



# BUTTE COUNTY ADMINISTRATION

## Finance and Risk Management

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PAUL HAHN  
Chief Administrative Officer

Date: October 9, 2012

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

From: Gregory G. Iturria, Chief Financial Officer

Subject: Fourth Quarter Financial Report

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### OVERVIEW

The fourth quarter financial report for Butte County operations contains updates on the economy, expenditures, revenues, cash balances and long-term debts for the fiscal year ended June 30, 2012.

**Economy:** There is mixed news from economic data trends through the fourth quarter of the fiscal year. Economic output continues to rise, as does inflation, but both at a moderate pace. Consumer spending power and confidence remains low and dropped further earlier this summer. Purchases of new homes and construction activity remain sluggish despite historically low borrowing costs. However, home prices have started to increase in most areas of the country. Moreover, the job market is showing signs of improvement albeit modestly.

**Expenditures:** Expenditures by County departments were well within budget and at a slightly lower expenditure-to-budget ratio in comparison to the prior fiscal year. Overall, the County expended 85% of the budget last fiscal year. In the prior fiscal year, the County expended 89% of its budget.

**Revenues:** Discretionary revenues received last fiscal year were a little higher than anticipated, due most prominently by a one-time increase in Chico Redevelopment Agency pass-through of property tax revenues. About 104% of the annual estimated general purpose revenues were received last fiscal year. Departmental revenues were received at a lower rate than the prior fiscal year. By the end of the fiscal year, the County received 93% of budgeted revenues. In the previous fiscal year, the County had received 96% of budgeted revenues.

**Cash Balances:** General Fund operating cash was significantly lower by the end of the fourth quarter of fiscal year 2011-2012 compared to fiscal year 2010-2011. General Fund operating cash balance was \$6.7 million less at the end of June 2012 than at the end of June 2011, due in part to delayed State reimbursements and in part due to a lower revenue-to-expenditure ratio in the month of June. However, throughout the last fiscal year, the average cash balances in the General Fund were higher than the previous fiscal year. As a result, no use of Tax Revenue Anticipation Note (TRAN) funds were necessary last fiscal year.

**Debt:** During the fourth quarter of last fiscal year, principal payments totaling \$239,755 and interest payments of \$90,160 were made against long-term debt obligations. One new loan was secured by the Sheriff's Office for a one-ton pickup to be used by the Sheriff's boating program at Lake Oroville.

## ECONOMIC REPORT

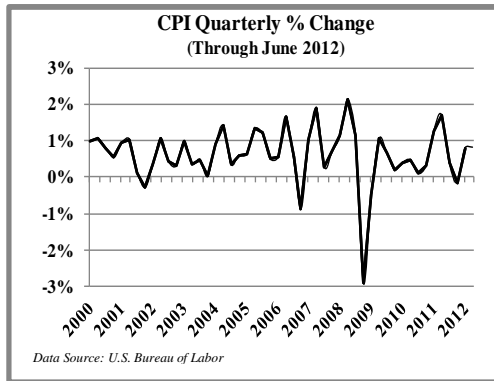
**National Economy:** The U.S. Gross Domestic Product (GDP), which measures the market value of all final goods and services produced within the country, increased at an estimated annual rate of 1.5% in the quarter ending June 30, 2012. This marks the twelfth straight quarter of positive GDP growth and is primarily the result of increased consumption, private investments, and exports.

The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. The national CPI has increased since the third quarter by 0.04% as demonstrated in Figure 2 below. The CPI has trended up throughout the year, demonstrating continued mild inflation as part of a 1.4% increase since July 2011.

**Figure 1**



**Figure 2**

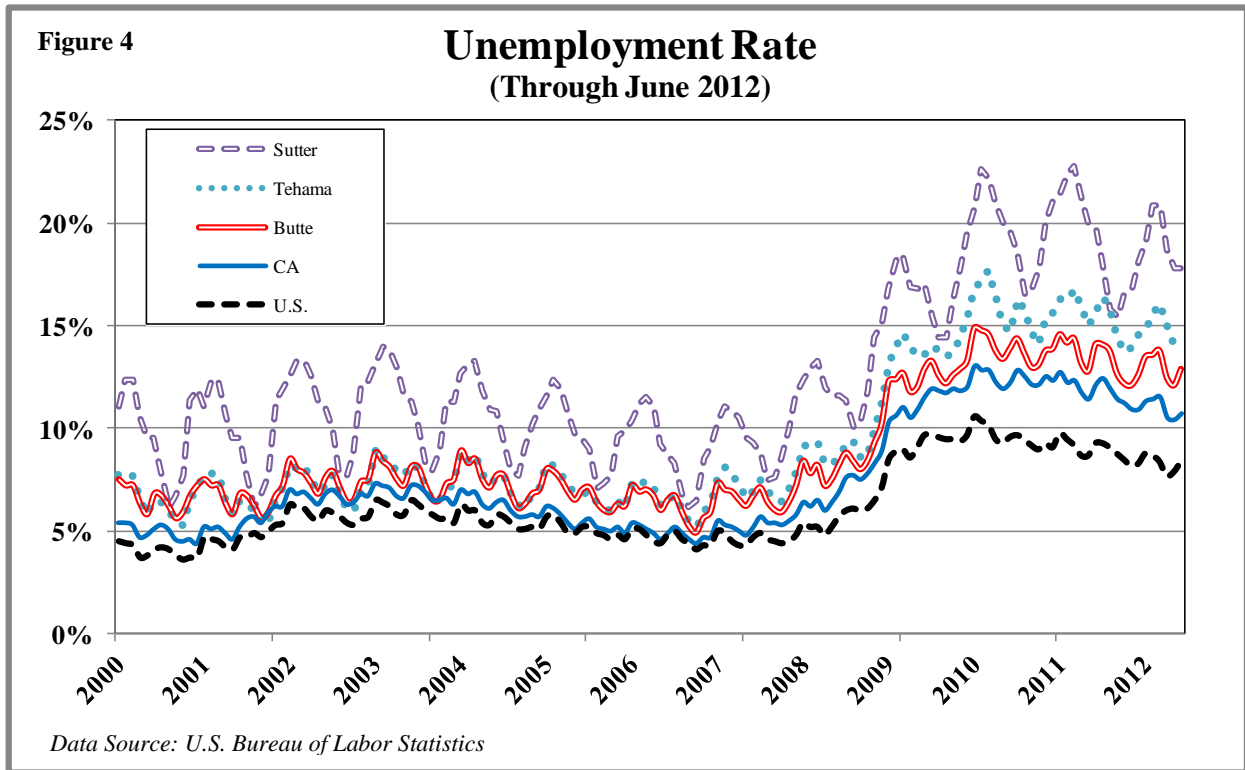


**Figure 3**



Consumers' assessment of current business and labor market conditions lowered this quarter. The Consumer Confidence Index (CCI) measures the relative financial health, spending power, and confidence of the average consumer. In June 2012, the Conference Board's CCI measure was 62 (100 = normal). It has decreased by 12% since March 2012, which is a sign of consumer hesitance in making large purchases in the current economy. Consumer Confidence Index is an important measurement, because consumer confidence drives large personal purchases such as houses, automobiles and recreational vehicles.

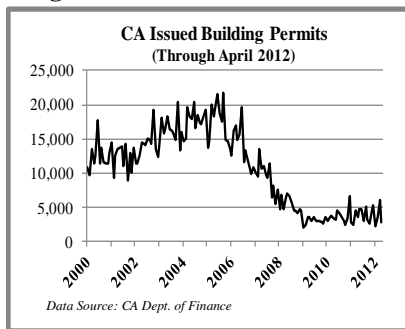
**Employment:** The State's unadjusted unemployment rate in June 2012 was 10.5%, down from 12.1% a year ago. Similarly, the County's unemployment rate declined from 14.1% last year to 12.9% in June 2012. While the unemployment rate in Butte County remains higher than state and national averages, it is lower than rates experienced in adjacent counties.



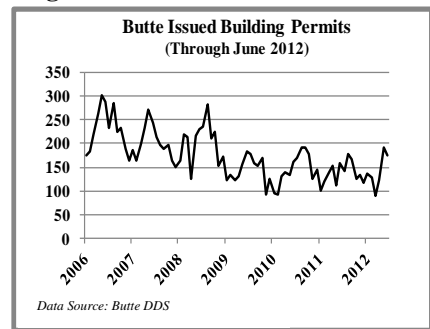
**Other State and Local Economic Indicators:** The statewide permit issuance rate, while consistent with recent years, grew modestly. However, the total number of residential building permits is still far below figures achieved in 2006. Local construction permitting in the unincorporated area of the County was 490, which is 116% of the fourth quarter last fiscal year. In fiscal year 2011-2012, Butte County issued a total of 1,709 construction permits, which is about 75% of what it was in fiscal year 2007-2008 and is 80% of fiscal year 2008-2009. Since permitting dipped to a low point in fiscal year 2009-2010 at 1,636 permits issued, building continues to demonstrate modest gains.

The median price of existing single-family homes sold in California during the month of June 2012 was \$320,540, a 2.7% increase from the previous month and a 8.5% increase from a year earlier. Equity (non-distressed) sales continue to increase as a percentage of total sales across the State which should help stabilize prices if the trend continues.

**Figure 5**



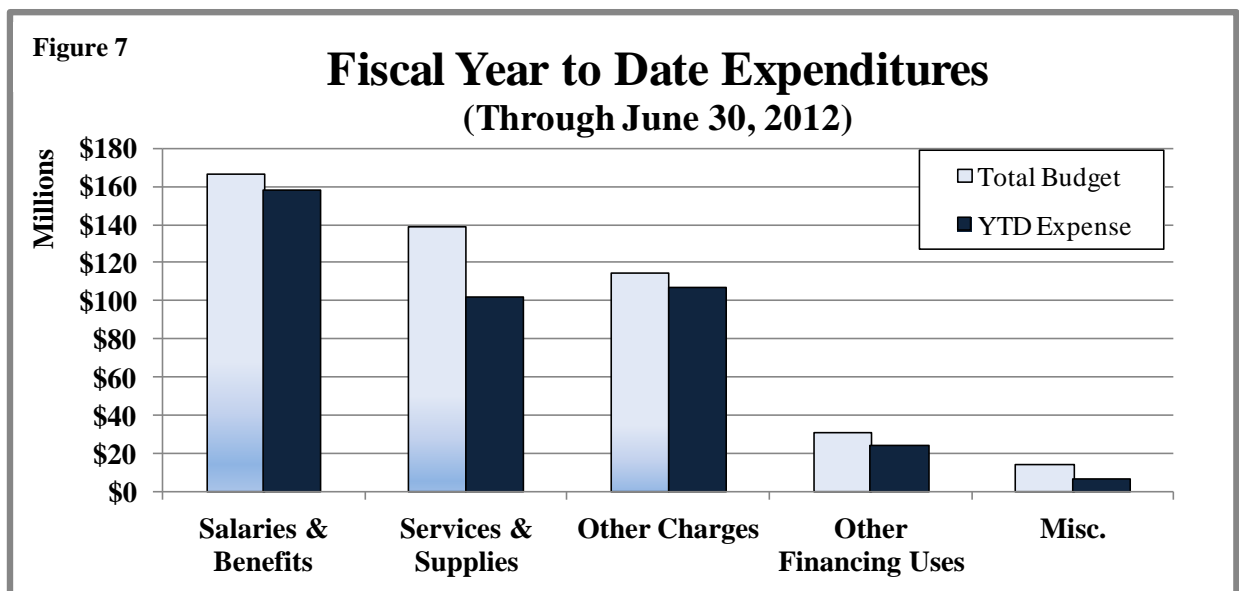
**Figure 6**



## EXPENDITURE REPORT

At the end of the fiscal year 2011-2012, the County had expended \$397 million<sup>1</sup> from a budget totaling \$467 million. As shown in Figure 7 below, the County spent \$158 million on salaries and benefits, \$102 million on services and supplies, and \$107 million on other charges, such as payments between funds and contributions to other agencies. The remaining \$30 million in expenditures were for other financing uses and miscellaneous expenditures. Other financing uses are primarily operating transfers between budget units. Miscellaneous expenses include capital assets and building depreciation.

Overall, the County expended 85% of the budget during fiscal year 2011-2012. This percentage amount is comparable to last fiscal year, when the County expended 89% of its budget. This savings was largely anticipated and included in carryover fund balance calculations when preparing the fiscal year 2012-2013 budget.



<sup>1</sup> 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.

Figure 8

## Department Expenditures

(% of Total Budget - Through 4th Quarter)

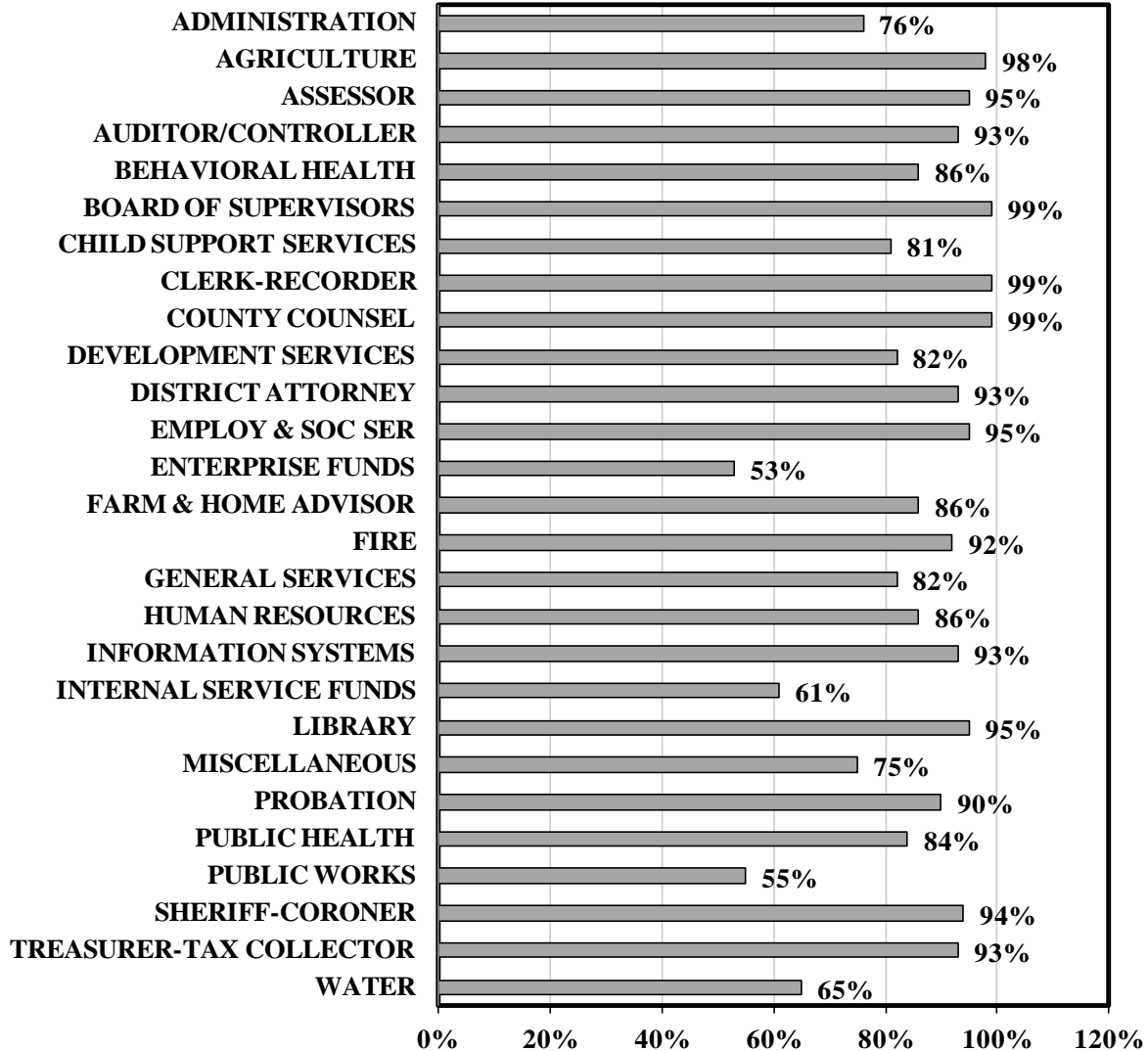


Figure 8 shows the percentage of budget used by each County department. Most departments expended over 80% of their budget, which is similar to prior years. The Public Works and the Water and Resource Conservation Departments both had project budgets that were not expended in fiscal year 2011-2012. The Public Works' Ord Ferry Bridge project is now planned for fiscal year 2012-2013 while the Water and Resource Conservation Department has some grant-funded projects that are now planned for this fiscal year as well.

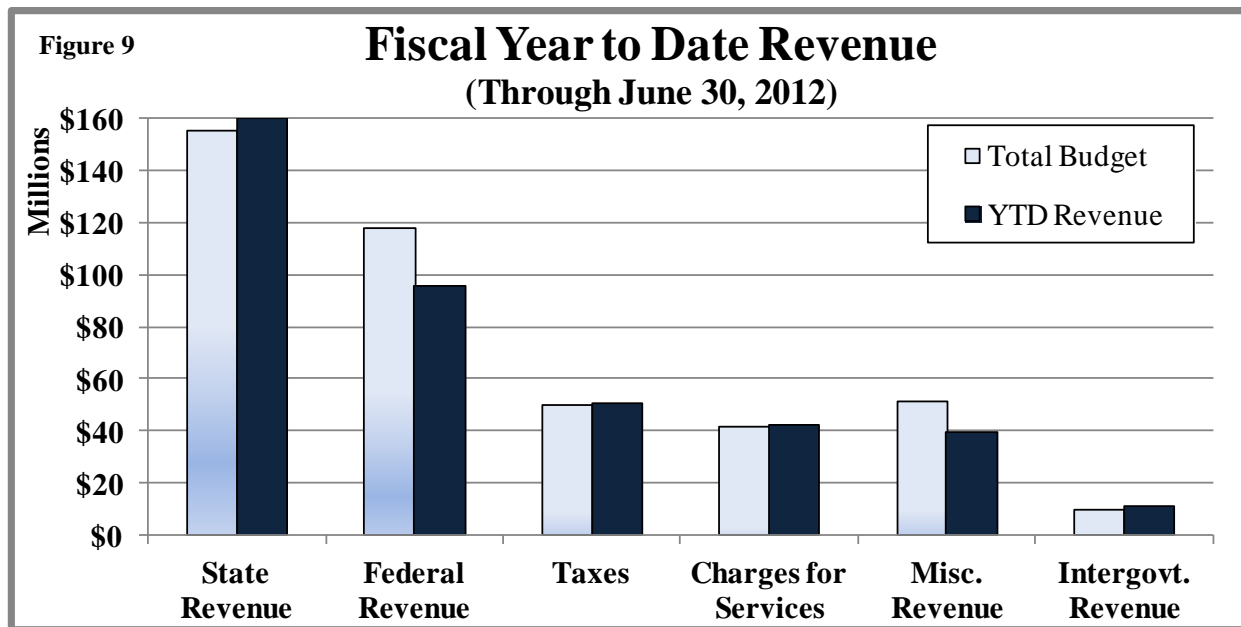
The Internal Service Funds finished the year having used approximately 60% of available appropriation. This figure is largely the result of an accounting requirement to adjust outstanding Claims and Judgments Liabilities each year in our insurance funds. Total liabilities for Workers Compensation went down by \$2.3 million according to the most recent actuarial study; prior to this adjustment the Internal Service Funds had expended 80% of budget.

The Miscellaneous budget units, which include General Fund Transfers and the DRI 2008-Fire Grant expended 75% of available budget through the end of the year. The General Fund Transfer to the Welfare Fund was \$3.5 million less than budgeted due to higher than anticipated Realignment 1991 (Sales tax) earnings available. For the DRI 2008 Fire Grant in fiscal year 2011-2012, staff budgeted the entire 3-year grant amount of \$4.5 million. Approximately \$1.2 million was expended to assist victims of the 2008 Lightning Fires in Butte County over the course of the year and more than \$3 million of this grant remains to assist additional housing rehabilitation applicants and complete public infrastructure improvements over the next two years.

The enterprise fund operating plan (Neal Road Recycling and Waste Facility) included capital purchases and improvements of more than \$3 million. Due to accounting requirements affecting all proprietary funds, annual depreciation is recorded as an expense for capital assets and improvements owned rather than current year purchases. Additionally, the budget includes over \$800,000 in principal debt payments that are not recorded as current year expenditures. As a result, only 53% of the expenses anticipated in the budget were used in fiscal year 2011-2012.

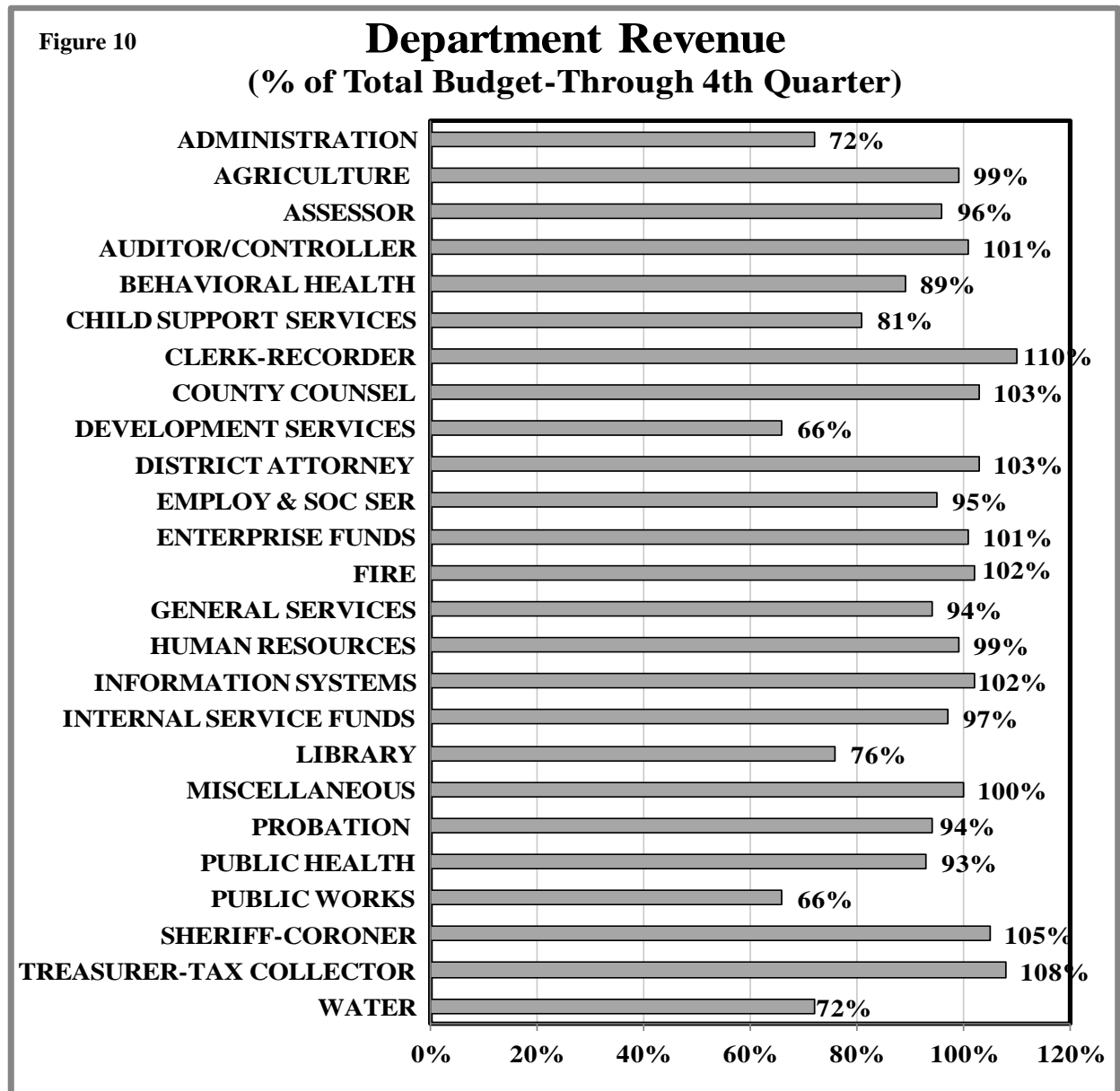
### REVENUE REPORT

The County received 93% of budgeted revenues<sup>2</sup> in fiscal year 2011-2012. This is comparable to the 96% of budgeted revenues received in fiscal year 2010-2011.



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

Figure 10 below shows revenues received by each County department to date as a percentage of budget.



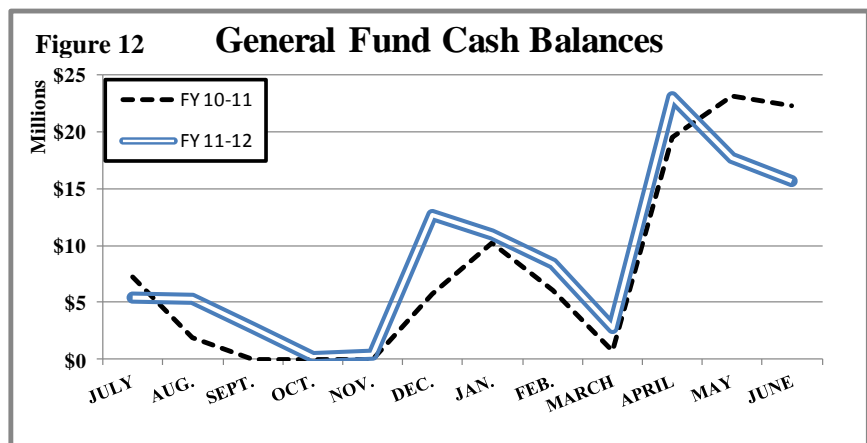
Most department revenues were between 80% and 110% of budget through the fiscal year, consistent with revenue patterns from previous years. The Water and Resource Conservation Department revenue consists primarily of grant funds received on a reimbursement basis. Some projects budgeted for fiscal year 2011-2012 did not get completed, so the department did not receive the related revenues. Similarly, the Public Works Department will receive revenues for the Ord Ferry Bridge project in fiscal year 2012-2013, when the project is completed. In the Administration Department, the Office of Emergency Management and the Economic and Community Development revenues are also received on a reimbursement basis. Since expenditures were less than budgeted, the revenue reimbursements were lower as well.

Library revenue shortfalls are reflective of cuts in the State budget, passed after the County budget had already been adopted. The anticipated State revenue of \$75,000 was cut from the State budget, which reduced total Library receipts to 76% of budget. Finally, the Development Services Department received lower than expected building and planning application fees due to continued sluggishness in the local construction economy.

<b>Figure 11</b>			
<b>General Purpose Revenue Receipts</b>			
<b>(Through 4th Quarter)</b>			
<b>Account Title</b>	<b>Budget</b>	<b>YTD Receipts</b>	<b>YTD %</b>
Property Taxes	44,740,491	44,547,999	100%
Teeter Plan Proceeds	1,000,000	1,000,000	100%
Local Sales Tax	3,586,000	3,809,695	106%
Other Taxes	1,059,200	1,095,480	103%
Licenses & Permits	1,546,873	1,543,682	100%
Fines, Forfeitures & Penalties	1,338,900	1,239,181	93%
Interest-County Treasury	1,000,000	1,097,337	110%
Public Safety Sales Tax	13,004,500	13,706,220	105%
RDA City of Chico	4,600,000	6,732,759	146%
Tobacco Settlement Funds	2,000,000	1,955,212	98%
Other Misc. Revenue	1,218,793	1,460,532	120%
<b>Total General Purpose Revenue</b>	<b>\$75,094,757</b>	<b>\$78,188,097</b>	<b>104%</b>

### GENERAL FUND OPERATING CASH REPORT

General Fund operating cash tracked in a similar pattern for the entire fiscal year 2011-2012 compared to fiscal year 2010-2011, with slight variations during the year. The ending cash balance at June 30, 2012 was \$15,624,213, compared to \$22,334,739 the same date last year. Although the County did secure a TRAN for fiscal year 2011-2012, no transfer of TRAN funds was necessary to the General Fund any month during the fiscal year.





During May of 2011, transfers from the General Fund were minimal (less than \$100,000). For the month of May, 2012, transfers from the General Fund were \$4,360,169, primarily from the General Fund to the Behavioral Health Fund. The significant increase in transfers comparatively between the two months explains the drop in cash balance in the General Fund at

<b>Figure 13</b>	
<b>GENERAL FUND - CASH ADVANCES</b>	
<b>AT JUNE 30, 2012</b>	
<b>Advances <b>To</b> General Fund:</b>	
From TRAN* proceeds	\$ -
<b>Advances <b>From</b> General Fund:</b>	
To: Other Funds	\$ -
Total Advances from General Fund	\$ -
* <i>Tax Revenue Anticipation Note</i>	

the end of May, 2012. By June 30, 2012, there were no outstanding advances from the General Fund to other funds. In June of both years, we see the graph line trending downward on Figure 12, as expected. The difference of approximately \$6.7 million comparing the June 30 ending cash balances is due, in part, by the difference in transfers mentioned above, as well as increased expenditures over revenues occurring during June of 2012 compared to the same month of the prior year.

State of California reimbursement to the County for Department of Behavioral Health expenditures is still arriving very slowly. During the first eleven months of fiscal year 2011-2012, the General Fund continued to cover Behavioral Health cash deficits due to payment delays from the State. However, in June of 2012, a \$4,123,283 cash advance was made from Public Health Fund realignment cash account to Behavioral Health operating cash. This advance was returned to the Public Health Fund in July. No cash advances were made from the General Fund at June 30, 2012.

It is anticipated that the General Fund will continue to cover cash deficits in the Behavioral Health Fund at the end of each month until delays from the State either slow considerably or stop altogether. Staff continues to monitor operating cash for all funds, as well as maintaining contingency plans in the event it is necessary to advance cash from other cash accounts on a short term basis.

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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. The only new debt incurred during the current fiscal year was a capital lease-purchase agreement entered into by the Sheriff's Office for a 2012 Ford F-350 for use by the Sheriff's Boating and Enforcement Program at Lake Oroville. The total cost of the vehicle was \$34,563.39 and the lease payments are due in four installments, with a final payment on July 15, 2014. The following payments were made during the fourth quarter:

Chico Memorial Hall, 492 Rio Lindo Avenue, Chico  
Principal: \$32,166.44 Interest: \$28,989.91

Chico Memorial Hall, 554 Rio Lindo Avenue, Chico  
Principal: \$39,461.05 Interest: \$22,813.45

California Energy Commission - Phase 1  
Principal: \$105,308.63 Interest: \$33,282.03

California Energy Commission - Phase 2  
Principal: \$12,818.78 Interest: \$5,074.22

California Integrated Waste Management Board  
Principal: \$50,000

On July 18, 2012, the United States Department of Agriculture (USDA) approved a loan in the amount of \$8,000,000 for the construction of a Hall of Records. Construction is anticipated to begin during the third quarter of fiscal year 2012-2013.

The following Long-Term Debt schedule, Figure 14, and Ratio of Outstanding Debt and Ratios schedule, Figure 15, present data as of June 30, 2012.

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<b>Figure 14</b>				
<b>Type of Debt</b>	<b>Original Loan Amount</b>	<b>Current Balance</b>	<b>Avg. Annual Payment*</b>	<b>Maturity Date</b>
<b>Bonds Payable</b>				
<b>Pension Obligation Bonds</b>				
-Series A	28,020,000	28,020,000	2,475,316	6/1/2034
-Series B	21,875,000	21,875,000	1,692,500	6/1/2034
<b>Total Bonds Payable</b>	<b>\$ 49,895,000</b>	<b>\$ 49,895,000</b>	<b>\$ 4,167,816</b>	
<b>Certificates of Participation</b>				
2003 Certificates of Participation	5,150,000	1,205,000	421,140	7/1/2014
2010 Bangor Fire Station #55 Renovation Project	1,100,000	1,032,333	55,379	8/1/2050
<b>Total Certificates of Participation</b>	<b>\$ 6,250,000</b>	<b>\$ 2,237,333</b>	<b>\$ 476,519</b>	
<b>Capital Leases</b>				
Chico Memorial Hall - 492 Rio Lindo	583,400	359,589	61,156	4/10/2020
Chico Memorial Hall - 554 Rio Lindo	670,900	399,259	62,275	4/10/2020
Ford Motor Credit	32,150	24,650	9,021	7/15/2014
Megabyte	26,000	8,668	8,666	7/9/2012
<b>Total Capital Leases</b>	<b>\$ 1,312,450</b>	<b>\$ 792,166</b>	<b>\$ 141,118</b>	
<b>Notes Payable</b>				
California Energy Commission				
-Solar Project Phase 1	2,777,000	1,575,257	277,181	12/22/2018
-Solar Project Phase 2	390,000	243,406	35,786	6/22/2020
<b>Total Notes Payable</b>	<b>\$ 3,167,000</b>	<b>\$ 1,818,663</b>	<b>\$ 312,967</b>	
<b>Neal Road Recycling and Waste Facility</b>				
2006 Certificate of Participation	12,025,000	9,770,000	1,193,436	7/1/2021
Loan - California Integrated Waste Mngt Board	500,000	200,000	50,000	6/1/2016
<b>Total Neal Road Recycling and Waste Facility</b>	<b>\$ 12,525,000</b>	<b>\$ 9,970,000</b>	<b>\$ 1,243,436</b>	
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 73,149,450</b>	<b>\$ 64,713,162</b>	<b>\$ 6,341,856</b>	

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**Figure 15**

## 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

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