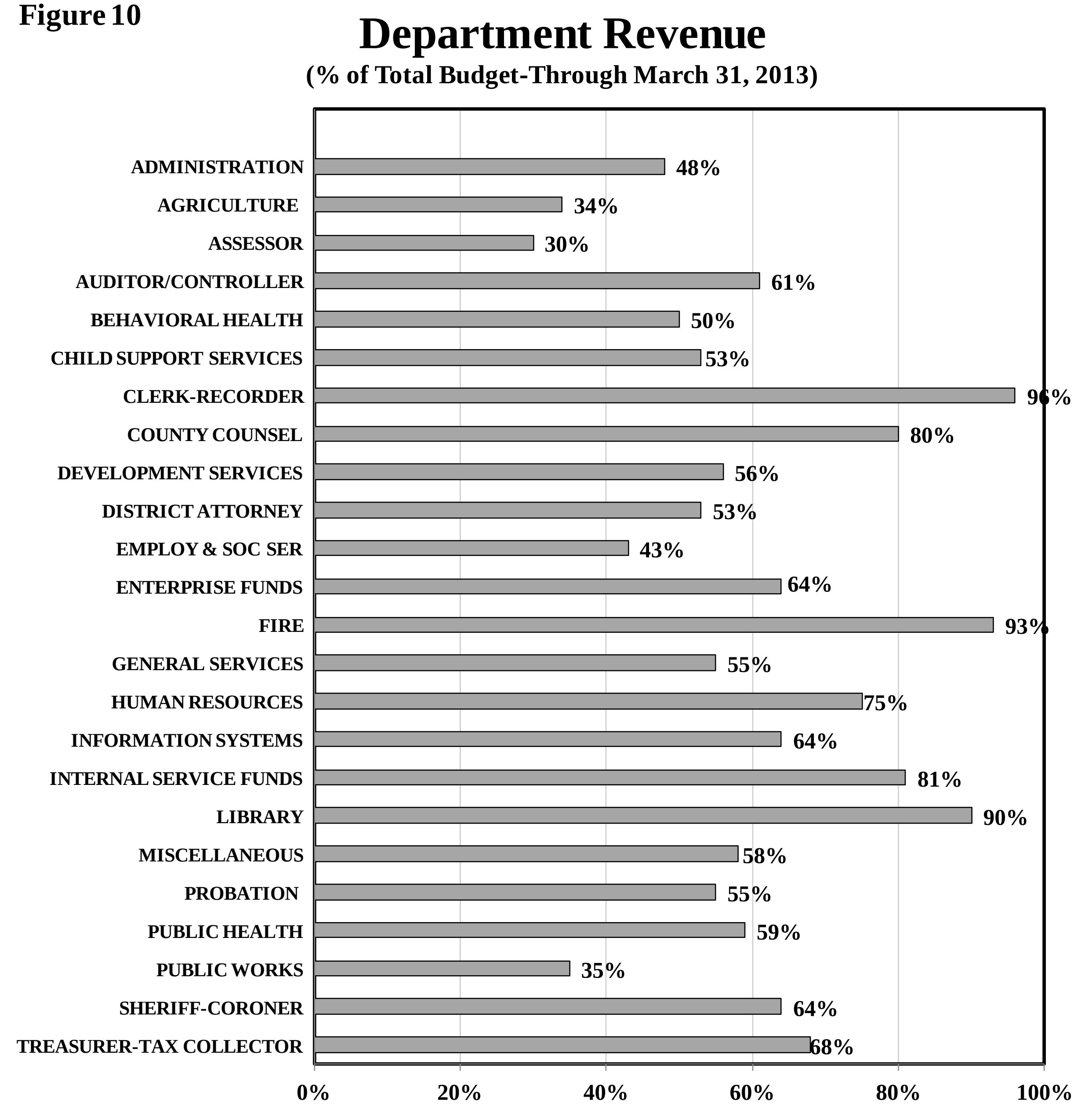


Figure 10 shows revenues received by each County department through March 31, 2013 as a percentage of budget. Most department revenues are between 40% and 75% of budget through the third quarter, consistent with revenue patterns from previous years. A number of departments have received less than 40% of budgeted revenue. For example, the Water and Resource Conservation Department revenue consists primarily of grant funds. Due to the timing of claiming these expenditures, the department has not yet received the grant revenues. Similarly, some of the reimbursement revenue currently budgeted in the Public Works Department will be delayed until fiscal year 2013-2014 along with the projects. Revenues in the Assessor's Department are currently only 30% of budget, however after an earlier concern that the Assessor's budget would be short property tax administration revenues due to the elimination of Redevelopment Agencies, no shortfall is now anticipated. Similarly low revenues in the Ag department are an issue of timing and no yearend revenue shortfall is expected.

Five departments have received in excess of 75% 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 and has received some unanticiapted reimbursement of prior year expenditures. The Fire Department's revenues are higher than anticipated due to the timing of grant revenues and 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 90% of budgeted revenues. This is primarily due to the receipt of unbudgeted grants by the Library. The Library went before the Board of Supervisors at the April 23rd Board Meeting to increase anticipated expenditures and revenues related to these grants. The Clerk Recorder received unbudgeted election reimbursement funds, accounting for the higher revenue. Similarly, the Internal Service Funds have received a number of unbudgeted insurance reimbursements.

General Purpose Revenues, included in Figure 10 on the preceding page as part of the miscellaneous budget unit, are coming in overall a little higher than anticipated in the budget, however there is variation with particular accounts. Yearend estimated property tax revenues include almost $400,000 in residual revenue from the now eliminated Redevelopment Agencies and an approximately $500,000 yearend shortfall in property tax revenue is still anticipated. Additionally, a significant shortfall is anticipated in revenues due to declining interest rates. However these shortfalls will be more than made up by revenue the County is now receiving related to the lease of a portion of the County's Table A water allocation. The County has recieved approximately $2.3 million in revenue related to these leases. Additionally, Property Transfer Tax and Tobacco Settlement funds received in April are 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. Overall, with the inclusion of the water revenue yearend general purpose revenues are currently expected to be approximately $1.5 million more than budgeted.

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Figure 11

## General Purpose Revenue Receipts

(Through 3rd Quarter)

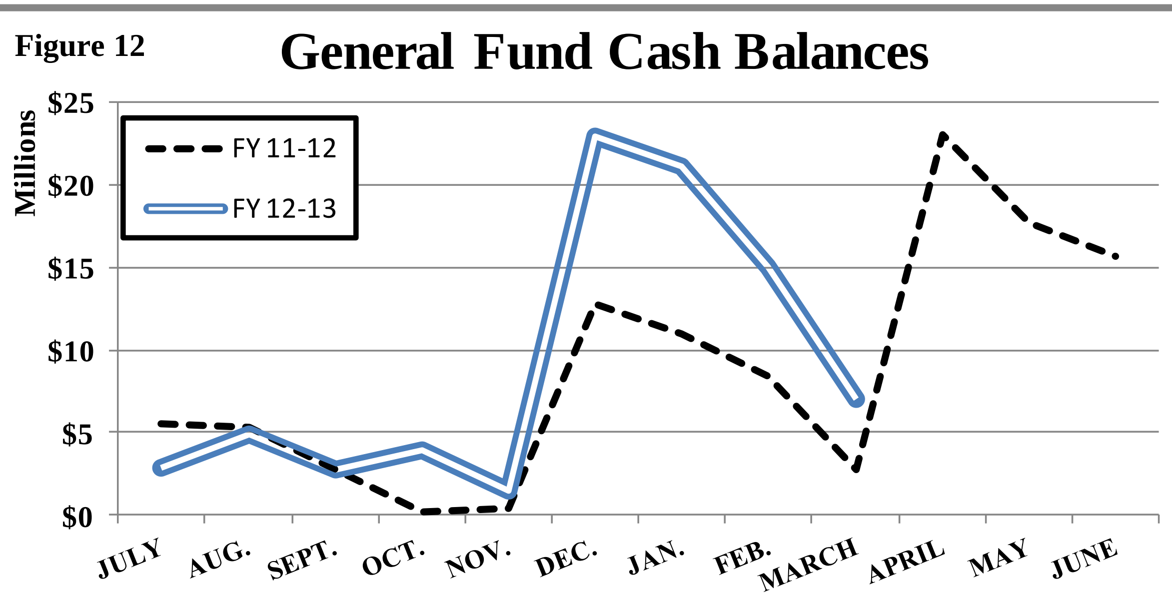
| Account Title | Budget | YTD Receipts | YTD % |
|---|---|---|---|
| Property Taxes | 44,970,100 | 23,885,959 | 53% |
| Teeter Plan Proceeds | 1,200,000 | 0 | 0% |
| Local Sales Tax | 3,660,390 | 2,152,907 | 59% |
| Property Transfer Taxes | 510,000 | 424,378 | 83% |
| Other Taxes | 539,000 | 396,049 | 73% |
| Licenses & Permits | 1,538,000 | 464,871 | 30% |
| Fines, Forfeitures & Penalties | 1,188,724 | 571,490 | 48% |
| Interest-County Treasury | 1,036,000 | 118,558 | 11% |
| Public Safety Sales Tax | 14,158,000 | 8,212,217 | 58% |
| Lease-Table A Water | 0 | 2,340,510 | |
| RDA City of Chico | 4,155,000 | 1,951,281 | 47% |
| Tobacco Settlement Funds | 1,993,387 | 0 | 0% |
| Other Misc. Revenue | 1,360,400 | 983,729 | 72% |
| **Total General Purpose Revenue** | **$76,309,001** | **$41,501,948** | **54%** |

**GENERAL FUND OPERATING CASH REPORT**

The General Fund cash balance on March 31, 2013 was $6,990,091. One year earlier, at March 31, 2012, the ending balance was $2,783,883. The approximately $4,200,000 increase is attributable to a change in cash management strategy that relies on more cash advances from the Public Health Fund instead of the General Fund, the timing of payments and operating transfers, and the receipt of new Table A water lease revenue in the current fiscal year.

The second installment of property taxes will significantly increase cash in the fourth quarter of this fiscal year, so we expect to continue to see higher cash balances until June. By the end of the fiscal year, the cash balance is anticipated to be higher than the end of last fiscal year.

Figure 12



The timing of 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 third quarter, as stated above, 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. There was no need for cash advances to and from the General Fund, other than the regular operating transfers directed by the Board of Supervisors through the annual budget.

**Figure 13**

**GENERAL FUND - CASH ADVANCES**
**AT MARCH 31, 2013**

| | | |
|---|---|---|
| Advances **To** General Fund: | $ | - |
| Advances **From** General Fund: | $ | - |
| Total Advances from General Fund | $ | - |

At this point in time, the Auditor-Controller, Treasurer-Tax Collector and Chief Financial Officer have determined that it will not be necessary to secure a Tax Revenue Anticipation Note (TRAN) for short term borrowing needs for fiscal year 2013-2014. If the County's cash flow outlook deteriorates, then staff will report the condition and options for improvement to the Board of Supervisors.

**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 third quarter, a new loan, in the amount of $558,924, was secured to purchase a landfill dozer for the Neal Road Recycling and Waste Facility. Also during the third quarter, the following loan payments resulted in a principal reduction on one loan, interest only payments on three loans, and one loan being paid in full:

- 2003 Certificates of Participation: Interest: $13,455.00
- 2006 Certificates of Participation: Interest: $184,450.00
- 2010 Bangor Fire Station #55 Certificate of Participation: Interest: $20,406.65
- Ford Motor Credit: Principal: $8,075.81 Interest: $945.32
- Megabyte Property Tax System (Loan Paid in Full): Principal: $8,666.00

The following Long-Term Debt schedule, Figure 14, and Ratio of Outstanding Debt and Ratios schedule, Figure 15, present data as of March 31, 2013.

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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 | 16,574 | 9,021 | 7/15/2014 |
| Megabyte | 26,000 | - | - | 7/9/2012 |
| ***Total Capital Leases*** | ***$ 1,312,450*** | ***$ 775,422*** | ***$ 132,452*** | |
| 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 |
| Note Payable - Calif. Integrated Waste Mgt Board | 500,000 | 200,000 | 50,000 | 6/1/2016 |
| Lease-Purchase - JPMorgan Chase Bank | 558,924 | 558,924 | 117,804 | 12/24/2017 |
| ***Total Neal Road Recycling and Waste Facility*** | ***$ 13,083,924*** | ***$ 9,718,924*** | ***$ 1,360,487*** | |
| **TOTAL LONG-TERM DEBT** | **$ 73,708,374** | **$ 63,922,874** | **$ 6,450,865** | |

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

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**Figure 15**

# Outstanding Debt and Ratios

(In Thousands, Except Debt Ratios)

| | **Government Activities (A)** | | | | **Neal Road Recycling and Waste Facility (B)** | | | **Total Outstanding Debt (A+B)** | **Debt Ratios** | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | 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 | $ 775 | $200 | $ 8,960 | $ 559 | $ 63,922 | 0.3615% | $ 289 |

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