BUTTE COUNTY ADMINISTRATION
Finance and Risk Management

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PAUL HAHN
Chief Administrative Officer

Date:	February 11, 2014
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, 2013.

Economy: There is good news from economic data trends through the second quarter of the fiscal year. National economic output maintains its gradual but steady growth, inflation remains low and consumer confidence continues its general improvement. 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 similar to the same quarter of last fiscal year. The County expended 35% of the budget in the first six months of the fiscal year. In the same two quarters of the prior fiscal year, the County expended 39% of its budget.

Revenues: Discretionary revenues are trending to be approximately $1 million higher than anticipated in the current budget, led by the receipt of higher than expected sales tax revenue which offsets an anticipated shortfall of property tax revenue. Departmental revenues were received as expected. Through the second quarter of the fiscal year, the County received 29% 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 31% of budgeted revenues.

Budget Outlook: The County's outlook remains stable, as many revenue sources recover from the recent economic recession. General Fund revenues are expected to approximately equal General Fund operating expenses next fiscal year and thereafter.

Cash Balances: General Fund operating cash balance was $12.3 million at the end of December 2013. This is about $10.5 million lower than the ending balance one year prior, due to timing of the transfer to the General Fund of certain property taxes. Cash balances in the third quarter are expected to return to normal levels. The Public Health realignment restricted cash account continues to help the Behavioral Health Fund with cash flow rather than cash advances from the General Fund.

Debt: During the second quarter of this fiscal year, principal payments totaling $233,177 and interest payments of $67,162 were made against long-term debt obligations. No new loans were secured during the second quarter.

ECONOMIC REPORT

National Economy: 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 4.1% during the first quarter of fiscal year 2013-2014. The 4.1% annualized growth rate is the highest quarterly growth rate reported in nearly two years and represents the third consecutive quarterly increase in GDP growth. The primary drivers of GDP growth were private inventory investment, personal consumption expenditures, and both residential and nonresidential fixed investment. Growth in government expenditures at the state and local level was offset by the decline in spending at the federal level. The GDP growth figure for the second quarter of fiscal year 2013-2014 is not currently available, but a survey of economists conducted by Bloomberg Financial provides an annualized GDP growth estimate of 2.0%. The survey forecasts a reduction in spending growth due largely to a decrease in private business investment resulting from overstocked inventories and the effects of the government shutdown that occurred during the first two weeks of October. Figure 1(below) shows annualized GDP growth by quarter for the preceding ten year period.

Figure 1

Figure 2

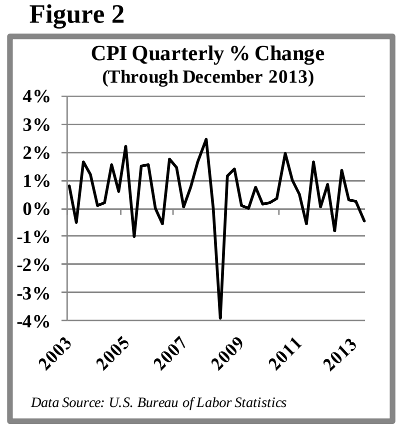


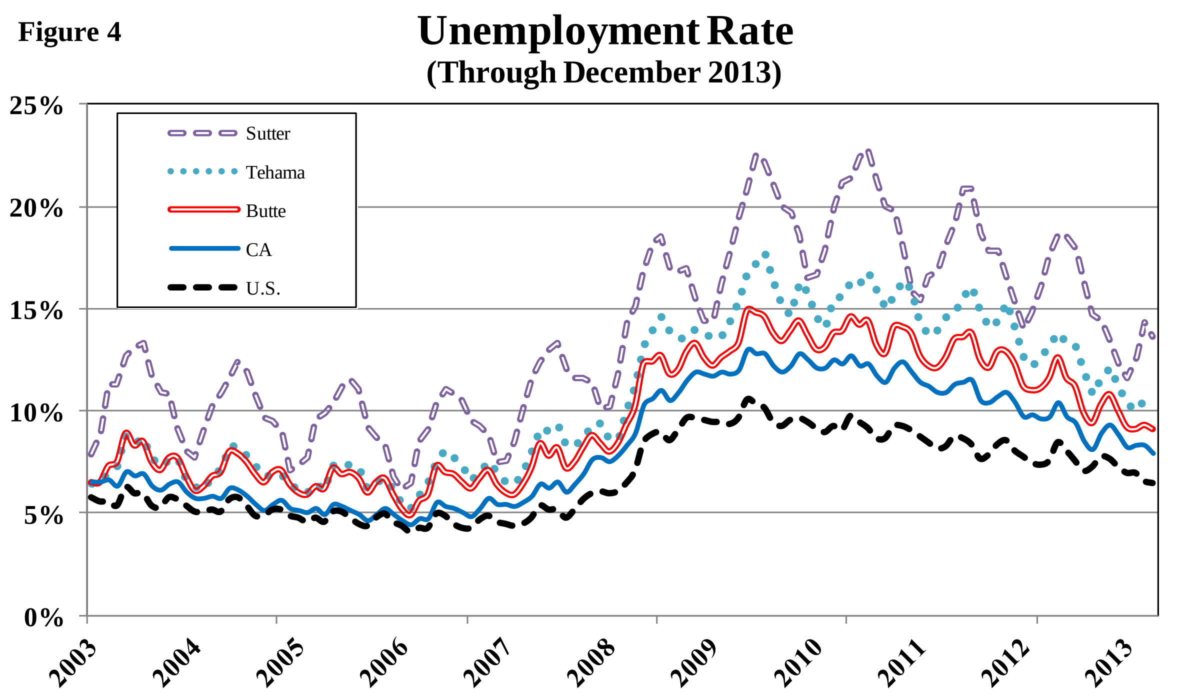
Figure 3

Average prices faced by consumers nationally declined in each of the three months in the second quarter of fiscal year 2013-2014, and for the entire quarter, the national unadjusted Consumer Price Index (CPI) fell by .47%. The principle factors driving the overall price level decrease were declines in the cost of transportation, commodities, and energy and utility costs, with those decreases tempered somewhat by small increases in the cost of food and housing. For calendar year 2013, the CPI increased just 1.2%, similar to the 1.3% observed in calendar year 2012 and below the ten-year annual average of 2% Figure 2 (above) displays the quarterly change in the CPI from 2003 through the second quarter of fiscal year 2013-2014.

Consumer confidence, as measured by the Conference Board's Consumer Confidence Index (CCI), decreased from the September 2013 value of 80.2 in both October (72.4) and November (72.0) before rebounding in December (78.1). Since bottoming out at a value of 25.3 in March of 2009, the CCI has maintained fairly consistent increases, though the index remains well below where it stood in the months preceding the ‘Great Recession’. The Conference Board reported that the October and November decreases were primarily due to the effects of the government shutdown that occurred in October, and consumer attitudes resumed their upward trend after memory of that episode began to fade. In December, sentiment regarding current conditions increased to a 5½-year high and consumers expressed a greater degree of confidence in future economic and job prospects, but were moderately more pessimistic about earning prospects. Figure 3 (above) shows the monthly change in the CCI from 2003 through the second quarter of FY 2013-14.

Unemployment: The State’s seasonally unadjusted unemployment rate stood at 7.9% in December, an improvement from the 9.7% a year prior and consistent with the general trend of improvement that began in 2010. The State’s unemployment rate remains significantly above that of the U.S. as a whole. Butte County’s unemployment rate in December was 9.1%, down from 11.6% from the previous December and, like the State, following a general trend of improvement. Also in December, the size of the labor force in Butte County was estimated at 101,200, a decrease of 1,000 from the previous month. While the unemployment rate in Butte County remains higher than that of the State and the U.S. as a whole, it remains lower than that of the neighboring counties of Sutter and Tehama (Figure 4).

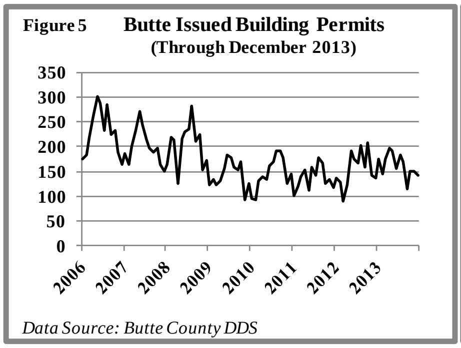
Figure 4

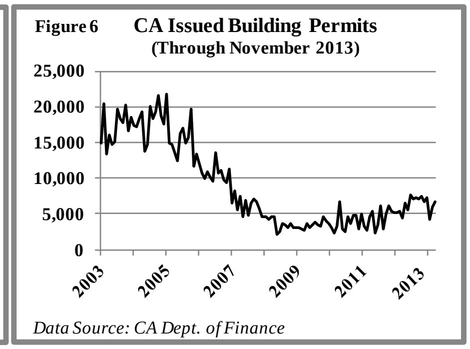


Data Sources: U.S. Bureau of Labor Statistics, CA Employment Development Department

Other State and Local Economic Indicators: Statewide, and when compared to August (7,180 housing starts), the pace of homebuilding decreased in September (4,262) and October (5,830) before returning to an average figure for the past twelve month in November (6,673). For the twelve-month period ending in November, there was an average of 6,585 housing starts monthly statewide. Local building permitting for the second quarter of fiscal year 2013-2014 was down a bit in Butte County. An average of 147 building permits was issued monthly in the second quarter, down from 156 in the first quarter and 182 in the fourth quarter of fiscal year 2012-2013.

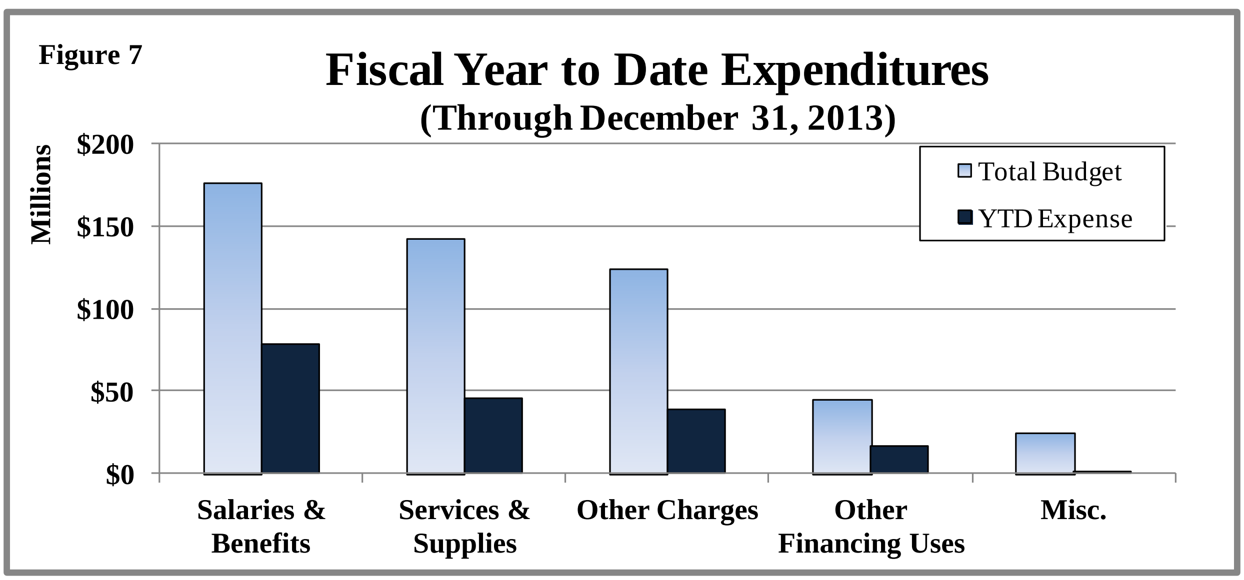
The median price of existing, single-family homes sold in California during December 2013 was $438,040, a 3.7% increase from the previous month and a 19.7% increase from a year earlier. The number of existing home sales was 361,890, a decrease of 6.7% from the previous period and an 18.6% decrease from a year ago.





EXPENDITURE REPORT

At the end of the 2nd quarter, the County had expended $181.2 million[1] from a budget totaling $512.6 million. As shown in the graph below, the County spent $78 million on salaries and benefits, $46 million on services and supplies, and $39 million on other charges, such as payments between funds and contributions to other agencies. The remaining $18 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.

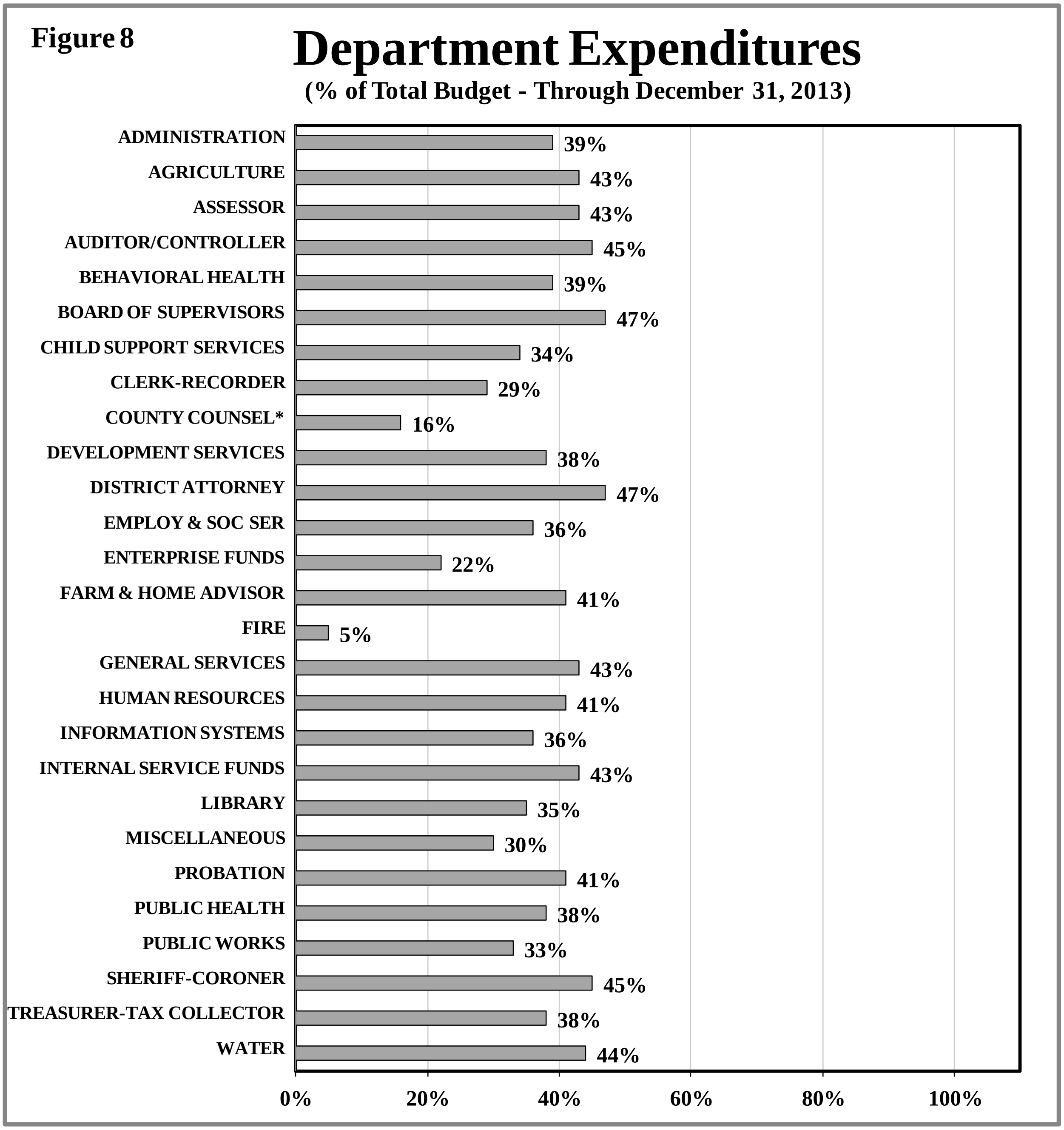


Overall, the County expended 35% of the budget through the 2nd quarter of the 2013-14 fiscal year. Although 50% of the fiscal year elapsed between July 1 and December 31, it is typical for expenditures

[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 Recycling and Waste 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.

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.

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 relate to an uneven flow of expenditures through the course of the year. The Fire Department has budgeted professional services that are expected to be utilized later in the year. The Fire budget includes the State CalFire cooperative agreement, and the first quarterly payment was not made until after the end of the second quarter due to the billing cycle at the State. The Clerk-Recorder's budget is below 35% because the majority of Elections cost will be incurred for the June 2014 election, as well as appropriations in both Elections and Recorder for items for the Hall of Records, which will not be completed this fiscal year. The Public Works Department budget includes a number of projects, many of which often begin later in the fiscal year.

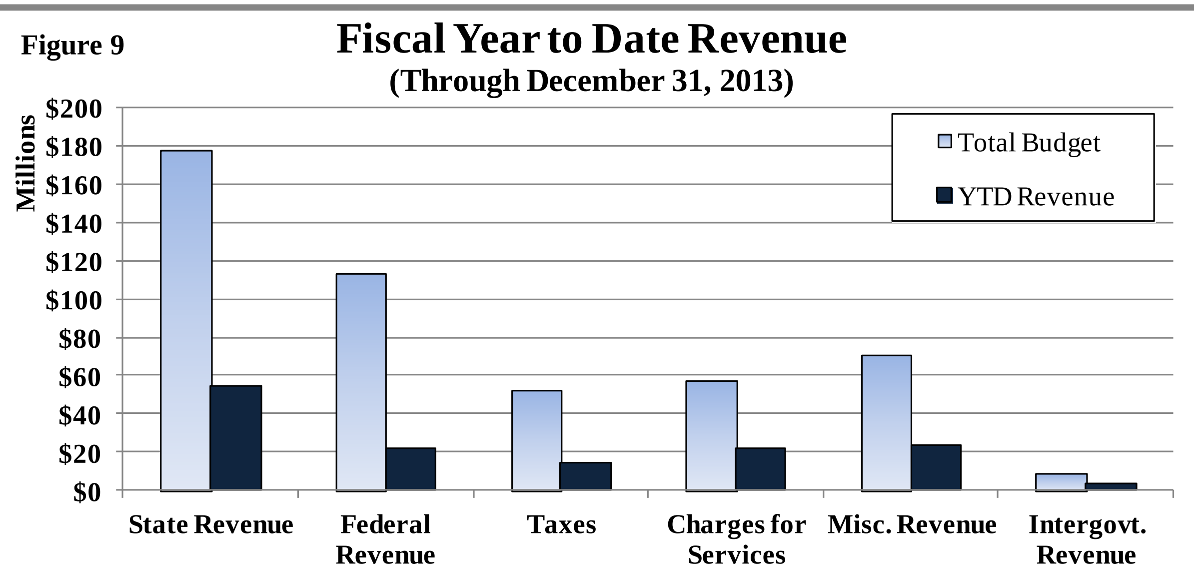
The enterprise funds (Neal Road Recycling and Waste Facility) include capital purchases, improvements and Interfund transfers which will occur later in the year. The Neal Road Recycling and Waste Facility operating plan also includes principal debt payments that will not be recorded as current year expenditures due to the accounting requirements for enterprise funds.

The miscellaneous budgets include operating transfers from the General Fund to special revenue funds and debt service payments that typically occur late in the fiscal year. They also include capital projects that have the bulk of their expenditures in the spring and summer months of 2014.

REVENUE REPORT

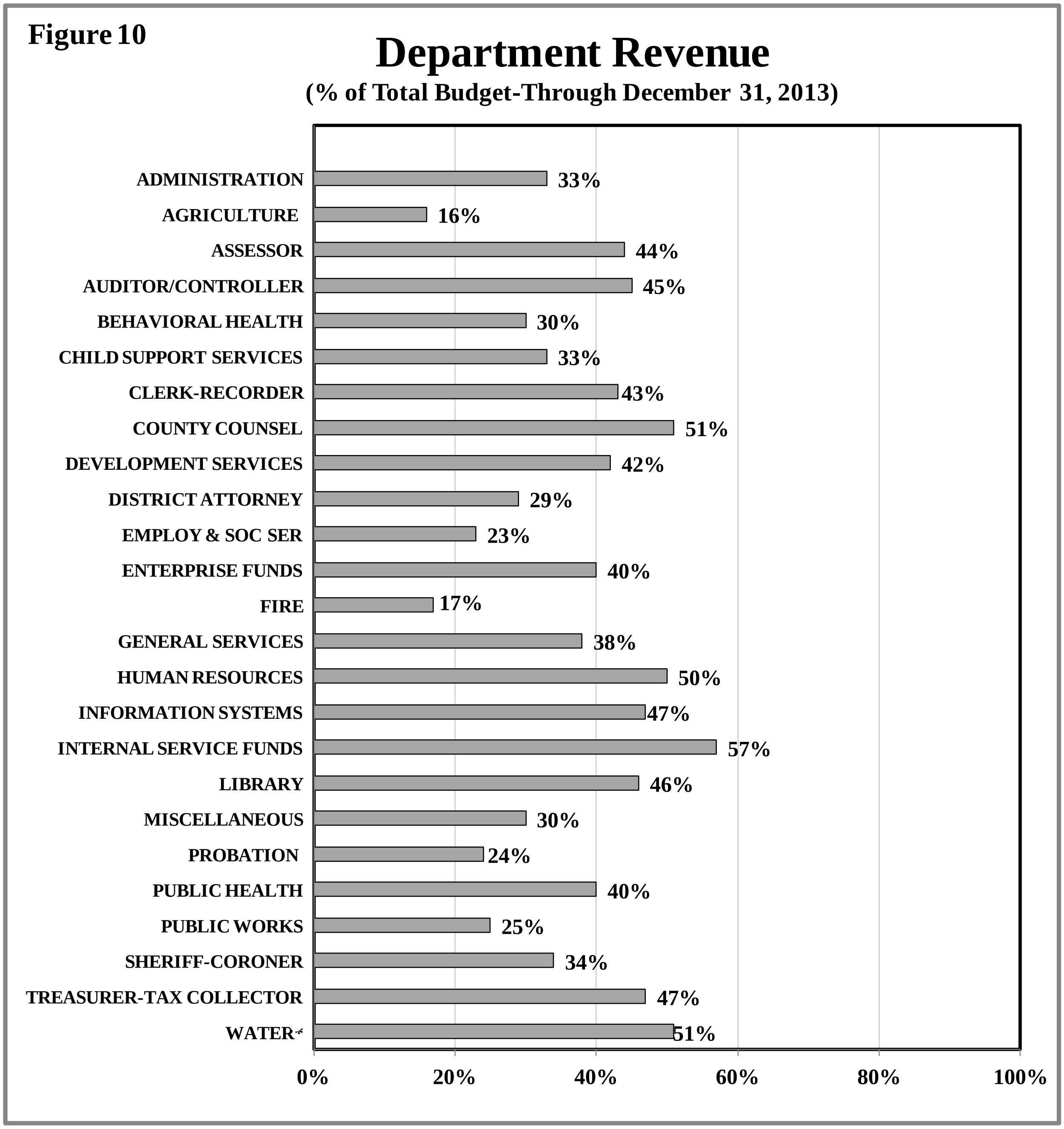
Through the second quarter of the fiscal year, the County has received 29% of budgeted revenues[2]. This is consistent with the same period last year when the County had received 31% of budgeted revenues.

Figure 9



[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 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 31st, 2013 as a percentage of their 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 the transition to 2011 Realignment has altered the timing of revenues. For the Department of Employment and Social Services no year-end shortfall is anticipated. 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.

The Fire Department's revenues are lower than anticipated due to the timing of payments. A large grant payment is anticipated during the third quarter, and State payments for the use of County equipment during State responsibility fires are normally issued toward the end of the fiscal year. Fire Department revenues are anticipated to be fully realized by the end of the year.

Historically, about 46% of General Purpose Revenues (included in Figure 10 above as part of the miscellaneous budget unit) are collected by the midpoint of the fiscal year. Through the close of December, only 30% of budgeted General Purpose Revenues had been received. This was due to receipts for Property Tax in Lieu of VLF and In Lieu Sales and Use Tax not being posted until January. When these revenues are included, the collections of General Purpose Revenue are near the historical average. Total property tax revenue collection through the midpoint of the fiscal year is slightly behind projections, and this is expected to continue through year end, resulting in an anticipated shortfall of roughly 2% in this revenue category. On a positive note, several sources of General Purpose Revenue have exceeded projections. Sales and Use Tax, Public Safety Sales Tax, and Property Transfer Tax are each slightly above mid-year projections and are projected to finish the fiscal year slightly above their budgeted amounts. This signals improvement in the overall economy. Finally, when the Recommended Budget was prepared last year, the County was still working to finalize a long-term lease for its Table A water allocation. In October of 2013, the Board approved long-term lease agreements, thereby securing additional revenue. When considering all sources, General Purpose Revenues are anticipated to finish the fiscal year slightly ahead of the amount budgeted.

Figure 11 General Purpose Revenue Receipts

(Through 2nd Quarter)

Account Title	Budget	YTD Receipts	YTD %
Property Taxes	45,563,216	12,240,385	27%
Teeter Plan Proceeds	1,500,000	-	0%
Local Sales Tax	3,999,000	1,131,667	28%
Property Transfer Taxes	620,600	411,549	66%
Other Taxes	618,500	387,039	63%
Licenses & Permits	1,553,200	320,545	21%
Fines, Forfeitures & Penalties	973,200	298,313	31%
Interest-County Treasury	150,000	101,054	67%
Public Safety Sales Tax	14,134,100	4,773,890	34%
Lease-Table A Water	1,184,000	800,852	68%
RDA City of Chico	3,980,600	1,830,029	46%
Tobacco Settlement Funds	1,960,000	6,215	0%
Other Misc. Revenue	1,707,800	1,414,191	83%
Total General Purpose Revenue	**$77,944,216**	**$23,715,729**	**30%**

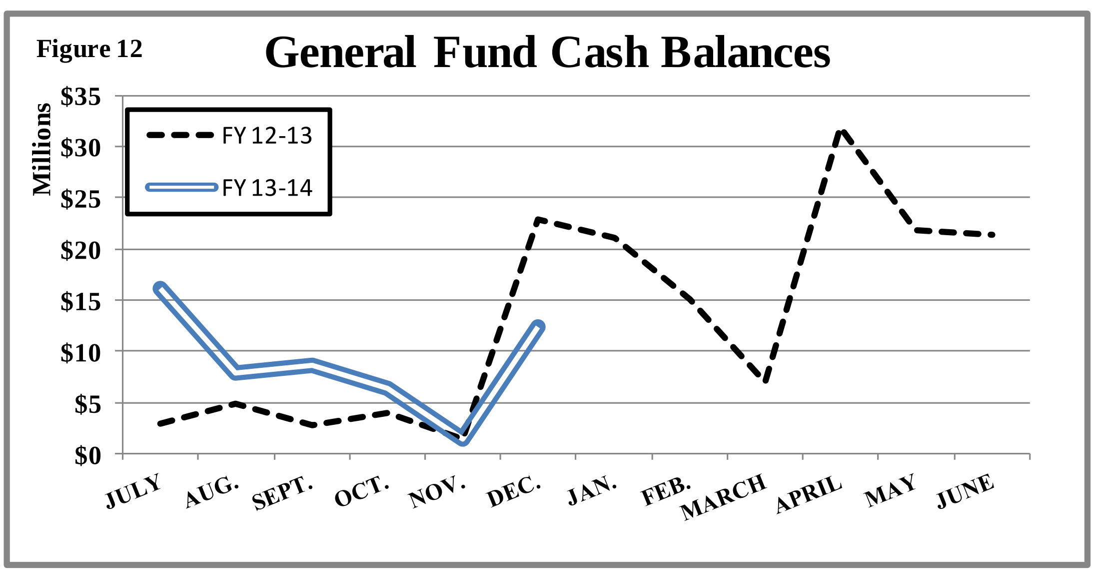
BUDGET OUTLOOK

On January 29th the County kicked off the fiscal year 2014-15 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 2014-15 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 approximately a 2% increase in use of County discretionary funds. This base scenario reflects a relatively modest budget outlook for 2014-15. The outlook for fiscal year's 2015-16 and beyond appears stable as revenues continue to recover from the last 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 multi-year agreement to lease a portion of the County's Table A Water Allocation.
- Modest anticipated growth in property tax revenues as the County's real estate market continues to improve.
- 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.

GENERAL FUND OPERATING CASH REPORT

The General Fund cash balance at the end of the second quarter of fiscal year 2013-2014 was $12,337,927. At the end of the second quarter of fiscal year 2012-2013 the balance was $22,882,743. The approximate $10,545,000 decrease is a result of timing for the transfer to the General Fund of the In-Lieu Vehicle License Fee portion of property tax collected in December 2013. In the prior fiscal year, the transfer to the General Fund was made in December 2012. In the current fiscal year, a transfer of $11,560,597 was made in January.



As of December 31, 2013, no General Fund operating transfers of cash were made to any other funds.

As described 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. Since the beginning of fiscal year 2012-2013, 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, 2013

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 2013-2014. 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 of the current fiscal year, payments on the following loans resulted in principal reductions:

California Energy Commission - Phase 1 (Solar array)
Principal: $111,693.14 Interest: $26,897.52

California Energy Commission - Phase 2 (Solar array)
Principal: $13,595.98 Interest: $4,297.02

JPMorgan Chase Bank-Lease/Purchase (Neal Road Landfill Equipment)
Principal: $107,888.33 Interest: $9,915.31

Interest only payments totaling $26,052.42 were made towards the Pension Obligation Bonds- Series B during the second quarter. Principal payments will become due on the Pension Obligation Bonds, Series A and B, beginning on June 1, 2014.

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

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	415,000	421,775	7/1/2014
2010 Bangor Fire Station #55 Renovation Project	1,100,000	1,007,333	55,322	8/1/2050
Total Certificates of Participation	***$ 6,250,000***	***$ 1,422,333***	***$ 477,097***	
Capital Leases				
Chico Memorial Hall - 492 Rio Lindo	583,400	325,042	61,156	4/10/2020
Chico Memorial Hall - 554 Rio Lindo	670,900	357,746	62,275	4/10/2020
Ford Motor Credit	32,150	8,523	9,021	7/15/2014
Total Capital Leases	***$ 1,286,450***	***$ 691,311***	***$ 132,452***	
Notes Payable				
California Energy Commission				
-Solar Project Phase 1	2,777,000	1,246,489	277,181	12/22/2018
-Solar Project Phase 2	390,000	203,381	35,786	6/22/2020
Total Notes Payable	***$ 3,167,000***	***$ 1,449,870***	***$ 312,967***	
Neal Road Recycling and Waste Facility				
2006 Certificate of Participation	12,025,000	8,115,000	1,192,683	7/1/2021
Note Payable - Calif. Integrated Waste Mgt Board	500,000	150,000	50,000	6/1/2016
Lease/Purchase - JPMorgan Chase Bank	558,924	451,035	117,804	12/24/2017
Total Neal Road Recycling and Waste Facility	***$ 13,083,924***	***$ 8,716,035***	***$ 1,360,487***	
TOTAL LONG-TERM DEBT	**$ 73,682,374**	**$ 62,174,549**	**$ 6,450,819**	

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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	$1,575	$ 1,835	$ 699	$150	$ 8,960	$ 559	$ 63,673	0.3601%	$ 288
2014	$49,895	$1,450	$ 1,422	$ 691	$150	$ 8,115	$ 451	$ 62,174	0.3461%	$ 281

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