Butte County Administration Paul Hahn, Chief Administrative Officer

25 County Center Drive, Suite 200
Oroville, California 95965 | T: 530.538.7631
F: 530.538.7120 | buttecounty.net/administration

Members of the Board
Bill Connelly | Maureen Kirk | Steve Lambert | Doug Teeter | Larry Wahl

Date: February 23, 2016

To: Butte County Board of Supervisors

From: Meegan Jessee, Deputy Administrative Officer

Subject: Second Quarter Financial Report Fiscal Year 2015-16

OVERVIEW

The second quarter ended December 31st, 2015. 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, an update on cash balances and reports on current long-term debt obligations.

Economy: The economic data trends through the second quarter of the fiscal year continue to show improvement, albeit slower than we would hope to see. National economic output maintained its gradual growth in the face of increasing uncertainly abroad, inflation in calendar year 2015 remained low, with decreasing costs due primarily to decreases in oil and energy prices. Consumer confidence continues its general improvement as does the unemployment rate.

Expenditures: Expenditures by County departments were a little higher than prior years. The County expended 43% of the budget in the first six months of the fiscal year. In the same two quarters of the prior fiscal year, the County expended 39% 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: Discretionary revenues are now anticipated to finish the year approximately $5.5 million higher than anticipated in the budget due to a combination of ongoing and one-time property tax, sales tax, SB 90 interest payments and property transfer tax revenues. Through the second quarter of the fiscal year, the County received 40% of budgeted revenues, which is higher than expected. Through the same quarter of the previous fiscal year, the County had received 35% 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.

Budget Outlook: The County's outlook is continuing to look stable with General Fund revenues growing steadily. Increases in discretionary resources are expected to be higher than years past for the fiscal 2016-17 due primarily to anticipated property tax revenue growth. Departments are currently in the process of developing their fiscal year 2016-17 requested budget.

Cash Balances: The General Fund cash balance was $22.9 million at the end of December 2015. This is about a $1.9 million decrease from the prior year due to a $4.2 million error in the posting of property tax revenues that was corrected in January.

Debt: During the second quarter of this fiscal year, principal payments totaling $247,269 and interest payments of $894,119 were made against long-term debt obligations. No new loans were secured during the second quarter.

ECONOMIC UPDATE

Gross Domestic Product: 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 0.7% during the second quarter of fiscal year 2015-16 and grew 2.4% during calendar year 2015. The 2.4% annualized growth figure, was the same growth seen in calendar year 2014. Consumer spending was the largest contributor to growth. The primary driver of GDP growth during the second quarter of fiscal year 2015-16 was an increase in personal consumption expenditures, particularly for healthcare, durable goods such as recreational goods and vehicles and spending on nondurable goods. Residential investment and federal government spending also made positive contributions. These were offset by negative contributions from private inventory investment, exports, and business investment. Imports, which are a subtraction in the calculation of GDP, increased. Figure 1 (below) shows annualized GDP growth by quarter for the preceding ten year period.

Figure 1

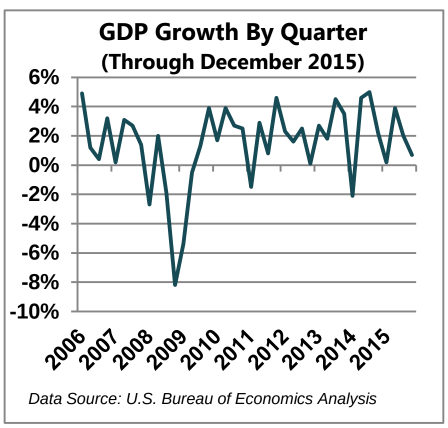


Figure 2

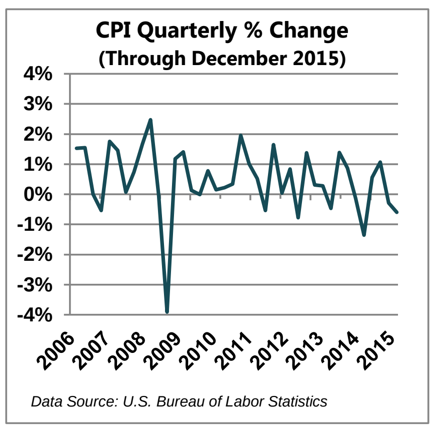
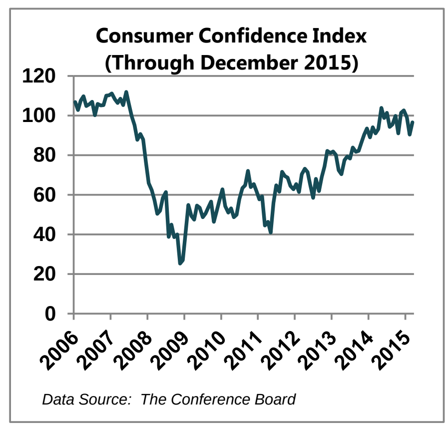


Figure 3



Consumer Price Index: Average prices faced by consumers nationally declined by 0.34% during the second quarter of fiscal year 2015-2016. The principal factor driving the overall decrease was a fall in the energy index as all major component energy indexes declined. Despite the drop in December, the unadjusted Consumer Price Index (CPI) increased 0.7% during calendar year 2015, primarily held down by low oil prices which are near 12-year lows. That being said, the index has increased at a 1.9% annual rate over the last 10 years. During the 12 months ending in December, the core CPI (less food and energy costs) rose 2.1%, which was the largest gain since July 2012. With continued declines in oil prices, current financial market conditions tightening and slower economic growth, inflation is expected to remain low and will impact future Federal Reserve interest rate increases. Figure 2 (above) displays the quarterly change in the CPI from 2006 through the second quarter of fiscal year 2015-16.

Consumer Confidence Index: Consumer confidence, as measured by the Conference Board's Consumer Confidence Index (CCI), fell during the second quarter of the fiscal year, declining from a September value of 102.6 to 96.5 in December. This is a decrease over the last quarter, but the index saw a rise of 6.1% in December 2015 after a fall in November 2015 to 90.4. The Conference Board reported that looking forward to 2016, consumers are expecting little change in both business conditions and the labor market and expectations regarding the consumer's financial outlook are mixed, with optimist outweighing pessimists at the time. 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, though the index remains below where it stood in the months preceding the 'Great Recession'. Figure 3 (above) shows the monthly change in the CCI from 2006 through the second quarter of fiscal year 2015-16.

Unemployment: The State's seasonally unadjusted unemployment rate stood at 5.8% in December, an improvement from the 6.8% a year prior and consistent with the general trend of improvement that began in 2010. The State's unemployment rate remains above that of the U.S. as a whole, which was 4.8% at the close of 2015. Butte County's unemployment rate in December was 7%, down from 7.8% from the previous December and, like the State, following a general trend of improvement. Also in December, the size of the labor force in Butte County was estimated at 101,900, a decrease of 700 from the previous month but an increase of 700 from a year ago. While the unemployment rate in Butte County remains higher than that of the State and the U.S. as a whole, it remains lower than that of the neighboring counties of Sutter and Tehama.

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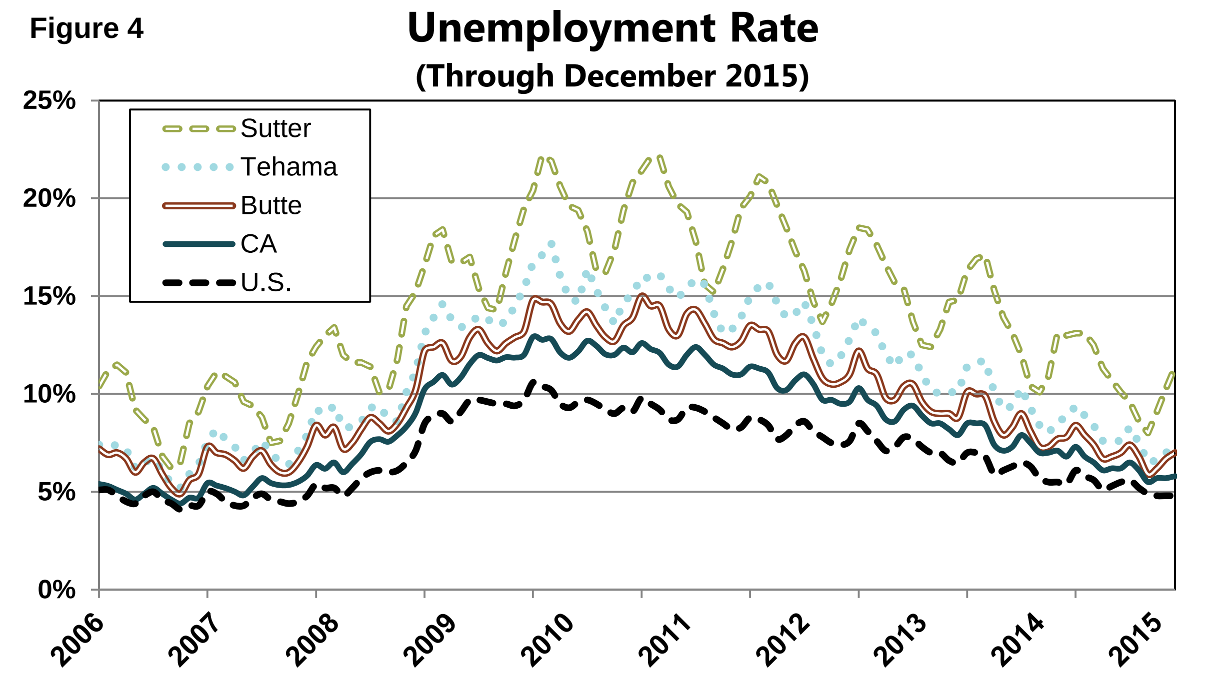
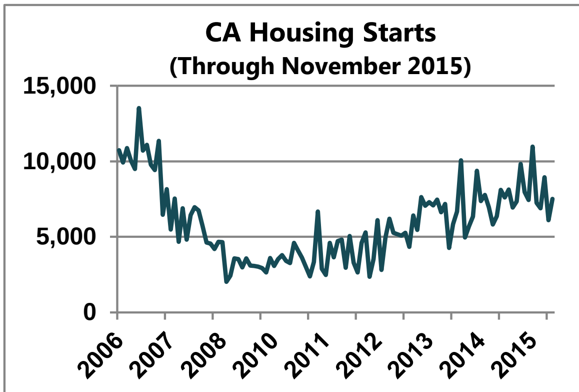
Figure 4



Data Sources: U.S. Bureau of Labor Statistics, CA Employment Development Department

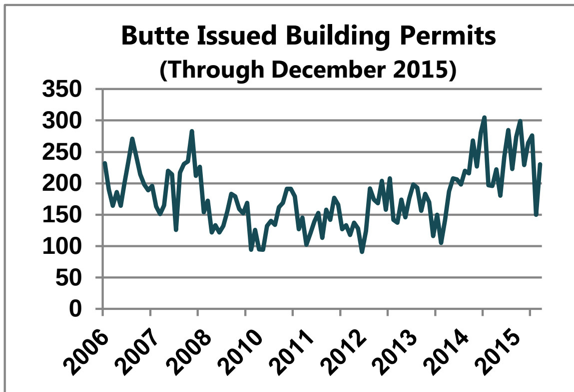
Building Activity: Statewide, the pace of homebuilding decreased over the three months ending in December as the State saw an average of 8,300 new home starts per month, up from about 7,300 in the preceding three month period. Compared to the same period last year, homebuilding in California has increased slightly with slow and steady improvement over the long term. The average number of building permits issued for the unincorporated area of Butte County increased from 225 per month in calendar year 2014 to 240 per month in calendar year 2015. However, the most recent quarter shows a 6% decline from the same period last year.

Figure 5



Data Source: CA Dept. of Finance

Figure 6



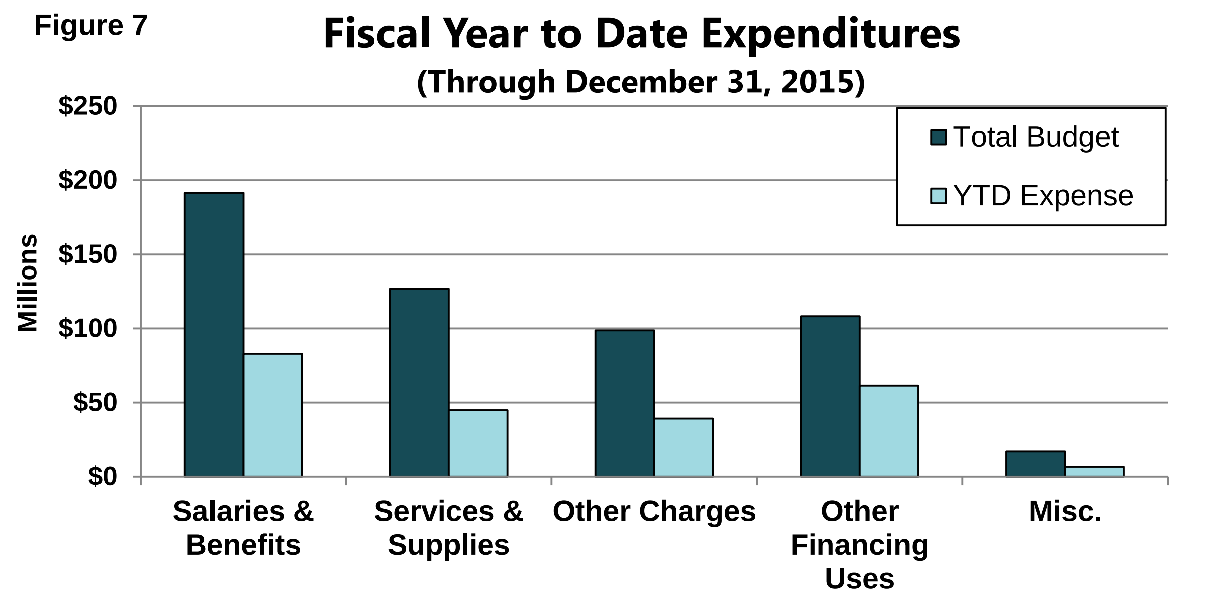
Data Source: Butte County DDS

Home Sales: The median price of existing, single-family homes sold in California during December 2015 was $489,310 a 2.6% increase from the previous month and an 8.0% increase from a year earlier. The number of existing home sales was 405,526, an increase of 9.6% from the previous period and a 10.7% increase from a year ago. For Butte County, the median price of existing, single-family homes sold in December 2015 was $261,670, a 12.9% increase from a year earlier.

EXPENDITURES

At the end of the second quarter, the County had expended approximately $235 million[1] from a budget totaling $541.9 million. As shown in the graph below, the County spent almost $83 million on salaries and benefits, approximately $45 million on services and supplies, and $39 million on other charges, such as payments between funds and contributions to other agencies. The remaining $68 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.

Figure 7



Overall, the County expended 43% of the budget through the second quarter of the 2015-16 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 39% of its budget. This year's 4% increase is due to the implementation of the new financial organizational structure where almost $50 million dollars in transfers were processed to move funds to their new location. This was primarily the transfer of restricted funds previously held in the General Fund or other operating funds to the new non-operating funds. These transfers are shown in Figure 7 in Other Financing Uses.

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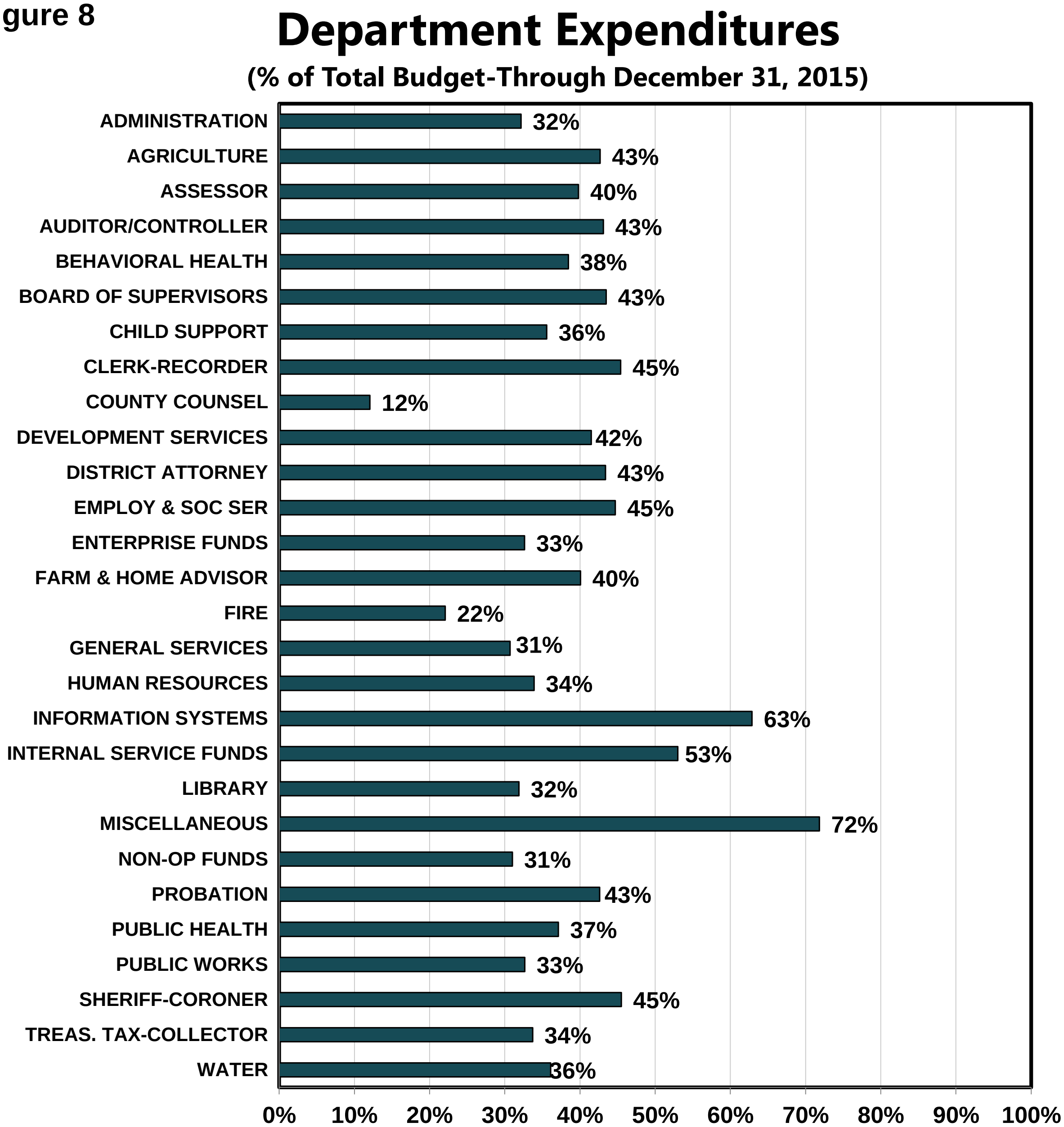
[1] For the purpose of this report the County budget includes all departmental operating and non-operating budgets, internal service funds (for example Workers' Compensation and General Liability), enterprise funds (Neal Road Recycling and Waste Facility) as well as a number of miscellaneous budget units 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. County Administration and Human Resources have experienced savings due to vacant positions going unfilled and a few professional service contracts that have been budgeted but not yet expended. County Counsel experienced savings related to lower than anticipated costs for consultants and intrafund transfers that are expected to occur during the second half of the fiscal year.

Figure 8



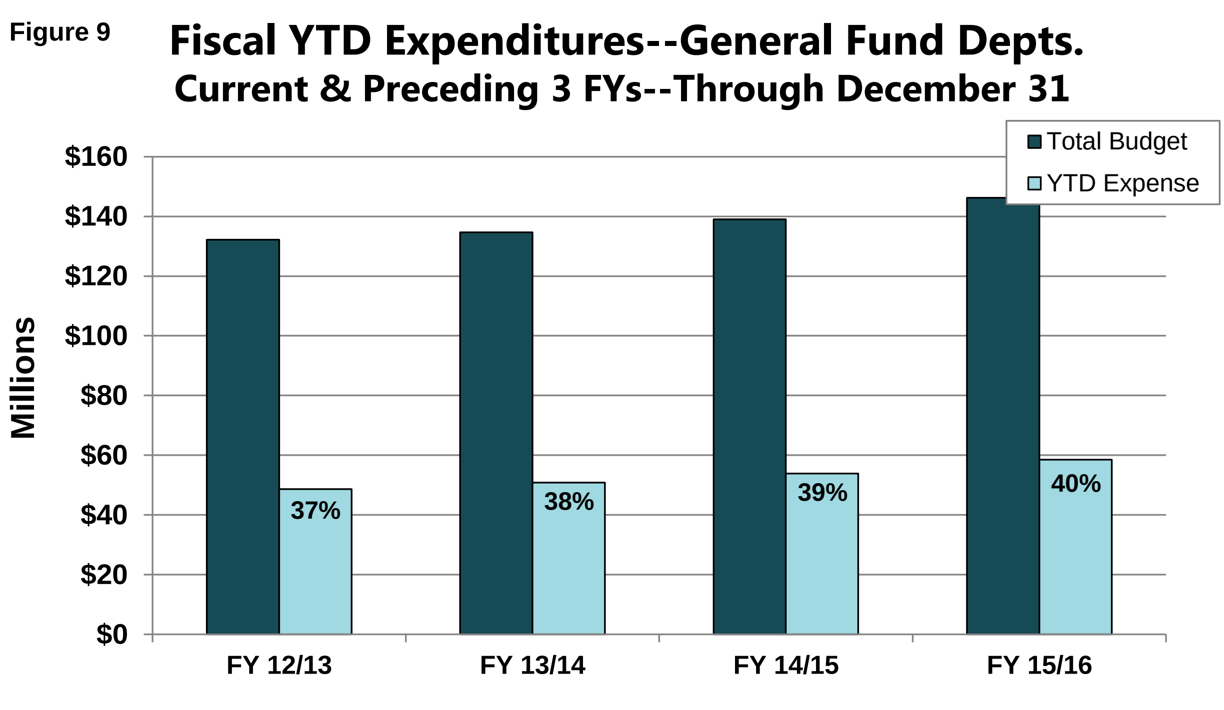
Expenditures in the Fire Department budget normally lag because payment for the contract with CAL FIRE tends to be at least a quarter in arrears. The General Services Department, Library and Public Works are experiencing lower expenditures due to planned facility projects anticipated for the second half of the fiscal year. The Treasurer Tax Collector budgeted significant costs for the June 2016 tax auction that will occur in the second half of the fiscal year.

The enterprise funds (Neal Road Recycling and Waste Facility) include capital purchases, improvements and interfund transfers 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. The non-operating funds have lower than anticipated expenditures due to the timing of transfers to the operating funds.

Through the first quarter the miscellaneous category in figure 8 above reflects the large transfer of funds to non-operating funds discussed above. In addition to the miscellaneous category, the Information Services Department has larger than normal expenditures due to the collection of equipment replacement transfers during the first half of the fiscal year and significant software maintenance costs that are paid in full during the first half of the fiscal year. The internal service funds include General Liability, Workers' Compensation and other risk management funds, and the Utilities Fund. Most of the County's insurance premiums are paid in the first quarter of the fiscal year which accounts for the higher percent of budget expended then other areas of the County.

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 departments are consistently at or just below 40% of the budgeted amount through the end of the second quarter.

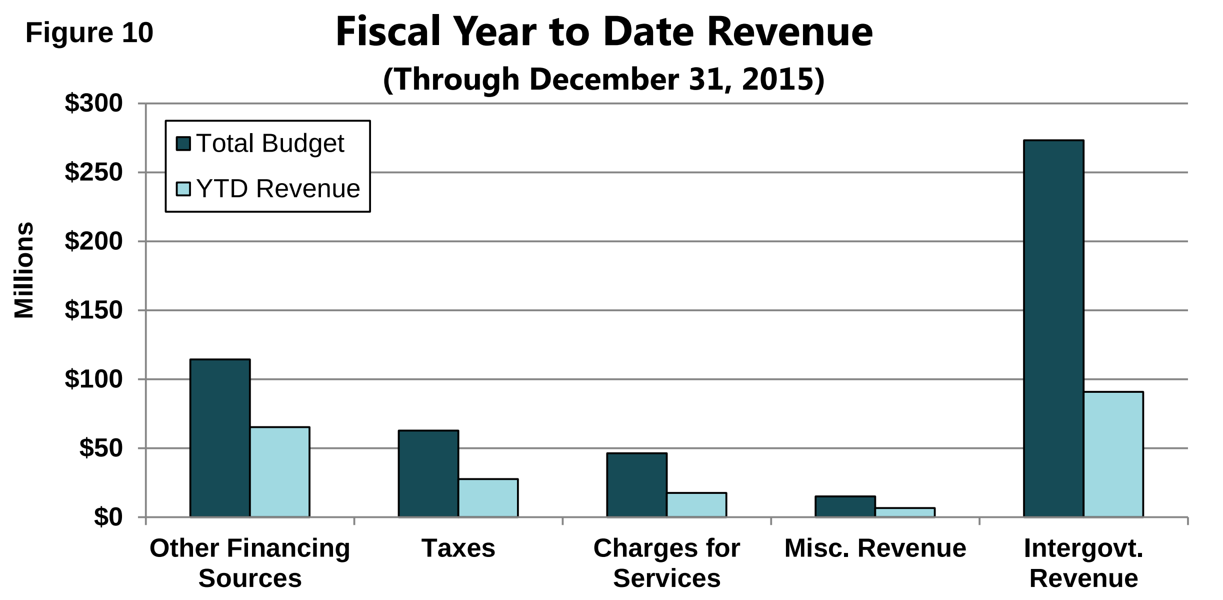
Figure 9



REVENUE REPORT

Through the second quarter of the fiscal year, the County has received 41% of budgeted revenues[2]. This is a larger percentage than the same period last year, when the County had received 35% of budgeted revenues. Similar to first quarter expenditures, revenues as a percent of budget are higher than typical because of the transfer of almost $50 million in funds from operating budgets to the new non-operating budgets. Otherwise, revenues are relatively low as a percentage of budget consistent with prior years.

Figure 10



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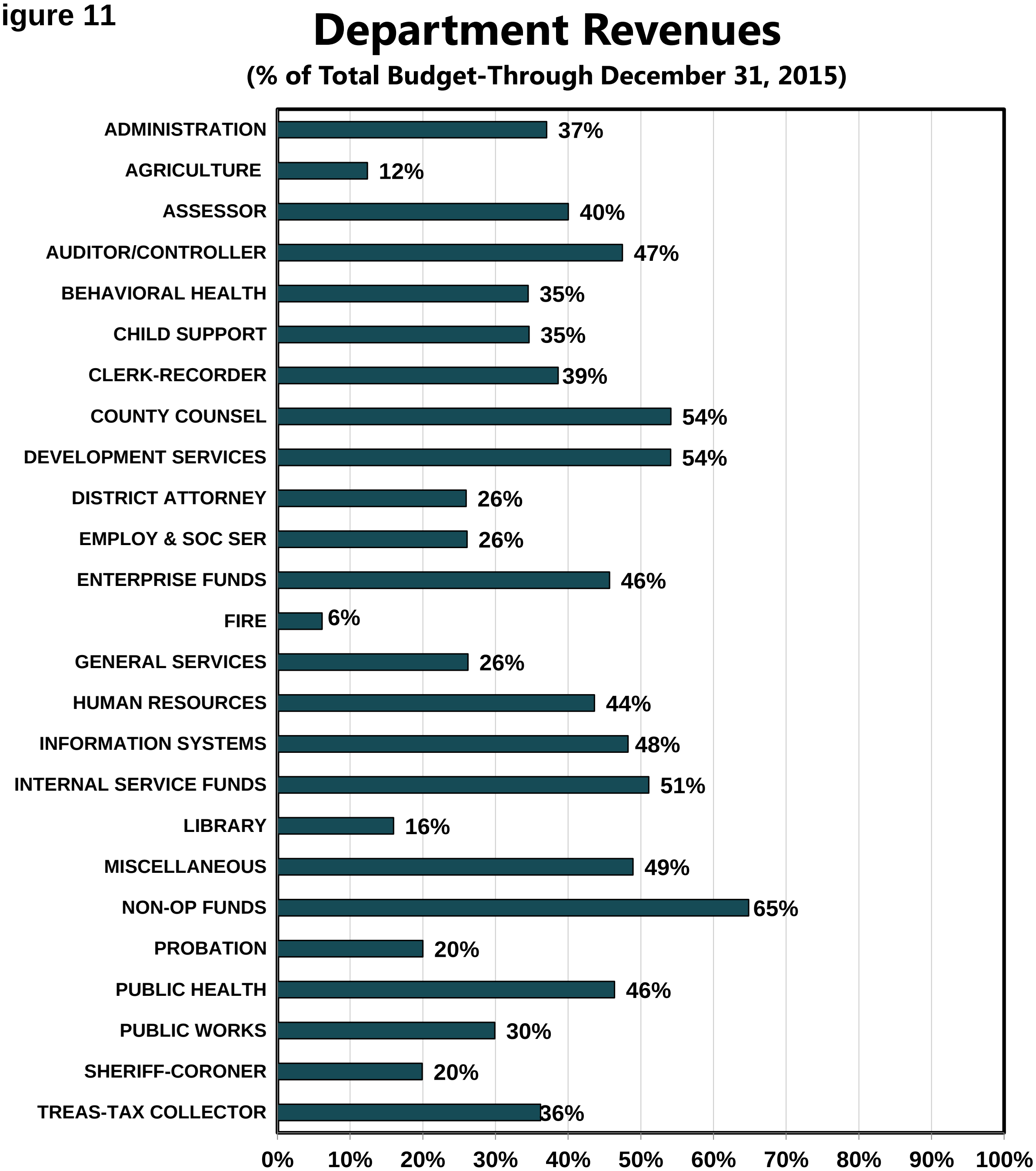
[2] For the purpose of this report the County's budgeted revenues include all departmental operating and non-operating budgets, internal service funds (for example Workers' Compensation and General Liability), enterprise funds (Neal Road Recycling and Waste Facility) as well as a number of miscellaneous 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, 2015, as a percentage of their budget. Most department revenues are between 30% and 50% 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, District Attorney, Fire, Probation, Employment and Social Services, and Sheriff Departments 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

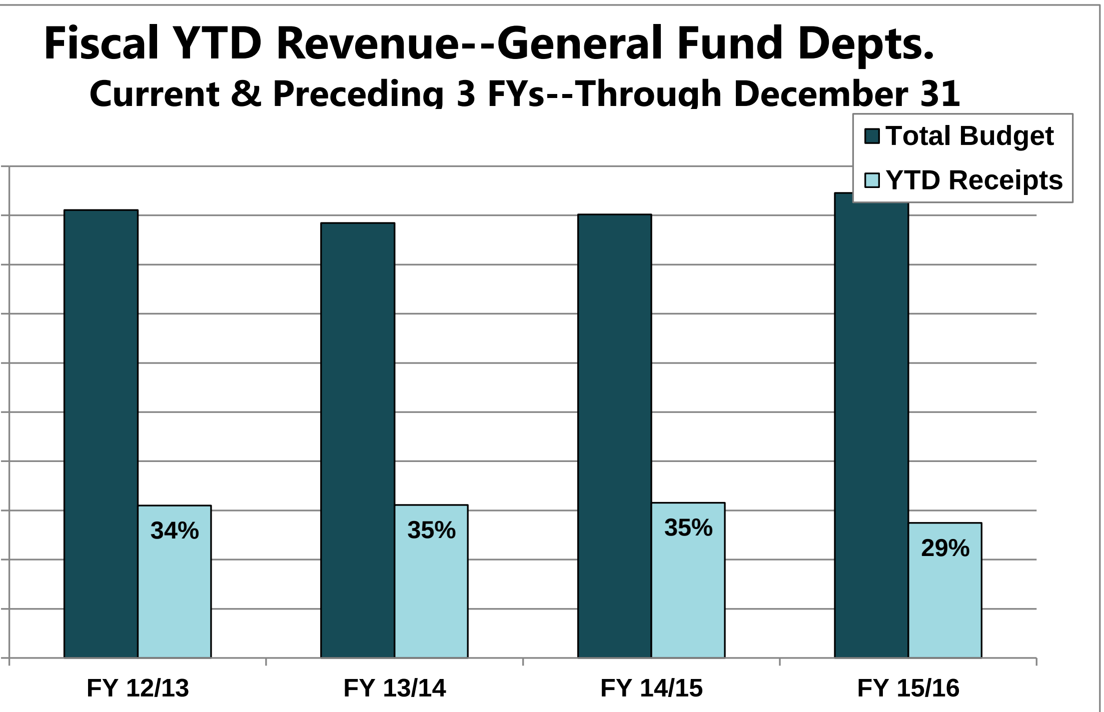


General Service Department revenues are low due to facility projects included in the department budget, but not yet completed or reimbursed by the benefiting departments. The Library department revenues are low due to an error in the Budget that was corrected in February. The Martha Dunbar bequest was budgeted in the operating budget instead of the non-operating donations funds.

Two departments have received more than 50% of their budgeted revenue by the close of the second quarter. Development Services has received more revenue than anticipated from fines related to medical marijuana violations and continued strong Building Permit activity. County Counsel has also received unanticipated revenue from legal services for public guardian and public administrator. The Internal Service Funds are slightly above 50% of budgeted revenue collections because two of the funds collection schedules provide for the majority of collections to occur early in the year to coincide with the timing of the expenditures from the fund. The non-operating funds are above 50% of their budget because of the transfer of almost $50 million in funds from operating budgets to the new non-operating funds.

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 29% of budgeted revenue. This is lower than previous years because of the changes to the financial organizational structure related to non-operating funds. Departments will be making non-operating fund transfers to the General Fund in the third and fourth quarters that should narrow this gap.

Figure 12



General Purpose Revenue: Historically, about 46% of General Purpose Revenues (included in Figure 11 above as part of the miscellaneous budgets) are collected by the midpoint of the fiscal year. Through the close of December, 40% of budgeted General Purpose Revenues had been received. Although this amount is lower than in prior years, it is primarily due to a $4.2 million error in the posting of property tax revenue in December. A subsequent correction was made January increasing General Fund revenues by $4.2 million and would have increased the percent to date to 45% in line with prior years. County interest revenue to date is higher than normal due to a little more than $840,000 of one-time interest payments received on the pre-2004 State mandate claims received in 2014-15. Property tax transfers are also higher than anticipated due to an increased turnover of property in the county – a positive sign for future property tax revenues.

Mid-year projections for 2015-16 discretionary revenue indicate revenues will come in approximately $5.5 million higher than budgeted. This is primarily the result of the following: 1) current estimates indicate that property tax payments will be approximately $3.3 million more than budgeted due to a combination of property tax growth and higher than anticipated teeter plan revenues which are a subset of property tax revenues; 2) local sales tax and public safety sales tax revenues are estimated to close the year $750,000 higher than budgeted due primarily to strong statewide sales tax growth ; 3) the pre-2004 State mandate claim interest already received; and 4) anticipated strong property transfer tax 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	56,354,105	25,286,066	45%
Prop 172 Sales Tax	15,566,000	5,052,180	32%
Local Sales Tax	4,999,000	1,500,204	30%
Property Tax Transfers	820,000	482,548	59%
Other Taxes	415,000	309,290	75%
License & Permits	1,221,000	249,241	20%
Interest-County Treasury	220,000	936,321	426%
Lease Table A	3,360,000	1,220,788	36%
Fines, Forfietures, & Penalties	1,256,000	421,918	34%
Tobacco Settlement Funds	1,900,000	-	0%
Other Misc. Revenues	1,429,000	(54,938)	-4%
Total General Purpose Revenue	**$87,540,105**	**$35,403,618**	**40%**

BUDGET OUTLOOK

On January 25th, the County kicked off the fiscal year 2016-17 budget process. The County's financial outlook is stable with continued economic growth anticipated for the coming year. In preparation for the 2016-17 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 4.14% increase in use of County discretionary funds. This base scenario reflects a relatively strong budget outlook for fiscal year 2016-17 due in large part to anticipated property tax revenue growth as well as statewide sales tax growth.

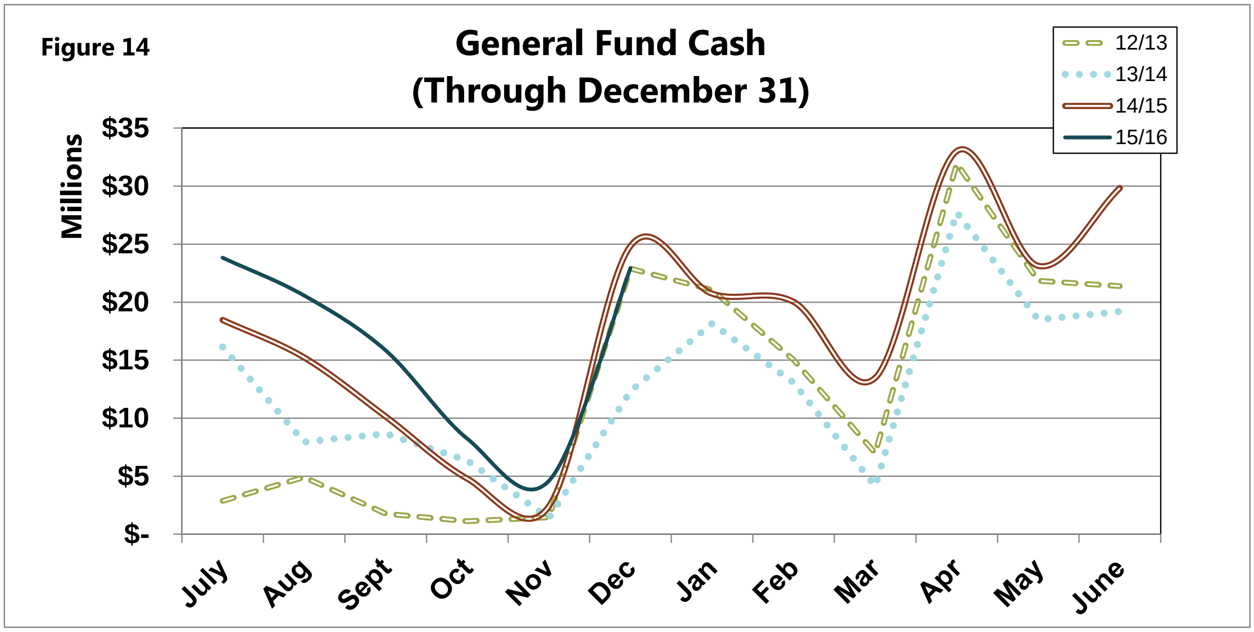
CASH BALANCES

The General Fund cash balance at the end of the second quarter of fiscal year 2015-16 was $22.9 million, compared to $24.8 million at the end of the second quarter of fiscal year 2014-15. However, an error was identified in the recording of the first installment of property tax received in December 2015. The error was corrected in January 2016 and would have increased the General Fund cash balance at the end of the second quarter by $4.2 million to $27.1 million.

As shown in Figure 14 below, the overall trend for the General Fund cash in the second quarter of fiscal year 2015-16 is consistent with prior years with declining balances in the first and second quarters until the first installment of property tax is received in December.

The Behavioral Health Department cash position continued to improve. The Department experienced a positive cash balance for its fifth straight quarter.

Figure 14



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LONG-TERM DEBT

Figure 15, below, presents balances as of December 31, 2015.

Figure 15 LONG-TERM DEBT (THROUGH DECEMBER 2015)					
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		2,629,431	6/1/2034
-Series B	21,875,000	20,840,000		1,797,500	6/1/2034
Total Bonds Payable	***$ 49,895,000***	***$ 48,480,000***		***$ 4,426,931***	
Certificates of Participation					
2014 Hall of Records Certificates of Participation	8,000,000	7,275,014	(1)	374,099	7/1/2054
2010 Bangor Fire Station #55 Renovation Project	1,100,000	980,333		55,302	8/1/2050
Total Certificates of Participation	***$ 9,100,000***	***$ 8,255,347***		***$ 429,401***	
Capital Leases					
Chico Memorial Hall - 492 Rio Lindo	583,400	248,090		61,156	4/10/2020
Chico Memorial Hall - 554 Rio Lindo	670,900	268,132		62,275	4/10/2020
En Pointe Technologies (Microsoft Enteprise Licensing Agreement)	2,313,309	766,897		769,733	12/15/2016
Total Capital Leases	***$ 3,567,609***	***$ 1,283,119***		***$ 893,164***	
Notes Payable					
California Energy Commission					
-Solar Project Phase 1	2,777,000	776,900		277,181	12/22/2018
-Solar Project Phase 2	390,000	146,208		35,786	6/22/2020
Total Notes Payable	***$ 3,167,000***	***$ 923,108***		***$ 312,967***	
Neal Road Recycling and Waste Facility					
2006 Certificate of Participation	12,025,000	6,320,000		1,191,841	7/1/2021
Note Payable - Calif. Integrated Waste Mgt Board	500,000	50,000		50,000	6/1/2016
Lease/Purchase - JPMorgan Chase Bank	558,924	229,483		117,804	12/24/2017
Lease/Purchase - JPMorgan Chase Bank	500,000	403,229		104,976	2/20/2019
Total Neal Road Recycling and Waste Facility	***$ 13,583,924***	***$ 7,002,712***		***$ 1,464,621***	
TOTAL LONG-TERM DEBT	**$ 79,313,533**	**$ 65,944,286**		**$ 7,527,084**	

* From FYE 6/30/15 to maturity per amortization schedules

(1) Amount disbursed to date on an $8,000,000 obligation

During the second quarter of the current fiscal year, the County made a total of $1,141,387 in debt payments, $247,269 of which resulted in principal reductions as detailed in Figure 16, below. [3]

Figure 16 LONG-TERM DEBT PAYMENTS		
Debt Description	**Principal Paid**	**Interest Paid**
Pension Obligation Bonds Series A		$840,566.20
Pension Obligation Bonds Series B		$26,533.72
California Energy Commission-Solar Project Phase 1	$120,812.28	$17,778.38
California Energy Commission-Solar Project Phase 2	$14,706.23	$3,186.77
Lease/Purchase-JP Morgan Chase Bank	$111,750.16	$6,053.48
TOTAL DEBT PAYMENTS	**$247,268.67**	**$894,118.55**

[3] Note: The payments reflected for the Pension Obligation Bonds Series A and Series B in the Financial Report for the Fourth Quarter Fiscal Year 2014-15 and First Quarter 2015-16 were incorrectly reported. The County records loan payments when they are submitted to the bondholders. The amounts reflected in the last Financial Report were the amounts wired to the trustee to fund the payments due to the bondholders over the entire fiscal year. The actual payments to bondholders during the fourth quarter of fiscal year 2014-15 and the first quarter of fiscal year 2015-2016 resulted in principal reductions totaling $470,000 and total interest paid of $896,430.

Figure 17, below, 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 17

Outstanding Debt and Ratios (Through December 2015)

(In Thousands, Except Debt Ratios)

	Governmental Activities (A)				Neal Road Recycling and Waste Facility - Business Type Activities (B)			Total Outstanding Debt (A+B)	Debt Ratios	
Fiscal Year	Bonds	Loans/ Notes	Certificates of Participation	Capital Leases	Loans	Certificates of Participation	Capital Leases	Primary Government	Debt as a % of Assessed Property Values	Debt per County Resident
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	0.3452%	$ 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	$ 48,480	$1,059	$ 5,791	$ 1,284	$ 50	$ 7,235	$ 744	$ 64,643	0.3326%	$ 288
2016	$ 48,480	$923	$ 8,255	$ 1,283	$ 50	$ 6,320	$ 633	$ 65,944	0.3236%	$ 294

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