



# BUTTE COUNTY ADMINISTRATION

## Finance and Risk Management

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PAUL HAHN  
Chief Administrative Officer

Date: October 28, 2011

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

From: Gregory G. Iturria, Chief Financial Officer

Subject: First Quarter Financial Report

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### 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 three month period that ended September 30, 2011.

**Economy:** There is mixed news from trends in the latest economic data. Economic output continues to rise and inflation is not rising as fast. However, consumer spending power and confidence remains low; suppressing purchases of homes, autos and other large items, despite historically low borrowing costs. Construction activity and home sales are slow, home prices continue to fall and joblessness remains high.

**Expenditures:** Expenditures by County departments were cumulatively on budget and tracked a little higher in comparison to the same quarter of the prior fiscal year. Overall, the County has expended 19% of the budget through the end of the first quarter of this fiscal year. Last fiscal year, the County expended 17% of its budget in the first quarter.

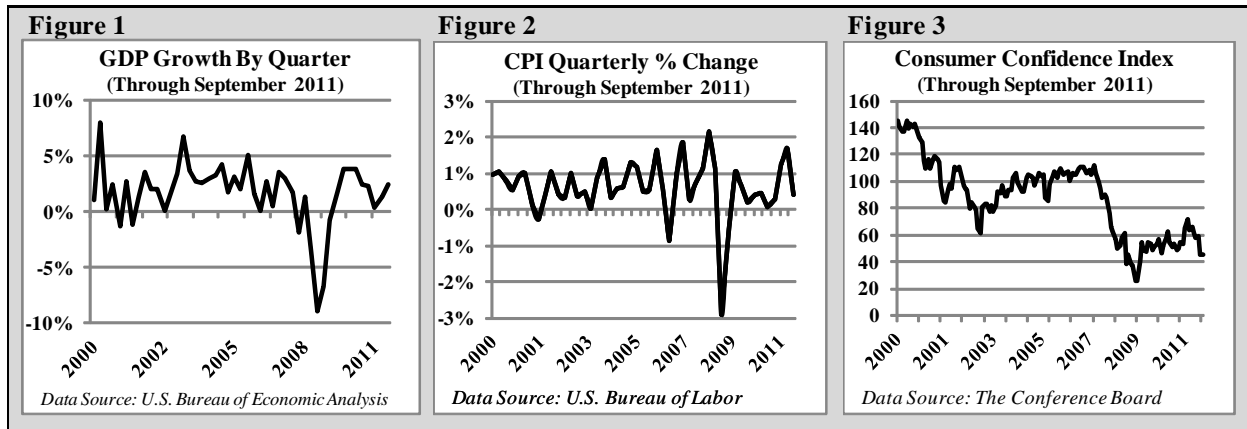
**Revenues:** Only 5% of the annual estimated general purpose revenues have been received during the first quarter, but this is expected due to the timing of tax receipts. The first property tax installment will not arrive until December. Revenues restricted for use by County departments are trending higher than this time last year. Through the first quarter of the fiscal year the County has only received 10% of budgeted revenues. Last year at this time, the County had received 6% of budgeted revenues. The improvement is primarily related to the timing of revenues recorded in Employment and Social Services as well as Behavioral Health and Public Health.

**Cash Balances:** General Fund operating cash was higher in the first quarter of fiscal year 2011-2012 compared to fiscal year 2010-2011. In July, August and September of 2011, no use of Tax Revenue Anticipation Note (TRAN) funds was needed in the General Fund. A transfer of TRAN funds is still anticipated for the second quarter of the fiscal year. A \$4.1 million cash advance was made from the General Fund to the Behavioral Health Fund in the first quarter, but this cash advance is significantly less than the \$7.6 million cash advance made to Behavioral Health in the first quarter of last fiscal year.

**Debt:** During the first quarter, interest payments were made against the County’s pension obligation bonds, principal and interest payments were made against other debt obligations, and the Ford Motor Credit loan was paid in full. No new loans were secured in July, August or September of 2011. A comprehensive long-term debt schedule is included at the end of this report.

**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 annual rate of 2.5% in the quarter ending September 30, 2011<sup>1</sup>. Although economic gains remain modest, this increase marks the ninth straight quarter of positive GDP growth and is primarily the result of increased consumption, private investments, and exports. Imports, which are a subtraction in the calculation of GDP, increased.

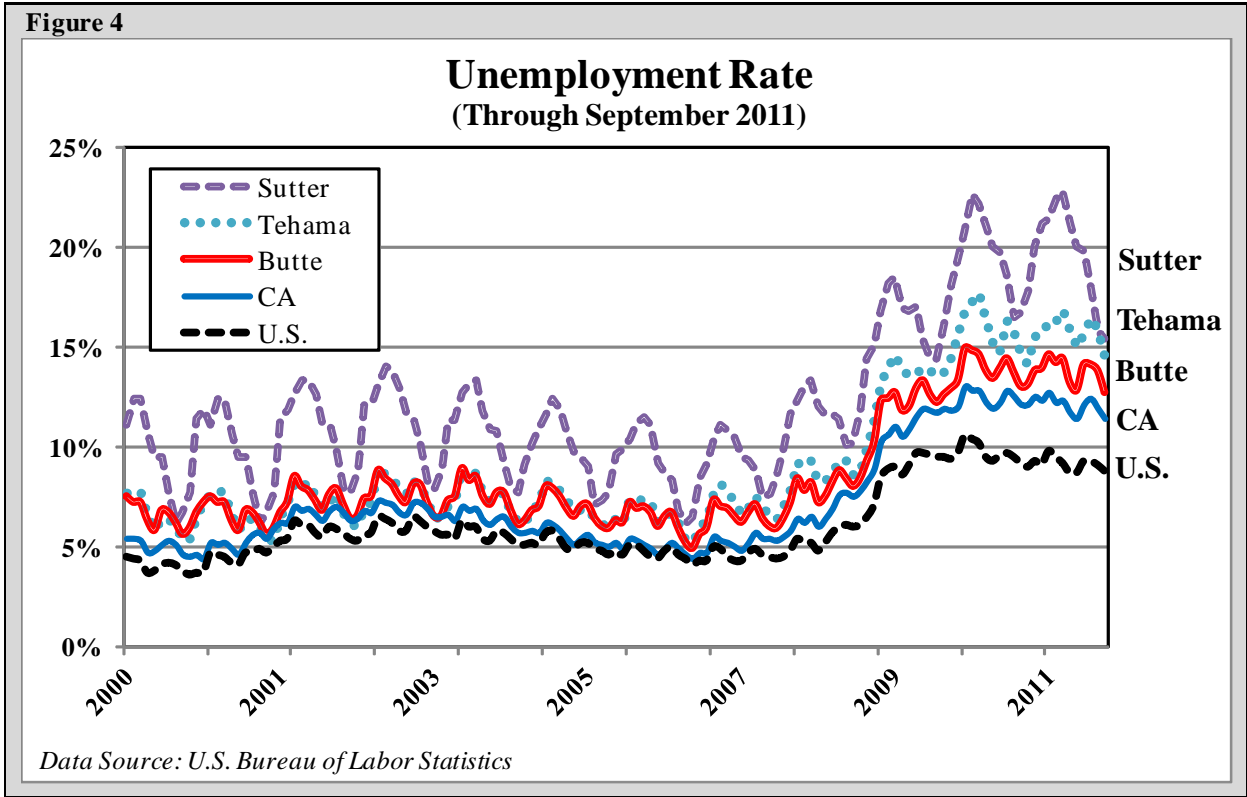


Rising gasoline, household energy, and food prices continue to create signs of some inflation. The national Consumer Price Index (CPI) rose by .41% in the last quarter after a volatile five year period, as seen in Figure 2 above. CPI measures the average change over time in the prices paid of a variety of consumer goods and services.

In September 2011, the Conference Board’s Consumer Confidence Index (CCI) measure was 45.4 (100 = normal). The CCI measures the relative financial health, spending power, and confidence of the average consumer. Although the CCI figure for September 2011 is up .2 points from the previous month, this figure is down 20 points from six months ago. This low figure shows us that consumers are still concerned about their expected earnings and is a sign that spending decisions to buy items like houses and autos will remain guarded.

**Employment:** The State’s unadjusted unemployment rate in September 2011 was 11.4%, down .7% from September 2010. The countywide unemployment rate in September 2011 was 12.7%, down .3% from September 2010 but still more than double the rate from September 2007. According to preliminary data, Butte County had 13,000 employable residents considered unemployed during September 2011. While unemployment in Butte County is higher than state and national averages, it continues to remain lower than unemployment rates experienced in adjacent counties.

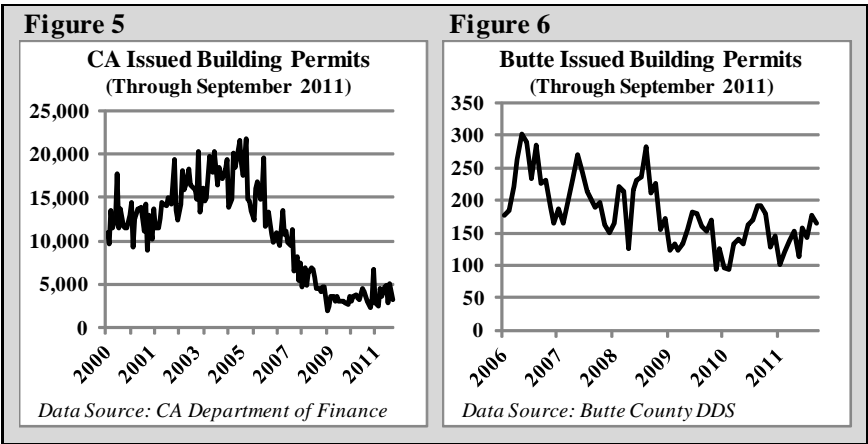
<sup>1</sup> Figure 1 reflects annualized GDP growth during the period of July, August and September as reported by the Bureau of Economic Analysis. Previous quarterly financial reports released by the Finance Office included GDP growth reflected as a quarter to quarter increase as opposed to the annualized growth seen in Figure 1.



**Other State and Local Economic Indicators:** The pace of statewide homebuilding during the three-month period ending September 30, 2011 showed some positive signs of improvement. 11,296 residential building permits were issued statewide during the combined months of July, August and September of 2011. While this figure is up more than 5% from the same period a year ago, it is down nearly 70% from the same period in 2006.

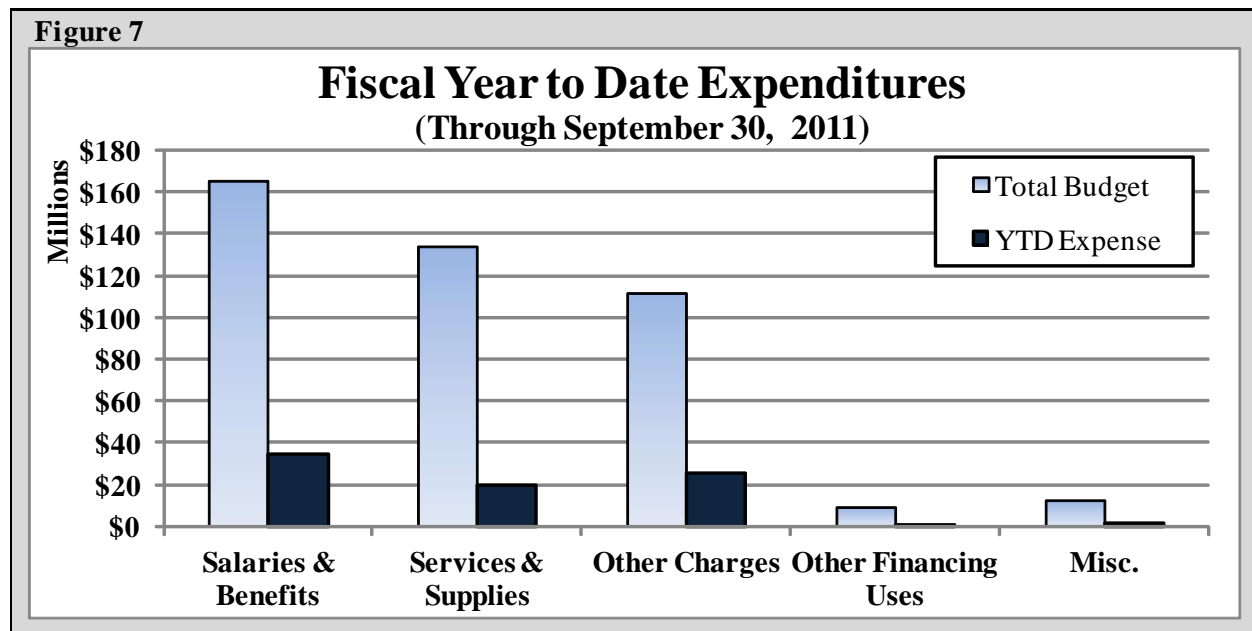
Local construction permitting in the unincorporated area of the County in the 1st quarter of this fiscal year was 12% lower than the same quarter one year earlier. Although this figure is down 35% from the same period in 2006, building appears to continue to achieve modest gains since the low point at the end of 2009.

The median price of existing, single-family homes sold in California during the month of September 2011 was \$287,440, a 3.2% decrease from the previous month and an 8.3% decrease from a year earlier. Existing home sales statewide during September 2011 declined by 2.1% compared to August of 2011 but increased by 4.1% when compared to September 2010.



## EXPENDITURE REPORT

At the end of the first quarter for the 2011-2012 fiscal year (July 1 to September 30, 2011), the County expended \$81.3 million<sup>2</sup> from a budget totaling \$433 million. As shown in the graph below, through the first quarter, the County spent \$35 million on salaries and benefits, \$19 million on services and supplies, and \$26 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 operating transfers and other charges between budget units. Miscellaneous expenses include fixed assets and building depreciation.

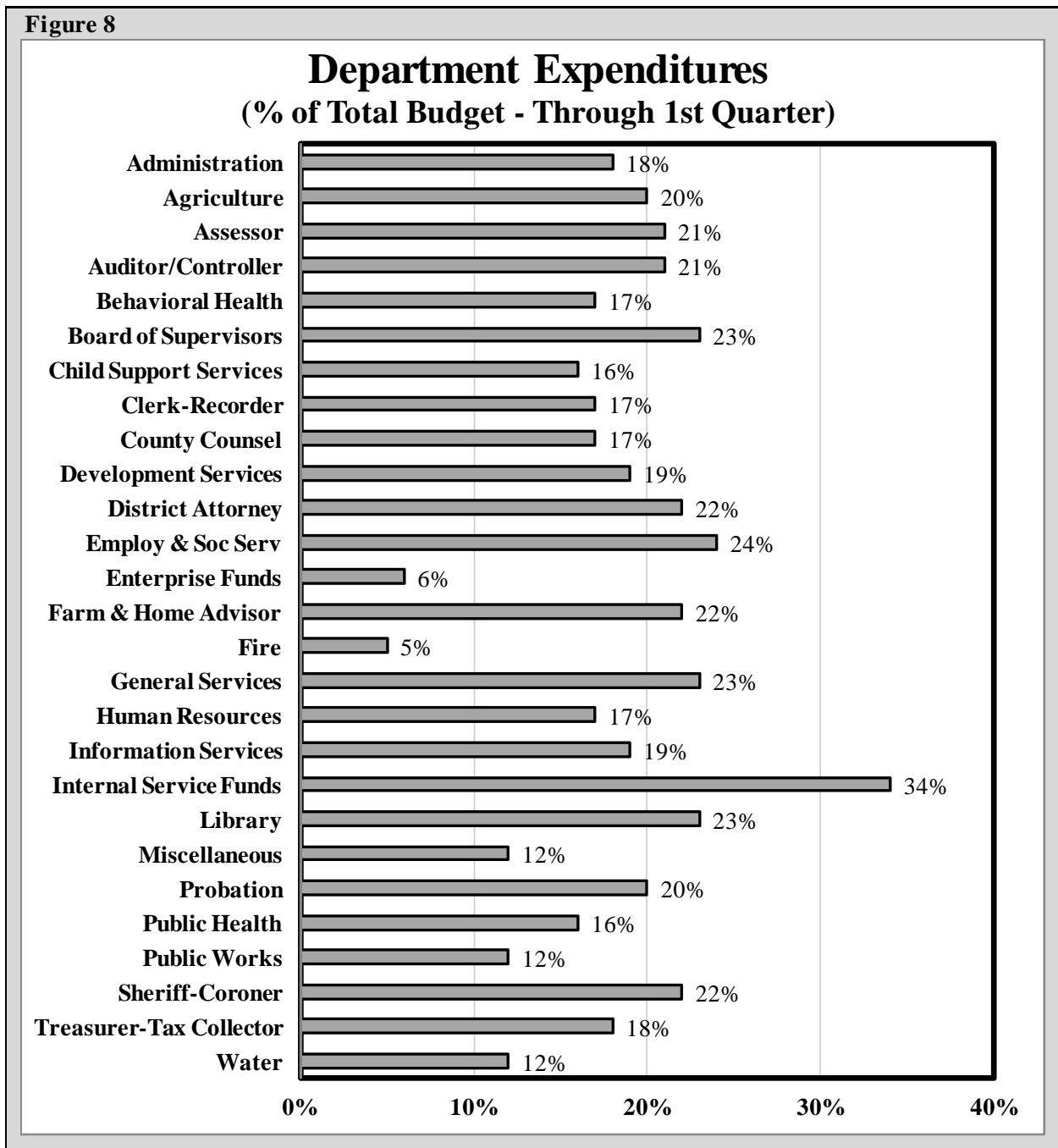


Overall, the County has expended 19% of the budget through the first quarter of the 2011-2012 fiscal year. Although 25% of the fiscal year elapsed between July 1st and September 30th, it is typical for expenditures overall to be less than 25% at the end of the first quarter. For example, through the first quarter the County has experienced only 21% 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 increase in expenditures as a percent of current year budget is primarily due to the timing of Department of Employment and Social Services expenditures, which were accompanied by a revenue increase for that department.

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 typical for this early in the fiscal year. Through the first quarter the internal services funds are at 34% of budgets. The internal service funds include General Liability, Workers' Compensation and other risk

<sup>2</sup> 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.

Figure 8



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.

A number of departments have expended less than 15% of their budget for the year. This is primarily related to an uneven flow of expenditures through the course of the year. The Fire and Water and Resource Conservation Departments 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 Cal Fire agreement and the first quarter invoice is not anticipated until December. The Public Works budget includes a number of planned road projects that are not yet expended.

The enterprise funds (Neal Road Recycling and Waste Facility) include capital purchases and improvements of over \$3 million. However, due to the accounting requirements of enterprise funds, annual depreciation is recorded as an expense for capital purchases and improvements and not current year expenditures. Additionally, the budget includes over \$800,000 in principal debt payments that are already reflected as liabilities in the fund and will not be recorded as current year expenditures.

The Miscellaneous budget units overall have expended 12% of their budget. 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, debt service, and General Revenues and Transfers are all included in Miscellaneous. The largest of the Miscellaneous budgets is the Community Development Block Grants program which has a budget of \$5.2 million primarily related to the Disaster Recovery Initiative Grant. It is anticipated that expenditures for the Disaster Recovery Initiative Grant will begin later in the year. General Revenues and Transfers which has a budget of \$4.6 million and accounts for all general purpose revenues received, as well as General Fund transfers to other funds also makes up a significant portion of the Miscellaneous budget units. Through the first quarter, only five percent of the budgeted transfers to other funds have been made.

The budgeted General Fund transfer to the Welfare Fund is \$3.4 million. No transfers have been made to date as the Department of Employment and Social Services has had sufficient cash to cover operations in the first quarter of the fiscal year. It is currently anticipated that by the end of the year much, if not all, of the budgeted transfer will be required to support mandatory expenditures in the Department of Employment and Social Services. 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.

**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 below, first quarter revenues are typically low. Through the first quarter of the

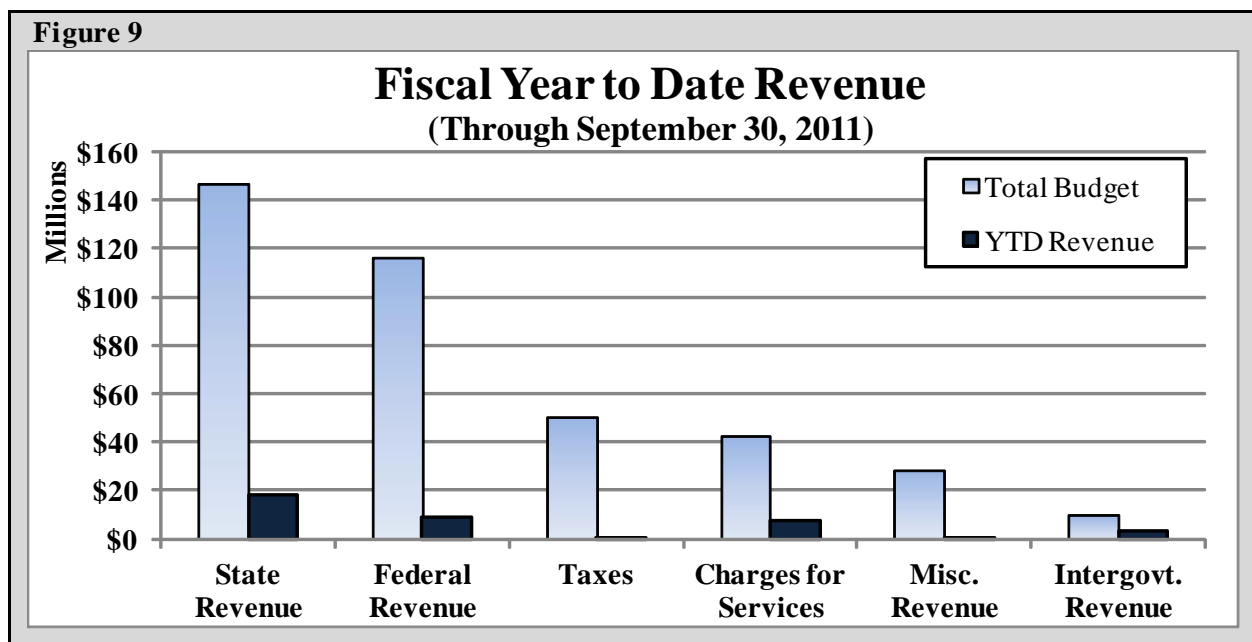
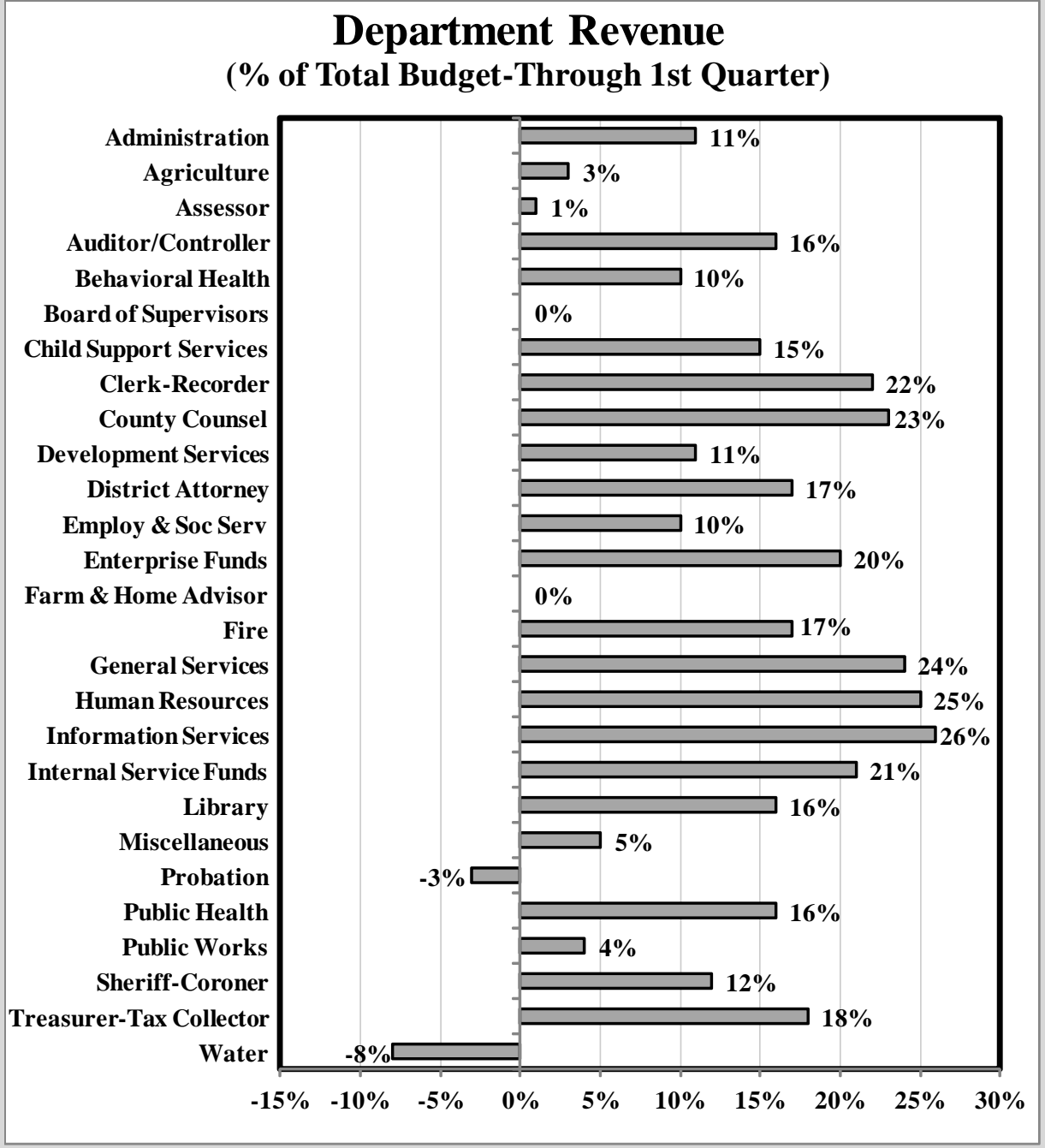


Figure 10



year the County has only received 10% of budgeted revenues<sup>3</sup>. Last year at this time, the County had received 6% of budgeted revenues. The improvement is primarily related to the timing of revenues recorded in Employment and Social Services as well as Behavioral Health and Public Health. Revenues received by each County department as a percentage of budget are shown in the graph on the previous page. Revenues through the first quarter of the year in many departments are relatively low.

<sup>3</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 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 are excluded.

This is due to a variety of factors including the timing of many grant revenues that are based on quarterly claims to the granting agency which are not completed until after the first quarter has ended. The Probation and Water and Resource Conservation Departments are currently showing negative revenue receipts for the quarter. This is consistent with prior years and due to a number of accrued 2010-2011 revenues that have not yet been received.

**Figure 11**

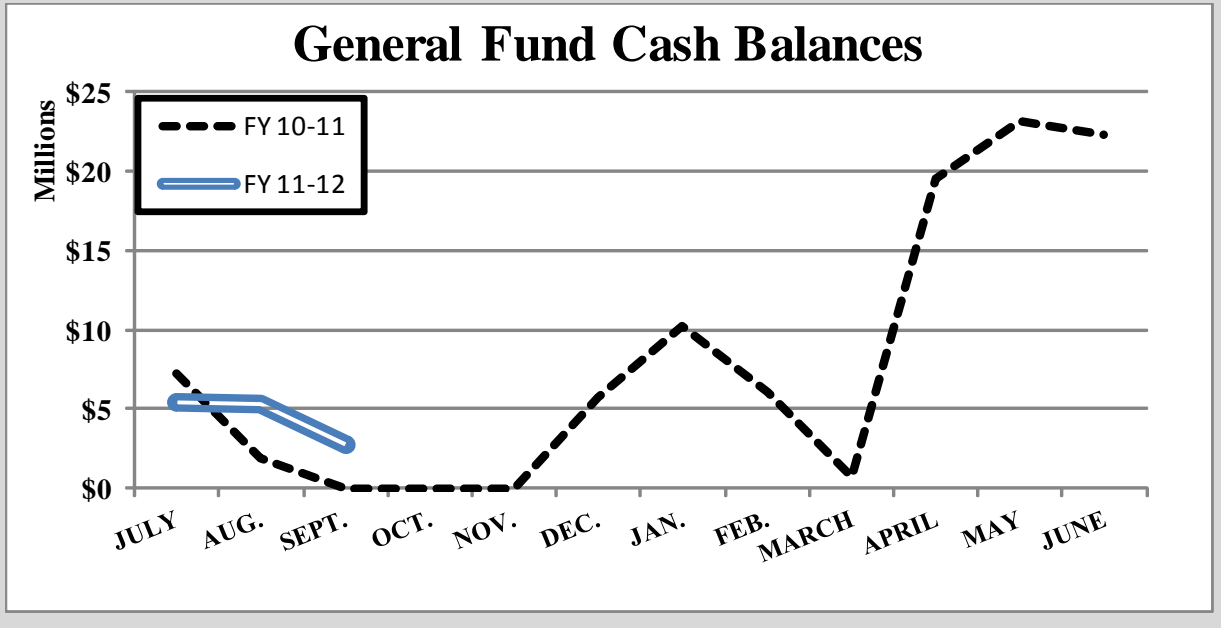
<b>General Purpose Revenue Receipts</b> (Through 1st Quarter)			
<b>Account Title</b>	<b>Budget</b>	<b>YTD Receipts</b>	<b>YTD %</b>
Property Taxes	44,740,491	0	0%
Teeter Plan Proceeds	1,000,000	0	0%
Local Sales Tax	3,586,000	270,003	8%
Other Taxes	1,059,200	156,491	15%
Licenses & Permits	1,546,873	151,399	10%
Fines, Forfeitures & Penalties	1,338,900	91,930	7%
Interest-County Treasury	1,000,000	154	0%
Local Public Safety Sales Tax	13,004,500	1,006,992	8%
RDA City of Chico	4,600,000	2,680,061	58%
Tobacco Settlement Funds	2,000,000	0	0%
Other Misc. Revenue	1,047,800	(354,636)	-34%
<b>Total General Purpose Revenue</b>	<b>\$74,923,764</b>	<b>\$4,002,394</b>	<b>5%</b>

Similar to overall County revenues in the first quarter of the fiscal year, general purpose revenue receipts are low. Through the first quarter, the County only received 5% of budgeted revenues. The single largest component of general purpose revenue is property tax, and the first property tax installment will not come in until December. Similarly, the County has only received one month of sales tax revenues. The table above shows year to date receipts of general purpose revenue. Staff will continue to closely monitor these revenues throughout the year.

#### **GENERAL FUND OPERATING CASH REPORT**

General Fund operating cash in the first quarter of fiscal year 2011-2012 was higher than the same period in the prior fiscal year. The improved cash position in the General Fund is due in large part to a decrease in the amount of cash deferrals from the State of California for reimbursement of Department of Employment and Social Services (DESS) expenditures. DESS began the current fiscal year with an operating cash balance of \$4,290,217. Therefore, no cash advances from the General Fund to DESS were necessary in the first quarter. Conversely, an advance of over \$6 million was made at the end of the prior year first quarter.

**Figure 12**



The Department of Behavioral Health continues to experience cash deficits primarily due to State deferrals. However, the advance made at the end of the current first quarter was slightly over \$4 million, while the advance at the end of the prior year first quarter was over \$7.5 million. As seen in the graph above, a declining cash balance is typical in the first quarter, but the drop is not as sharp compared to the prior year.

As a result of lower cash advances from the General Fund to other funds in the first quarter, no transfer of Tax Revenue

Anticipation Note (TRAN) funds has been necessary. A transfer of TRAN funds is anticipated sometime during the second quarter of the current fiscal year, prior to receipt of the first installment of property taxes in December.

**Figure 13**

GENERAL FUND - CASH ADVANCES AT SEPTEMBER 30, 2011	
<b>Advances To General Fund:</b>	
From TRAN* proceeds	\$ -
<b>Advances From General Fund:</b>	
To: Behavioral Health	\$ 4,086,900.29
<b>Total Advances from General Fund</b>	<b>\$ 4,086,900.29</b>
* Tax Revenue Anticipation Note	

## LONG-TERM DEBT

Long-term debt information is valuable 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 debt, accurate, timely, and transparent financial data. The following are changes to long-term debt that occurred during the first quarter of the current fiscal year:

1. The Ford Motor Credit loan was paid in full in July 2011
2. During the first quarter, the following payments were made on long-term debt, resulting in principal reductions to three loans:
  - 2003 Certificate of Participation: \$375,000 in principal and \$24,930 in interest
  - 2010 Bangor Fire Station #55 COP: \$12,000 in principal and \$15,911 in interest
  - 2006 Certificate of Participation: \$780,000 in principal and \$216,250 in interest

The following Long-Term Debt schedule, Figure 14, and Outstanding Debt and Ratios schedule, Figure 15, present data as of September 30, 2011.

<b>Figure 14</b>				
<b>Type of Debt</b>	<b>Original Loan</b>	<b>Current Balance</b>	<b>Avg. Annual Payment*</b>	<b>Maturity Date</b>
<b>Bonds Payable</b>				
Pension Obligation Bonds				
-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 COP	1,100,000	1,088,000	55,379	8/1/2050
<b>Total Certificates of Participation</b>	<b>\$ 6,250,000</b>	<b>\$ 2,293,000</b>	<b>\$ 476,519</b>	
<b>Capital Leases</b>				
Chico Memorial Hall - 492 Rio Lindo	583,400	391,755	61,156	4/10/2020
Chico Memorial Hall - 554 Rio Lindo	670,900	438,720	62,275	4/10/2020
Ford Motor Credit	32,581	-		8/20/2011
<b>Total Capital Leases</b>	<b>\$ 1,286,881</b>	<b>\$ 830,475</b>	<b>\$ 123,431</b>	
<b>Notes Payable</b>				
California Energy Commission				
-Solar Project Phase 1	2,777,000	1,783,829	277,181	12/22/2018
-Solar Project Phase 2	390,000	268,795	35,786	6/22/2020
<b>Total Notes Payable</b>	<b>\$ 3,167,000</b>	<b>\$ 2,052,624</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	250,000	50,000	6/1/2016
<b>Total Neal Road Recycling and Waste Facility</b>	<b>\$ 12,525,000</b>	<b>\$ 10,020,000</b>	<b>\$ 1,243,436</b>	
<b>TOTAL LONG-TERM DEBT</b>	<b>\$73,123,881</b>	<b>\$65,091,099</b>	<b>\$ 6,324,169</b>	

\* From FYE 6/30/11 to maturity per amortization schedules

**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	\$2,053	\$ 2,293	\$ 830	\$250	\$ 9,770	\$ -	\$ 65,091	0.3570%	\$ 294