Butte County Administration

Shari McCracken
Chief Administrative Officer

25 County Center Drive, Suite 200
Oroville, California 95965

T: 530.552.3300
F: 530.538.7120

buttecounty.net/administration

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To: Butte County Board of Supervisors

From: Meegan Jessee, Deputy Administrative Officer

Subject: Financial Report for Second Quarter of Fiscal Year 2018-19

OVERVIEW

The Butte County financial report for the second quarter of fiscal year 2018-19 contains updates on the economy, expenditures, revenues, cash balances and long-term debts for the period ending December 31, 2018. Additionally the report includes impacts on the financial impacts of Camp Fire as well as the fiscal year 2019-20 Budget Outlook.

Economy: The U.S. economy continues to grow and that growth, along with low unemployment, is projected to continue into next fiscal year.

Expenditures: At the end of the second quarter, the County had expended $215.5 million from a budget totaling $564.6 million, which is about 38%. Overall this is consistent with previous years, however it's important to note that it includes $5 million in expenditures related to the Camp Fire response and recovery.

Revenues: Through the second quarter of the fiscal year, the County received $207.5 million or 39% of budgeted revenues. Through the same quarter of the previous fiscal year the County also received 39% of budgeted revenues.

Camp Fire Financial Impacts: The largest and most destructive wild fire in California history has resulted in significant and ongoing financial impacts. A summary of the impacts as they are understood to-date is included in the report.

Budget Outlook: The County is facing significant financial uncertainly related to the Camp Fire; coupled with cost pressures in a number of areas that are likely to exceed available resources. Departments are currently in the process of developing their fiscal year 2019-20 requested budgets, and County Administration will begin analyzing those requests when they are submitted in March. Budget Hearings are scheduled for June 25th, 2019.

Cash Balances: The General Fund operating cash balance was approximately $21.9 million at the end of December, compared to $26.2 million the prior year. The $4.3 million difference in year to year is partially due to timing variances – CalFIRE payments, for example, are typically one to two quarters in arrears. By close of quarter two 2017-18, no CalFIRE payment had been made whereas by close of quarter two of the current fiscal year a payment of approximately $3.4 million had been made. Additionally, expenses related to the ongoing Camp Fire recovery efforts have contributed to lower than typical cash balances in the second quarter.

Pension Plan and Retiree Health Plan Funded Status: The funded status of both the County's retiree health plan and two CalPERS pension plans is included in the quarterly report, but has not changed since the last report. The funded status of the retiree health plan is updated every two years with an additional annual supplement, and the CalPERS pension plan funded status is updated annually. Details on these plans are provided later in the report.

Debt: During the second quarter of fiscal year 2018-19, principal payments totaling $1.06 million and interest payments of $1.06 million were made against long-term debt obligations. The payments included the final payment to the California Energy Commission for the Solar Project. The County secured no additional long-term debt during the second quarter of the current fiscal year.

ECONOMIC UPDATE

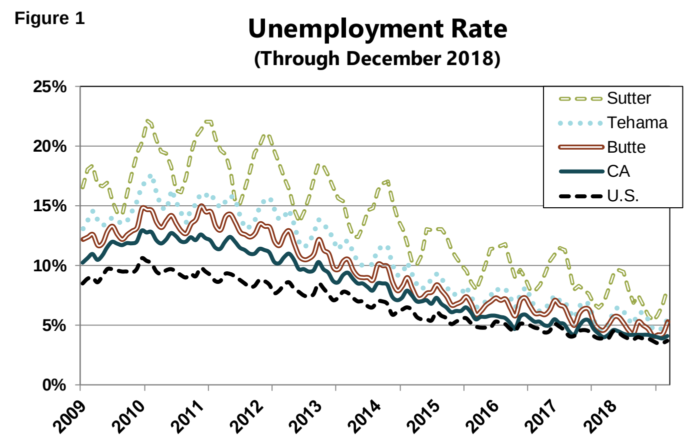
The State and national economic update is accomplished with the inclusion of the "California Forecast: Sales Tax Trends and Economic Drivers," (attachment A) provided by HdL Companies. This forecast is produced by HdL and Bacon Economics and provided quarterly to the County at no additional cost as part of the County's sales tax auditing contract with HdL. It includes both a consensus forecast on statewide sales tax trends by HdL as well as a forecast on national and statewide economic drivers by Beacon Economics, an independent research and consulting firm. The "California Forecast: State Tax Trends and Economic Drivers" efficiently provides a concise, professional economic forecast.

The "California Forecast: Sales Tax Trends and Economic Drivers," projects GDP growth of 2.8% in fiscal year 2018-19, slowing to 2.2% in fiscal year 2019-20 along with the continuation of historically low unemployment. The median home price in the State is projected to continue to increase. However, home sales continue to be below expectations due to limited inventories and the difficulties of borrowers to qualify for mortgages. Statewide, sales tax is projected to increase 3.2% in fiscal year 2018-19 and 1.23% in fiscal year 2019-20.

In addition to the "California Forecast: Sales Tax Trends and Economic Drivers," local unemployment, building and home sales data is provided below.

Unemployment: Butte County's unemployment rate in December of the current fiscal year was 5.3%%, up from the rate of 4.1% at the close of the previous quarter and the rate of 5.1% from a year ago. In December, the size of the labor force in Butte County was estimated at 106,800, which was an increase from 106,500 at the end of the previous quarter and 102,700 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

Figure 1



Data Sources: U.S. Bureau of Labor Statistics, CA Employment Development Department lower than that of the neighboring counties of Sutter and Tehama (Figure 1).

Building Activity: The total number of building permits issued for the unincorporated area of Butte County increased by 0.8% over the last twelve months. However, the average of 195 building permits issued per month for the unincorporated area during the second quarter of fiscal year 2018-19 was a 30% decrease from the monthly average of 279 in the previous quarter and a 22.0% decrease from the monthly average of 250 during the second quarter of fiscal year 2017-18. Figure 2 below shows Butte County building permits per month for the last ten years.

Figure 2

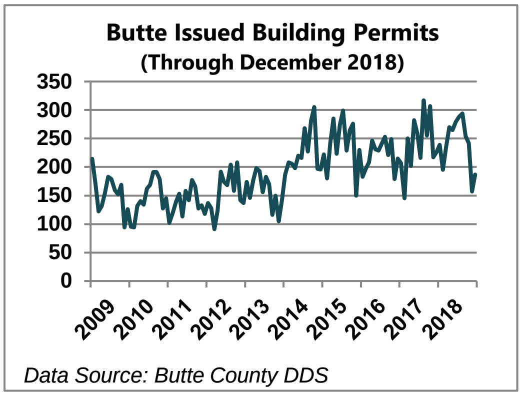
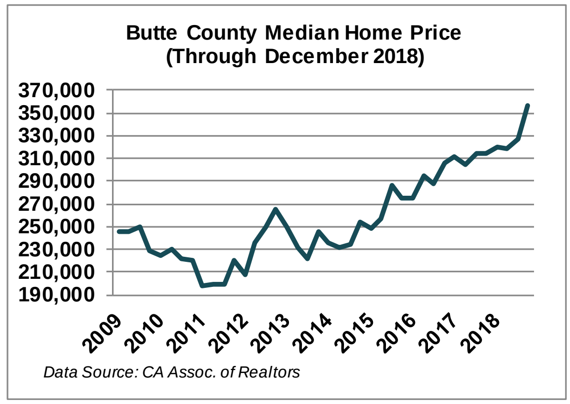


Figure 3



Median Home Price and Home Sales: The median sales price of existing single-family homes in Butte County during December 2018 was $356,558, an increase of 9.1% from the previous month and a 17.3% increase from the median price of $303,971 in December 2017. Home sales in Butte County during December 2018 were up by 97.5% from the previous month and by 105.3% from December 2017. The effects of the Camp Fire resulted in the loss of over 14,000 personal residences Butte County. Since the fire, sales of single family homes in the communities outside of the burn scar have experienced an upsurge as fire survivors purchased homes in the area. Figure 3 above shows the median home prices in Butte County for the past ten years.

EXPENDITURE REPORT

At the end of the second quarter, the County had expended $215.5 million from a budget totaling $564.6 million. As shown in Figure 7 below, the County spent $94.4 million on salaries and benefits, $52.1 million on services and supplies, $43.5 million on other charges, such as payments between funds for services provided between County departments and contributions to other agencies, and $5.6 million on capital assets. The remaining $19.9 million in expenditures were for other financing uses and special items expenditures, which consist primarily of operating transfers and other charges between budget units. The majority of these are transfers between departments and non-operating funds. Overall, the County expended 38% of the budget through the second quarter of the 2018-19 the same as the prior year. Although 50% of the fiscal year elapsed between July 1 and December 31, it is typical for expenditures overall to be less than 50% at the end of the second quarter.

Figure 4 below shows graphically in an OpenGov report, which can be found here, the County's actual expenditures by type through the second quarter. OpenGov reports are from the County's Financial Transparency Portal, which provides interactive County financial data at www.buttecounty.net/administration/Finance.

Figure 4

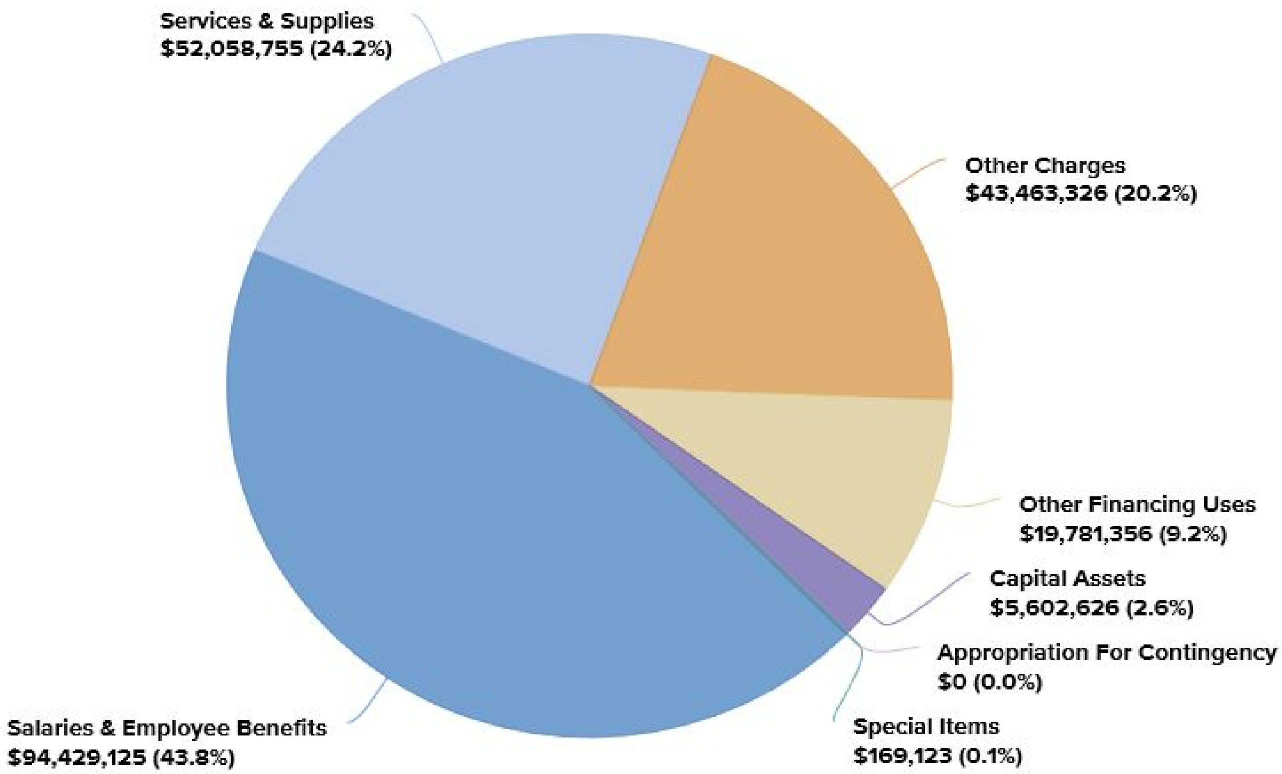


Figure 5 on page 6 shows the percentage of budget expended by each County department. Most departments have expended between 35% and 50% of their budget through the second quarter, which is similar to prior years. A number of departments had expenditures outside of the normal range, and each are addressed below. Although there are a variety of reasons, most relate to an uneven flow of expenditures through the course of the year.

- Capital Projects includes many large multi-year projects (Jail Expansion, Evidence Storage/Morgue, and Communications Tower-Chico) that have been not yet been expended.
- County Counsel expenses are low due primarily to intrafund transfers which are recorded as negative expenditures. Additionally there have been lower than anticipated professional services costs through the second quarter.
- County Service Areas (CSAs) budgets often include maintenance/repair funds that are only expended as needed; unneeded funds are not spent.
- Debt Service expenditures are low due to timing – Pension Obligation Bond half-yearly payments are due in January.
- The Neal Road Recycling and Waste Facility, which is accounted for in an enterprise fund, included current year capital purchases and improvements which will occur later in the year.

- The Fire Department is provided through a contract with CalFIRE with payment typically at least one quarter in arrears. As of the close of quarter two, only the quarter one payment had been made. Additionally, purchases have been delayed due to work on the Camp Fire.
- Fish and Game includes many grant projects that are paid at the end of the year, when the grantees submit claims.
- General Services expenses are considerably higher than normal due to Camp Fire response expenditures – most purchases for the Emergency Operations Center (EOC) are made in the General Services budget. Through December $3.1 million in Camp Fire response purchases have been recorded in General Services. The majority of costs are anticipated to be reimbursed through CalOES and FEMA.
- Information Systems Department expenses are low due to timing – transfers for equipment replacement will occur in January. Additionally, many software licenses are due in the second half of the year.
- Miscellaneous Community Development includes the Community Development Block Grant (CDBG) and HOME programs. The unit is at less than 35% of budgeted expenditures due to the number of projects completed and the timing of billings from outside consultants.
- Many of the non-operating funds are at less than 35% of budgeted expenditures which is typical, as non-operating funds are reimbursements to operating funds for expenditures made and are not transferred until the related expenditure is completed. Planned projects that were not completed contributed to lower expenditures among non-operating funds, as well as delays in Departments completing transfers related to the Camp Fire. Two of the non-op funds have expended over 50% of their budgets – the non-operating Library fund completes transfers to the Library as eligible expenses occur, which have been slightly higher than budgeted through the second quarter, and the non-operating Public Health fund includes fiscal year 2017-18 transfers that were completed in the current fiscal year.
- Public Works includes many capital projects with budgets not yet expended. Midway Bridge, Oroville Quincy Highway Storm Repairs, and Centerville Road Embankment Repairs projects are in progress; the Skyway Median Guardrail and Foothill Boulevard Overlay projects are slated to begin later in fiscal year; and the New Skyway Overlay project has been postponed due to the Camp Fire.

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Figure 5

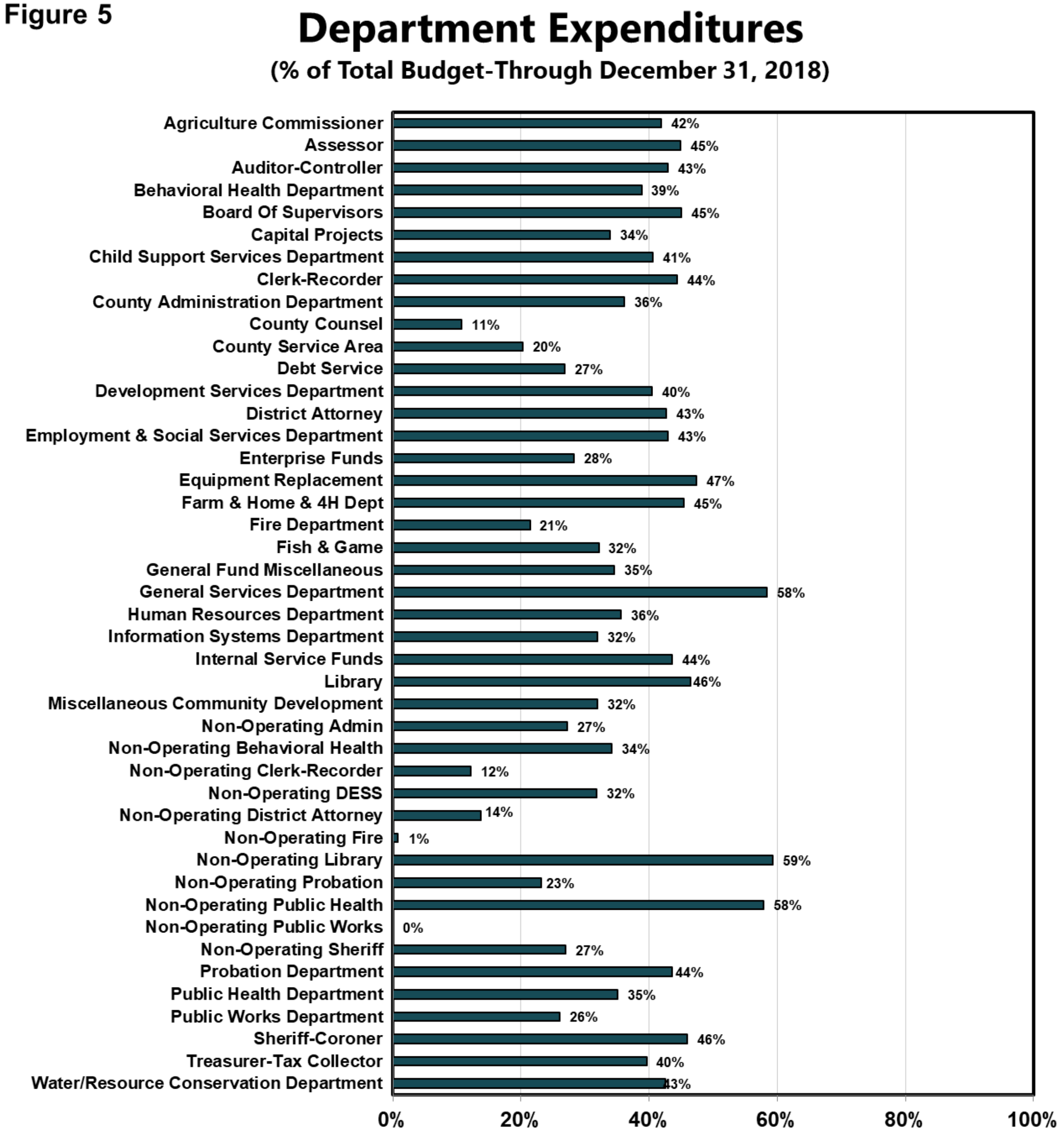

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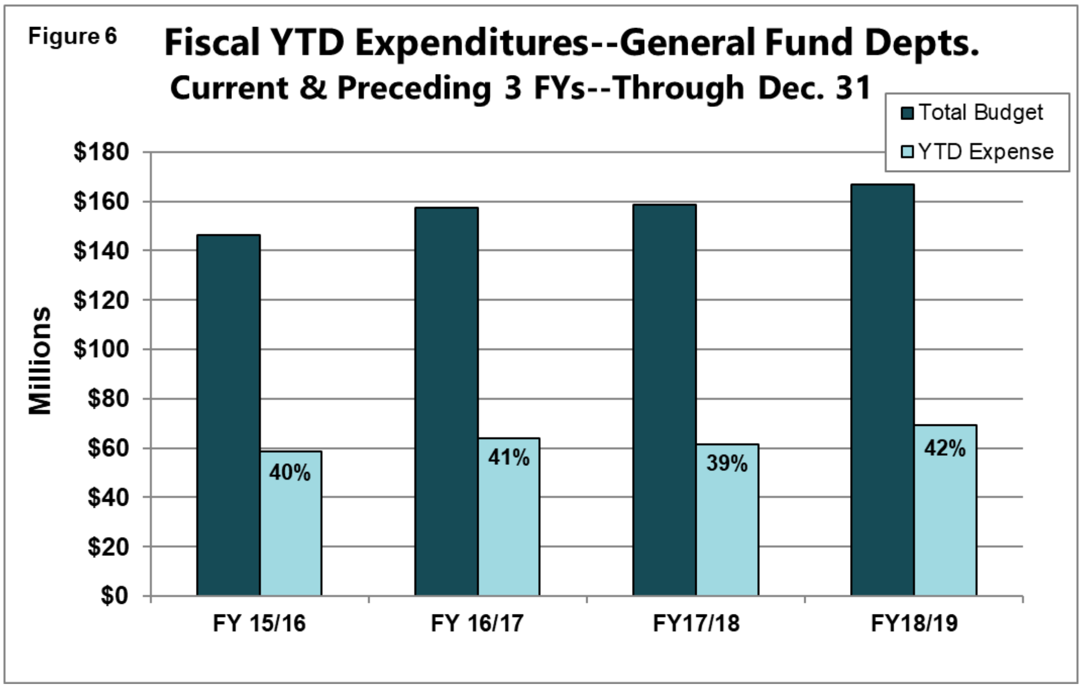
Figure 6 below displays budgeted and actual expenditures at the close of the second quarter among General Fund departments for the current and preceding three fiscal years. As shown in the graph, total expenditures among General Fund departments are currently 42%, somewhat higher than previous years which ranged from 39% to 41%. The increase in fiscal year 2018-19 compared to fiscal year 2017-18 is due to a quarterly $3.4 million CalFIRE payment made in quarter two of the current fiscal year that in fiscal year 2017-18 was not made until the third quarter, as well as additional costs related to ongoing Camp Fire response and recovery efforts. Fiscal years 2015-16 and 2016-17 each had a CalFIRE payment made by the end of the second quarter the same as in the current year.



REVENUE REPORT

Through the second quarter of fiscal year 2018-19, as reflected below in Figure 7, the County received $207.5 million in revenue. This amounts to 39% of budgeted revenues, the same as the prior year. Figure 7 below shows graphically in an OpenGov report, which can be found here, the County's actual revenues by type through the second quarter. OpenGov reports are from the County's Financial Transparency Portal, which provides interactive County financial data at www.buttecounty.net/administration/Finance.

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Figure 7

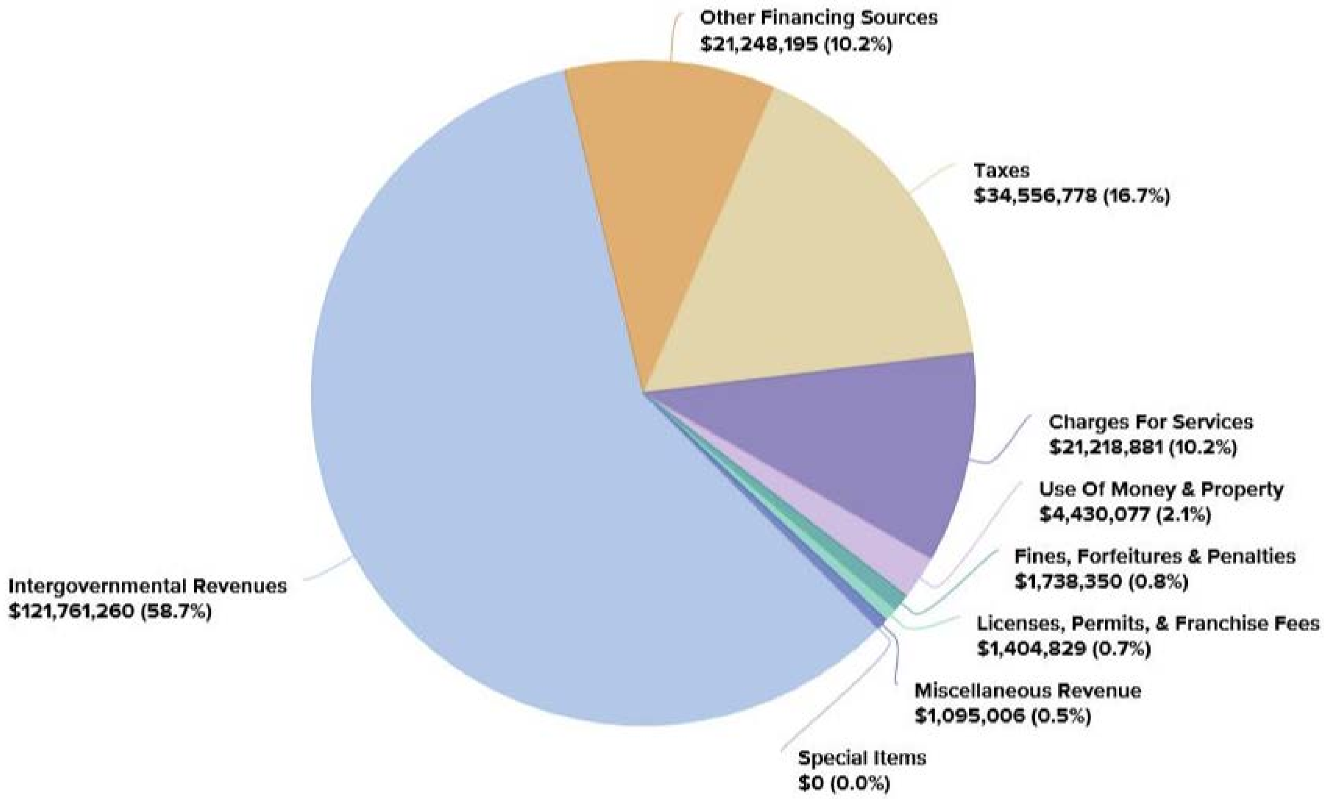

Figure 8 shows revenues received by each County department through the end of the second quarter. Many departments received revenues between 30% and 55% of their budgeted amounts through the fiscal year. A number of departments had revenue receipts less than 30% of budget. These are noted as follows:

- Agriculture Commissioner revenues are low due to the timing of grant funds and reimbursements that were not received by the end of the second quarter, but are anticipated within the fiscal year.
- Board of Supervisors revenues consist of the quarterly lease payment from Paradise Recreation and Parks which is anticipated to be received in full by the end of the fiscal year.
- Capital Projects receives reimbursement for projects. Many large budget multi-year capital projects (Evidence Storage/Morgue, Communications Tower-Chico) have spent less than anticipated, reducing associated revenues.
- Clerk-Recorder billing for the November elections was delayed but will be recovered within the fiscal year.
- District Attorney revenues are low due to the timing of grant funds and reimbursements that were not received by the end of the second quarter, but are anticipated within the fiscal year.
- Equipment Replacement transfers are typically done in April, after property tax revenue is received.
- Fire Department revenues are low due to the timing of grant funds and reimbursements that were not received by the end of the second quarter, but are anticipated within the fiscal year.

- Non-Operating Public Health revenues are low due to an issue regarding pending payments from the State. The State recently converted to a new financial accounting system that has resulted in delayed payments - if the pending payments had been received by end of the second quarter, revenues would be within normal range.
- Public Works receives reimbursement for projects. Delays in projects reduced associated revenue.
- Water/Resource Conservation Department revenues are based on reimbursement from the Proposition 1 grant – requests for quarter one and quarter two had not been submitted by the end of quarter two. Projected revenue is expected to be received in current fiscal year.

There are also departments with revenues that exceed 55% of budgeted revenues. Specifically:

- Assessor's Office received a $150,000 unanticipated state grant, increasing the Department's revenues.
- County Service Area (CSA) revenues are high due to higher than anticipated property tax revenues. CSA 24 Chico/Mud Drain and CSA 25 Shasta/Drain have each received higher than anticipated property tax revenues through the second quarter.
- Debt Service revenues are high due to the timing of collections for debt services. Pension Obligation Bond payment collections are done monthly, while other collections (Motorola, Hall of Records) have occurred 100% for the year.
- Fish and Game revenues are high as a percent of budget as they fluctuate based on the number of fines throughout the year.
- Miscellaneous Community Development revenues are high due to a change in process required by The California Department of Housing and Community Development. Funds have been transferred from program income to cover current year grant expenses.
- Non-Operating District Attorney revenues are partially front-loaded in the year.
- Non-Operating Fire is at 310% of budgeted revenues because revenues are based on how often the County's equipment is used by CalFIRE on State-funded incidents. Due to recent fire activity revenues are very high.
- Non-Operating Library revenues are high as donations to the Library are included in this fund; they came in higher than budgeted through the end of the second quarter.
- Non-Operating Public Works received higher than anticipated impact fee revenues through the end of the second quarter.

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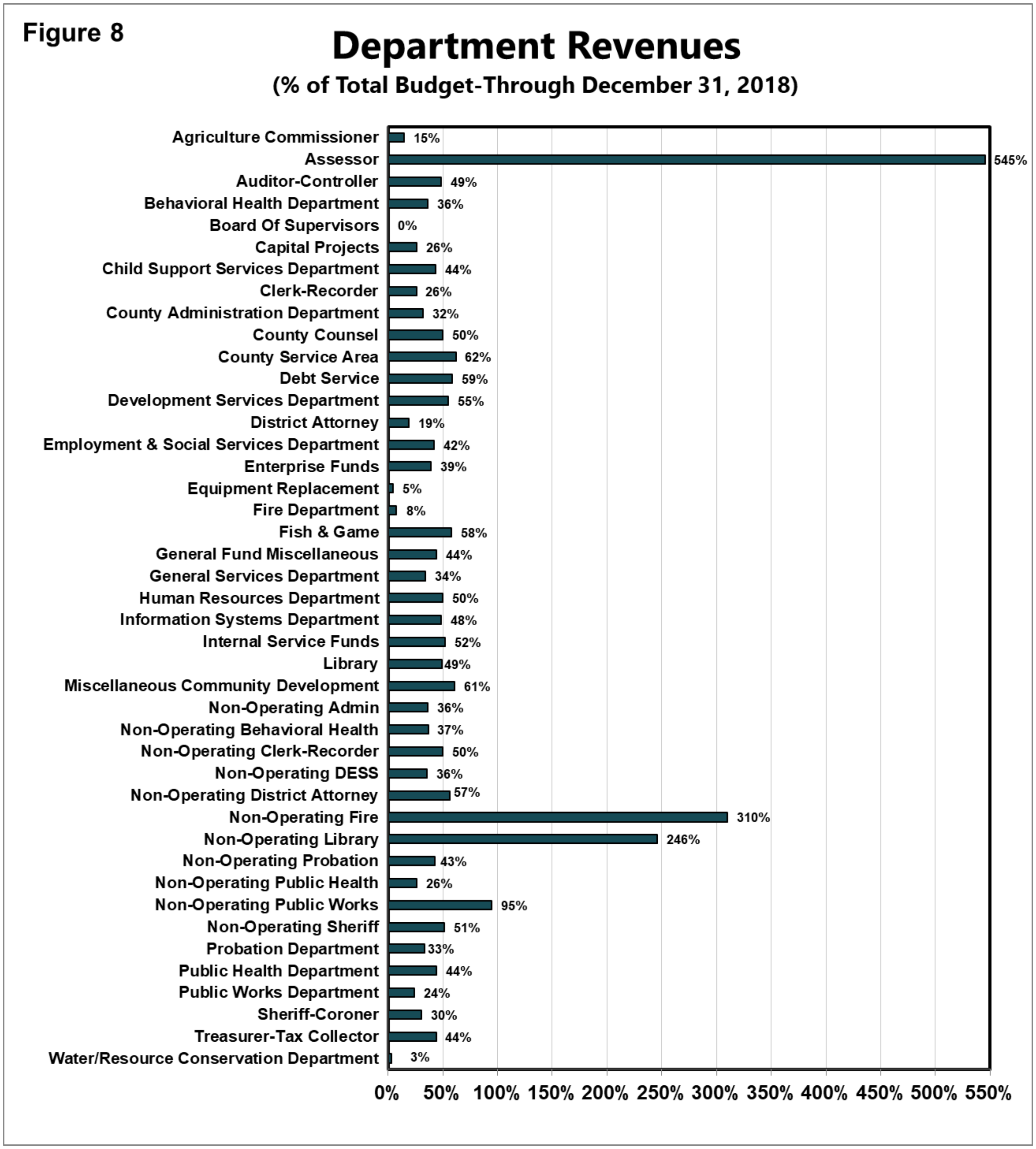
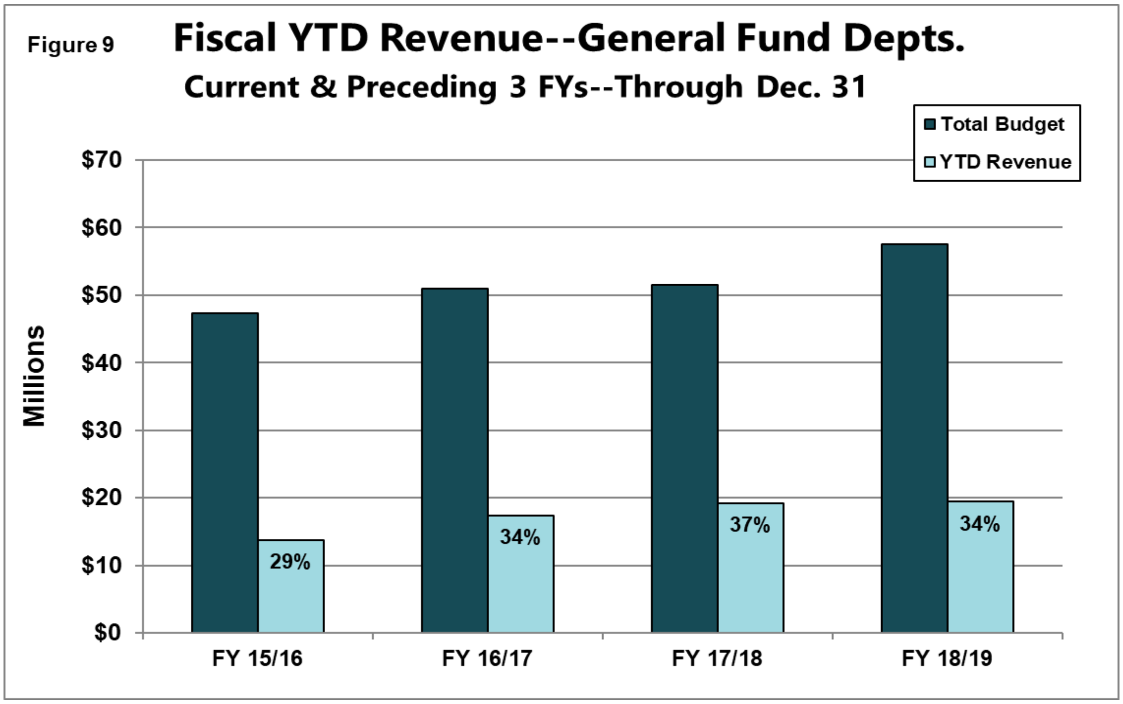


Figure 9 displays budgeted and actual revenues at the close of the second quarter fiscal year 2018-19 among General Fund departments. County departments received 34% of budgeted revenues, a decrease from fiscal year 2017-18 due to delays in non-operating fund transfers, partly due to project delays related to the Camp Fire. Staff will closely monitor non-operating accounts through the fiscal year to ensure transfers resume and are happening timely, and provide an update as part of the third quarter report.



General Purpose Revenue: Through the close of December, 44% of budgeted General Purpose Revenues had been received. Through the end of the fiscal year it is anticipated that total General Purpose Revenue will come in similar to the budgeted amount assuming that the County's lost property tax revenues related to the Camp Fire are backfilled by the State and that other revenue shortfalls related to the Camp Fire are primarily offset by the unanticipated $500,000 in Rule 20A revenues received by the County earlier this year. Additional information on the Camp Fire's impact to County revenues is included in the Camp Fire Financial impact section below. Staff will continue to closely monitor these trends throughout the fiscal year and provide an update as part of the third quarter report.

Figure 10

General Purpose Revenue Receipts

(Through 2nd Quarter)

Account Title	Budget	YTD Receipts	YTD %
Property Taxes	64,210,000	31,335,480	49%
Sales and Use Taxes	5,270,000	1,685,473	32%
Other Taxes	1,858,000	1,083,611	58%
State Revenue	18,467,629	6,519,767	35%
Federal Revenue	251,000	268,033	107%
Other-In-Lieu Revenue	21,000	0	0%
Use Of Money & Property	4,093,000	2,170,468	53%
Fines, Forfeitures & Penalties	2,997,000	436,646	15%
Tobacco Settlement	1,950,000	0	0%
Other Sales	58,000	502,569	866%
Charges For Services	1,868,000	903,956	48%
Licenses, Permits, & Franchise Fees	1,491,700	224,019	15%
Other Financing Sources	0	12,092	
Total General Purpose Revenue	**$102,535,329**	**$45,142,115**	**44%**

CAMP FIRE FINANCIAL IMPACTS

Cost Impacts: The County is continuing to respond to the Camp Fire, the most deadly and destructive fire in California history. The response and recovery have required millions of dollars in expenses and countless hours of staff time. In January, the County submitted an expedited claim to FEMA and CalOES for $15.3 million in estimated total costs for emergency response. An expedited claim provides the County with approximately 50% of the total estimated reimbursable costs to help the County manage cash flow. We expect to receive $6.7 million in the coming weeks.

Reimbursable emergency response costs generally include the non-regular staff costs related to the Emergency Operations Center, Departmental Operations Centers, law enforcement, sheltering of animals and people, mutual aid and debris removal. The regular salaries and wages of staff that have been reassigned to work an emergency or the emergency recovery are generally not reimbursable nor are some recovery related costs such as donation management or costs not documented and procured to FEMA standards. Through the end of the second quarter, the County had expended approximately $8 million dollars on the continuing response and recovery to the Camp Fire. Approximately $3 million of that was for the regular pay of County employees that were assigned to work the event. Through the 5th of February total costs to date increased to approximately $13 million, $3.6 million of which are regular salaries and benefits. Neither of these totals include any of the substantial mutual aid costs that we anticipate.

In addition to emergency response costs the County is eligible to receive reimbursement for costs related to debris removal and infrastructure repairs. The majority of debris removal costs are paid directly by federal and state agencies, however costs related to processing Right of Entry Forms is eligible for reimbursement as is the costs of removing trees in the County's right of way. Additionally, significant County infrastructure was destroyed by the Camp Fire including damages to roadways, the Public Works Corporation Yard in Paradise, damages at Neal Road Recycling and Waste Facility and Volunteer Fire Station #37 in Concow among others. Total impacts to County infrastructure is estimated to total over $26 million. The repair of infrastructure not covered by insurance is reimbursable. It is anticipated that most reimbursement beyond the expedited claim should be received in fiscal year 2019-20.

The County expects to receive at least 75% of reimbursable costs from FEMA and of the remaining 25% it is anticipated that at least 75% of those costs will be reimbursed by the State. That leaves a local share of 6.25%. The County's State and federal representatives are working to increase the State and federal shares with the hope of eliminating the local share. However, given the size of this event an Office of the Inspector General audit is anticipated. That audit will be years down the road and while the County has an excellent track record with audits of emergency response costs experts tell us we should expect audit findings that require repayment, and may want to consider establishing and reserve.

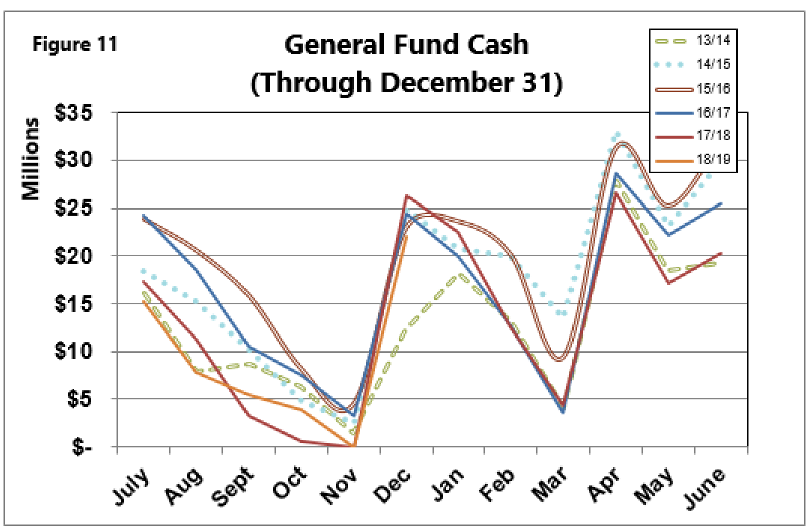
In addition to the significant cost and cash flow impacts directly from the Camp Fire the County is now starting to see impacts on seemingly unrelated County operations. For example, the lack of housing in the area has made recruitment of employees more challenging and long planned capital projects are now coming in with higher price tags due to increased costs for construction labor and materials and lack of housing for construction crews. For example, the long planned Jail project, which is funded with $40 million in state revenues, is now $8 million over budget because of the anticipated costs of drawing construction crews from well out of the area and paying higher wages and subsistence for those crews.

Revenue Impacts: Additionally County revenues have been impacted in the current year and will be impacted in the budget year as well. Recently passed legislation will provide property tax revenue backfill for the current year and next two years. This is excellent news and the County will continue to advocate for continuing property tax backfill as well as backfill of other revenues. Specifically the County is expecting a decrease in Sales Tax revenues (up to $180,000 annually) due to the impact to businesses in the unincorporated area, reductions in PG&E and Comcast franchise fees (approximately $70,000) and impacts to the County's Teeter Plan (approximately $500,000 annually). The Teeter Plan is related to the administration of property tax revenues and provides a mechanism for the County to advance delinquent property tax payments to the all the taxing entities in the County. In return, the County retains the fees and penalties related to delinquent tax payments. Annually the County expects about $2 million in revenue from the operation of the Teeter Plan. If large numbers of residents in the impacted area default on their property taxes that revenue would be reduced.

BUDGET OUTLOOK

The outlook for the fiscal year 2019-20 budget is more uncertain than in prior years. The Camp Fire's financial impacts, discussed above, have introduced significant uncertainly to the County's finances. On January 23rd the County kicked off the fiscal year 2019-20 budget process. As in prior years, the Departments have been asked to prepare a number of budget scenarios. The base scenario assumes that the majority of Camp Fire costs are reimbursed timely to the County and that any impacts to revenues are limited. In addition to the base scenario, which assumes essentially flat discretionary revenue, Departments will submit reduction and expansion scenarios. It's important to note that even the "base" scenario that includes essentially flat discretionary resources will require reductions in many Departments due to cost pressures ranging from the implementation of scheduled cost of living adjustments, pension cost increases and increasing insurance costs. Once Department budget scenarios are received, staff in the County Administration Department will work with departments to analyze impacts and update estimated discretionary revenues as part of the preparation of the Chief Administrative Officer's Recommended Budget. The Recommended Budget will be presented to the Board of Supervisors in early June with budget hearings scheduled for June 25th, 2019.

CASH BALANCES



The General Fund began the second quarter with $2.1 million more in cash balances than at the beginning of the second quarter of last year, however by the end of the second quarter the current year cash balance was $21.9, a $4.3 million decrease compared to the prior year. This is primarily related to the timing of a payment on the County's CalFIRE contract and expenditures related to the Camp Fire. Specifically:

- Through December 2018 the County had made the first quarterly CalFIRE payment of approximately $3.4 million. By December 2017 the County had made no payments to CalFIRE.

- Through December 2018 the General Fund had experienced approximately $4 million in extraordinary expenses related to the response to the Camp Fire. While it is anticipated that the majority of the Camp Fire expenses will ultimately be reimbursed to the County it is expected to impact the County's cash flow through at least next fiscal year.
- Through December 2018 transfers from non-operating funds to the General Fund are down somewhat as staff catch up from the Camp Fire. The impact of these transfers is approximately $1 million in reduced General Fund cash.
- Somewhat offsetting the additional CalFIRE payment, Camp Fire expenses and lower non-operating transfers were a number of smaller variances including approximately $500,000 per quarter in higher allocated cost revenues in the General Fund as well as the timing of a routine journal related to retiree health costs.

In November 2018 the County required a cash advance to the General Fund of approximately $1.8 million in order to close the month with a cash balance of zero. November is traditionally a low point in the General Fund's cash as the County awaits receipt of the first installment of property tax payments. The cash advance was larger than the advance required in November of 2017 of $803,313. In both cases the advance was repaid in December.

Previous reports have noted outstanding advances from the General Fund to other funds; at the end of the second quarter of fiscal year 2018-19 there were no outstanding cash advances from the General Fund.

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PENSION PLAN FUNDED STATUS

Figure 12 below, presents the funded status of the County's pension plans. This is the same information that was provided in the last quarterly report. The funded status is determined by CalPERS actuaries and is provided annually to the County each summer. The complete CalPERS reports can be found on the Butte County website at: http://www.buttecounty.net/administration/ActuarialReports.aspx.

The County contracts with CalPERS to provide pension benefits. The County has two pension plans for County employees. The first is for safety employees and includes deputy sheriffs, correctional deputies, probation officers, and district attorney investigators. The second is for miscellaneous employees and includes all non-safety County employees.

Figure 12 PENSION PLAN FUNDED STATUS

Butte County Pension Plans	As of June 30, 2017
Safety Plan	
Unfunded Accrued Liability	$56,842,000
Funded Ratio	71.1%
Miscellaneous Plan	
Unfunded Accrued Liability	$183,705,214
Funded Ratio	73.8%

RETIREE HEALTH PLAN FUNDED STATUS

Figure 13 below presents the funded status of the County's retiree health plan as of July 1, 2018. This is the same information that was provided in the last quarterly report. The retiree health actuarial is updated every two years, with a supplement issued annually. The information below is from the supplement issued on November 6, 2018. The County provides limited retiree health benefits to retired employees based on the bargaining unit that the employee worked in and when the employee started with the County. For most retirees benefits range from eligibility to continue to purchase group health insurance through the County to County paid health insurance premiums for a period of time.

Figure 13 RETIREE HEALTH FUNDED STATUS

Retiree Health Insurance Plan	As of July 1, 2018
Unfunded Accrued Liability (GASB 75)	$65,320,371
Funded Ratio	6.4%

LONG-TERM DEBT

The Long-Term Debt schedule, Figure 14, presents balances as of December 31, 2018.

Figure 14 **LONG-TERM DEBT (THROUGH DECEMBER 2018)**

Type of Debt	Original Loan Amount	Current Balance		Avg. Annual Payment*	Maturity Date
Bonds Payable					
Pension Obligation Bonds					
-Series A	28,020,000	26,990,000		2,761,441	6/1/2034
-Series B	21,875,000	19,875,000		1,857,191	6/1/2034
Total Bonds Payable	***$ 49,895,000***	***$ 46,865,000***		***$ 4,618,632***	
Certificates of Participation					
2014 Hall of Records	8,000,000	7,297,954		357,114	7/1/2054
2010 Bangor Fire Station #55 Renovation Project	1,100,000	936,333		53,252	8/1/2050
Total Certificates of Participation	***$ 9,100,000***	***$ 8,234,287***		***$ 410,366***	
Capital Leases					
Motorola Solutions Inc.	7,166,380	5,790,687		757,453	12/15/2026
Chico Memorial Hall - 492 Rio Lindo	583,400	109,962		61,156	4/10/2020
Chico Memorial Hall - 554 Rio Lindo	670,900	115,467		62,275	4/10/2020
Ford Motor Credit Company	34,059	8,737		9,235	2/22/2019
2017 Government Campus Infrastructure Financing	2,658,000	2,516,041		221,269	10/1/2032
2018 Grader and Tractor Truck Lease	495,702	495,702		108,050	4/13/2023
Total Capital Leases	***$ 11,608,441***	***$ 9,036,596***		***$ 1,219,438***	
Notes Payable					
California Energy Commission					
-Solar Project Phase 1	2,777,000	-		-	12/22/2018
Total Notes Payable	***$ 2,777,000***	***$ -***		***$ -***	
Neal Road Recycling and Waste Facility					
2006 Certificates of Participation Refunding	4,220,000	2,150,000		1,102,396	7/1/2020
2013 Equipment Lease-Purchase	558,924	Paid in Full		-	12/24/2017
2014 Equipment Lease-Purchase	500,000	103,282		104,976	2/20/2019
2017 Equipment Lease-Purchase	816,393	497,436		171,039	11/15/2021
Total Neal Road Recycling and Waste Facility	***$ 6,095,317***	***$ 2,750,718***		***$ 1,378,411***	
TOTAL LONG-TERM DEBT	**$ 79,475,758**	**$ 66,886,601**		**$ 7,626,847**	

*From FYE 6/30/18 to maturity per amortization schedules

During the second quarter of the current fiscal year, the County made a total of $2,119,181 in debt payments, $1,059,899 of which resulted in principal reductions as detailed in Figure 15.

Figure 15 **LONG-TERM DEBT PAYMENTS**

Debt Description	Principal Paid	Interest Paid
Pension Obligation Bonds Series - A		$815,816
Pension Obligation Bonds Series - B		$125,647
Neal Road Recycling and Waste Facility - 2017 Equipment Lease-Purchase	$160,719	$10,320
California Energy Commision - Solar Project Phase 1	$135,899	$2,691
Motorola Solutions, Inc.	$691,337	$66,117
2017 Government Campus Infrastructure Financing	$71,944	$38,690
TOTAL DEBT PAYMENTS	**$1,059,899**	**$1,059,282**

Figure 16 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 16

Outstanding Debt and Ratios (Through December 2018)

(In Thousands, Except Debt Ratios)

	Governmental Activities (A)				Neal Road Recycling and Waste Facility - Business Type Activities (B)			Total Outstanding Debt (A+B)	Debt Ratios	
Fiscal Year	Bonds	Loans/ Notes	Certificates of Participation	Capital Leases	Loans	Certificates of Participation	Lease Financings	Primary Government	Debt as a % of Assessed Property Values	Debt per County Resident
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	0.3452%	$ 292
2013	$ 49,895	$1,575	$ 1,835	$ 699	$ 150	$ 8,960	$ 559	$63,673	0.3437%	$ 288
2014	$ 49,545	$1,322	$ 1,422	$ 611	$ 100	$ 8,115	$ 951	$62,066	0.3303%	$ 280
2015	$ 49,075	$1,059	$ 7,696	$ 1,283	$ 50	$ 6,320	$ 745	$66,228	0.3326%	$ 288
2016	$ 48,480	$654	$ 8,583	$ 450	$ -	$ 6,320	$ 534	$65,021	0.3082%	$ 294
2017	$ 47,745	$400	$ 8,471	$ 7,512	$ -	$ -	$ 5,357	$69,485	0.3281%	$ 309
2018	$ 46,865	$136	$ 8,354	$ 9,801	$ -	$ -	$ 3,956	$69,112	0.3092%	$ 305
2019	$ 46,865	$0	$ 8,234	$ 9,037	$ -	$ -	$ 2,751	$66,887	0.2840%	$ 295

CALIFORNIA FORECAST

SALES TAX TRENDS AND ECONOMIC DRIVERS

HdL Companies

Attachment A

JANUARY 2019

HdL provides relevant information and analyses on the economic forces affecting California's local government agencies. In addition, HdL's Revenue Enhancement and Economic Development Services help clients to maximize revenues.

HdL serves over 500 cities, counties and special districts in California and across the nation.

Delivering Revenue, Insight and Efficiency to Local Government Since 1983

HDL CONSENSUS FORECAST – JANUARY 2019

STATEWIDE SALES TAX TRENDS

HdL Companies

2018/19 | 2019/20

TOTAL 3.0% | 1.5%

2018/19 | 2019/20

Autos/Transportation 3.1% | -0.3%

Growing wages and a positive job market have continued to provide a positive foundation and help maintain favorable sales for new motor vehicles. However, industry experts see a slowdown ahead given recent interest rate hikes and trade war impacts. While the purchases of more expensive, clean-fuel vehicles will boost taxes for 2018-19, sales measured in units has peaked. Outer year forecasts assume no growth or a slight decline tied to a surplus of formerly leased vehicles available for purchase.

Building/Construction 5.3% | 3.3%

Industry reports show construction levels should repeat those of the prior year. Current momentum from permitted projects will sustain higher growth for another two quarters before construction starts begin to slow. Pricing changes related to foreign tariffs are impacting bids but contractors who planned ahead will have lower-priced materials until mid-2019. In fire-impacted areas, home supply stores will see a short-term increase in procurement of essential materials, but reconstruction is months away.

Business/Industry 1.9% | 1.3%

Moderate overall gains of 2% occurred over the last three quarters with growth primarily related to new technology, data storage and warehouse management. Returns posted a temporary jump in some industrial material/supplies categories tied to a few large scale construction projects. Observations from a variety of analysts suggest that buyers are currently stocking up on inventory to beat expected Federal Reserve rate hikes and new tariff announcements. Only modest improvement is expected after the first quarter of 2019.

Food/Drugs 2.9% | 2.5%

State required cannabis business registrations are underway, although slower than expected. This segment and rising inflation are the primary contributors to increases by this group. Drug stores struggle to find their place in a disruptive industry. Efforts to bring in foot traffic include beauty product expansion and primary medical services. Trends show more people will be purchasing groceries online. Shrewd brick and mortar markets will eliminate checkout lines through sophisticated technology to satisfy tech-savvy shoppers and improve the bottom line.

Proposition 172 projections vary from statewide Bradley-Burns calculations due to the state's utilization of differing collection periods in its allocation to counties. Retroactive accounting adjustments are anticipated in 2018/19 and beyond as the California Department of Tax and Fee Administration migrated to a new information management platform in May 2018. HdL anticipates positive growth in Fiscal Year 2018/19 just at a slower pace than prior years due to potential economic constraints impacting consumer spending. HdL forecasts a statewide increase of 3.2% for Fiscal Year 2018/19 and a gain of 1.23% in 2019/20.

Fuel/Service Stations 3.7% | -1.1%

Ongoing extraction in West Texas recently allowed the U.S. to become a net exporter of total oil products for the first time in 75 years. While positive news for U.S. energy independence, the latest decline in crude prices due to oversupply could cause refineries to throttle production and wait for more profitable timing. Economists also believe the diminishing demand for crude is further reflective of a slowing worldwide economy. The true test for stability and demand will be in the summer of 2019 when consumption is at its highest.

General Consumer Goods 0.8% | 0.3%

Today's retail landscape is still evolving as notable brands invest in omnichannel capabilities to capture expanding sales from mobile devices. Others are focused on smaller concept formats, more favorable brick and mortar lease terms and enhancing in-store experiences. Industry metrics reflected healthy consumer spending throughout the last quarter of 2018. However with uncertainty around international trade and an overall cooling of the global economy, growth is anticipated to taper off throughout the coming year.

Restaurants/Hotels 2.5% | 2.5%

The underlying challenges operators have been facing over the last few years (oversaturation, rising labor costs, and convenient grocery options) continue to plague the restaurant industry. Fine dining and fast food restaurants are doing better than a year ago, but only due to escalating prices. Restaurant operators project flat sales over the next six months. Hotels remain strong benefitting from the trend of "experience" over purchasing merchandise.

State and County Pools 6.3% | 5.3%

Initial reports show sizable gains in holiday online sales. Looking ahead, chain closures (e.g. Toys R Us) shift buying to digital retailers who are expanding marketplace selections and originating private-label offerings. E-commerce performance improves through various technology breakthroughs – voice automation, artificial intelligence and augmented/virtual reality – all anchored to creating better shopper satisfaction. The State is implementing the SCOTUS Wayfair decision effective April 1, 2019. Future out-of-state use tax growth will be gradual; collections are dependent on a combination of timely taxpayer compliance and legislative decisions.

NATIONAL AND STATEWIDE
ECONOMIC DRIVERS

BEACON ECONOMICS

2018/19 | 2019/20

U.S. Real GDP Growth 2.8% | 2.2%

The consensus outlook suggests U.S. GDP growth will come in at a moderate 3% for the balance of 2018, with an average growth rate of 3% for the entire year. This 3% pace of growth is higher than the 2% to 2.5% pace seen since the end of the Great Recession, but it is important to recognize that this modest bump is being driven by a surge in government borrowing rather than any true shift in fundamentals. The tax plan and federal budget that were passed at the end of last year amounted to a fiscal stimulus plan, something that would typically be used in times of economic trouble—not in the midst of a record tight labor market.

U.S. Unemployment Rate 3.7% | 3.6%

The nation's slowing job growth is not due to a lack of labor demand—the U.S. job openings rate has been at or near an all-time high for the last few months. Instead, the slowdown in employment growth stems from a lack of available workers. The U.S. unemployment rate is now 3.7%, the lowest in nearly 49 years, therefore the labor shortage is hardly a surprise. Since the baby boomer generation, there has been a sharp slowing in the growth of the working age population—from 1.5% in 1995 to ½ of 1% over the last few years. Still, rising wages are pulling people back into the workforce and labor force growth is as strong as it has been in over a decade. This is a positive turn for discouraged workers who may have formerly dropped out of the labor force as they will likely be given more opportunities to receive training and experience.

CA Total Nonfarm Employment Growth 1.8% | 1.6%

With few exceptions, job gains by industry in 2018 have been lower than in the three preceding years. Overall in California, nonfarm jobs grew 1.8% in year-to-date percentage terms through October 2018. In particular, there has been a dramatic slowdown in job growth in the Information, Professional, Scientific and Technical Services industries, which led the state in the early stages of its economic recovery. This slowdown is not symptomatic of a looming recession but a shortage of workers. In recent quarters, the consumer-facing segments of the economy have experienced the most notable employment gains: Health Care, Leisure and Hospitality, and Other Services. Like the nation as a whole, California and its regions will experience continued growth in economic activity and jobs into 2019, albeit at a slower pace than in previous years.

CA Unemployment Rate 4.1% | 3.9%

California's unemployment rate was 4.1% for the second month in a row in October 2018, as slack in the labor force was wrung out and the state found itself effectively at full employment. Given the tight market, labor shortages have emerged in at least some parts of the economy. Shortages among many well-paying occupations may be due to a lack of qualified workers anywhere, not just in California. But employers and official data suggest that there are labor shortages among unskilled occupations, in food services, and among skilled and semi-skilled occupations such as manufacturing, construction, and even auto repair.

CA Median Existing Home Price $492,800 | $515,835

The median home price in California was $481,300 in the third quarter of 2018, up 5.9% year-to-year. The picture for California housing continues to be mixed as existing home sales have fallen below expectations, given the strength of the economy. On the demand side, strong demographics, job and income growth, and historically low interest rates should be driving sales. However, would-be buyers face impediments in the form of limited inventories, high underwriting standards and large down payment requirements. On the supply side, the number of existing homes has been lean while new home construction has been relatively weak since the recession. While the expectation of higher interest rates should get some would-be buyers off the fence in the coming quarters, it remains to be seen how the supply side will respond.

CA Residential Building Permits 121,850 | 131,400

Residential building permits rose 10.7% in the first three quarters of 2018 compared to one year earlier, with increases in both single-family (9.5%) and multi-family (12.0%) permits. The magnitude of California's housing shortage is well documented. At present, the state is estimated to need about 200,000 new housing units built per year, yet it has barely seen more than 100,000 units come on line in each of the last few years. California's housing affordability issue can only be addressed by increasing supply, a tall order indeed. But until it does so in earnest, growth of the statewide economy will be constrained.

HdL Companies

120 S. State Blvd., Suite 200
Brea, CA 92821
Telephone: 714.879.5000 • 888.861.0220
Fax: 909.861.7726

California's allocation data trails actual sales activity by three to six months. HdL compensates for the lack of current information by reviewing the latest reports, statistics and perspectives from fifty or more economists, analysts and trade associations to reach a consensus on probable trends for coming quarters. The forecast is used to help project revenues based on statewide formulas and for reference in tailoring sales tax estimates appropriate to each client's specific demographics, tax base and regional trends.

Beacon Economics

Southern California Office
5777 West Century Boulevard, Suite 895
Los Angeles, CA 90045
Telephone: 310.571.3399
Fax: 424.646.4660
E-Fax: 888.821.4647

Beacon Economics has proven to be one of the most thorough and accurate economic research/analytical forecasting firms in the country. Their evaluation of the key drivers impacting local economies and tax revenues provides additional perspective to HdL's quarterly consensus updates. The collaboration and sharing of information between Beacon and HdL helps both companies enhance the accuracy of the work that they perform for their respective clients.

HdL Companies

714.879.5000 | hdlcompanies.com
120 S. State College Blvd., Suite 200, Brea, CA 92821