



Butte County Administration

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Date: February 28, 2017
To: Butte County Board of Supervisors
From: Meegan Jessee, Deputy Administrative Officer
Subject: Second Quarter Financial Report Fiscal Year 2016-17

OVERVIEW

The second quarter ended December 31st, 2016. The quarterly financial report for the County provides an update on the National, state and local economy; summarizes the quarterly analysis of expenditures and revenues; includes an update on the fiscal year 2016-17 budget outlook; provides an update on cash balances; and reports on current long-term debt obligations.

Economy: The slow, but steady expansion of the U.S. economy continued through the second quarter. In December 2016 the Federal Reserve increased the Federal Funds target rate by a quarter of one percent citing that the economy was expanding at a healthy pace with steady growth in employment and other economic measures. Companies have continued to expand their inventories as consumer and business confidence has increased. A slight rise in the Consumer Price Index, which is a chief measure of inflation, resulted in an annual inflation rate of 2.1% for 2016. The Federal Reserve tries to target a 2% inflation rate with the goal of fostering price stability and maximum employment.

Expenditures: The County expended 38% of the budget in the first six months of the fiscal year in line with expectations. In the same two quarters of the prior fiscal year, the County expended 43% of its budget. This variation in percent of budget expended is due to a change related to how non-operating funds are budgeted and accounted for.

Revenues: Through the second quarter of the fiscal year, the County received 38% of budgeted revenues. Through the same quarter of the previous fiscal year, the County had received 41% of budgeted revenues. This variation in percent of budgeted revenue received is due to a change related to how non-operating funds are budgeted and accounted for. Discretionary revenues are currently trending to end the year a couple hundred thousand dollars below the budgeted amount.

Budget Outlook: Butte County's financial outlook is stable and continued economic growth, albeit slow, is anticipated for the coming year. However, the County is facing cost pressures in a number of areas that are likely to exceed the modest revenue growth. Departments are currently in the process of developing their fiscal year 2017-18 requested budget. County Administration will begin analyzing those requests when they are submitted in March.

Cash Balances: The General Fund cash balance was \$24.4 million at the end of December 2016. This is consistent with the cash balances at the end of the second quarters of fiscal years 2014-15 and 2015-16.

Debt: During the second quarter of this fiscal year, principal payments totaling \$239,377 and interest payments of \$895,593 were made against long-term debt obligations. During the second quarter, the County closed a \$7,166,380 lease-purchase financing for a radio system necessary to address the radio communication needs of the County and an \$816,393 lease-purchase financing for two pieces of equipment for the Neal Road Recycling and Waste Facility.

ECONOMIC UPDATE

Gross Domestic Product: U.S. Gross Domestic Product (GDP) measures the market value of all final goods and services produced within the country. The advance estimate for the 2nd quarter of fiscal year 2016-17 shows GDP increased at an annual rate of 1.9%, down from the updated GDP estimate of 3.5% for the 1st quarter of fiscal year 2016-17. The deceleration in real GDP in the 2nd quarter reflected a downturn in exports, an acceleration in imports, a deceleration in personal consumption expenditures and a downturn in federal government spending. Upturns in residential and nonresidential fixed investment and state and local government spending, together with an acceleration in private inventory investment during the 2nd quarter partly offset the declines during the quarter. The GDP increased by 1.6% during the 2016 calendar year, which is a slight deceleration from the increase of 2.6% during the 2015 calendar year. Figure 1 (below) shows annualized GDP growth by quarter for the preceding ten-year period.

Figure 1

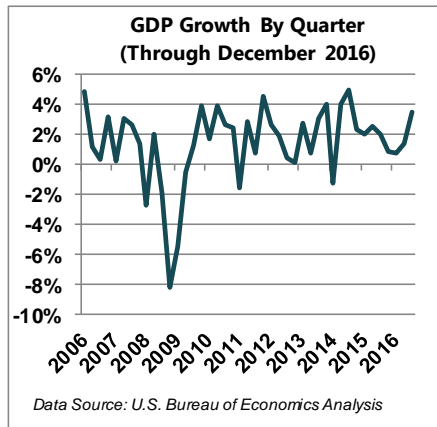


Figure 2

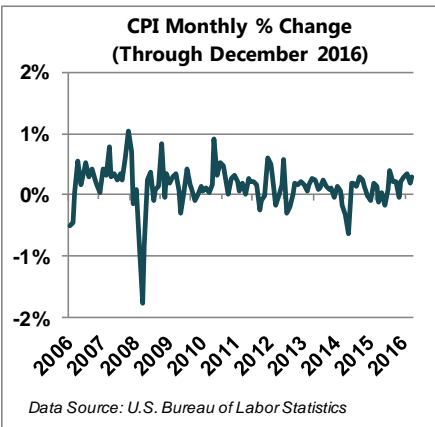
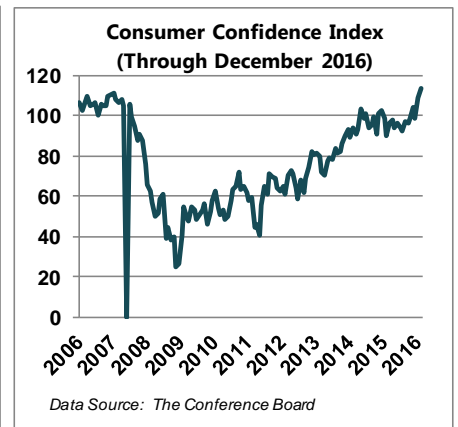


Figure 3

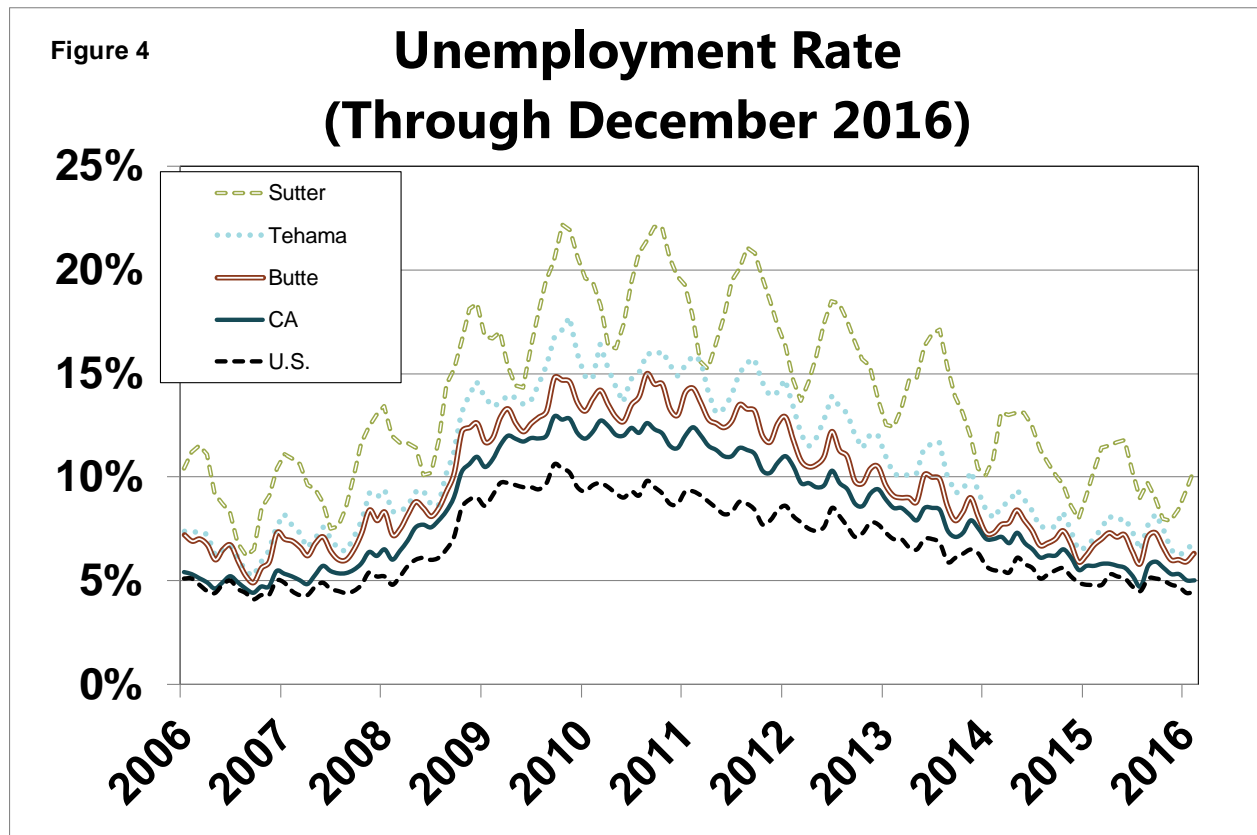


Consumer Price Index: Consumer prices in the United States rose slightly during the 2nd quarter of fiscal year 2016-17. The Consumer Price Index (CPI) rose 0.84% during the 2nd quarter of the current fiscal year with small increases in October, November, and December. The all items index rose 2.1% during 2016 as compared to increases of 0.7% in 2015 and 0.8% in 2014. The chief measure of price inflation is the percentage change in the Consumer Price Index. The CPI increasing each month since June 2016 allowed the annual inflation rate to reach 2.1% in December. The monthly increases in the CPI resulted in the decision by the Federal Reserve to increase the target interest rate by .25% in December 2016. Continuing the recent trends, the largest growth in prices was seen in gasoline and housing (rent). Figure 2, above, displays the seasonally adjusted month-to-month change in the CPI from 2006 through the second quarter of fiscal year 2016-17.

Consumer Confidence Index: Consumer confidence, as measured by the Conference Board’s Consumer Confidence Index (CCI), rose during the second quarter of fiscal year 2016-17 to 113.7, up from 104.1 at the end of the 1st quarter of the current fiscal year. The CCI at the end of the second quarter is higher than the pre-recession high of 111.9 in July 2007 (see Figure 3, above). According to the CCI, consumers’ confidence increased considerably in November and posted another gain in December. Consumer confidence is needed to boost economic growth. The CCI is benchmarked so that the index value for 1985 equals 100, a time where consumer confidence was neither at a peak or a trough. Since bottoming out at a value of 25.3 in February of 2009, the CCI has maintained fairly consistent increases overall.

Unemployment: The State’s preliminary seasonally unadjusted unemployment rate stood at a 5.0% at the end of the second quarter of fiscal year 2016-17. This is a decrease from the 5.3% seen at the close of the first quarter and the 5.7% at the close of the second quarter of fiscal year 2015-16.

The State unemployment rate remains above that of the U.S. as a whole, which was 4.5% at the end of December 2016.



Butte County’s unemployment rate at the close of the second quarter was 6.3%, up from 6.0% at the close of the first quarter of the current year, but below the 7.0% rate from a year ago. In December, the size of the labor force in Butte County was estimated at 102,800, which was a decrease of 1,300 from the previous month and up by 900 from December 2015. While the unemployment rate in Butte County remains higher than that of the State and the U.S. as a whole, it remains lower than that of the neighboring counties of Sutter and Tehama (Figure 4).

Building Activity: Statewide, the pace of homebuilding increased during the second quarter of fiscal year 2016-17. The second quarter of the current fiscal year saw an average of 8,778 new home starts per month, which is a 14.5% increase over the monthly average from the preceding three-month period. The 10,644 new home starts statewide during the month of December is an increase of 2,243 over the number of starts during December 2015. In Butte County, an average of 214 building permits of various types were issued per month in the second quarter of fiscal year 2016-17, which is down from the monthly average of 238 in the previous quarter, but similar to the monthly average of 218 experienced during the second quarter of 2015-16.

Figure 5

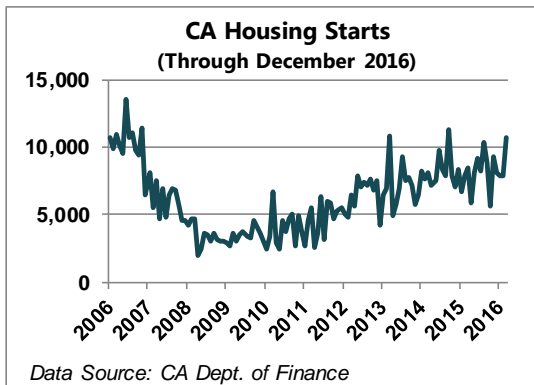
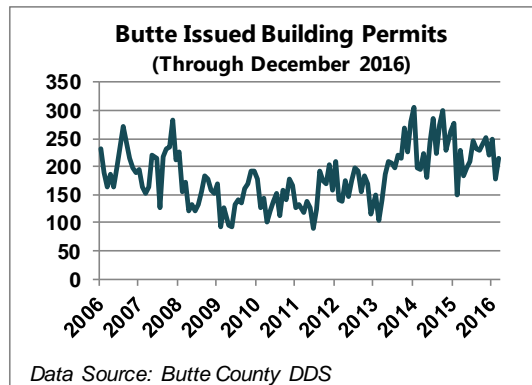


Figure 6

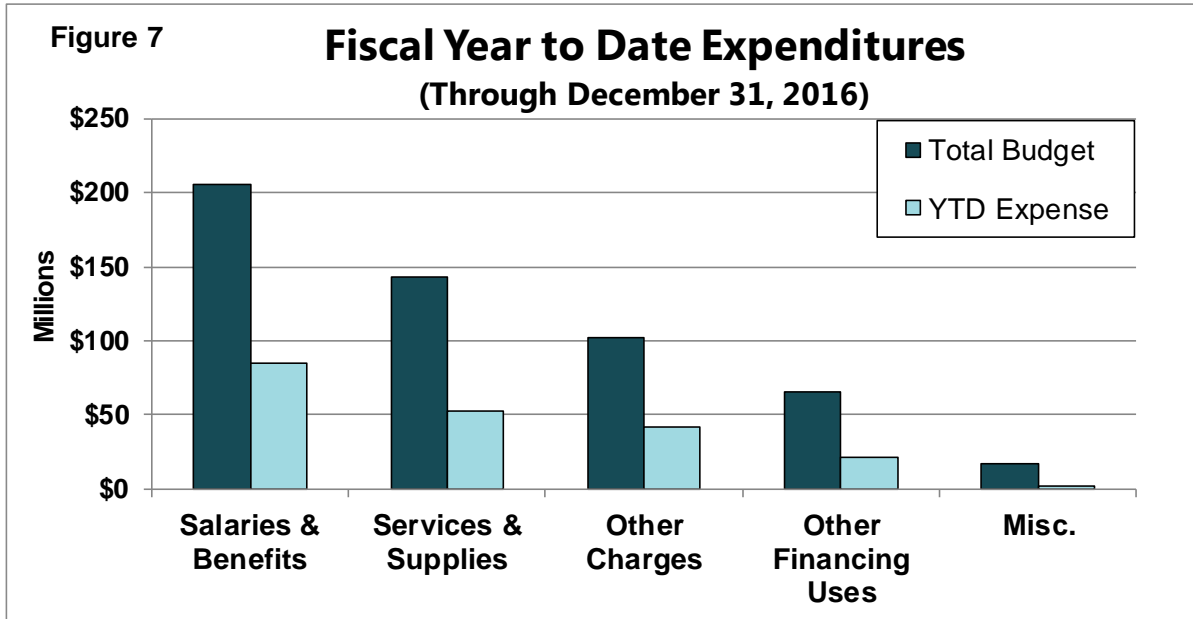


Home Sales: The median price of existing, single-family homes sold in California during December 2016 was \$509,060, an increase of 1.5% from the previous month and a 3.9% increase from a year earlier. The number of existing home sales in California during December was 7.0% less than the number of sales in the previous month and .6% less when compared to December 2015. For Butte County, the median price of existing, single-family homes sold during December 2016 was \$294,250, a 5.5% increase from the previous month and a 14.7% increase over December 2015. There were 4.9% more home sales in December 2016 than in December 2015.

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EXPENDITURES

At the end of the second quarter, the County had expended approximately \$202.4 million¹ from a budget totaling \$532.5 million. As shown in the graph below, the County spent \$85 million on salaries and benefits, approximately \$52.5 million on services and supplies, and \$41.9 million on other charges, such as payments between funds and contributions to other agencies. The remaining \$22.9 million in expenditures were for other financing uses and miscellaneous expenditures. Other financing uses are primarily operating transfers and charges between departments. Miscellaneous expenses include capital assets.



Overall, the County expended 38% of the budget through the second quarter of the 2016-17 fiscal 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. For example, many services and supplies are based on monthly billings that, by their nature, are paid at least a month after the service was provided. Additionally, normal staff turnover creates some salary savings. Last year at this time the County had expended 43% of its budget, 5% more than this year due primarily to the implementation of a new financial organizational structure in fiscal year 2015-16 which necessitated \$50 million dollars in transfers to move funds to their new location. Otherwise, results are similar to prior years and in line with expectations.

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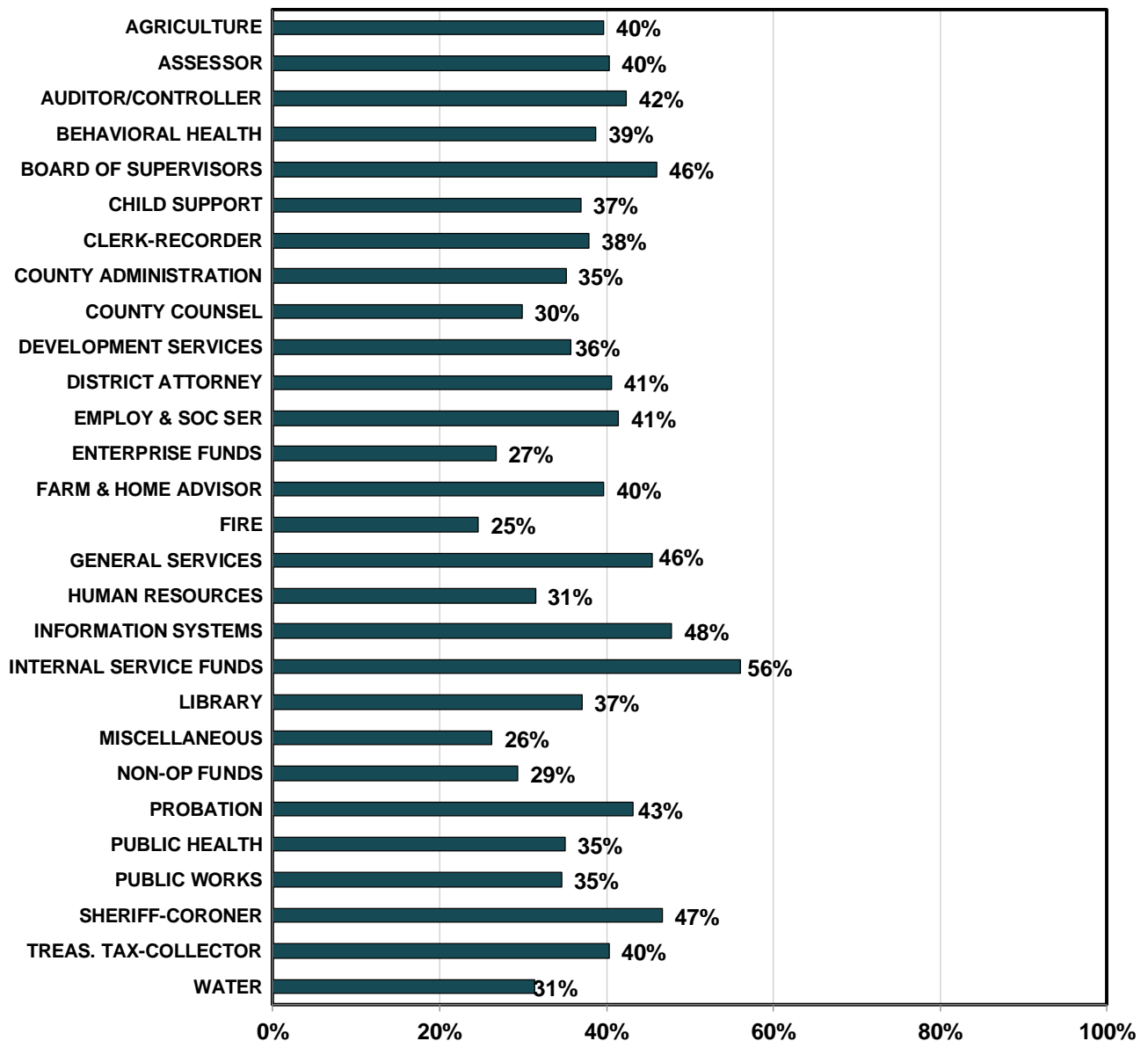
¹ For the purpose of this report the County budget includes all departmental operating and non-operating budgets, internal service funds (for example Workers' Compensation and General Liability), enterprise funds (Neal Road Recycling and Waste Facility) as well as a number of miscellaneous budget units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

The graph below 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 have expended less than 35% of their budget for the year. Although there are a variety of reasons, they all relate to an uneven flow of expenditures through the course of the year. Human Resources and County Counsel are at less than 35% of budgeted expenditures due primarily to intrafund transfers which are recorded as negative expenditures. Expenditures in the Fire Department budget normally lag because payment for the contract with CAL FIRE tends to be a quarter in arrears. The Water Department budget as well as the Miscellaneous grouping, which includes capital projects, have projects planned for later in the year. The Non-Op grouping includes reimbursements to the operating funds, which will be transferred once the funds are spent in the operating funds.

Figure 8

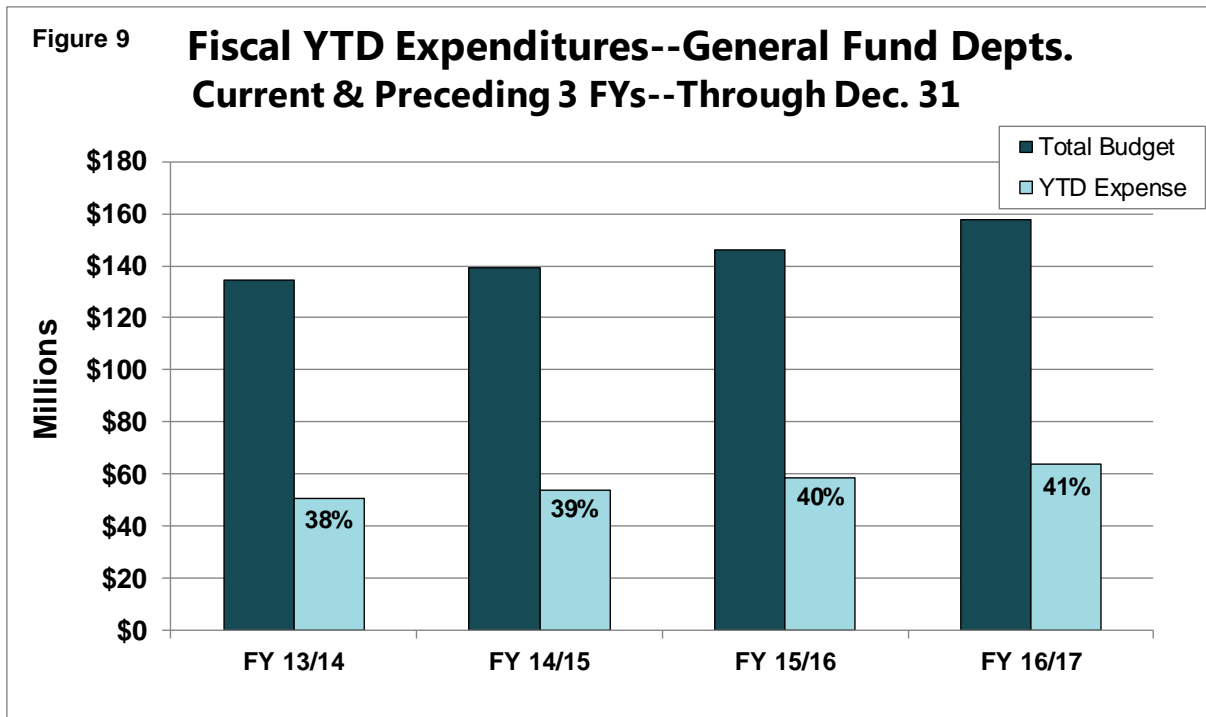
Department Expenditures

(% of Total Budget-Through December 31, 2016)



The enterprise funds (Neal Road Recycling and Waste Facility) include capital purchases, and improvements which will occur later in the year. The Neal Road Recycling and Waste Facility operating plan also includes principal debt payments that will not be recorded as current year expenditures due to the accounting requirements for enterprise funds.

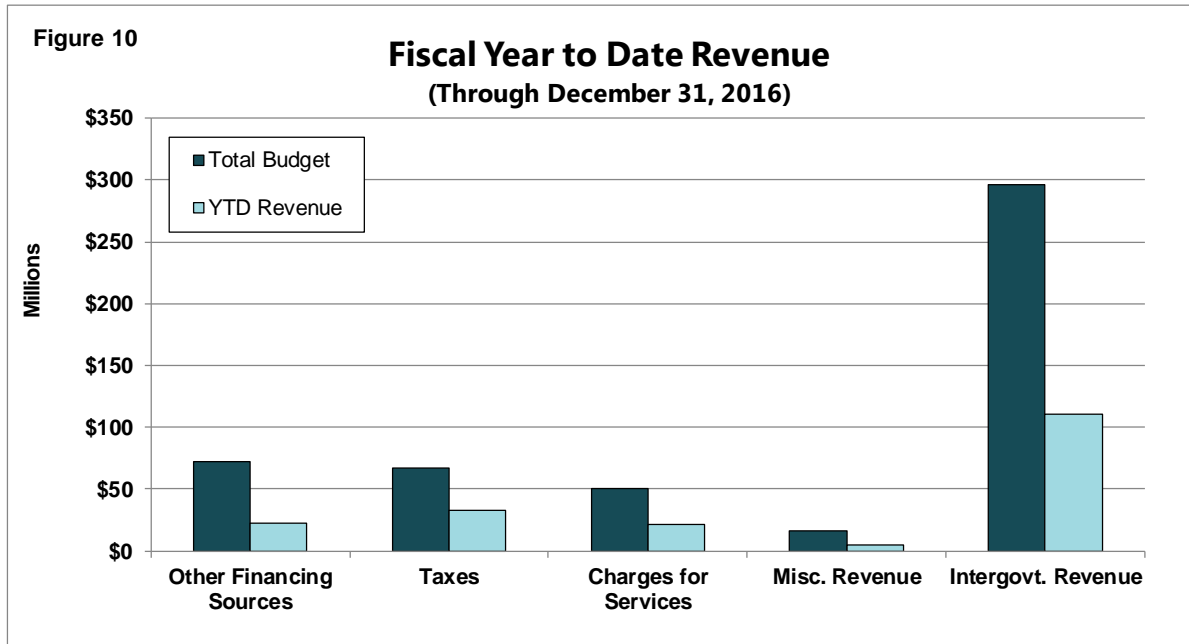
Figure 9 (below) displays budgeted and actual expenditures at the close of the second quarter among General Fund departments for the current and preceding three fiscal years. As shown in the graph, expenditures among General Fund department are currently at 41% of the budgeted amount, slightly ahead of prior years.



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REVENUE REPORT

Through the second quarter of the fiscal year, the County has received 38% of budgeted revenues². This is a lower percentage than the same period last year, when the County had received 41% of budgeted revenues. Similar to expenditures, revenues as a percent of budget were higher than typical last year because of the transfer of almost \$50 million in funds from operating budgets to the new non-operating budgets. Otherwise, overall revenues are consistent with prior years.



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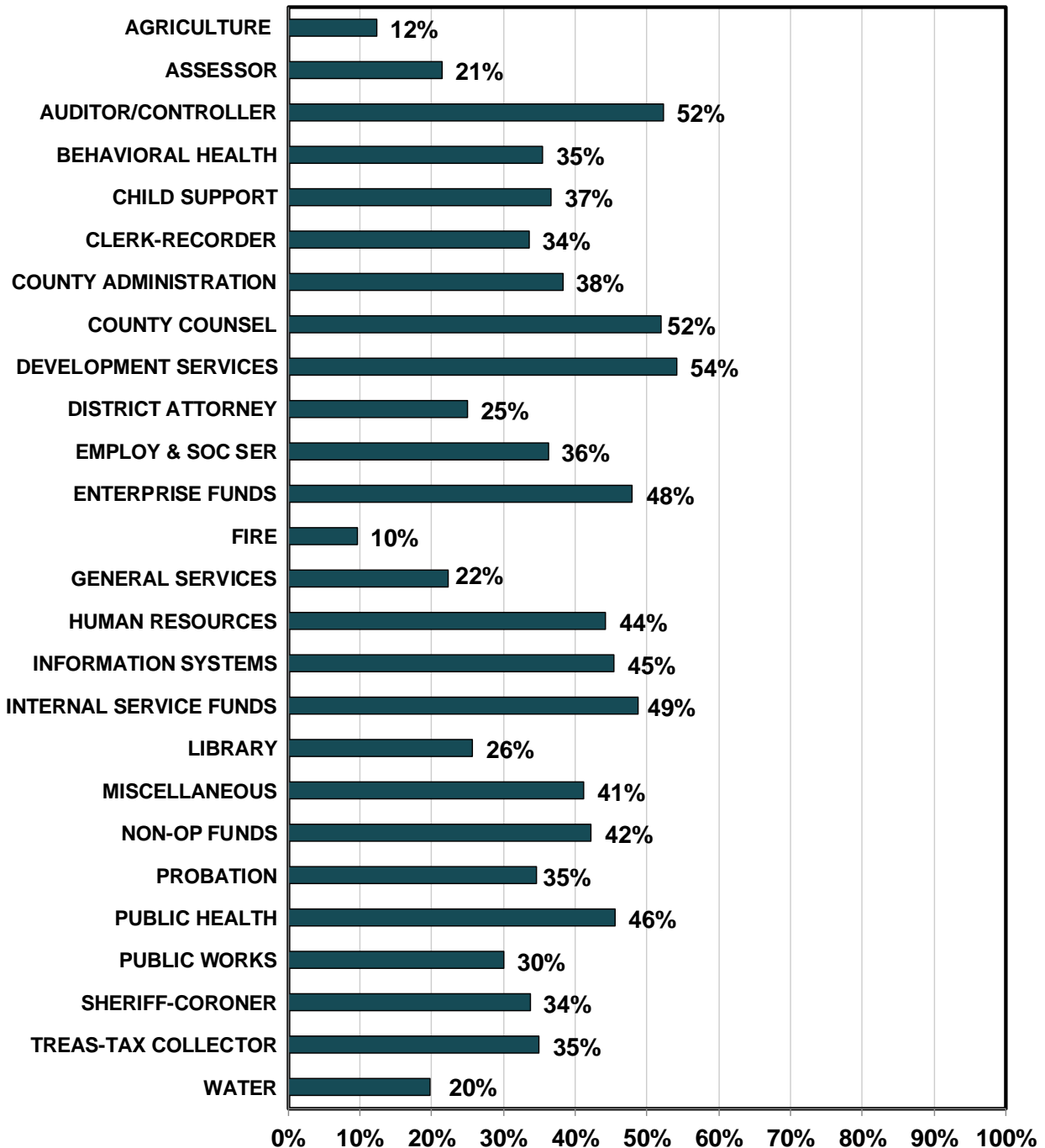
² For the purpose of this report the County's budgeted revenues include all departmental operating and non-operating budgets, internal service funds (for example Workers' Compensation and General Liability), enterprise funds (Neal Road Recycling and Waste Facility) as well as a number of miscellaneous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

The chart below shows revenues received by each County Department through December 31, 2016 as a percentage of their budget. Most department revenues are between 30% and 55% of budget through the second quarter, consistent with revenue patterns from previous years. A number of Departments have received less than 30% of budgeted revenue. In most cases, this is simply a timing issue. Grant funds, reimbursements and other revenues budgeted in Agriculture, Assessor, District Attorney, Fire, General Services, Library and Water were not received by the end of the second quarter, but have either been received in January or are anticipated prior to the end of the fiscal year.

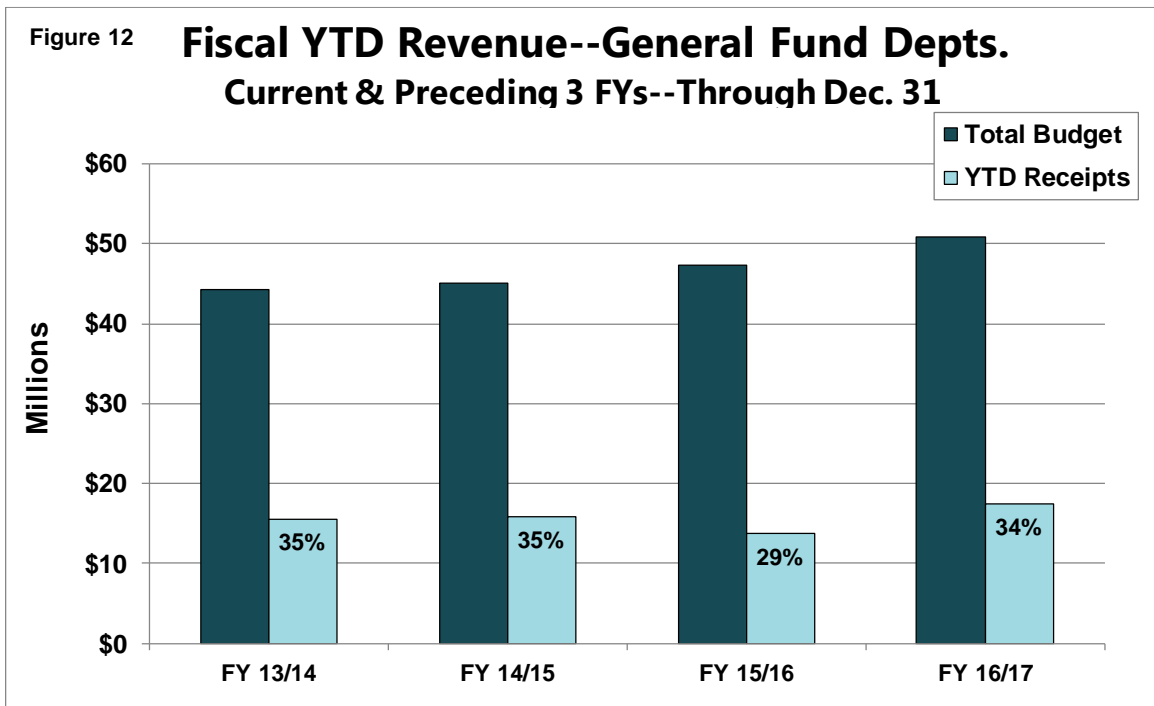
Figure 11

Department Revenues

(% of Total Budget-Through December 31, 2016)



Budgeted and actual revenues for General Fund departments are displayed in Figure 12 (below). The figures presented do not include General Purpose Revenues, which are received in the General Fund but are not specific to any department. At the close of the second quarter, General Fund Departments had received 34% of budgeted revenue, consistent with prior years.



General Purpose Revenue: Through the close of December, 43% of budgeted General Purpose Revenues had been received. Mid-year projections for 2016-17 discretionary revenue indicate revenues may come in a couple hundred thousand short of projections due to a combination of less than anticipated property tax revenues, public safety sales tax revenues and property tax administration revenues. Staff will continue to closely monitor these trends throughout the fiscal year and provide an update as part of the third quarter report.

**Figure 13 General Purpose Revenue Receipts
(Through 2nd Quarter)**

Account Title	Budget	YTD Receipts	YTD %
Property Taxes	61,068,000	30,255,201	50%
Prop 172 Sales Tax	16,841,300	5,120,443	30%
Local Sales Tax	5,076,000	1,796,567	35%
Property Tax Transfers	1,000,000	502,914	50%
Other Taxes	430,000	356,502	83%
License & Permits	1,570,400	219,368	14%
Interest-County Treasury	277,000	75,421	27%
Lease Table A	3,660,000	1,806,062	49%
Fines, Forfeitures, & Penalties	1,297,000	441,404	34%
Tobacco Settlement Funds	1,900,000	-	0%
Other Misc. Revenues	3,350,000	585,337	17%
Total General Purpose Revenue	\$96,469,700	\$41,159,218	43%

BUDGET OUTLOOK

On January 23, 2017, the County staff kicked off the fiscal year 2017-18 budget process. Butte County's financial outlook is stable and continued economic growth, albeit slow, is anticipated for the coming year. The prudent decisions made by the Board to maintain a balance budget, build reserves, and address unfunded liabilities have paid off. However, the County is facing cost pressures in a number of areas that are likely to exceed the modest revenue growth. Proposals in the State budget have the potential to increase the County's General Fund contribution to the In-Home Support Services program by millions of dollars per year. A recent change to pension assumptions by the CalPERS Board, coupled with poor investment performance, will increase the County's retirement contributions significantly over the next eight years. Initial projections indicate that the increase may exceed \$15 million dollars per year by fiscal year 2024-25 depending on actual investment earnings. Finally, the County has signed multi-year deals with most of the County's bargaining units that increase pay by 10% over three years.

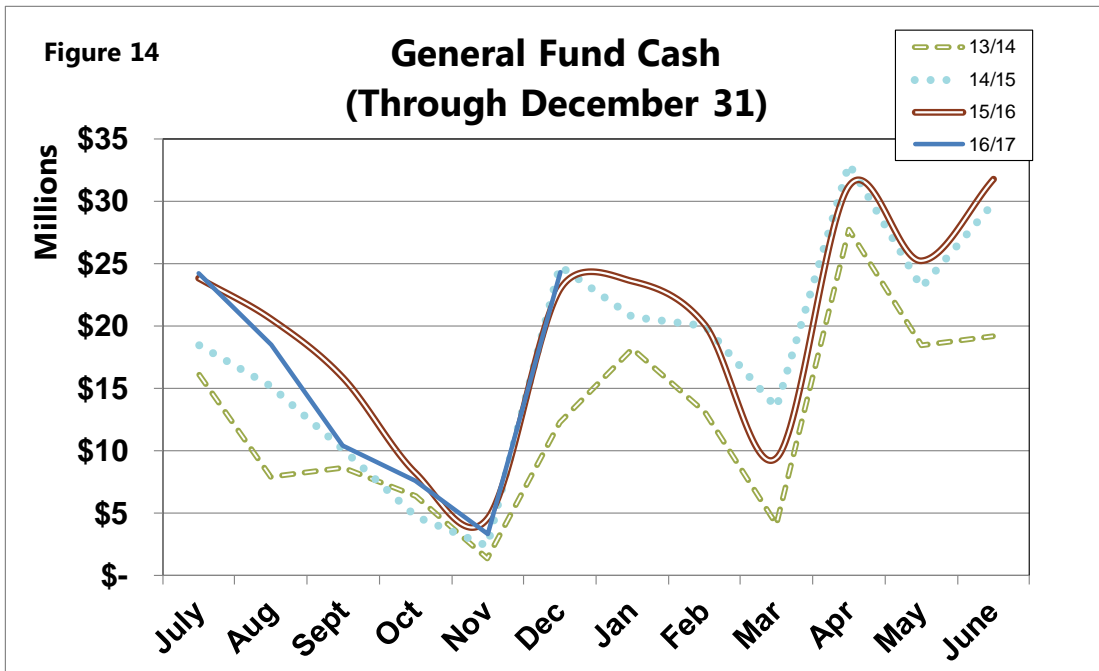
In preparation for the fiscal year 2017-18 Recommended Budget, departments have been asked to provide a number of budget scenarios when they submit their requested budgets to County Administration in early March. This includes a base scenario with an approximate 0.80% increase in use of County discretionary funds, a reduction scenario, and an expansion scenario. The base scenario reflects continuing modest revenue growth and partial cost increases to the In Home Support Services program. Once department budget scenarios are received, staff in the County Administration will work with departments to analyze impacts and update estimated revenues. The Chief Administrative Officer's recommended budget will be presented to the Board of Supervisors in early June with budget hearings scheduled for June 27th.

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CASH BALANCES

The General Fund cash balance at the end of second quarter of fiscal year 2016-17 was \$24.4 million, compared to \$22.6 million the prior year. The cash balance at the end of the second quarter of the current fiscal year is consistent with the balances at the end of the second quarter in the previous two fiscal years.

As demonstrated on the graph, the overall trend for the General Fund cash balance in the second quarter of fiscal year 2016-17 is consistent with prior years with declining balances in the first and second quarters until the first installment of property taxes is received in December.



LONG-TERM DEBT

The Long-Term Debt schedule, Figure 15 on the following page, presents balances as of December 31, 2016. During the second quarter of the current fiscal year, the County closed a \$7,166,380 lease-purchase financing for a radio system necessary to address the radio communication needs of the County and an \$816,393 lease-purchase financing for two pieces of equipment for the Neal Road Recycling and Waste Facility.

Figure 15 LONG-TERM DEBT (THROUGH DECEMBER 2016)					
Type of Debt	Original Loan Amount	Current Balance		Avg. Annual Payment*	Maturity Date
Bonds Payable					
Pension Obligation Bonds					
-Series A	28,020,000	27,640,000		2,716,359	6/1/2034
-Series B	21,875,000	20,840,000		1,837,181	6/1/2034
Total Bonds Payable	\$ 49,895,000	\$ 48,480,000		\$ 4,553,540	
Certificates of Participation					
2014 Hall of Records Certificates of Participation	8,000,000	7,504,954		357,152	7/1/2054
2010 Bangor Fire Station #55 Renovation Project	1,100,000	966,333		55,523	8/1/2050
Total Certificates of Participation	\$ 9,100,000	\$ 8,471,287		\$ 412,675	
Capital Leases					
Motorola Solutions Inc. - Equipment Lease/Purchase	7,166,380	7,166,380		757,453	12/15/2026
Chico Memorial Hall - 492 Rio Lindo	583,400	205,293		61,156	4/10/2020
Chico Memorial Hall - 554 Rio Lindo	670,900	219,800		62,275	4/10/2020
Ford Motor Credit Company	34,059	24,823		9,235	2/22/2019
Total Capital Leases	\$ 8,454,739	\$ 7,616,296		\$ 890,119	
Notes Payable					
California Energy Commission					
-Solar Project Phase 1	2,777,000	528,050		277,181	12/22/2018
-Solar Project Phase 2	390,000	-		-	
Total Notes Payable	\$ 3,167,000	\$ 528,050		\$ 277,181	
Neal Road Recycling and Waste Facility					
2006 Certificates of Participation Refunding	4,220,000	4,220,000		1,102,396	7/1/2020
Lease/Purchase - JPMorgan Chase Bank	558,924	115,750		117,804	12/24/2017
Lease/Purchase - JPMorgan Chase Bank	500,000	304,869		104,976	2/20/2019
Lease/Purchase - JPMorgan Chase Bank	816,393	816,393		171,039	11/15/2021
Total Neal Road Recycling and Waste Facility	\$ 6,095,317	\$ 5,457,012		\$ 1,496,215	
TOTAL LONG-TERM DEBT	\$ 76,712,056	\$ 70,552,645		\$ 7,629,730	

*From FYE 6/30/17 to maturity per amortization schedules

During the second quarter of fiscal year 2016-17, the County made a total of \$1,134,970 in debt payments, \$239,377 of which resulted in principal reductions as detailed in Figure 16, below. Figure 17 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 LONG-TERM DEBT PAYMENTS DURING SECOND QUARTER 2016-17		
Debt Description	Principal Paid	Interest Paid
Pension Obligation Bonds Series A		\$834,978
Pension Obligation Bonds Series B		\$43,598
California Energy Commission-Solar Project Phase 2	\$125,645	\$12,946
Lease/Purchase - JPMorgan Chase Bank	\$113,733	\$4,071
TOTAL DEBT PAYMENTS	\$239,377	\$895,593

Figure 17

Outstanding Debt and Ratios (Through December 2016)

(In Thousands, Except Debt Ratios)

Fiscal Year	Governmental Activities (A)				Neal Road Recycling and Waste Facility - Business Type Activities (B)				Total Outstanding Debt (A+B)	Debt Ratios	
	Bonds	Loans/Notes	Certificates of Participation	Capital Leases	Loans	Certificates of Participation	Lease Obligation (Refinancing)	Lease-Purchase Agreements		Primary Government	Debt as a % of Assessed Property Values
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	0.3452%	\$ 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	\$ 48,480	\$528	\$ 8,471	\$ 7,616	\$ -	\$ -	\$ 4,220	\$ 1,237	\$ 70,552	0.3331%	\$ 314