



Butte County Administration

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Date: May 19, 2015
To: Butte County Board of Supervisors
From: Meegan Jessee, Deputy Administrative Officer
Subject: Third Quarter Financial Report Fiscal Year 2014-2015

OVERVIEW

The third quarter ended March 31st, 2015. The quarterly financial report for the County provides an update on the National, state and local economy, summarizes the quarterly analysis of expenditures and revenues, includes an update on the fiscal year 2015-2016 budget outlook, an update on cash balances and reports on current long-term debt obligations.

Economy: The economic data trends through the third quarter of the fiscal year continues to show slow and sometimes uneven improvement. National economic output ended the quarter with only very slight growth and consumer confidence struggled somewhat but ended the quarter up. Inflation continues to be low and the unemployment rate continued to improve.

Expenditures: Expenditures by County departments were similar to prior years. The County expended 60% 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 55% of its budget. This variation is due to a change related to how In-Home Supportive Services is budgeted.

Revenues: Discretionary revenues are trending to be approximately \$9 million higher than anticipated in the current budget due to a combination of ongoing and one-time property tax, sales tax and Teeter Plan revenues. Departmental revenues were received as expected. Through the third quarter of the fiscal year, the County received 55% of budgeted revenues. Through the same quarter of the previous fiscal year, the County had received 49% of budgeted revenues. Again, this variation is due primarily to a change related to how In-Home Supportive Services is budgeted as well as timelier payments from the state for Behavioral Health services.

ECONOMIC UPDATE

Gross Domestic Product: U.S. Gross Domestic Product (GDP), which measures the market value of all final goods and services produced within the country, increased at an almost stagnant estimated rate of 0.2% during the third quarter of fiscal year 2014-2015. This is an 'advance estimate' from the Commerce Department and primarily reflects positive contributions from personal consumption and private inventory

investment. The increase was offset by negative contributions from an upturn in imports (which reduce GDP), a downturn in exports, nonresidential fixed investment and state and local spending. Figure 1 (below) shows annualized GDP growth by quarter for the preceding ten year period. The 0.2% annualized growth figure, though representing small growth, marks a decrease in the growth rate compared to the preceding two quarters. The second quarter of the fiscal year saw 2.2% annualized growth and the first quarter of fiscal year 2014-2015 saw 5.0% annualized growth.

Figure 1



Figure 2

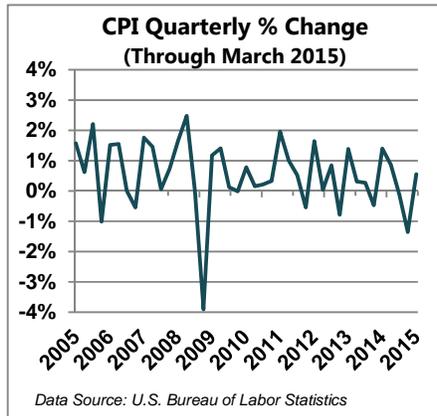


Figure 3

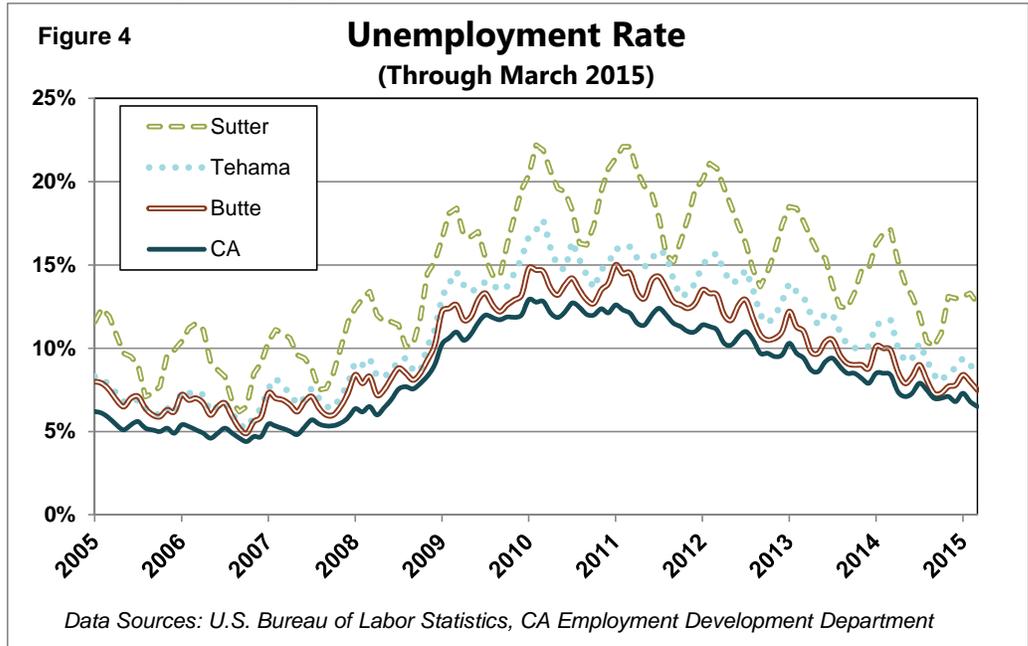


Consumer Price Index: Average prices faced by consumers nationally declined in January and rose in February and March of the third quarter of fiscal year 2014-2015. The national unadjusted Consumer Price Index (CPI) has increased by .56% since the end of the 2nd quarter. The principle factor driving the overall increase in the third quarter was an increase in energy and shelter which offset a decline in the food index. Figure 2 (above) displays the quarterly change in the CPI from 2005 through the third quarter of fiscal year 2014-2015.

Consumer Confidence Index: Consumer confidence, as measured by the Conference Board's Consumer Confidence Index (CCI), increased in January to a value of 103.8 then fell in February to 98.8, then back up to 101.3 in March. According to the CCI, consumers' confidence rose in March due to an improved short-term outlook for both employment and income prospects but consumers were less upbeat about business conditions. The CCI is benchmarked so that the index value for 1985 equals 100, a time where consumer confidence was neither at a peak or a trough. Since bottoming out at a value of 25.3 in February of 2009, the CCI has maintained fairly consistent increases overall, though the index remains below where it stood in the months preceding the 'Great Recession'.

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Unemployment: The State's seasonally unadjusted unemployment rate stood at 6.5% in March, an improvement from the 8.4% a year prior and consistent with the general trend of improvement that began in 2010. The State's unemployment rate remains above that of the U.S. as a whole, which was 5.6% at the end of March 2015. Butte County's unemployment rate in March was 7.5%, down from 9.9% from 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 101,600, an increase of 400 from the previous month and a decrease of 800 from a year ago. 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.



Building Activity: Statewide, the pace of homebuilding appears to be maintaining slow and somewhat steady improvement over the long term. The three months ending in February saw an average of nearly 7,473 new home starts per month, up slightly from the preceding three month period. The average number of building permits issued each month for the unincorporated area of Butte County increased from this same period last year. An average of 215 building permits of various types were issued per month during the third quarter, down from an average of 233 during the second quarter, but up from 200 a year ago.

Figure 5

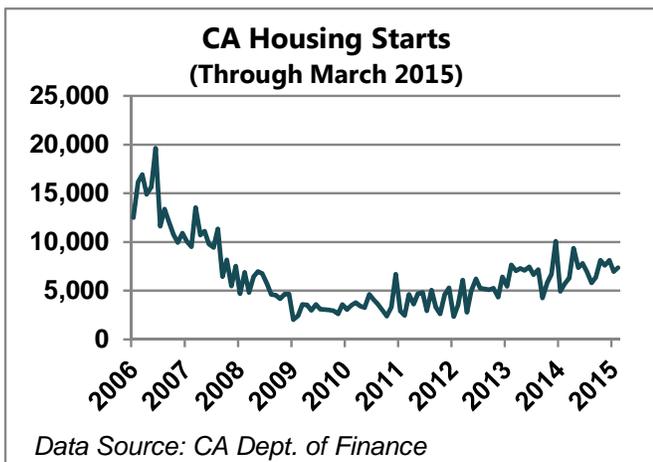
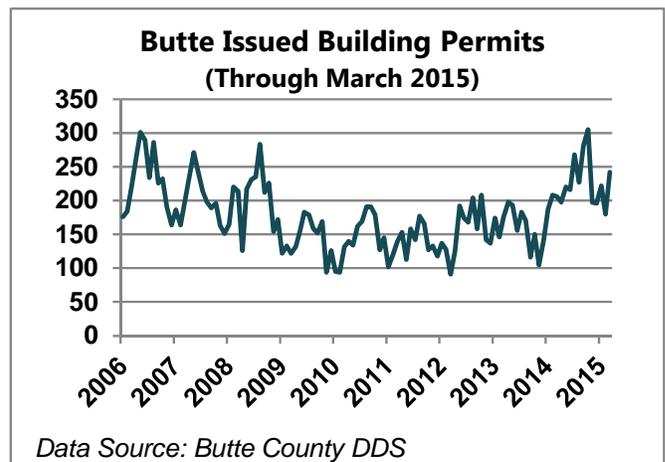


Figure 6

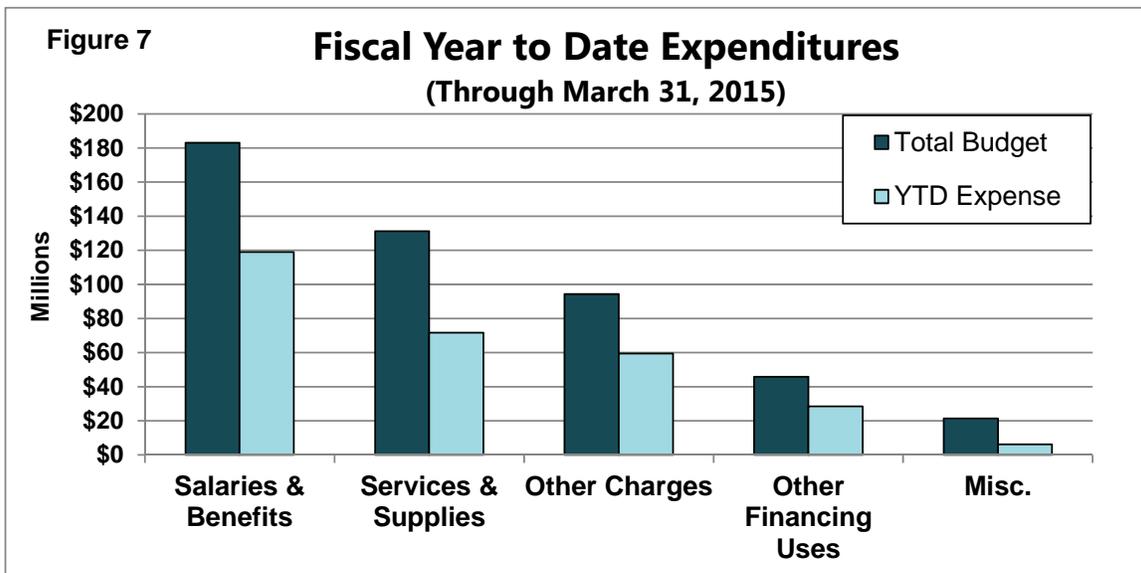


Home Sales: The median price of existing, single-family homes sold in California during March 2015 was \$468,550 a 6.3% increase from the previous month and a 7.3% increase from a year earlier. The number of existing home sales in February 2015 was 368,160, a 4.7% increase from the previous period and a 2.4% increase from a year ago. For Butte County, the median price of existing, single-family homes sold in during March 2015 was \$233,930, a 5.4% decrease from the previous month and a 5.6% increase from a year earlier.

EXPENDITURES

At the end of the third quarter, the County had expended \$284.6 million¹ from a budget totaling \$475.8 million. As shown in the graph below, the County spent \$118.9 million on salaries and benefits, \$71.7 million on services and supplies, and \$59.5 million on other charges, such as payments between funds and contributions to other agencies. The remaining \$34.5 million in expenditures were for other financing uses and miscellaneous expenditures. Other financing uses are primarily operating transfers and charges between departments. Miscellaneous expenses include capital assets.

Overall, the County expended 60% of the budget through the third quarter of the 2014-2015 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 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 expended 55% of its budget. The majority of the difference between the total percentages expended between years can be explained by a change in the way expenditures for In-Home Supportive Services is budgeted.



The graph below 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 35% of their budget for the year. Although there are a

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.

variety of reasons, they all relate to an uneven flow of expenditures through the course of the year. Development Services has a low percentage of their budget expended because several professional service contracts were delayed, thus delaying expenditures. The General Services Department has experienced salary savings and not all planned maintenance projects will be completed by the end of the year. Within Information Services, significant allocated costs have been budgeted for the year, but won't be recorded until the fourth quarter.

The enterprise funds (Neal Road Recycling and Waste Facility) include capital purchases and improvements which will occur during the fourth quarter. 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.

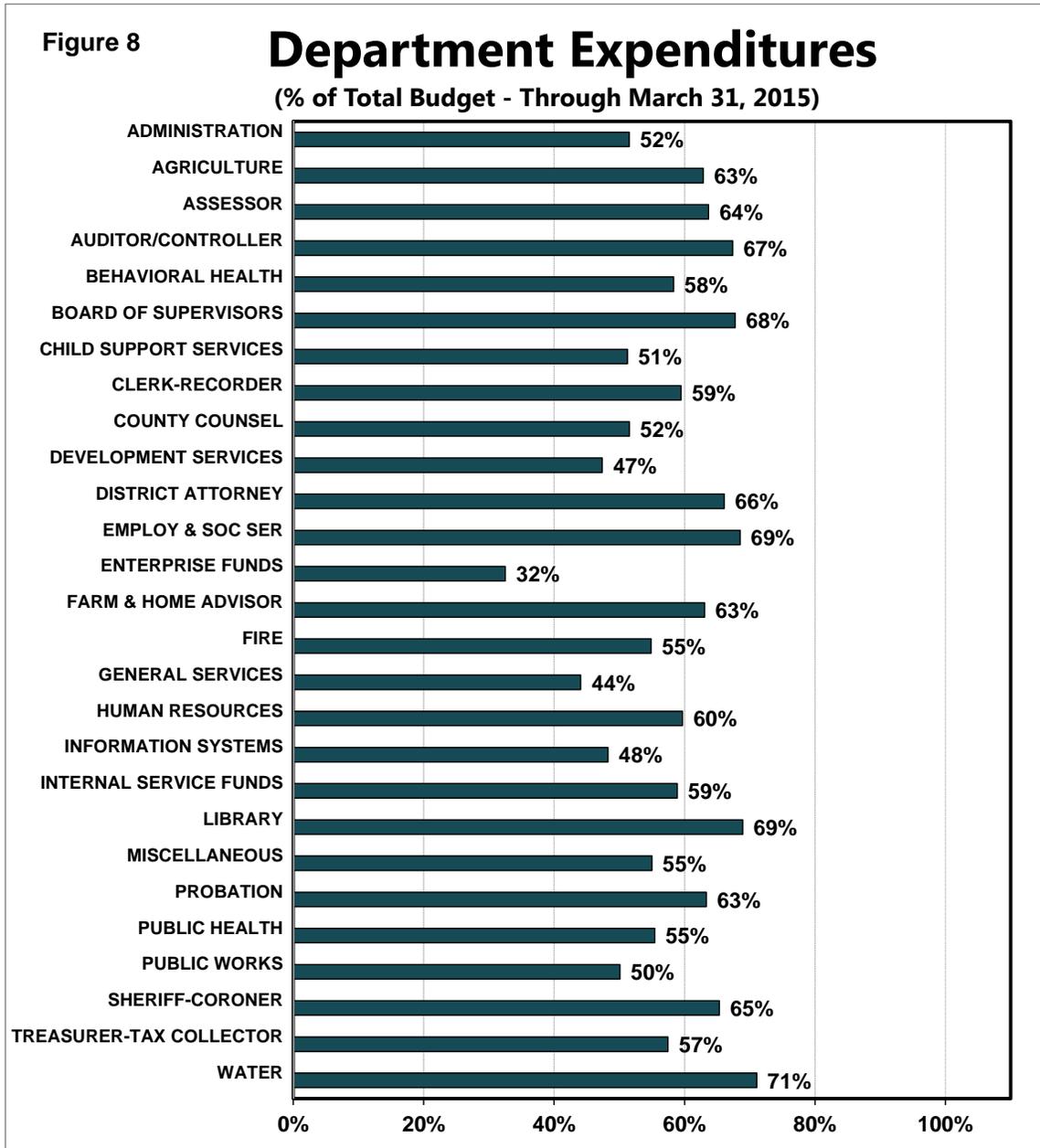
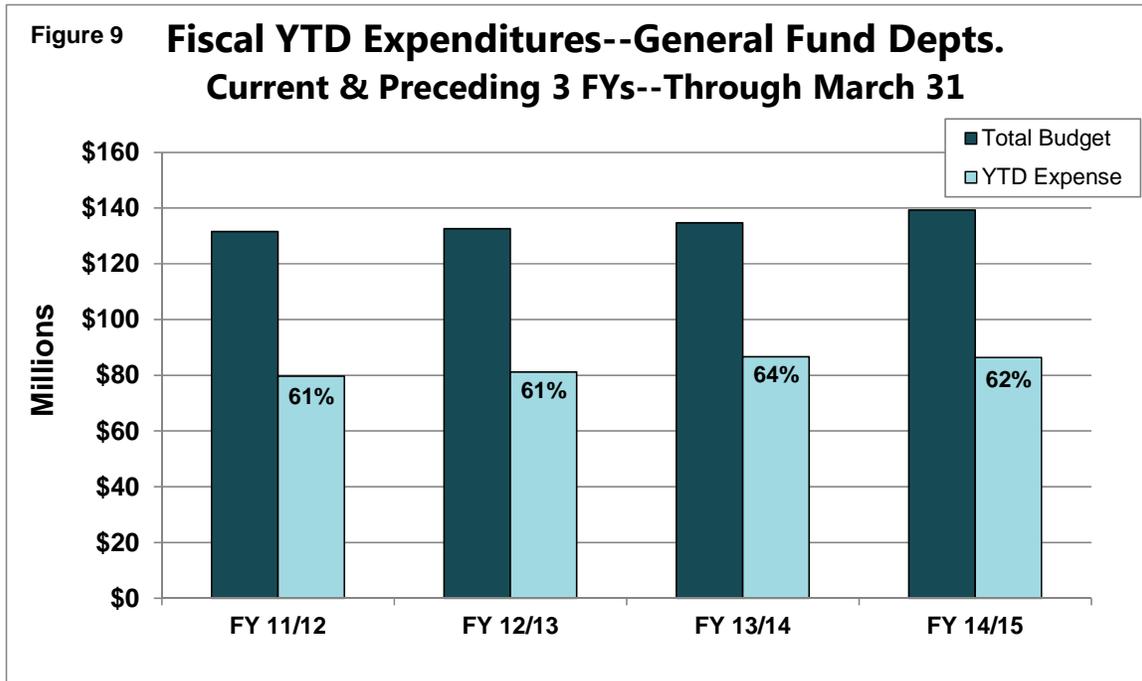
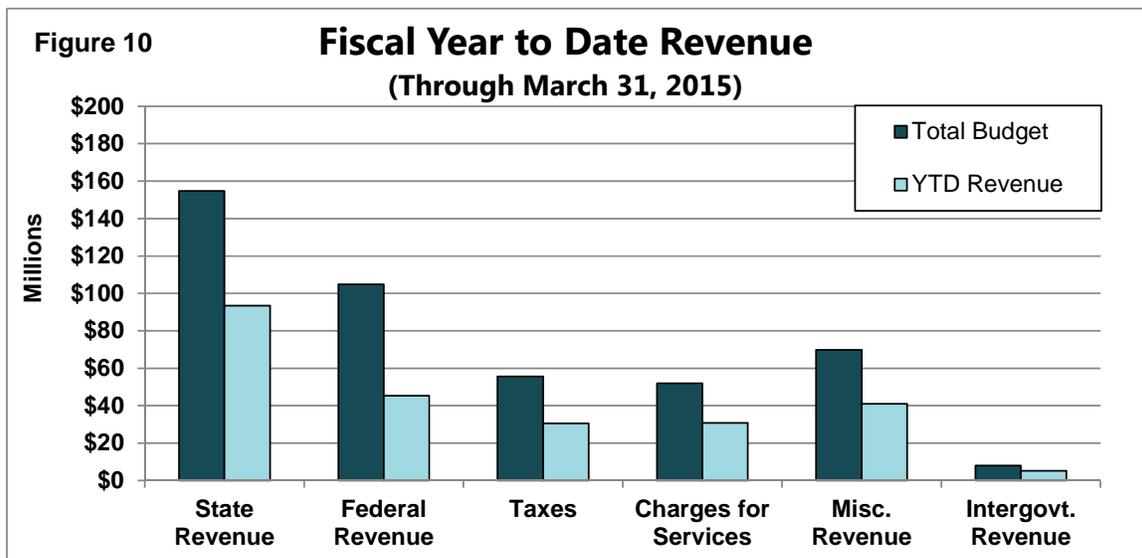


Figure 9 displays budgeted and actual expenditures at the close of the third quarter among General Fund departments for the current and preceding three fiscal years. As shown in the graph, expenditures among General Fund departments are consistently at or just above 60% of the budgeted amount through the end of the second quarter.



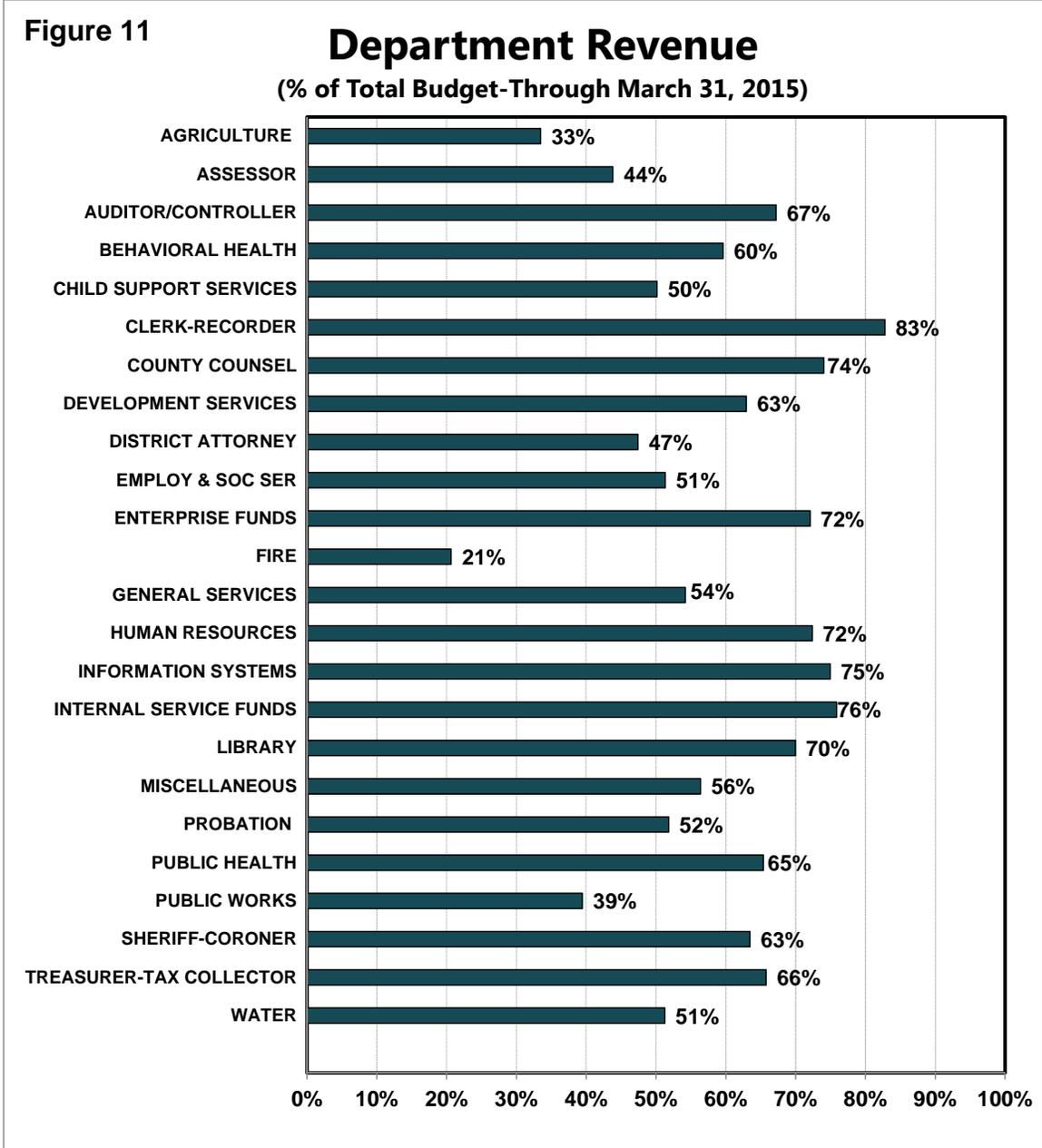
REVENUE REPORT

Through the third quarter of the fiscal year, the County has received 55% of budgeted revenues². This is a larger percentage than the same period last year, when the County had received 49% of its revenues. The majority of the difference between the total percentages expended between years can be explained by a change in the way expenditures for In-Home Supportive Services is budgeted as well as timelier payments from the state for Behavioral Health services.



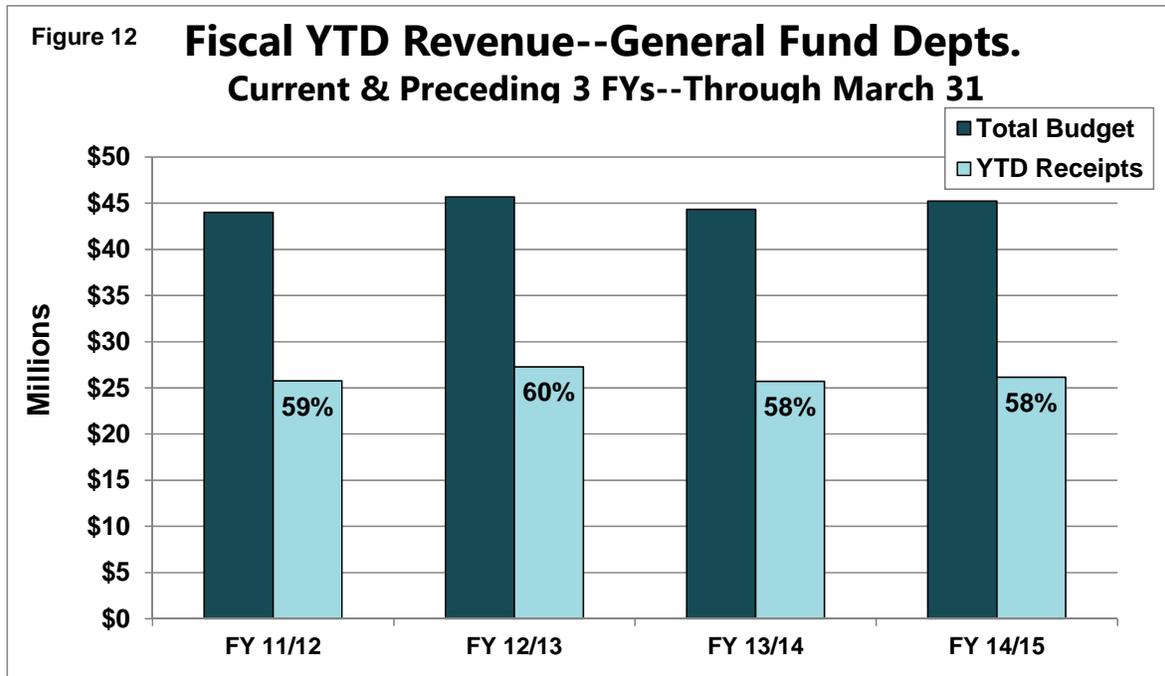
² For the purpose of this report the County’s budgeted revenues include all departmental operating budgets, internal service funds (for example Workers’ Compensation and General Liability), enterprise funds (Neal Road Recycling and Waste Facility) as well as a number of miscellaneous budget units such as general purpose revenues, capital projects, CDBG grant programs and Debt Service. County Service Areas are excluded.

The chart below shows revenues received by each County Department through March 30, 2015 as a percentage of their budget. Most department revenues are between 40-75% of budget through the third quarter, consistent with revenue patterns from previous years. The Agriculture department receives a significant portion of their revenue from two sources from the state which are typically received either in the third or fourth quarter. This year, the revenue will be received in the fourth quarter. The Fire Department's revenues are lower than anticipated due to timing of payments. State payments for the use of County equipment during State responsibility fires are normally issued toward the end of the fiscal year. Public Works receives reimbursements for federal/state road and bridge projects after their completion. 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.



Two departments have received more than 75% of their budgeted revenue by the close of the third quarter. The Clerk-Recorder’s Department received approximately \$150,000 more in election fees and reimbursements than budgeted and they also received full payment for a grant during the first three quarters. The Internal Service Funds are slightly above 75% of budgeted revenue collections because two of the funds collection schedules provide for the majority of collections to occur early in the year.

Budgeted and actual revenues for General Fund departments are displayed in Figure 12 (below). The figures presented do not include General Purpose Revenues, which are received in the General Fund but are not specific to any department. At the close of the third quarter, General Fund Departments had received 58% of budgeted revenue, which is consistent with the average percentage of revenue collected by this time in the fiscal year.



General Purpose Revenue: Through March 55% of General Purpose Revenues (included in Figure 11 above as part of the miscellaneous budget unit) has been received, similar with prior years. Last year at this time 53% of General Purpose Revenue has been received. Current projections indicate that total General Purpose Revenue receipts will come around \$9 million higher than anticipated due primarily to the receipt of one time funds (\$7 million) as well as higher than budgeted revenue growth in both property tax and sales tax revenues.

Proceeds from the County’s operation of the Alternative Method of Tax Apportionment, commonly referred to as the “Teeter Plan” after the Contra Costa Auditor who developed it in 1949, is budgeted at \$2.9 million, but currently anticipated to be \$8 million. The additional anticipated funds are one time in nature.

The Teeter Plan, adopted by Butte County in 1993, provides a mechanism in which the taxing entities within the County receive 100% of owed property tax revenues. The County advances the revenue to local agencies and retains the delinquent tax payments along with the related penalties and interest. This plan provides local agencies with more consistent revenues and, over the long term, increases County revenues due to the penalties and interest received on the delinquent bills.

During the recent economic downturn tax delinquencies were high, requiring larger than typical advances to the other local agencies and higher reserves in the funds used for the operation of the Teeter Plan. Now that the Great Recession has ended and the delinquent payments are being made County Administration is working with both the Auditor-Controller and Treasurer-Tax Collector to identify a prudent level of reserves going forward, to identify any one-time funds available to the General Fund, and to develop a policy guiding the County's operation of the Teeter Plan moving forward. A policy for consideration by the Board of Supervisors is anticipated this spring.

While the second installment of property tax won't be accounted for until the month of April is closed as reported in the second quarter report total property taxes collected thru March are ahead of budget. This is a result of three things: 1) the percent of total collections after the first installment was higher than the previous year; 2) a prior year correction resulted in a one-time \$740,000 General Fund revenue increase; and 3) the revenue related to the dissolution of the redevelopment agencies (RDA) was higher than anticipated. As a result of the prior year correction and higher than anticipated RDA residual funds, overall property tax revenues are currently anticipated to be about \$2 million higher than budgeted. Once the accounting for the second installment is completed an updated projection will be completed.

Local sales tax and public safety sales tax is also anticipated to close the year higher than budgeted due to a combination of higher than forecasted revenues as well as a one-time public safety sales tax payment of \$240,000 that is the result of a multi-year correction by the State of California.

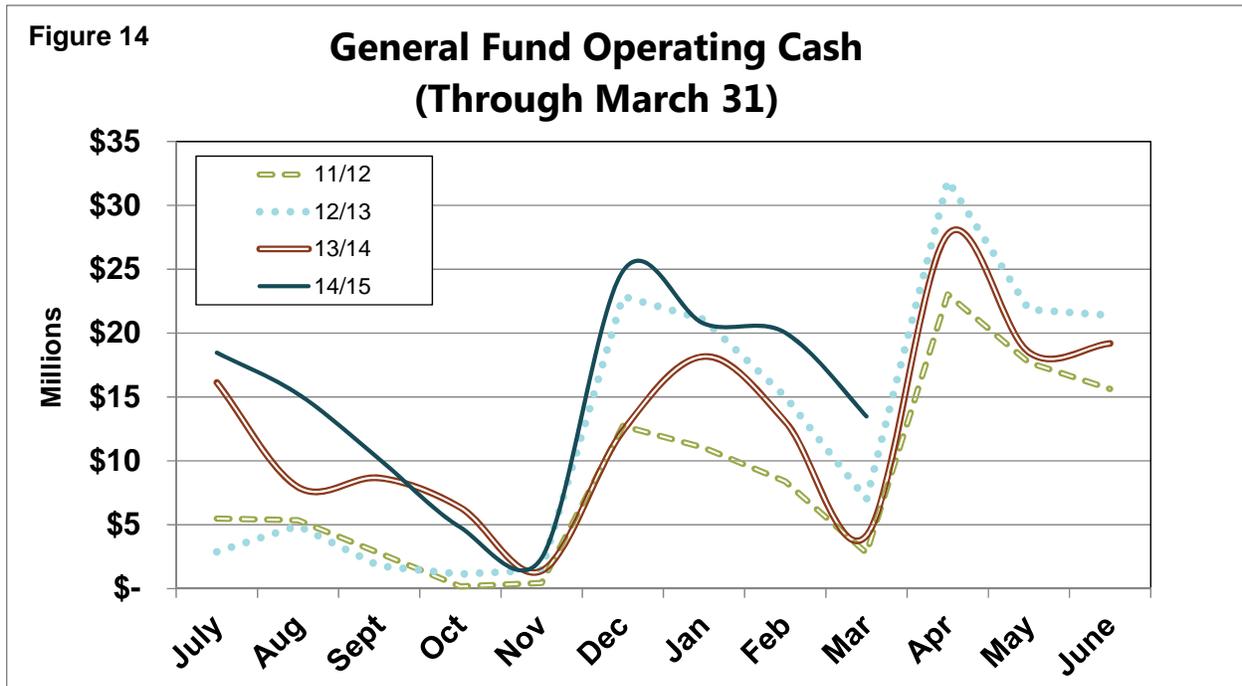
Finally, the County is anticipating the repayment of almost \$1 million in pre-2004 state mandate funds this spring.

Figure 13 General Purpose Revenue Receipts			
(Through 3rd Quarter)			
Account Title	Budget	YTD Receipts	YTD %
Property Taxes	46,888,961	26,581,534	57%
Teeter Plan Proceeds	2,900,000	0	0%
Local Sales Tax	4,260,081	2,684,558	63%
Property Transfer Taxes	825,000	581,553	70%
Other Taxes	569,222	449,062	79%
Licenses & Permits	1,556,690	1,418,731	91%
Fines, Forfeitures & Penalties	904,509	462,224	51%
Interest-County Treasury	152,000	104,009	68%
Public Safety Sales Tax	14,878,459	9,087,148	61%
Lease-Table A Water	2,400,000	1,205,635	50%
RDA City of Chico	4,074,092	2,133,532	52%
Tobacco Settlement Funds	2,000,000	0	0%
Other Misc. Revenue	1,707,776	1,313,709	77%
Total General Purpose Revenue	\$83,116,790	\$46,021,694	55%

CASH BALANCES

The General Fund operating cash balance at the end of the third quarter of fiscal year 2014-2015 was \$13.5 million, compared to \$4.1 million at the end of the third quarter of fiscal year 2013-2014. The approximate \$9.4 million increase over the balance at the end of the third quarter of fiscal year 2013-2014 is largely due to the timing of payments to the State for fire services. Approximately \$5.6 million more was paid on the fire contract during the third quarter of fiscal year 2013-2014 than in the third

quarter of the current fiscal year. The year over year difference in the operating cash balance is also due to the timing of revenues, such as PG&E franchise fees (\$1 million) which we received a month earlier than the prior year, and other expenditures. Finally a decrease in the cash advance to CDBG has improved the cash position of the General Fund (\$1.3 million).



As shown in Figure 14 above, the overall trends for General Fund operating cash are consistent from year to year. Balances decline in the first and second quarters of the year until the first installment of property tax is received in December and then decline again until the second installment of property tax is received in April.

As of March 31, 2015, there is an outstanding \$265,371 cash advance from the General Fund to the CDBG fund to pay for housing rehab projects until State reimbursement is received, compared to \$1.6 million outstanding from the CDBG fund at the end of the second quarter of the current fiscal year.

Prior to the second quarter of fiscal year 2014-2015, quarterly reports have described ongoing cash flow challenges and deficits in the Behavioral Health Fund. However, as of the end of the third quarter of the current fiscal year, as in the second quarter, the Behavioral Health Department did not have a cash deficit and continued the process of building a cash balance within the Behavioral Health Fund to manage the unpredictable timing of State payments. The significant improvement in the Department’s cash position since November 2014 is due to both regular and timely payments from the State as well as efforts made by the Department to increase revenue without accompanying increases to expenditures.

LONG-TERM DEBT

The following Long-Term Debt schedule, Figure 15, presents balances as of March 31, 2015. During the third quarter of the current fiscal year, the County made a total of \$104,976 in debt payments, \$96,771 of which resulted in principal reductions as detailed in the table below, Figure 16.

Figure 15 LONG-TERM DEBT (THROUGH MARCH 2015)				
Type of Debt	Original Loan Amount	Current Balance	Avg. Annual Payment*	Maturity Date
Bonds Payable				
Pension Obligation Bonds				
-Series A	28,020,000	27,965,000	2,629,431	6/1/2034
-Series B	21,875,000	21,580,000	1,797,500	6/1/2034
Total Bonds Payable	\$ 49,895,000	\$ 49,545,000	\$ 4,426,931	
Certificates of Participation				
2014 Hall of Records Certificates of Participation	8,000,000	2,598,098	374,099	7/1/2054
2010 Bangor Fire Station #55 Renovation Project	1,100,000	994,333	55,302	8/1/2050
Total Certificates of Participation	\$ 9,100,000	\$ 3,592,431	\$ 429,401	
Capital Leases				
Chico Memorial Hall - 492 Rio Lindo	583,400	287,939	61,156	4/10/2020
Chico Memorial Hall - 554 Rio Lindo	670,900	314,074	62,275	4/10/2020
En Pointe Technologies (Microsoft Enterprise Licensing Agreement)	2,313,309	767,313	769,733	12/15/2016
Total Capital Leases	\$ 3,567,609	\$ 1,369,326	\$ 893,164	
Notes Payable				
California Energy Commission				
-Solar Project Phase 1	2,777,000	1,016,286	277,181	12/22/2018
-Solar Project Phase 2	390,000	175,354	35,786	6/22/2020
Total Notes Payable	\$ 3,167,000	\$ 1,191,640	\$ 312,967	
Neal Road Recycling and Waste Facility				
2006 Certificate of Participation	12,025,000	8,115,000	1,191,841	8/24/2035
Note Payable - Calif. Integrated Waste Mgt Board	500,000	100,000	50,000	6/1/2016
Lease/Purchase - JPMorgan Chase Bank	558,924	341,233	117,804	12/24/2017
Lease/Purchase - JPMorgan Chase Bank	500,000	403,229	104,976	2/20/2019
Total Neal Road Recycling and Waste Facility	\$ 13,583,924	\$ 8,959,462	\$ 1,464,621	
TOTAL LONG-TERM DEBT	\$ 79,313,533	\$ 64,657,859	\$ 7,527,084	

* From FYE 6/30/15 to maturity per amortization schedules

Figure 16 LONG-TERM DEBT PAYMENTS		
Debt Description	Principal Paid	Interest Paid
Lease/Purchase JPMorgan Chase Bank	\$96,771.41	\$8,205.00
TOTAL DEBT PAYMENTS	\$96,771.41	\$8,205.00

Figure 17 on the following page displays the County’s long term debt over a period of ten years as a percentage of the total assessed value of County property and debt per County resident.

Figure 17

Outstanding Debt and Ratios (Through March 2015)
(In Thousands, Except Debt Ratios)

Fiscal Year	Governmental Activities (A)				Neal Road Recycling and Waste Facility - Business Type Activities (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
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	\$ 49,545	\$ 1,322	\$ 1,422	\$ 611	\$ 100	\$ 8,115	\$ 951	\$ 62,066	0.3455%	\$ 280
2015	\$ 49,545	\$ 1,192	\$ 3,592	\$ 1,369	\$ 100	\$ 8,115	\$ 744	\$ 64,657	0.3405%	\$ 285

CONCLUSION

In summary the economy continues to improve, albeit at an uneven and slower pace than we would like to see. County revenues and expenditures are on track with notable one-time revenues now anticipated in the General Fund. The County continues to live within its means and in line with available resources. Cash balances in the General Fund remain healthy and we continue to see improvement in the cash balances in the Behavioral Health fund compared to prior years.