



BUTTE COUNTY ADMINISTRATION

25 COUNTY CENTER DRIVE, SUITE 200
OROVILLE, CALIFORNIA 95965-3380
Telephone: (530) 538-7631 Fax: (530) 538-7120

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PAUL HAHN
Chief Administrative Officer

Date: November 9th, 2010
To: Butte County Board of Supervisors
Paul Hahn, Chief Administrative Officer
From: Gregory G. Iturria, Chief Financial Officer
Subject: First Quarter Financial Report

OVERVIEW

The 1st quarter financial report for Butte County operations contains updates on the economy, expenditures, revenues, cash balances and long-term debts for the first three months of the fiscal year ending June 30, 2011.

Economy: There is a mix of encouraging and disappointing news in the latest economic data. Economic output continues to rise, inflation is in check, but joblessness continues to stay high and construction activity is stagnant.

Expenditures: Expenditures by County departments are generally on budget and tracking similar to this time last year.

Revenues: General purpose revenues, in aggregate, are trending close to the budget estimates. Property taxes received in lieu of vehicle license fees will be about \$1 million less than projected, but other discretionary revenues, such as Williamson Act subvention and Public Safety Sales Tax are trending to come in higher than projected in the budget. Revenues restricted for use by County departments are trending a little behind budget and tracking

lower than this time last year, but this is partly due to cash deferral decisions by the State.

Forecast: On October 25, 2010, the County was notified by CalPERS of pension rate increases that the County will incur in future fiscal years. As you may recall, the County's multi-year budget forecast already anticipated much of this increase but not to the extent recently notified. The forecast is updated to account for the rise in pension costs and decline in property tax expectations. However, improved sales tax trends, Williamson Act funding and anticipated new grant funding for public safety services are also projected. The negative and positive trends are somewhat offsetting, so the projected gap between ongoing revenues and ongoing expenses hasn't changed much since the August 2010 forecast. The ongoing structural deficit through fiscal year 2014/15 remains in the \$5 million to \$6 million range.

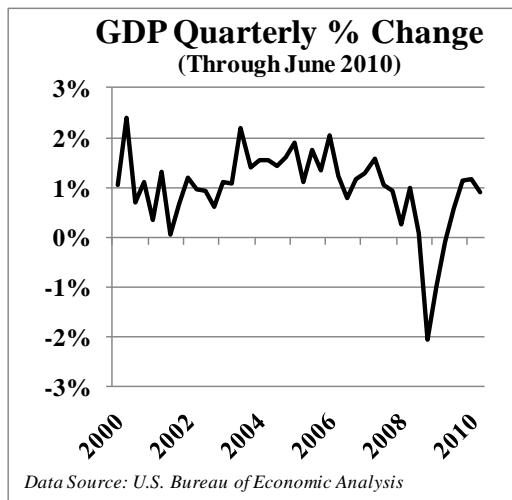
Cash Balances: General Fund cash balance was higher in the first quarter than during the same period last year.

Debt: A Certificate of Participation through the United States Department of Agriculture was

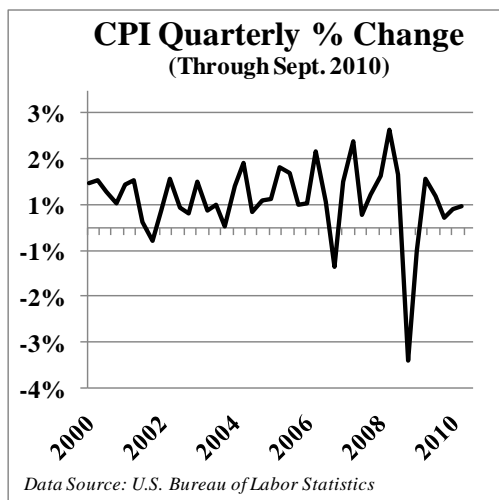
secured in August of 2010 in the amount of \$1,100,000 for construction of Bangor Fire Station 55.

ECONOMIC REPORT

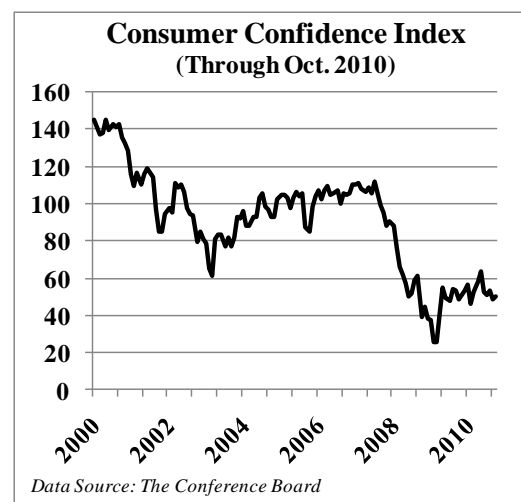
National Economy: The U.S. Gross Domestic Product (value of goods and services produced) rose for the fourth straight quarter for the three-month period ending June 30, 2010. As the 10 year GDP chart reflects, the rate of economic growth has slowed down in recent months.



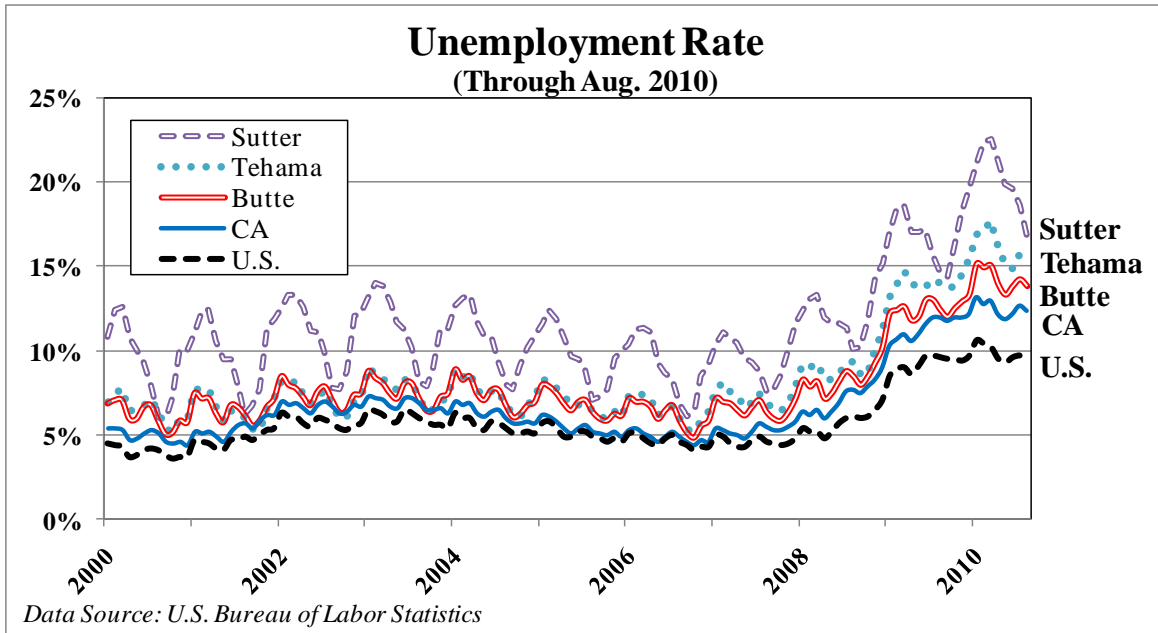
Inflation continues to be held in check. The national Consumer Price Index average annual change rose by less than 1% in the last quarter after a volatile five year period, as seen on the 10 year chart below.



In October 2010, the Conference Board's Consumer Confidence future outlook measure was 50.2 (100 = normal). While that is a slight improvement from the previous month, consumer confidence is still at historically low levels, as seen on the 10 year chart below. Although consumer expectations are still guarded, this data hopefully indicates that the U.S. public has stabilized its belief that better times are ahead. These future views are important in decisions to buy items like houses and autos.



Employment: After two quarters of gains, California lost 75,800 nonfarm jobs in the first quarter. However, this was mainly due to the drawdown of temporary U.S. Census workers. The state's unemployment rate fell to 12.4% at the end of August, 2010. This is up 0.4% from August 2009 and up 7.5% from August 2006. The countywide unemployment rate in August was 13.8%, up slightly from May's rate of 13.3%, but up significantly from four years ago as shown in the chart on the following page. According to preliminary data, Butte County had 14,286 employable residents considered unemployed during August 2010. Unemployment in Butte County is higher than the statewide and national averages, but it is better than in adjacent counties.

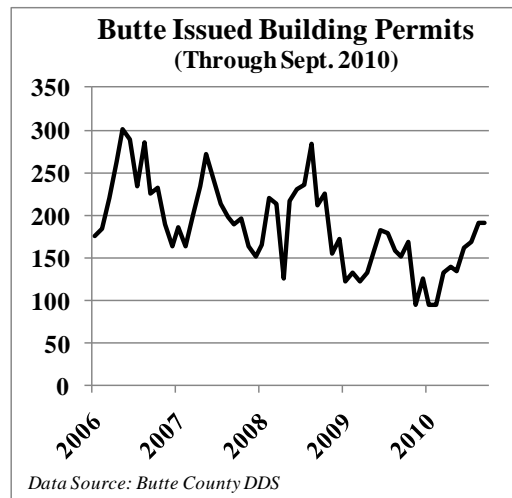
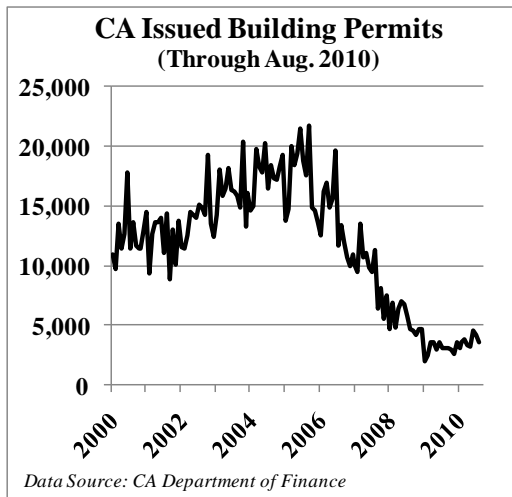


Other State and Local Economic Indicators:

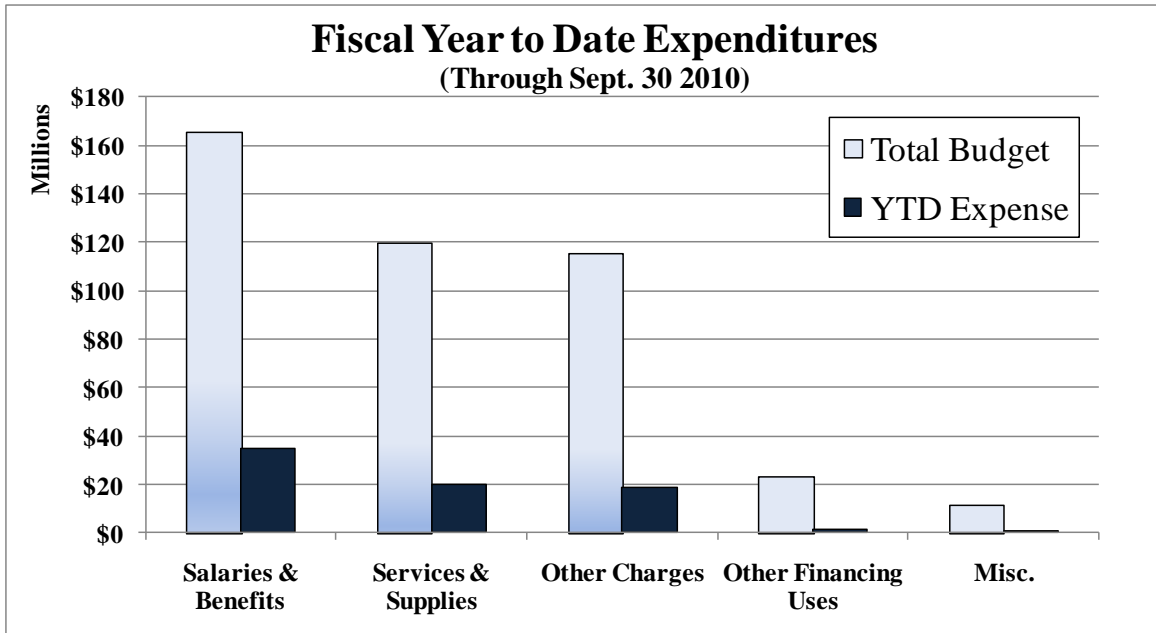
Home building data improves but is still disappointing. The pace of statewide homebuilding in the summer months improved over last year. Over 12,300 residential building permits were issued statewide during June through August 2010, up over 27% from a year earlier. However, permits issued are still down 78.6% from the pace set during the same period five years earlier.

Construction permitting was up 12% in the first quarter over the same quarter one year ago.

California real estate activity has been buffeted by the expiration of the federal home buyers' tax credit at the end of April. Both existing home sales and prices softened between June and the end of September. The median price of existing, single-family homes sold in California during the month of September was \$309,900, a 2.7% drop from August, but still up 4.5% from a year earlier.



Local construction permitting in the unincorporated area of the County is still making modest gains since the low point in 2009.



EXPENDITURE REPORT

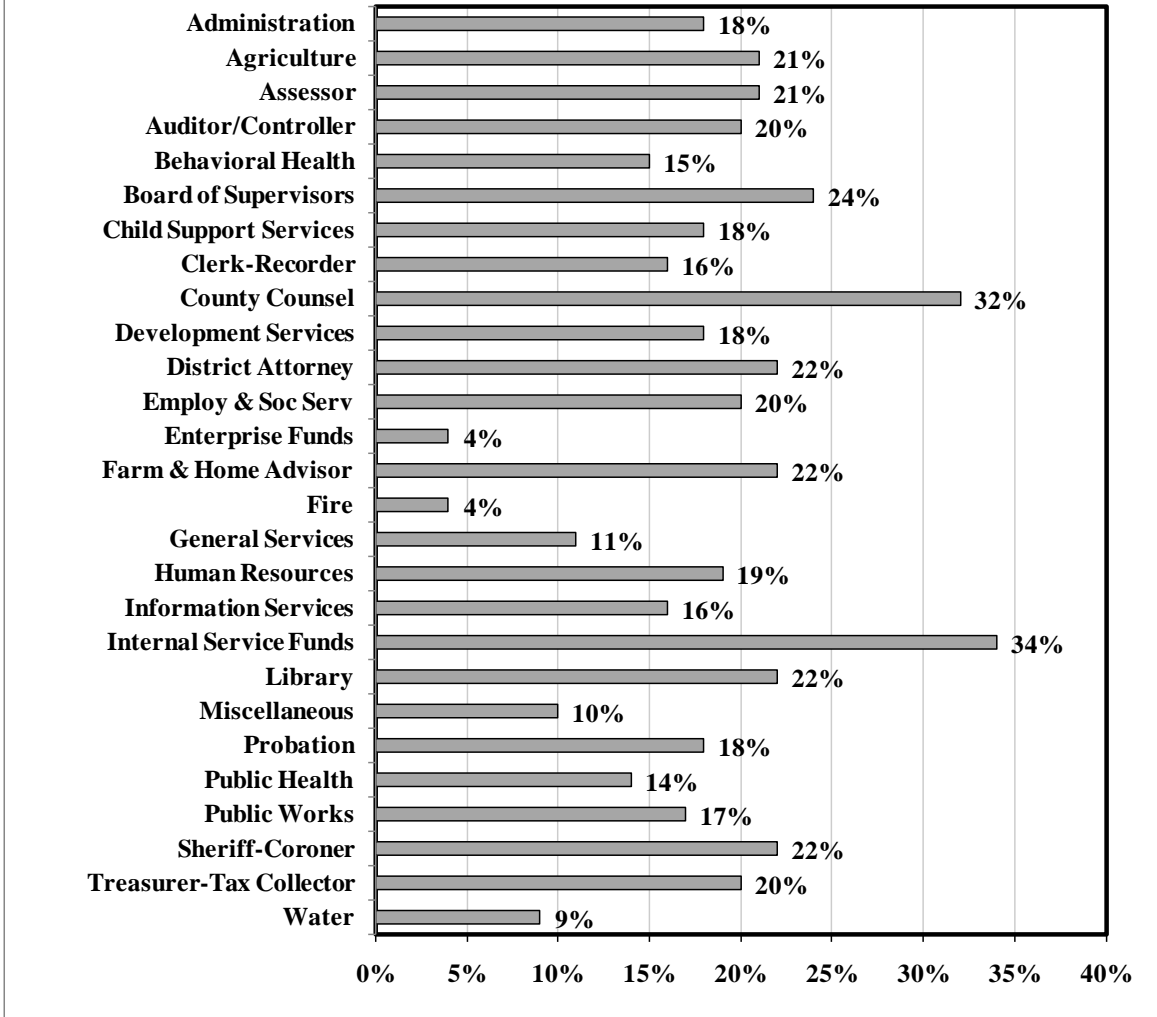
At the end of the first quarter, September 30, 2010, the County's budget totaled \$436 million and the County had expended \$75.5 million¹. As shown in the graph above, through the first quarter, the County spent \$34.6 million on Salaries and Benefits, \$20 million on Services and Supplies, and \$19 million on Other Charges, such as payments between funds and contributions to other agencies. The remaining \$2 million in expenditures were for Other Financing Uses and Miscellaneous Expenditures. Other Financing Uses are primarily charges between budget units in the same fund and Miscellaneous expenses include fixed assets and building depreciation.

¹ For the purpose of this report the County budget includes all departmental operating budgets, internal service funds (for example Worker's Compensation and General Liability), enterprise funds (Neal Road Waste and Recycling Facility) as well as a number of miscellaneous budget units such as capital projects, CDBG grant programs and Debt Service. County Service Areas and appropriations for contingency are excluded.

Overall, the County has expended 17% of the budget through the first quarter of the 2010-2011 fiscal year. Although 25% of the fiscal year elapsed between July 1st and September 30th, it is typical for expenditures overall to be significantly less than 25% at the end of the first quarter. For example, through the first quarter the County has experienced only 22% of pay periods for the fiscal year and there have been some vacant positions, resulting in 21% of budgeted salary and benefit expenditures having been made through the end of the first quarter. Many services and supplies are based on monthly billings that, by their nature, aren't paid until the month following the month of service. Last year at this time the County had expended 17% of its budget.

The graph on the following page shows the percent of budget expended by each County Department. The majority of Departments have expended between 15% and 25% of their budget in the first quarter, which is very typical for this early in the fiscal year. Two departments have expended more than 25% of their budget. County Counsel and the Internal Services Funds

1st Quarter Department Expenditures (% of Total Budget)



have spent 32% and 34% of their budgets, respectively. County Counsel has had a number of contract payments in the first part of the year that increased their percentage of budget spent beyond 25%. This is due to timing of billings and on-going litigation expenses. The internal service funds include General Liability, Worker's Compensation and other risk management funds, as well as the Utilities Fund. In a number of these funds insurance premiums for the year are paid in the first quarter. Additionally, an unanticipated settlement payment was made in the first quarter with offsetting revenue.

A number of departments have spent less than 15% of budget expenditures for the year. This is due to a variety of reasons, all primarily related to an uneven flow of expenditures through the course of the year. The Enterprise Funds, which account for the operations of the Neal Road Waste and Recycling Facility, as well as the General Services Department, have budgets that include a number of building projects and/or maintenance that have not yet been expended. The Public Health Department, Fire Department, and Water and Resource Conservation Department have budgeted professional services that are primarily unspent at this point, but are

expected to be utilized later in the year. The Fire budget, for example, includes the State CalFire agreement which is paid after the close of each quarter. The Miscellaneous Budget Units overall have only used 8% of budgeted expenditures. Miscellaneous Budget Units include a wide variety of budget units not directly related to the operations of a particular Department. For example, capital projects, Community Development Block Grants, grand jury expenses and debt service are all included in Miscellaneous. The largest budget unit of the Miscellaneous budgets is General Revenues and Transfers, which accounts for all general purpose revenues received, as well as General Fund transfers to other Funds. Through the first quarter, only seven percent of the budgeted transfers to other funds have been made.

The budgeted General Fund transfer to the Welfare Fund is \$3.7 million. No transfers have been made to date, however, it is currently anticipated that by the end of the year a \$2.7 million transfer will be required to support mandatory expenditures in the Department of Employment and Social Services. This reduced projection is due to better than anticipated Realignment sales tax revenues, as well as savings related to the 3.6% reduction for In-Home Supportive Services hours adopted in the State Budget and the Federal extension of the enhanced MediCal sharing ratios.

However, some or all of the anticipated savings may be offset by cash flow demands created by the open-ended cash flow deferrals authorized for CalWORKS in the State Budget. Public Health and Behavioral Health have both received 25% of the budgeted transfers which are used to meet the County's required Maintenance of Effort. Budgeted transfers have yet to be made to the Debt Service Fund and only 3% of budgeted transfers have been made for the Fire Fund. Debt Service Fund transfers will be done periodically throughout

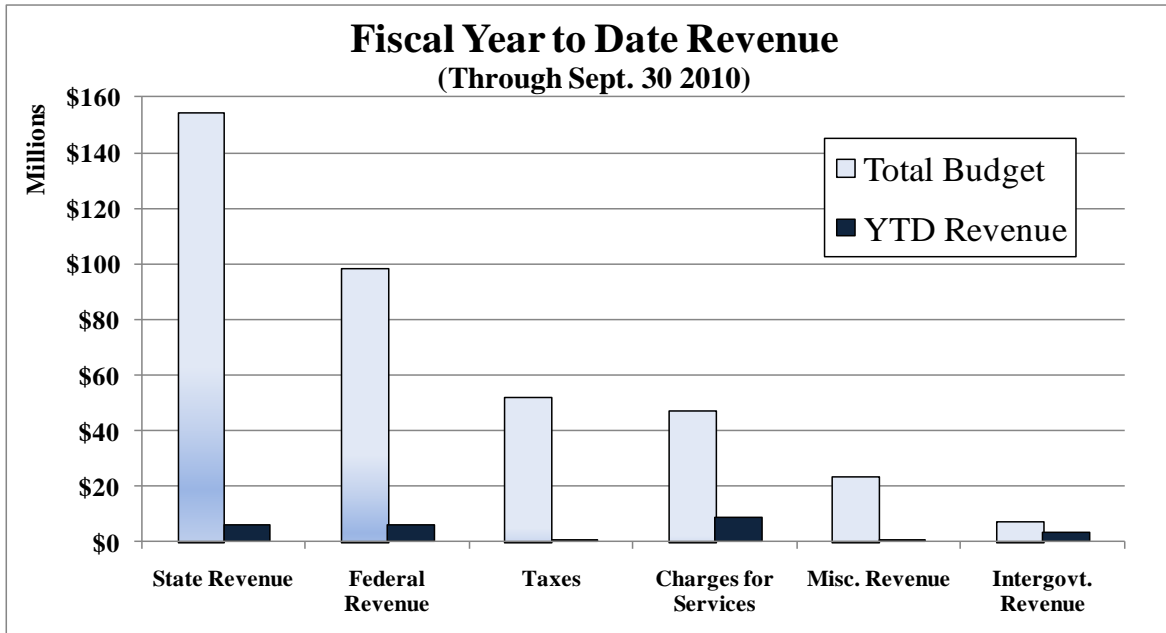
the year and the use of the budgeted transfer is still anticipated. As discussed above, the first payment to CalFire won't be made until the second quarter, which has kept costs in the Fire Department low in the first quarter. Through the first quarter, the Water and Resource Conservation Department has used 54% of its budgeted transfer and the Library has required 33% of its budgeted transfer. In both cases this is necessary to support the cash flow of the departments while they await revenue for a number of grants.

REVENUE REPORT

While the County's expenditures, overall, are fairly evenly spread over the fiscal year, its revenues are not. As seen in the graph on the following page, through the first quarter of the year the County has only received 7% of budgeted revenues². Last year at this time, the County had received 8% of budgeted revenues. The low level of revenues received in the first quarter is due to a number of factors.

The first property tax installment, which is the largest single source of general purpose revenue, does not arrive until December. Also, many grant revenues are based on quarterly claiming that are not completed until after the first quarter has ended; and, finally, state payments are low due to a number of state payment delays and deferrals caused by the late passage of the state budget as well as the state's ongoing cash flow challenges.

² For the purpose of this report the County's budgeted revenues include all departmental operating budgets, internal service funds (for example Worker's Compensation and General Liability), enterprise funds (Neal Road Waste and Recycling 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 and General Fund operating transfer to other funds are excluded.



Revenues received by each County department as a percentage of budget are shown in the graph on the following page. The graph on the following page shows relatively low revenues through the first quarter of the year in most departments. The few exceptions to this include County Counsel and the Fire Department. In both cases the high revenue receipts are due to 2009-10 revenue that was not posted until 2010-11. The Probation and Water and Resource Conservation Departments are currently showing negative revenue receipts for the quarter. This is due to a number of accrued 2009-10 revenues that have not yet been received.

- Property Tax Revenues.** \$24 million of the \$46.9 million in budgeted property tax revenues are Vehicle License Fee (VLF) in Lieu revenue. This is revenue that the County receives in lieu of the Vehicle License Fee revenues the County received until fiscal year 2003-04. VLF in Lieu revenues are calculated each fall by staff in the Auditor's Office based on the County's assessed valuation. Due to the decline in the County's assessed valuation, VLF in Lieu revenues will fall short of budget by approximately \$1 million.

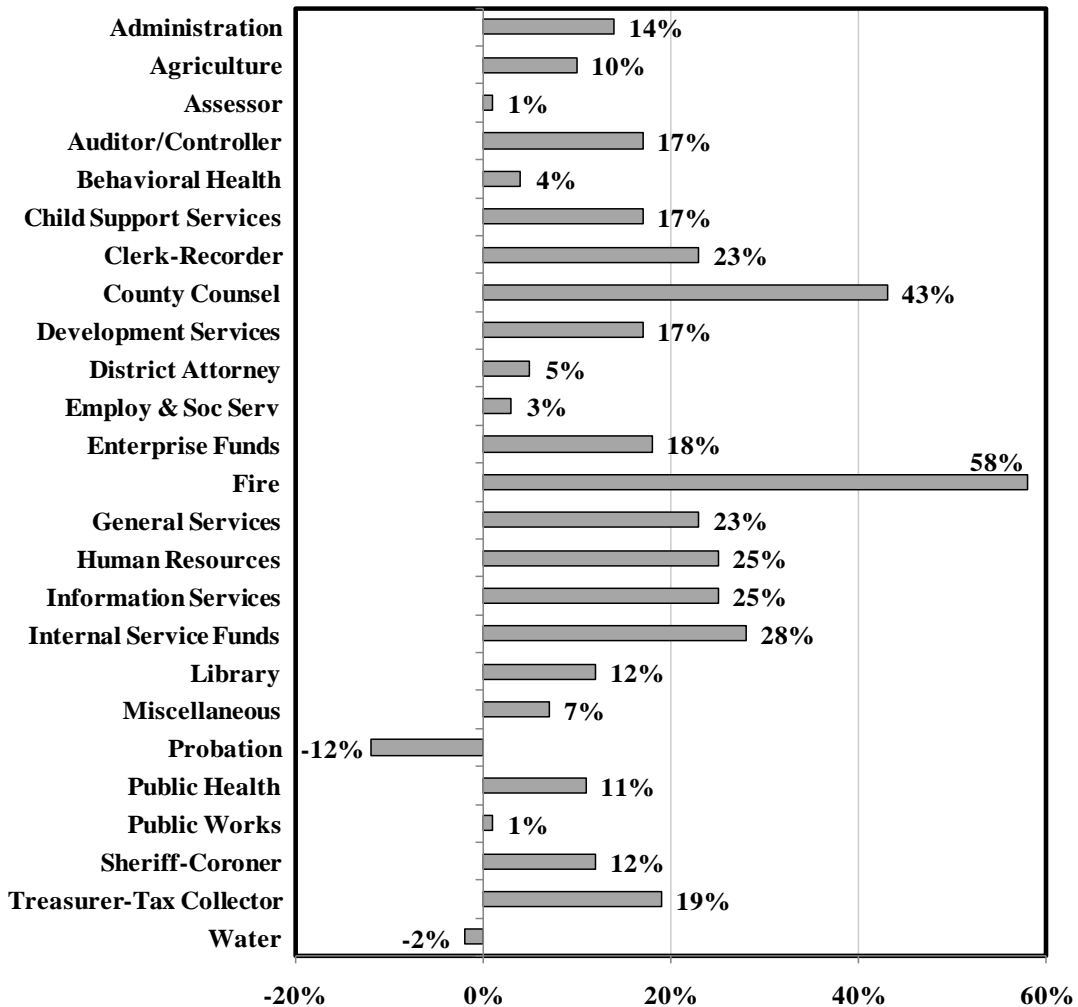
Similar to overall County revenues in the first quarter of the fiscal year, general purpose revenue receipts are low. Through the first quarter, only 8% of budgeted revenues have been received. The table to the right shows year to date receipts of general purpose revenue.

Items that impact actual 2010-11 general purpose revenues, the June 30, 2011 ending available fund balance and the multi-year budget forecast include the following:

Account Title	Budget	YTD Receipts	YTD %
Property Taxes	46,857,890	-	0%
Teeter Plan Proceeds	1,000,000	-	0%
Local Sales Tax	3,432,300	266,596	8%
Other Taxes	974,070	121,329	12%
Licenses & Permits	1,550,040	152,096	10%
Fines, Forfeitures & Penalties	1,444,020	93,751	0
Interest-County Treasury	915,000	293	0%
Local Public Safety Sales Tax	11,770,000	2,947,300	25%
RDA City of Chico	4,377,900	3,066,492	70%
Tobacco Settlement Funds	2,542,552	-	0%
Other Misc. Revenue	1,044,850	-742,172	-71%
Total General Purpose Revenue	\$75,908,622	\$5,905,687	8%

1st Quarter Department Revenue

(% of Total Budget)



- Tobacco Lawsuit Settlement Funds.** In 2009-10 these revenues came in approximately \$500,000 less than anticipated due to a dispute raised by the tobacco companies who pay into the Tobacco Master Settlement Fund. It is unclear if this will be an ongoing problem. Tobacco Settlement Funds are received in the spring of every year.
- Williamson Act Revenues.** The recent adoption of AB 2530 (Nielsen) will provide the County with \$169,000 in state Williamson Act funding and the

potential for another \$235,000 additional property tax revenues in subsequent years if an amended Williamson Act program based on AB 2530 is adopted by the Board of Supervisors.

- Proposition 172, Public Safety Sales Tax.** Increases in Public Safety Sales Tax revenues are now projected based on increased statewide sales tax revenues.

MULTI- YEAR BUDGET FORECAST

For the most part due to the healthy fund balance available carryover in the General Fund, the County can maintain its balanced budget through this fiscal year, and use the carryover to help balance next fiscal year’s budget. Looking to the 2011/12 budget and beyond, the table below is an updated multi-year budget forecast. Since the forecast was last updated in August, a number of assumptions have been refined. The result of this update is an improved forecast for the 2011/12 budget year, but an ongoing structural deficit through fiscal year 2014/15 that remains in the \$5 - \$6 million range.

Primary changes to the forecast are as follows:

Employee Compensation: Projected employee compensation has increased. The actual CalPERS contribution rate is now known for 2011/12, along with additional information for the projected rate for the following years.

2011/12 is the first year the impacts of the 2008/09 market losses are figured into the County’s rates. Additionally, CalPERS updated its assumptions related to a number of demographic items such as mortality rate and age of retirement that will also result in significant cost increases beginning in 2011/12. Safety retirement was most significantly impacted by the update, since many of the assumptions disproportionately affected the safety plans, such as the increased longevity of men’s lives. For 2011/12 the miscellaneous plan will increase by approximately 0.9% of payroll and the safety plan will increase by approximately 4% of payroll.

Additionally, this winter, the CalPERS Board will be reevaluating its earning assumptions. Currently, CalPERS assumes it will have, on average, a 7.75% return on investments. It is probable that this will be reduced to 7.5% or even 7.25%. The change to 7.5% is anticipated to increase the employer contribution for

GENERAL FUND	Forecasted Budget 2011/12	Forecasted Budget 2012/13	Forecasted Budget 2013/14	Forecasted Budget 2014/15
ESTIMATED DEMAND:				
Employee Compensation	70,669,457	72,833,698	74,563,955	75,481,811
Contingency	10,000,000	10,000,000	10,000,000	10,000,000
Other Expenditures	51,772,120	53,224,450	54,693,059	55,677,323
Use of Restricted Revenue & Cash Balances	<u>(38,313,083)</u>	<u>(38,849,910)</u>	<u>(39,667,583)</u>	<u>(40,511,516)</u>
Net Demand For Resources	94,128,493	97,208,238	99,589,431	100,647,618
ESTIMATED RESOURCES:				
Carryover From Prior Year*	17,000,000	15,000,000	15,000,000	15,000,000
Property Taxes	45,857,890	46,316,469	47,011,216	47,875,016
Sales Taxes	16,058,369	16,540,120	17,036,324	17,547,413
Other Discretionary Revenues	<u>14,157,066</u>	<u>14,330,978</u>	<u>14,541,283</u>	<u>14,777,801</u>
Net Available Resources	93,073,325	92,187,567	93,588,822	95,200,230
Budget Surplus / (Deficit) at Year End	(\$1,055,168)	(\$5,020,671)	(\$6,000,609)	(\$5,447,388)
* Includes unexpended Contingency appropriations from prior year.				

miscellaneous employees by 2% of payroll and for safety employees by 5% of payroll starting in fiscal year 2012/13. A change to 7.25% would double the impact. CalPERS staff report that the change to a 7.5% rate is “probable,” so the forecast includes the 2% miscellaneous and 5% safety increases starting in 2012/13.

The multi-year forecast does not assume any additional costs or savings from bargaining unit negotiations.

Other Expenditures: Other expenditures include service and supply purchases in the general fund, as well as the general fund transfers to the Welfare, Fire, Library and Water Funds. Projected expenditures in this category are less than the previous forecast primarily because of a reduction to projected transfers to the Welfare and Fire Fund. The revision includes projected realignment sales tax growth in the Welfare Fund, along with additional federal grant revenue and projected state Indian Gaming grant revenue for the Fire Department.

Use of Restricted Revenue & Cash Balances: Use of restricted, or departmental revenue, is somewhat improved in the forecast due to presumed Indian Gaming revenues for the Sheriff and District Attorney.

Carryover from Prior Year: The estimated 2011/12 carryover was increased from \$14.5 million to \$17 million. While it is still very early in the current fiscal year, a number of items have been identified that were not part of the last forecast. Namely, the final 2009-10 Proposition 172 Public Safety Sales Tax revenue was not recorded until 2010-11 which will increase the 2011/12 carryover by approximately \$1 million. Additionally, the state budget included reimbursement of 2009 Special Election costs, which total almost \$500,000 along with some unanticipated savings now projected in both the Welfare and Fire fund.

Property Taxes: Due to the decline in the County’s assessed valuation and the continuing struggles in the real-estate market, revenues are anticipated to be approximately \$1 million less than originally projected in 2010/11 with no growth currently projected for 2011/12.

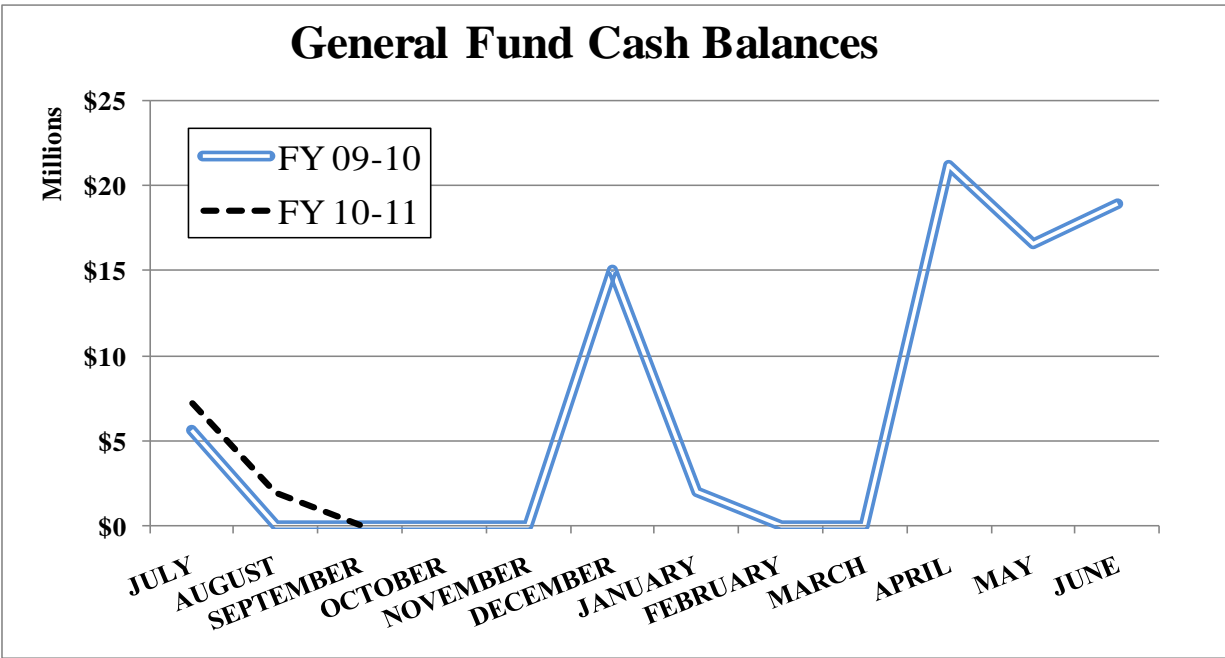
Sales Taxes: An increase from the previous forecast is projected primarily related to estimated growth in the County’s Public Safety Sales Tax Revenues (Prop 172).

Other Discretionary Revenues: The forecast does not anticipate proceeds from the potential lease of Table A water allocations to the State or other governmental entity. However, an ongoing \$169,000 in anticipated Williamson Act revenue is anticipated based upon the recently adopted State budget.

GENERAL FUND OPERATING CASH REPORT

In general, at the end of each month, any fund that is cash deficit is brought to zero through a cash advance from the General Fund. The amount advanced is then given back to the General Fund at the beginning of the next month. After all advances, if the General Fund is cash deficit, Tax Revenue Anticipation Note (TRAN) dollars are transferred to the General Fund to bring the cash balance to zero. In the graph on the following page, you can see this is the case for all points where the graph lines are at zero.

Fiscal Year 2009-10 began on July 1, 2009, with an operating cash balance of \$5,635,579. By the end of August 2009, due to payment deferrals and registered warrants issued by the State, as well as General Fund coverage of certain special revenue funds at the County level, the General Fund used a portion of the TRAN secured by the County for dry period financing. TRAN funds were necessary to cover a General Fund cash



deficit through November. In December, the first installment of 2009-10 property taxes was received, resulting in a \$15,068,410 cash balance at December 31, 2009. TRAN funds were again used in February and March until the second property tax installment was received in April of 2010. By June 30, 2010, the cash

balance in the General Fund was \$18,953,996. The July 31, 2010 ending balance was slightly higher compared to the prior year, ending at \$7,214,894. TRAN funds were not accessed in August, 2010; however, the funds were tapped in September to cover a cash deficit of \$5,643,234.

Cash Advances – General Fund (Through Sept. 30, 2010)	
Advances To General Fund:	
From TRAN* proceeds	\$5,643,234.00
Advances From General Fund:	
To - CSA 819 Southfork Estates Lighting	\$76.80
CSA 992 Rosewood Lighting	\$57.12
CSA 200 Stirling City Sewer	\$8,441.37
Employ and Soc Serv	\$6,458,609.04
Behavioral Health	\$7,557,124.24
Total Advances from General Fund	\$14,024,308.57
* Tax Revenue Anticipation Note	

As of September 30, 2010, the General Fund needed to advance over \$14 million in cash to support other funds, necessitating the use of over \$5.6 million in TRAN proceeds in the General Fund at the close of the first quarter. The table to the left lists all cash advances as of September 30, 2010.

LONG-TERM DEBT

The following long-term debt schedule and ratio of outstanding debt schedule is information

Type of Debt	Original Loan Amount	Current Balance	Avg. Annual Payment	Maturity Date
Bonds Payable				
Butte County Service Area No. 26 Bonds:				
1974 Sewer Bonds	680,000	175,000	40,417	1/1/2015
1975 Sewer Bonds, Series A	790,000	210,000	48,250	1/1/2015
1975 Sewer Bonds, Series B	380,000	100,000	23,500	1/1/2015
1975 Sewer Bonds, Series C	86,396	22,721	5,250	1/1/2015
<i>Total CSA 26 Bonds</i>	<i>\$ 1,936,396</i>	<i>\$ 507,721</i>	<i>\$ 117,417</i>	
Pension Obligation Bonds				
Series A	28,020,000	28,020,000	2,439,103	6/30/2034
Series B	21,875,000	21,875,000	1,000,000	6/30/2034
<i>Total Pension Obligation Bonds</i>	<i>\$ 49,895,000</i>	<i>\$ 49,895,000</i>	<i>\$ 3,439,103</i>	
Total Bonds Payable	\$ 51,831,396	\$ 50,402,721	\$ 3,556,520	
Certificates of Participation				
2003 Certificates of Participation	5,150,000	1,945,000	426,360	7/1/2014
Total Certificates of Participation	\$ 5,150,000	\$ 1,945,000	\$ 426,360	
Capital Leases				
Chico Memorial Hall - 492 Rio Lindo	583,400	421,706	61,156	4/10/2020
Chico Memorial Hall - 554 Rio Lindo	670,900	476,231	62,275	4/10/2020
File Management System	87,921	13,957	34,228	11/4/2010
Ford Motor Credit	32,581	10,380	9,282	8/20/2011
Total Capital Leases	\$ 1,374,802	\$ 922,274	\$ 166,941	
Notes Payable				
California Energy Commission				
Solar Project-Phase 1	2,777,000	1,984,575	277,181	12/22/2018
Solar Project-Phase 2	390,000	293,236	35,786	6/22/2020
Total Notes Payable	\$ 3,167,000	\$ 2,277,811	\$ 312,967	
Neal Road Recycling and Waste Facility				
2006 Certificate of Participation	12,025,000	11,300,000	1,242,000	7/1/2021
Loan - California Integrated Waste Mngt Board	500,000	300,000	50,000	6/1/2016
Total Neal Road Recycling and Waste Facility	\$ 12,525,000	\$ 11,600,000	\$ 1,292,000	
TOTAL LONG-TERM DEBT	\$ 74,048,198	\$67,147,806	\$ 7,273,428	

previously not provided in mid-year or yearend reports to the Board of Supervisors. This information can also be found in the Comprehensive Annual Financial Report (CAFR), which is the report produced by County staff and audited by independent auditors each year after the fiscal year closes. The data on this long-term debt schedule is as of June 30, 2010. A Certificate of Participation was secured through the United States Department of Agriculture in August 2010 for \$1,100,000. The proceeds of the loan are being used for construction of Bangor Fire Station 55. Loan

payments will be made over 40 years, with principal payments beginning August of 2011.

Long-term debt information is valuable both internally, as well as to outside agencies, such as credit rating agencies that monitor the fiscal health of the County, in order to provide the public, including holders of the debt, accurate, timely, and transparent financial data. The ratio of outstanding debt schedule provides a barometer of how much debt the County holds as expressed in terms of the relationship to assessed property tax value and on a per capita

basis (total County population). The trends over time provide a measure of the increases or decreases to total debt as compared to other

changing factors having an impact on the County.

Ratio of Outstanding Debt by Type (In Thousands, Except Per Capita)										
Government Activities					Neal Road Recycling and Waste Facility					
Fiscal Year	Bonds	Certificates of Participation	Loans/Notes	Capital Leases	Loans	Certificates of Participation	Capital Leases	Total Primary Government	% of Assessed Property Tax Value	Per Capita
2005	61,515	4,540	4,111	688			1,289	72,143	0.4894%	332
2006	57,212	3,920	3,935	1,479	500		784	67,830	0.4123%	311
2007	56,424	3,290	2,903	1,097	450	12,025	303	76,492	0.4649%	351
2008	50,575	2,650	2,703	1,134	400	12,025	20	69,507	0.3854%	315
2009	50,492	2,300	2,494	1,029	350	12,025	20	68,710	0.3680%	311
2010	50,403	1,945	2,278	922	300	11,300	0	67,148	0.3739%	308