



BUTTE COUNTY ADMINISTRATION

Finance and Risk Management

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PAUL HAHN
Chief Administrative Officer

Date: May 20, 2014

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

From: Gregory G. Iturria, Chief Financial Officer

Subject: Third Quarter Financial Report

OVERVIEW

The third quarter financial report for the County of Butte contains updates on the economy, expenditures, revenues, cash balances and long-term debts for the three month period ended March 31, 2014.

Economy: There is positive news from economic data trends through the third quarter of the fiscal year. National economic output maintains its slow 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: Overall, expenditures by County departments are occurring later in the fiscal year than typical, due in large part to capital projects beginning late in the fiscal year. The County expended 55% of the budget in the first nine months of the fiscal year. In the same three quarters of the prior fiscal year, the County expended 60% of its budget. However, we see a different trend in the General Fund. Two large expenditures in the General Fund occurred earlier than usual. The General Fund expended 64% of its budget in the first nine months of the fiscal year. In the same three quarters of the prior fiscal year, the General Fund expended 61% of its budget.

Revenues: Discretionary revenues are trending to be approximately \$1.2 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. Overall, departmental revenues were received as expected. Through the third quarter of the fiscal year, the County received 49% of budgeted revenues, which is slightly less than received this time last fiscal year. Through the same quarter of the previous fiscal year, the County had received 51% of budgeted revenues. This fiscal year's General Fund revenue trend is also a little behind last fiscal year. The General Fund received 58% of its estimated revenues through the third quarter this fiscal year. Through the same quarter of the previous fiscal year, the General Fund had received 60% of its estimated revenues.

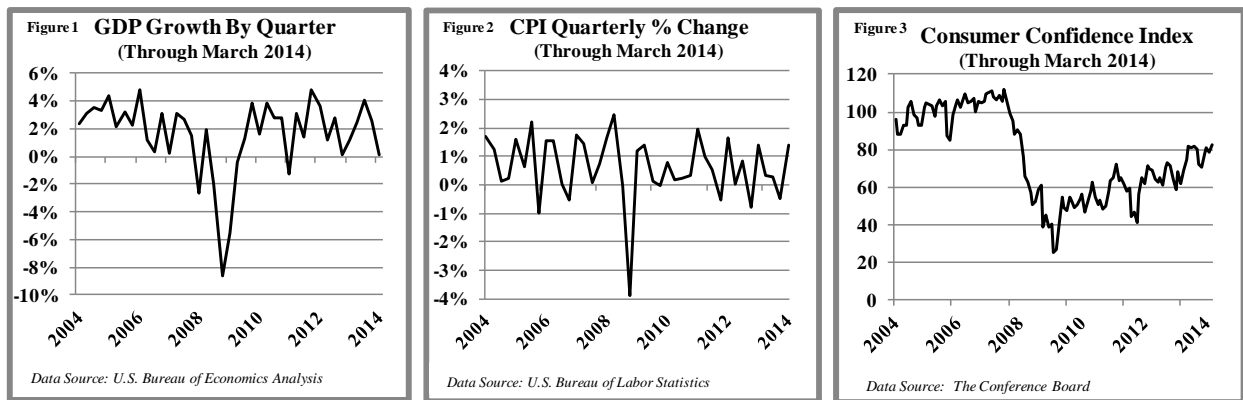
Cash Balances: General Fund operating cash balance was \$4.15 million at the end of March 2014. This is about \$2.85 million lower than the ending balance one year prior, due to timing payments to the State for fire services. Operating cash balances are expected to return to normal levels in the fourth quarter.

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. Restricted cash balances in the General Fund, limited by law or contract to very specific uses, hovered around \$14 million during the third quarter.

Debt: During the third quarter of this fiscal year, no principal payments were due but interest payments of \$220,525 were made on long-term debt obligations. A new loan was secured in the amount of \$500,000 during the third quarter to purchase a compactor for the Neal Road Recycling and Waste Facility.

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 just 0.1% during the third quarter of fiscal year 2013-2014, which is down from the 2.6% annual growth seen in the second quarter. Analysts point out that the third quarter of the fiscal year was marked by record cold temperatures and unusually high snowfall in the Midwest and East, and these factors had a significant drag on GDP growth. One economic consulting group has estimated that the atypical weather in the third quarter of the fiscal year reduced GDP growth by 1.4 percentage points, and that most of the lost economic activity will likely be made up for in the fourth quarter. Looking beyond the headline figure reveals that personal consumption expenditures was the only major component of GDP to increase in the past quarter, with spending on housing, utilities, and health care making the largest positive contributions. Private investment, exports, and government spending each made negative contributions to GDP growth. Figure 1 (below) shows annualized GDP growth by quarter for the preceding ten year period.

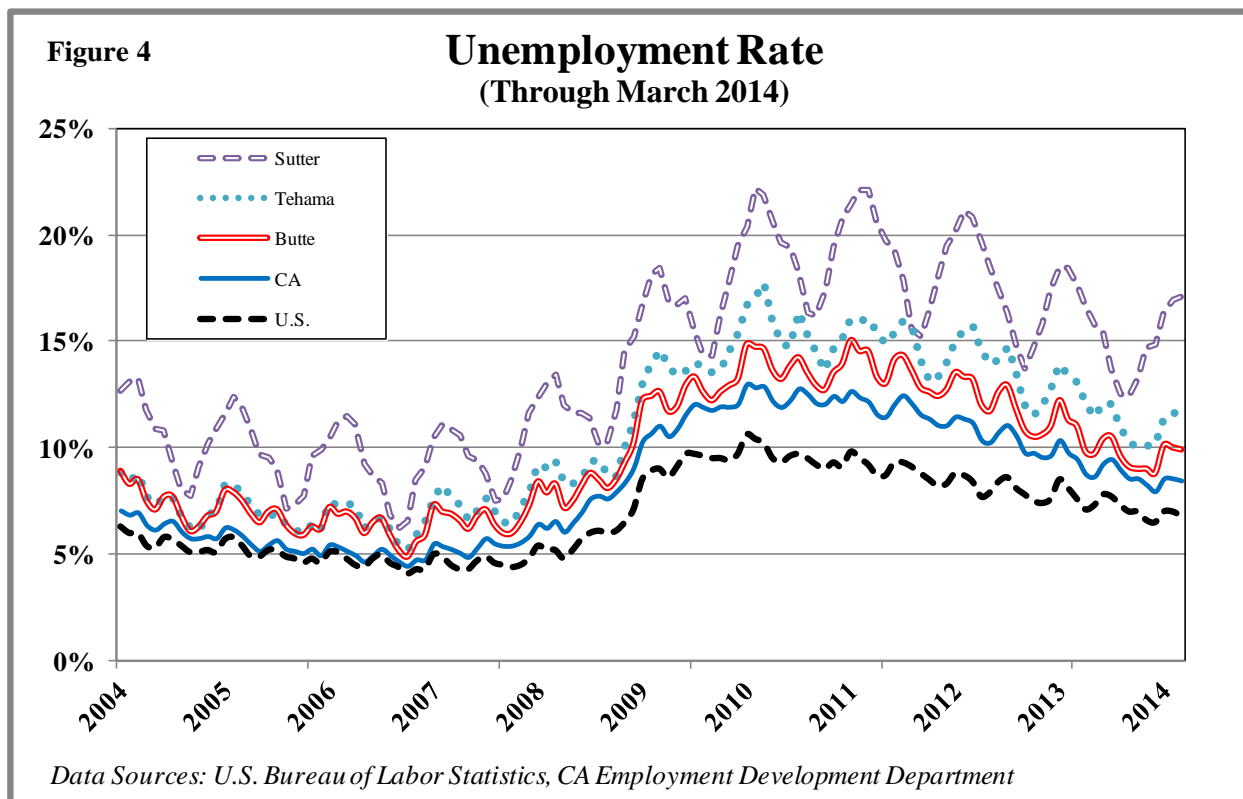


Average prices faced by consumers nationally increased in each of the three months in the third quarter of fiscal year 2013-2014, and for the entire quarter, the national unadjusted Consumer Price Index (CPI) increased by 1.39%. Increases in the shelter and food components of the CPI accounted for most of the increase, with an uptick in the energy component contributing to the increase to a lesser degree. In the twelve months preceding the close of the third quarter, the CPI increased a total of 1.62%, a bit below the ten-year annual average of roughly 2%. Figure 2 (above) displays the quarterly change in the CPI from 2004 through the third quarter of fiscal year 2013-2014.

Consumer confidence, as measured by the Conference Board's Consumer Confidence Index (CCI), increased over the third quarter from the December 2013 value of 77.5 to a March 2014 value of 82.3. The CCI bottomed out at a value of 25.3 in March of 2009, and the general trend since then has been

small but consistent increases in the index, mostly mirroring the larger economy. The index remains well below where it stood in the months preceding the ‘Great Recession’. The Conference Board reported that the increase in March was primarily due to consumers feeling more confident about future job prospects and the overall economy, and that the increase in expectations was tempered a bit by less optimism about future income growth. Figure 3 (above) shows the monthly change in the CCI from 2004 through the third quarter of fiscal year 2013-14.

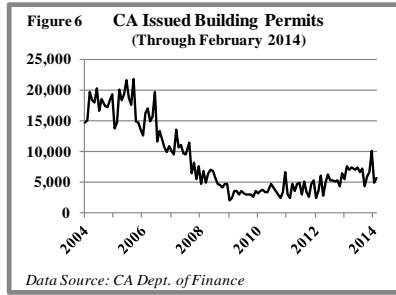
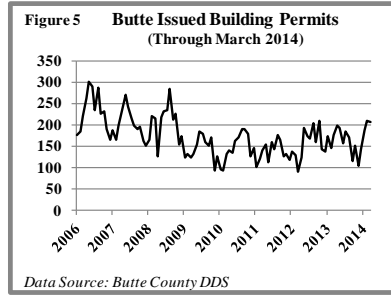
Unemployment: The State’s seasonally unadjusted unemployment rate stood at 8.4% in March, an improvement from the 9.4% a year prior and consistent with the general trend of slow improvement that began in 2010. The State’s unemployment rate remains significantly above that of the U.S. as a whole. Butte County’s unemployment rate in March was 9.9%, down from 11.0% during the previous March and, like the State, following a general trend of improvement. Also in March, the size of the labor force in Butte County was estimated at 103,800, a decrease of 500 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). It should be noted that while the state and each of the counties shown in the graph below saw their unemployment rates decrease from the period a year prior, each of their unemployment rates have increased since the end of the second quarter of fiscal year 2013-14. This is due to seasonal factors, as both retail and farm employment historically hit seasonal lows in the first three months of each new calendar year.



Other State and Local Economic Indicators: Statewide, and when compared to November (6,673 housing starts), the pace of homebuilding jumped in December (10,077) before dropping off in January (4,948) and February (5,692). The large jump in December is the result of a new regulation taking effect

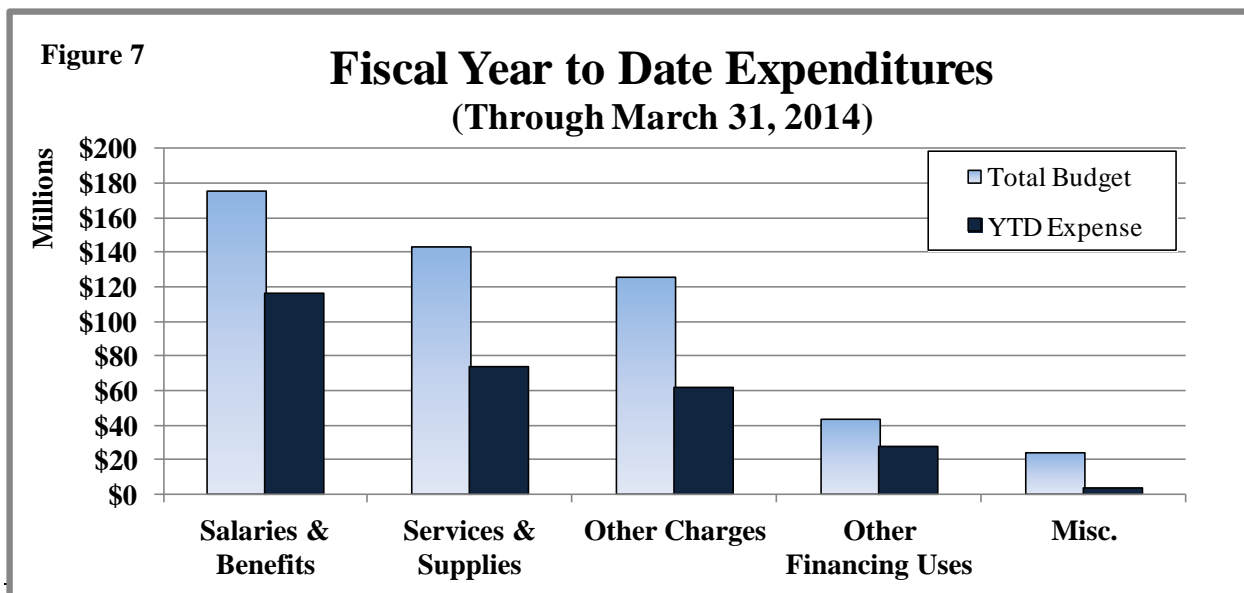
on January 1st. For the twelve-month period ending in February, there was an average of 6,685 housing starts monthly statewide, which is similar to the average of the three months from December 2013 to February 2014. Local building permitting for the third quarter of fiscal year 2013-2014 was up a bit in Butte County. An average of 200 building permits of various types was issued monthly in the third quarter, up from 132 in the second quarter and 156 in the first quarter. This is the highest monthly average for building permits issued since the first quarter of fiscal year 2008-09.

The median price of existing, single-family homes sold in California during March 2014 was \$435,470, a 7.7% increase from the previous month and a 14.9% increase from a year earlier. The number of existing home sales was 367,000, an increase of 1.4% from the previous period and a 12.3% decrease from a year ago.



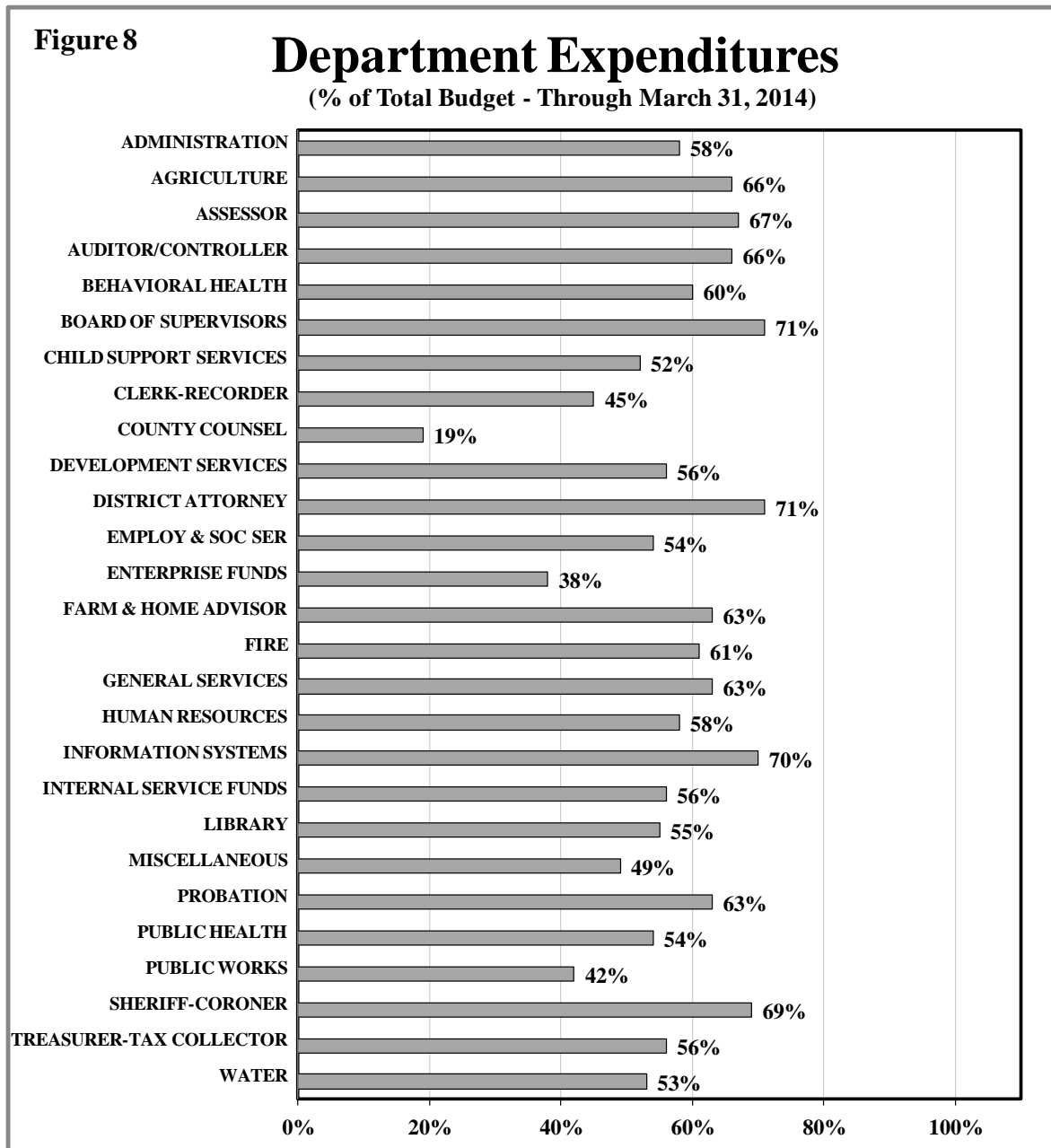
EXPENDITURE REPORT

At the end of the third quarter, the County had expended \$282.6 million¹ from a budget totaling \$513.6 million. As shown in the graph below, the County spent \$116.0 million on salaries and benefits, \$73.4 million on services and supplies, and \$61.4 million on other charges, such as payments between funds and contributions to other agencies. The remaining \$31.8 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 the 2011 Realignment. Miscellaneous expenses include capital assets.



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, the County expended 55% of the budget through the third quarter of the 2013-14 fiscal year. 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 expended 60% of its budget. Nearly all of the difference in the percentage of the total budget expended between the current and prior fiscal years can be explained by significantly greater amounts being budgeted for the 2011 Realignment in the current year and also for capital projects that are budgeted but have yet to begin construction.

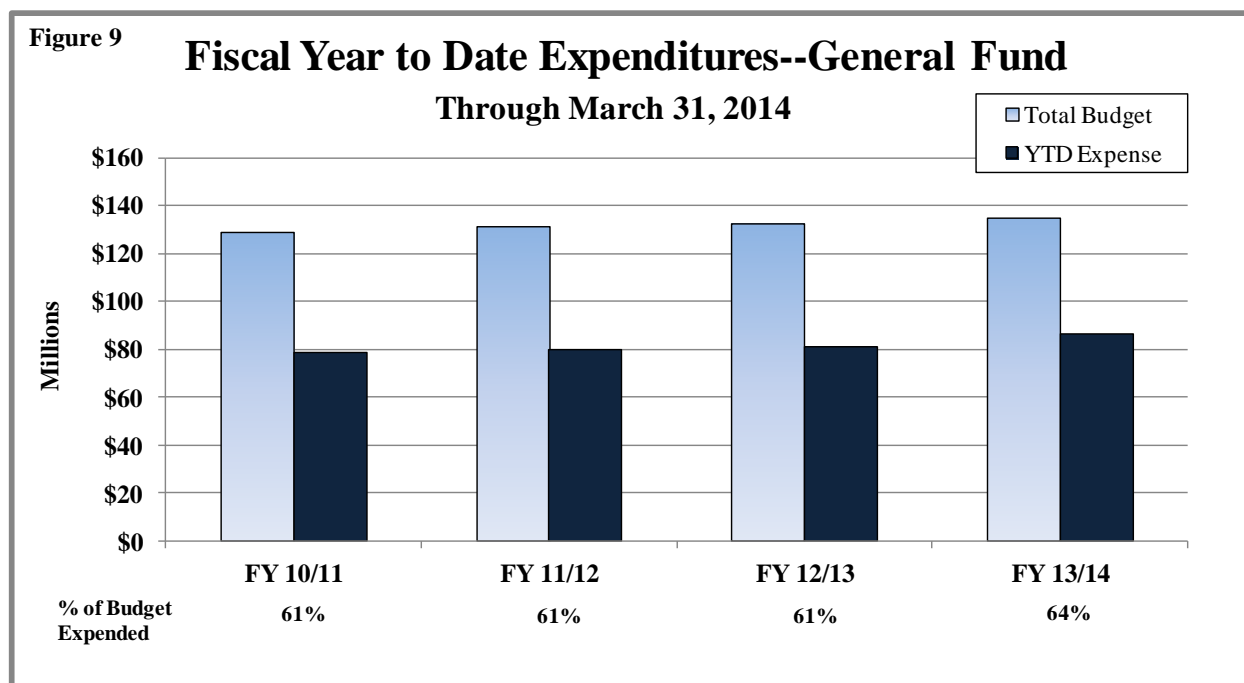


The graph above shows the percentage of budget expended by each County department. Most departments have expended between 50% and 75% of their budget through the third quarter, which is similar to prior years. None of the departments have expended more than 75% of their budget, but a number of departments have expended less than 50% 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 Clerk-Recorder's budget is below 50% 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. County Counsel reflects a small percentage of their budget being expended due to expenditure transfers posted in accordance with countywide cost allocations.

The Public Works Department budget includes a number of projects, many of which have been delayed to the next 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 several capital projects that were budgeted for this fiscal year but have not yet begun construction and also include a grant-funded program focused on disaster recovery serving the area affected by the 2008 wildfires that has significant funding remaining to be expended.

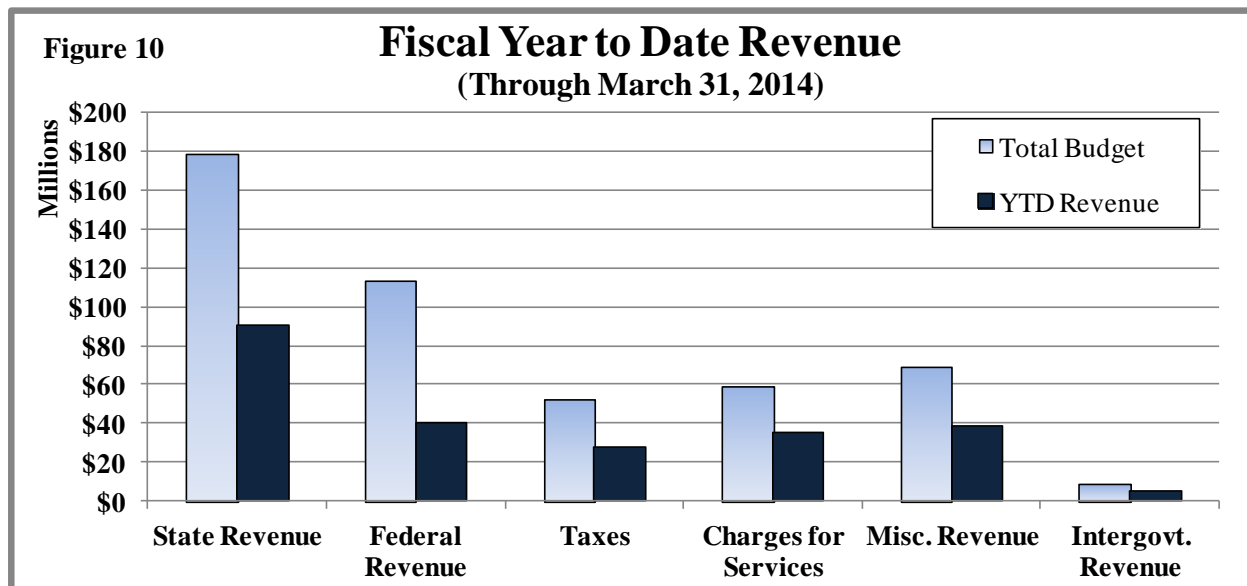
New to the quarterly financial report are two graphs that display information pertaining to the General Fund as a whole and one pertaining to General Purpose Revenue. The first of these new graphs is below. Figure 9 displays budgeted and actual expenditures at the close of the third quarter for the General Fund:



At the end of the third quarter, 64% of the General Fund budget had been expended, which is a moderate increase compared to the prior year. Two factors related to timing explain most of the observed difference. First, a significant payment to the State for contracted services with Cal Fire posted in the third quarter this year whereas in the prior year this payment posted in the fourth quarter. Second, the payment to the State for our Table A water allocation also posted in the third quarter rather than the fourth. Finally, most departments have expended a slightly greater portion of their budgets through the third quarter this year than in the prior year.

REVENUE REPORT

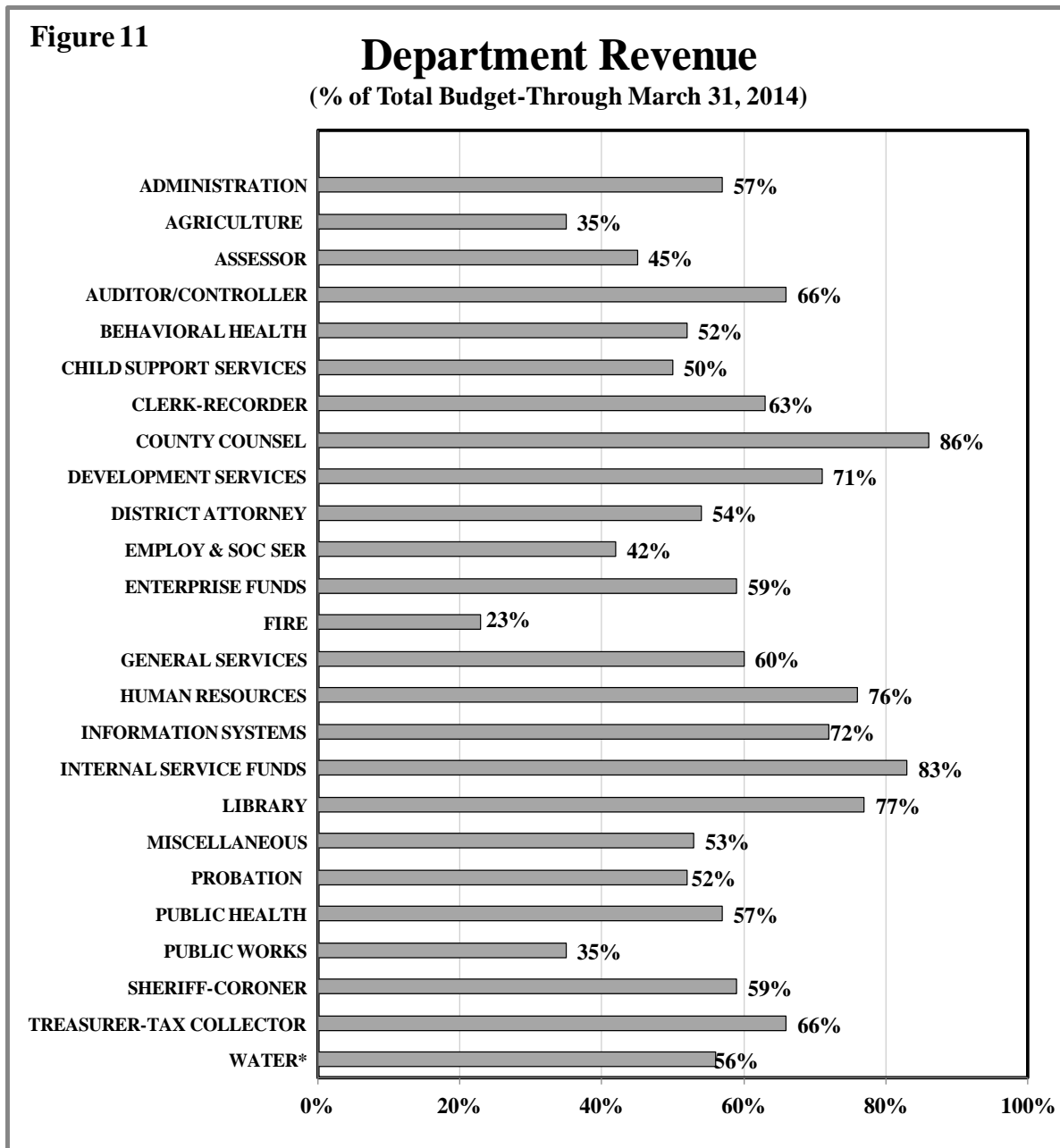
Through the third quarter of the fiscal year, the County had received 49% of budgeted revenues². This is slightly less than the same period last year when the County had received 51% of budgeted revenues. This difference results from greater amounts being budgeted for the 2011 Realignment at the end of the third quarter for the current year and similar amounts being actually received (original budget estimates for the 2011 Realignment in the prior year were less than the amount actually received) as well as capital projects that have been budgeted but have not yet begun construction. After adjusting for these factors, the percentage of revenue collected at the close of the third quarter in the current fiscal year is nearly the same as for the same period in the prior year.



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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 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 11 below shows revenues received by each County department through March 31st, 2014 as a percentage of their budget.

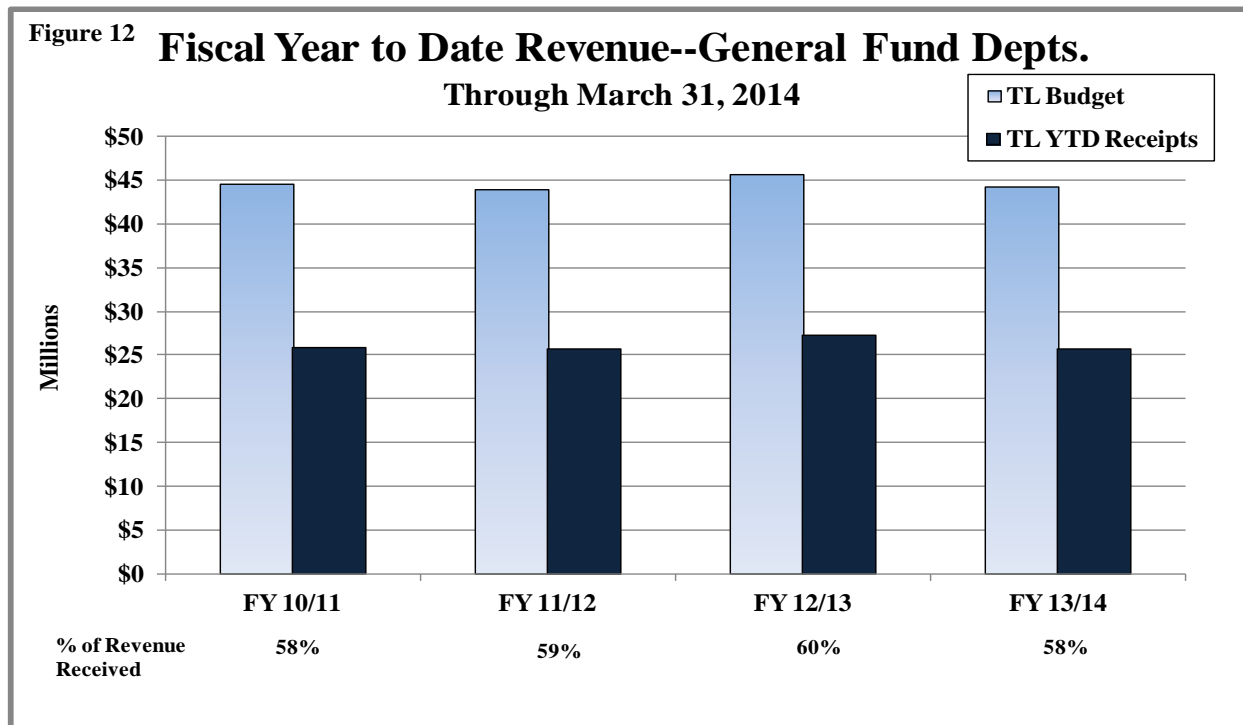


Most department revenues are between 40% and 75% of budget through the third quarter, consistent with revenue patterns from previous years. Three departments have received less than 40% of budgeted revenue. The Agriculture Department receives a significant portion of its revenue from two sources from the state which are typically received either in the third or fourth quarter. This fiscal year, this revenue will be received in the fourth quarter. The Fire Department's revenues are lower than anticipated due to the timing of payments. A large grant payment is anticipated during the fourth 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. Public Works receives reimbursements for federal/state road and bridge projects after their completion. The department has delayed some projects to the following fiscal year, so those reimbursement funds are also delayed. In addition, the Federal Exchange funding and State Transportation Development Act funding both arrive at the end of each fiscal year. These funds combined to nearly \$5 million, or approximately 20% of the Public Works revenue estimates.

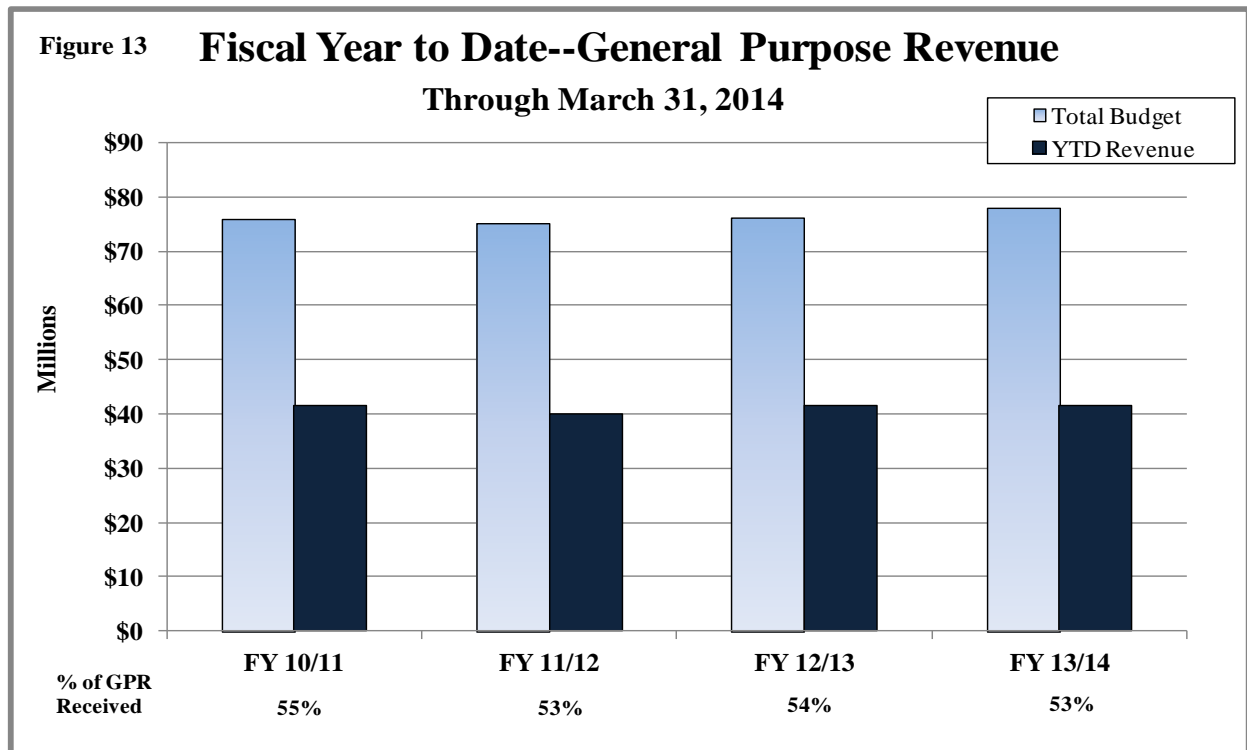
Four departments have received in excess of 75% of budgeted revenues through the first three quarters of the fiscal year. County Counsel received 85% of budgeted revenues by the end of the third quarter, primarily due to unanticipated revenues related to an increased Public Administrator/Public Guardian workload and settlements from various grading ordinance violations. Human Resources' revenues include unanticipated payments from an outside agency for personnel services. The Library has received greater than anticipated revenue from donations and has also received nearly all of the revenue budgeted from a specific grant. Also, the Internal Service Funds have received several unbudgeted insurance reimbursements.

Budgeted and actual revenues for General Fund departments are displayed in figure 12 below. The figures presented below do not include General Purpose Revenues, which are received in the General Fund but are not specific to any department (discussed later).



At the close of the third quarter, General Fund departments had received 58% of budgeted revenue, a slight decrease from the previous year. All of this decrease can be explained by the loss of the revenue stemming from no longer housing federal inmates. Once the loss of this revenue source is adjusted for, the receipt of revenue by General Fund departments is slightly ahead of last year.

Through the end of the third quarter, 53% of budgeted General Purpose Revenue had been collected, which is consistent with historical averages, though there is some variability among the different accounts. Current Secured Property Tax revenue collection through the third quarter is trailing projections to a small degree. This is expected to continue through year end, resulting in a slight anticipated shortfall in this revenue source. 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 projections and are projected to finish the fiscal year just above their budgeted amounts. This signals improvement in the overall economy. Also, 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. Finally, interest in the County Treasury is above the budgeted amount due to the inclusion of interest earned from a Tax and Revenue Anticipation Note issued several years prior. When considering all sources, General Purpose Revenue is anticipated to finish the fiscal year slightly ahead of the amount budgeted. The two graphs presented below display budgeted and actual General Purpose Revenue at the end of the third quarter and also General Purpose Revenue receipts by type.



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Figure 14

General Purpose Revenue Receipts (Through 3rd Quarter)

| Account Title | Budget | YTD Receipts | YTD % |
|--------------------------------------|---------------------|---------------------|------------|
| Property Taxes | 45,563,216 | 24,008,567 | 53% |
| Teeter Plan Proceeds | 1,500,000 | - | 0% |
| Local Sales Tax | 3,999,000 | 2,534,852 | 63% |
| Property Transfer Taxes | 620,600 | 541,336 | 87% |
| Other Taxes | 618,500 | 472,774 | 76% |
| Licenses & Permits | 1,553,200 | 487,077 | 31% |
| Fines, Forfeitures & Penalties | 973,200 | 509,292 | 52% |
| Interest-County Treasury | 150,000 | 150,342 | 100% |
| Public Safety Sales Tax | 14,134,100 | 8,395,935 | 59% |
| Lease-Table A Water | 1,184,000 | 1,217,764 | 103% |
| RDA City of Chico | 3,980,600 | 1,833,834 | 46% |
| Tobacco Settlement Funds | 1,960,000 | 6,215 | 0% |
| Other Misc. Revenue | 1,707,800 | 1,499,639 | 88% |
| Total General Purpose Revenue | \$77,944,216 | \$41,657,625 | 53% |

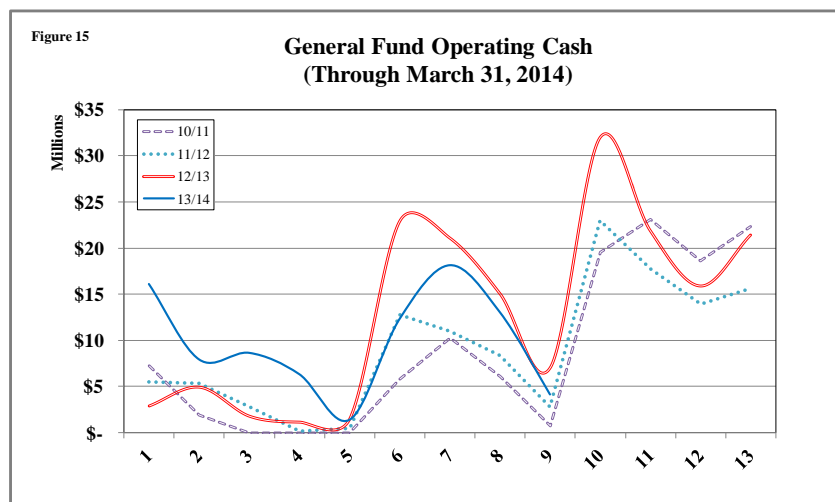
GENERAL FUND OPERATING CASH REPORT

The General Fund cash balance at the end of the third quarter of fiscal year 2013-2014 was \$4,141,893. At the end of the third quarter of fiscal year 2012-2013 the ending balance was \$6,990,091. The approximate \$2,848,000 decrease is a result of payment timing to the State for fire services. During the third quarter of fiscal year 2013-2014, \$3,055,120 more was paid on the fire contract compared to the same quarter in 2012-2013.

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

The four year comparison in General Fund Operating Cash graph in Figure 15 provides an expanded view over four years of the cyclical nature of General Fund operating cash. Although balances at any given point in time vary from year to year, a clear trend is evident.

As of March 31, 2014, no General Fund operating transfers of cash were made to any other funds.



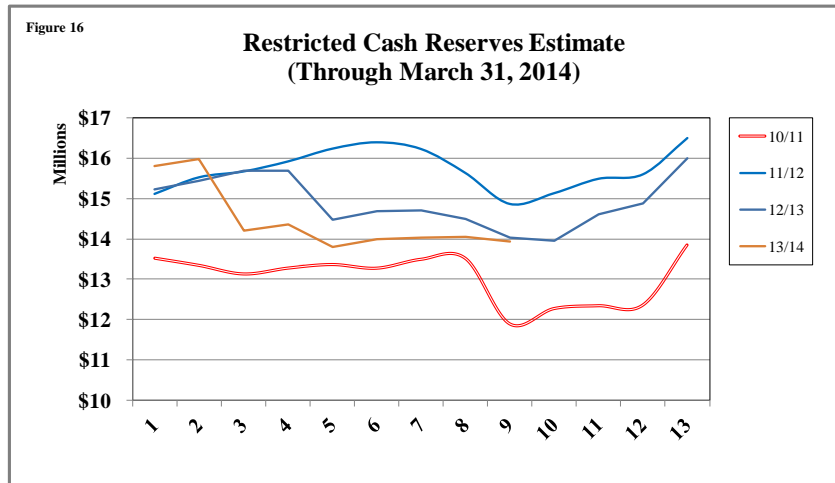
As described in previous quarterly reports, payments to counties from the State remain uncertain. This predicament has and continues to have the greatest impact on the Behavioral Health Fund. Beginning fiscal year 2012-2013,

cash deficits for the Behavioral Health Fund were covered by cash advances from Public Health realignment funds. These advances are returned to Public Health realignment the following month.

County staff determined that it would not be necessary to secure a Tax Revenue Anticipation Note (TRAN) for short term cash flow needs in 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 on a short term basis.

GENERAL FUND RESTRICTED CASH

Restricted Cash Reserves have been established to segregate resources and restrict expenditures to a clearly identified purpose. These reserves have been established by law, for instance by statute or court order, or per the provisions of a contract. Legally restricted cash is segregated and reported separately from other cash and cash equivalents on the balance sheet.



The Restricted Cash Reserves Estimate graph in Figure 16 reflects the monthly balances in reserves throughout the fiscal year. An increase in reserves means that more revenue associated with the reserve is coming in than expenditures out of the reserve. Conversely, a decrease in reserves indicates higher expenditures relative to the amount of revenue received.

Restricted Cash Reserves are monitored closely to insure the use complies with the restricted nature of the revenue.

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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 \$500,000 was secured to purchase a compactor for the Neal Road Recycling and Waste Facility. No principal payments were due in the third quarter. Typically, principal is paid annually on bond issues and certificates of participation and interest is due semi-annually. The following interest only payments were made during the third quarter:

| | |
|---|--------------|
| 2006 Certificates of Participation | \$167,550.00 |
| Pension Obligation Bonds – Series B | \$ 25,773.40 |
| 2010 Bangor Fire Station #55 Renovation Project | \$ 20,146.65 |
| 2003 Refunding Certificates of Participation | \$ 7,055.00 |

The following Long-Term Debt schedule, Figure 17, and Ratio of Outstanding Debt and Ratios schedule, Figure 18, present data as of March 31, 2014.

| Figure 17 | | | | |
|---|-----------------------------|------------------------|-----------------------------|----------------------|
| 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 | \$ 4,293,550 | |
| 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 |
| Lease/Purchase - JPMorgan Chase Bank | 500,000 | 500,000 | 104,976 | 2/20/2019 |
| Total Neal Road Recycling and Waste Facility | \$ 13,583,924 | \$ 9,216,035 | \$ 1,465,463 | |
| TOTAL LONG-TERM DEBT | \$ 74,182,374 | \$ 62,674,549 | \$ 6,681,529 | |

Figure 18

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 | \$1,575 | \$ 1,835 | \$ 699 | \$150 | \$ 8,960 | \$ 559 | \$ 63,673 | 0.3601% | \$ 288 |
| 2014 | \$49,895 | \$1,450 | \$ 1,422 | \$ 691 | \$150 | \$ 8,115 | \$ 951 | \$ 62,674 | 0.3489% | \$ 283 |

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