

**Butte County Administration**

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Date: May 24, 2016

To: Butte County Board of Supervisors

From: Meegan Jessee, Deputy Administrative Officer

Subject: Third Quarter Financial Report Fiscal Year 2015-16

OVERVIEW

The financial report for the third quarter ending March 31, 2016, provides an update on the National, state and local economy, summarizes the quarterly analysis of expenditures and revenues, provides an update on cash balances and reports on current long-term debt obligations.

Economy: The economic data trends through the third quarter of the fiscal year improved less than expected. Consumer prices rose less than expected and consumer confidence remained relatively flat in the third quarter. The upward trend in housing prices and the decline in unemployment support continued growth in the economy.

Expenditures: Expenditures by County departments were a little higher than prior years. The County expended 63% of the budget through the 3rd quarter of the fiscal year. In the same three quarters of the prior fiscal year, the County expended 60% 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 anticipated to finish the year approximately \$5.3 million higher than anticipated in the budget due to a combination of property tax, sales tax, SB 90 interest payments and property transfer tax revenues. Through the third quarter of the fiscal year, the County received 60% of budgeted revenues, which is higher than expected. Through the same quarter of the previous fiscal year, the County had received 55% 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.

Cash Balances: The General Fund cash balance was \$9.4 million at the end of March 2016. This is about a \$4.1 million decrease from the prior year due primarily to the timing of payments to the State for fire services.

Debt: During the third quarter of this fiscal year, principal payments totaling \$874,491 and interest payments of \$41,960 were made against long-term debt obligations. A \$34,059 loan from Ford Motor Credit was secured during the third quarter to finance the purchase of a truck for the Sheriff's Office.

ECONOMIC UPDATE

Gross Domestic Product: Based upon preliminary estimates, 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 0.5% during the third quarter of fiscal year 2015-16. The real GDP for the second quarter of fiscal year 2015-16, increased by 1.4%, double the original estimate of .7%. The deceleration in GDP in the third quarter of fiscal year 2015-2016 reflects a larger decrease in nonresidential fixed investment, a deceleration in personal consumption expenditures, a downturn in federal government spending, an upturn in imports, and larger decreases in private inventory investment and in exports. The declines were partly offset by an upturn in state and local spending and an acceleration in residential fixed investment.

Figure 1



Figure 2

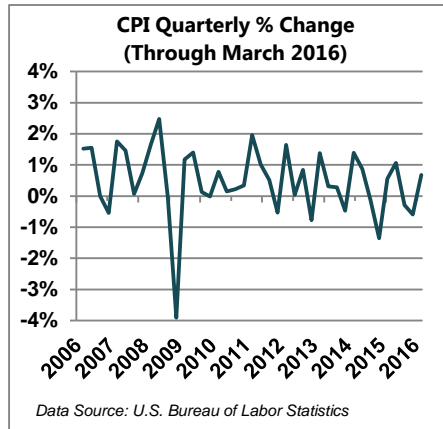
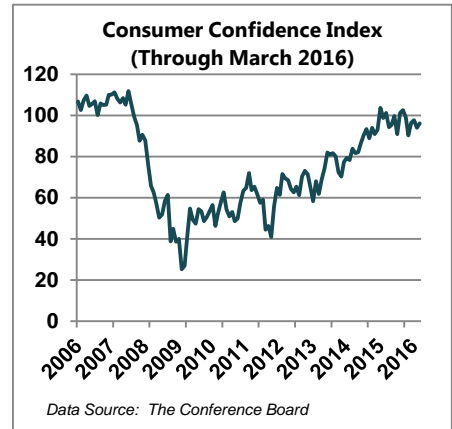


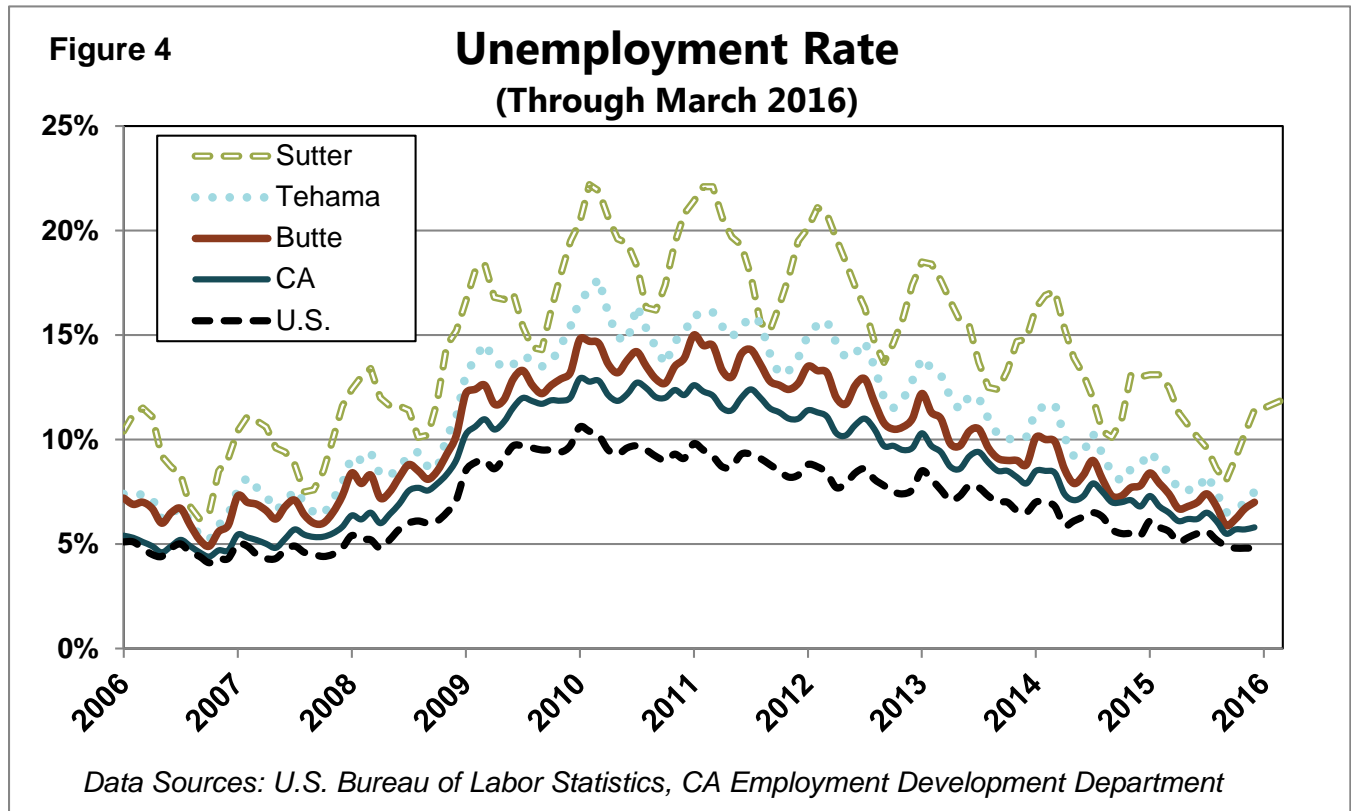
Figure 3



Consumer Price Index: Consumer prices in the United States rose less than expected in March and underlying inflation slowed, suggesting the Federal Reserve will remain cautious about raising interest rates. The Consumer Price Index (CPI), which is a measure of the average change in prices over time for goods and services purchased by households, increased by .68% during the third quarter of fiscal year 2015-2016. Over the past 12 months, the CPI index rose by .9%. In the past 12 months the food index has increased .8% and the core index, which does not include food and energy costs, has risen 2.2%. Despite rising in March, the energy index has declined 12.6% over the last year. Major component indexes were mixed in March. The indexes for shelter, recreation, medical care, education, tobacco and personal care rose, while indexes for apparel, airline fares, communication, used cars and trucks and household furnishings declined.

Consumer Confidence Index: Consumer confidence, as measured by the Conference Board's Consumer Confidence Index (CCI), which had decreased in February, improved in March. The CCI was 96.2 in March, up from 94.0 in February. 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, though the index remains below where it stood in the months preceding the 'Great Recession'. Consumers' assessment of conditions in March posted a moderate decline, while expectations regarding the short-term turned more favorable as February's turmoil in the financial markets appeared

to have abated. On balance, consumers do not foresee the economy gaining any significant momentum in the near-term, nor do they see it worsening. From February to March those saying business conditions were “good” decreased from 26.5 percent to 24.9 percent. However, those saying business conditions are “bad” edged down from 19.0 percent to 18.8 percent. Consumers’ appraisal of the labor market was mixed. Those claiming jobs are “plentiful” increased from 22.8 percent to 25.4 percent, while those claiming jobs are “hard to get” also rose to 26.6% from 23.6%. Figure 3 (above) shows the monthly change in the CCI from 2006 through the third quarter of fiscal year 2015-2016.



Unemployment: The State’s seasonally unadjusted preliminary unemployment rate stood at 5.6% in March, an improvement from the 6.7% 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 5.1% at the end of March 2016. Butte County’s unemployment rate in March was 7.2%, down from 7.8% from the previous March and, like the State, following a general trend of improvement. 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.

Building Activity: Statewide, the pace of housing construction increased in the third quarter of fiscal year 2015-16. California saw an average of 7,517 housing starts per month in the third quarter, up from 7,316 in the second quarter. Single family residential starts in California during the third quarter rose by 12% over the same period a year ago. Multi-family construction has decelerated somewhat and has actually decreased 14% from a year ago. Despite the deceleration in multi-family construction, demand for multi-family rentals has generally been higher during this residential construction recovery compared to new single family residences. Buyer demand for single family residences is expected to increase as jobs are recovered.

Locally, an average of 196 building permits were issued per month for the unincorporated area of Butte County during the third quarter, which is a 6.4% decline from the total number issued during the same period last year. The decline is likely due to increased rain in the third quarter compared with prior years. Staff will continue to monitor the permit activity to identify any additional trends.

Figure 5

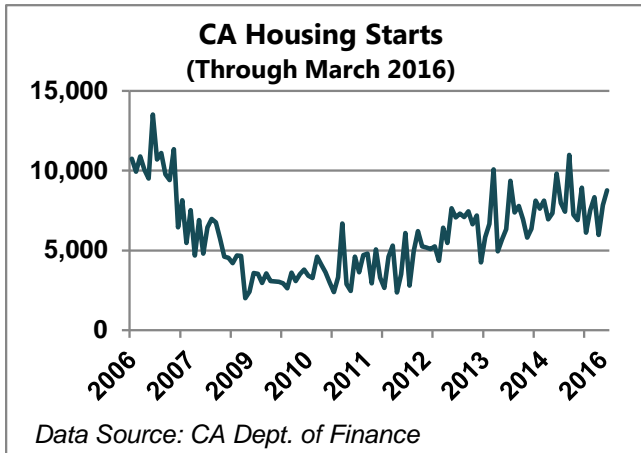
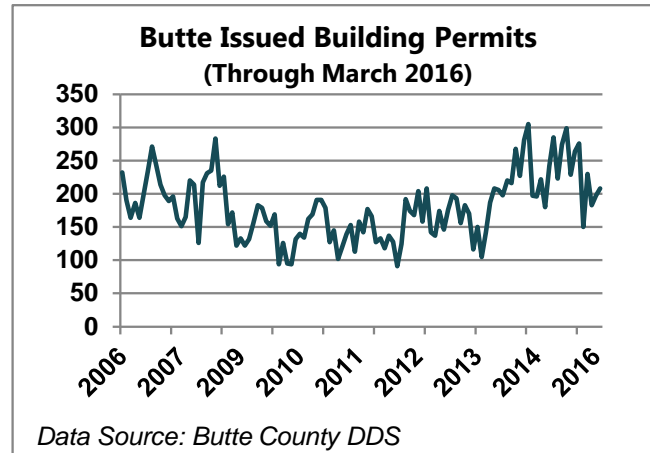


Figure 6



Home Sales: The median price of existing, single-family homes sold in California during March 2016 was \$483,280, which is an 8.9% increase from the previous month and a 4.0% increase from a year earlier. The number of existing home sales in March 2016 was 414,220, which is a 6.9% increase since January 2016 and a 5.7% increase from a year ago. For Butte County, the median price of existing, single-family homes sold in March 2016 was \$283,870, which is a 4.8% increase from the previous month and a 21.3% increase from a year earlier.

EXPENDITURES

At the end of the third quarter, the County had expended \$344.6 million¹ from a budget totaling \$546.4 million. As shown in the graph below, the County spent \$124.1 million on salaries and benefits, \$70.7 million on services and supplies, and \$62.4 million on other charges, such as payments between funds and contributions to other agencies. The remaining \$87.3 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 63% of the budget through the third quarter of fiscal year 2015-16. Although 75% of the fiscal year elapsed between July 1 and March 31, it is typical for expenditures overall to be less than 75% at the end of the third 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 60% of its budget. The difference from this year to last is primarily 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

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

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.

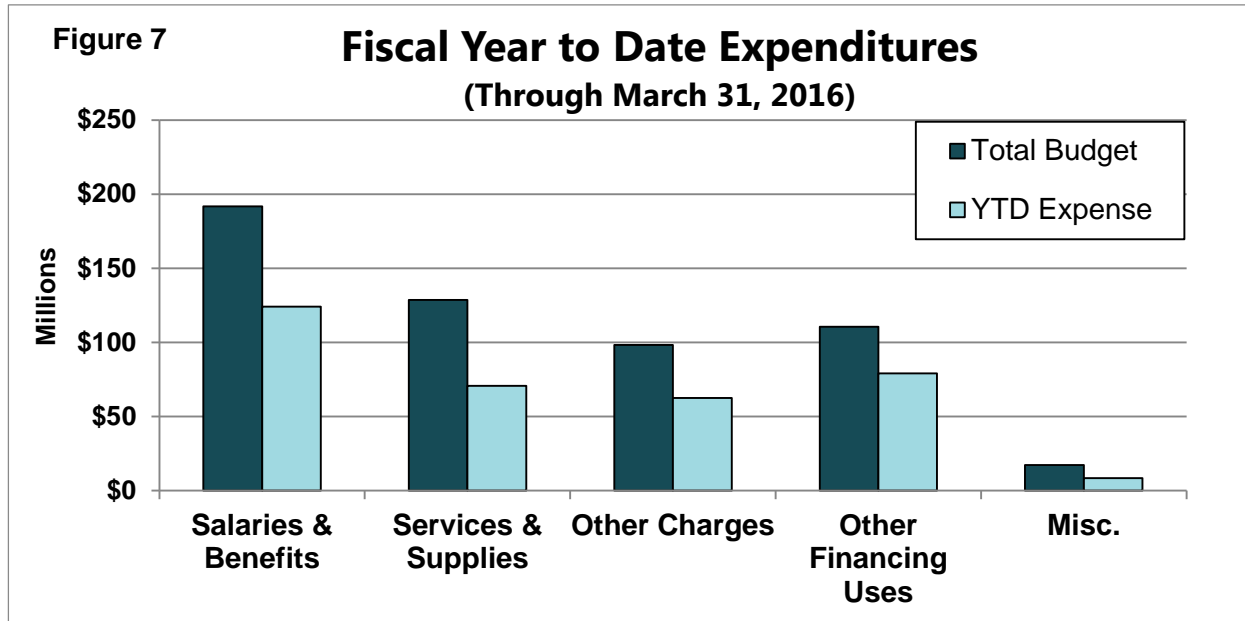


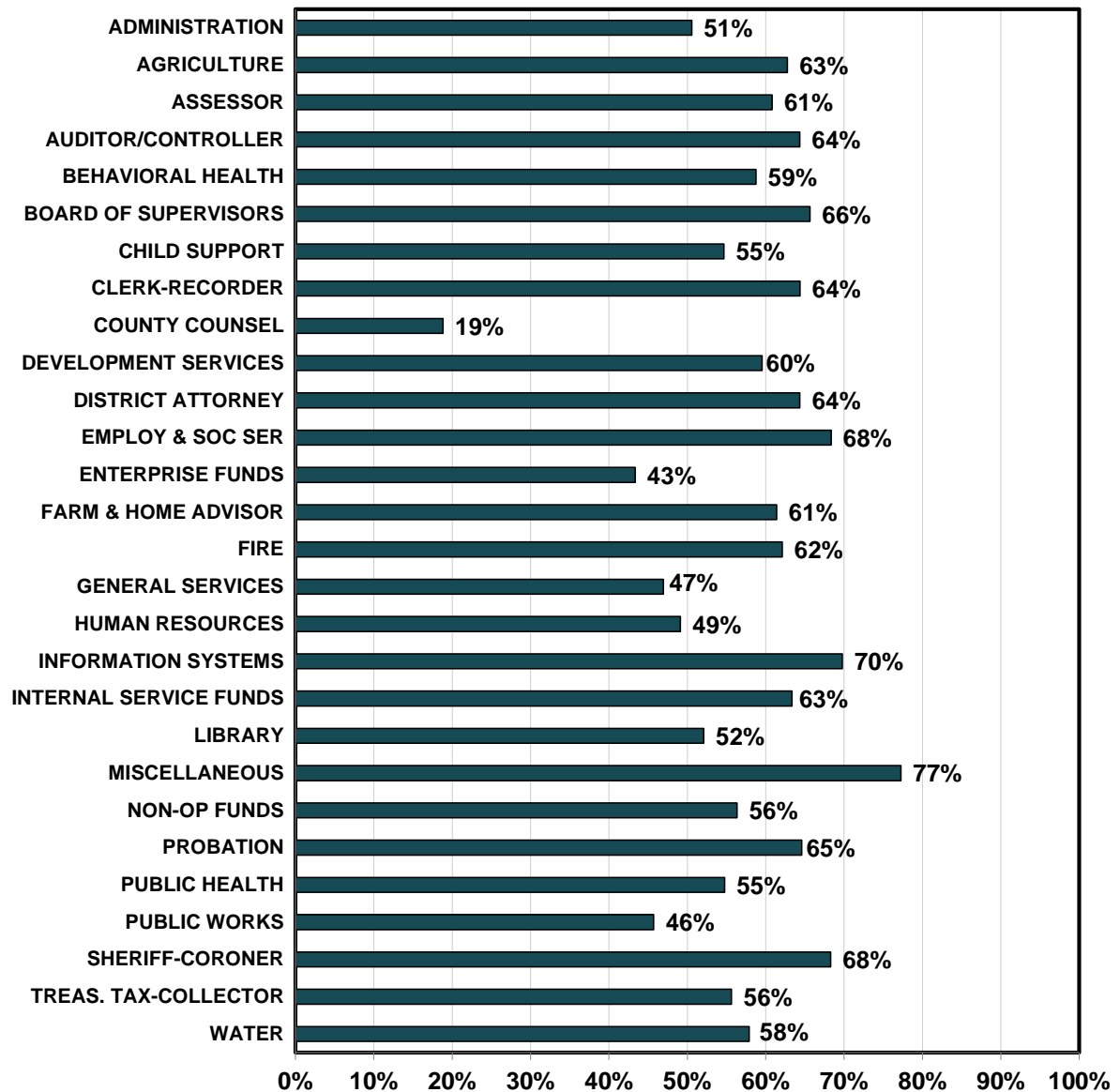
Figure 8 shows the percentage of budget expended by each County department. Most departments have expended between 50% and 75% of their budget through the third quarter, which is similar to prior years. The uneven flow of expenditures over the course of the year can lead to results outside this range. A number of departments have spent less than 50%. Human Resources has experienced significant salary savings due to vacant positions in the department. While County Counsel has expended 63% of budgeted direct costs, the graph reflects a very small percentage due to expenditure transfers posted in accordance with countywide cost allocations. Public Works originally budgeted a number of road and bridge projects, but construction on the Midway and Oregon Gulch Bridges will not begin until fiscal year 2016-17. The department also budgeted a variety of equipment purchases, which have not yet been completed.

The enterprise funds (Neal Road Recycling and Waste Facility) include capital purchases and improvements which will occur during the fourth quarter. 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 8

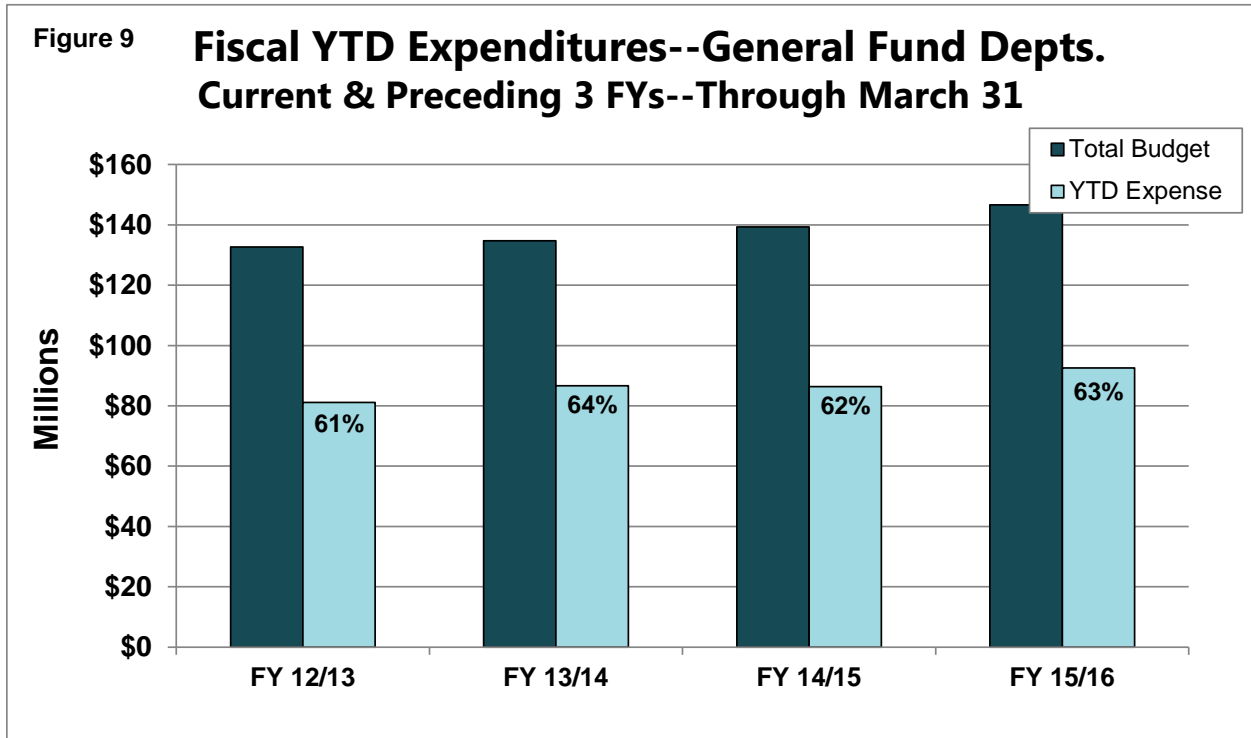
Department Expenditures

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



The miscellaneous category in Figure 8 is the only unit that has expended more the 75% of budget. This is due to the large transfer of restricted funds previously held in the General Fund or other operating funds to new non-operating funds at the beginning of the year related to the new financial organizational structure.

Figure 9 displays budgeted and actual expenditures at the close of the third 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 just above 60% of the budgeted amount through the end of the third quarter.



REVENUE REPORT

Through the third quarter of the fiscal year, the County has received 60% of budgeted revenues². This is a larger percentage than the same period last year, when the County had received 55% of its revenues. Much of this increase can be attributed to the large transfer of restricted funds previously held in the General Fund or other operating funds to new non-operating funds at the beginning of the year.

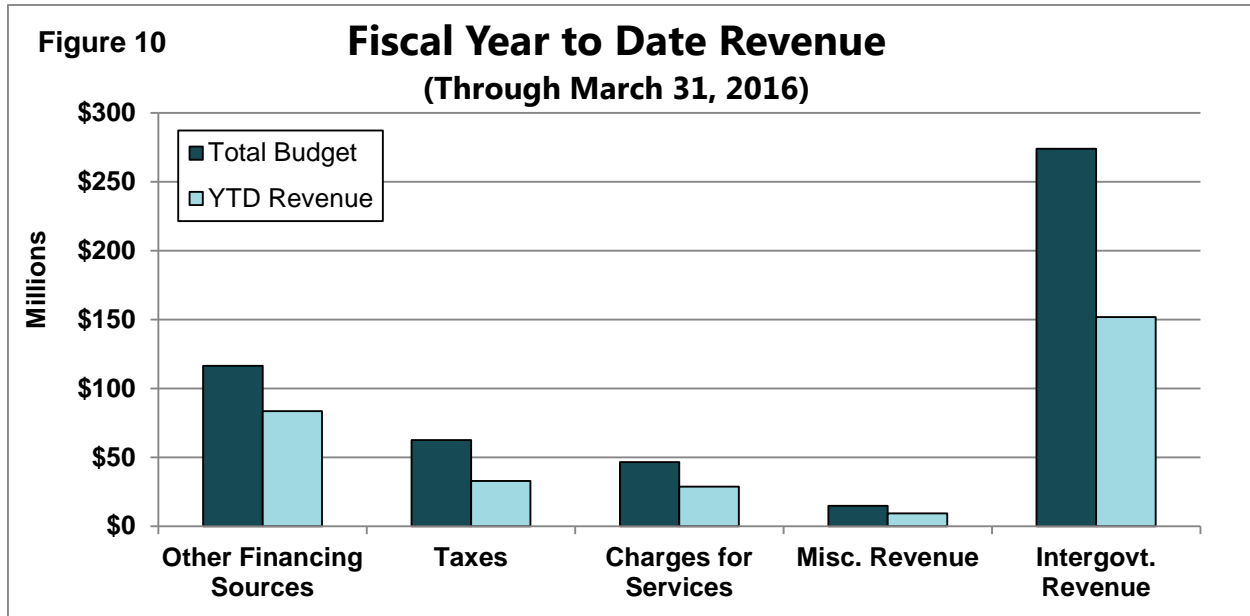


Figure 11 shows revenues received by each County Department through March 30, 2016 as a percentage of their budget. Most department revenues are between 40-75% of budget through the third quarter, consistent with revenue patterns from previous years. The Agriculture department receives a significant portion of their revenue from the state in the third or fourth quarter each year. This year, the revenue will be received in the fourth quarter. Revenues in the Sheriff department are low as a result of the timing of payments from the State and Federal governments and a delay of transfers from non-operating funds until after the close of the third quarter.

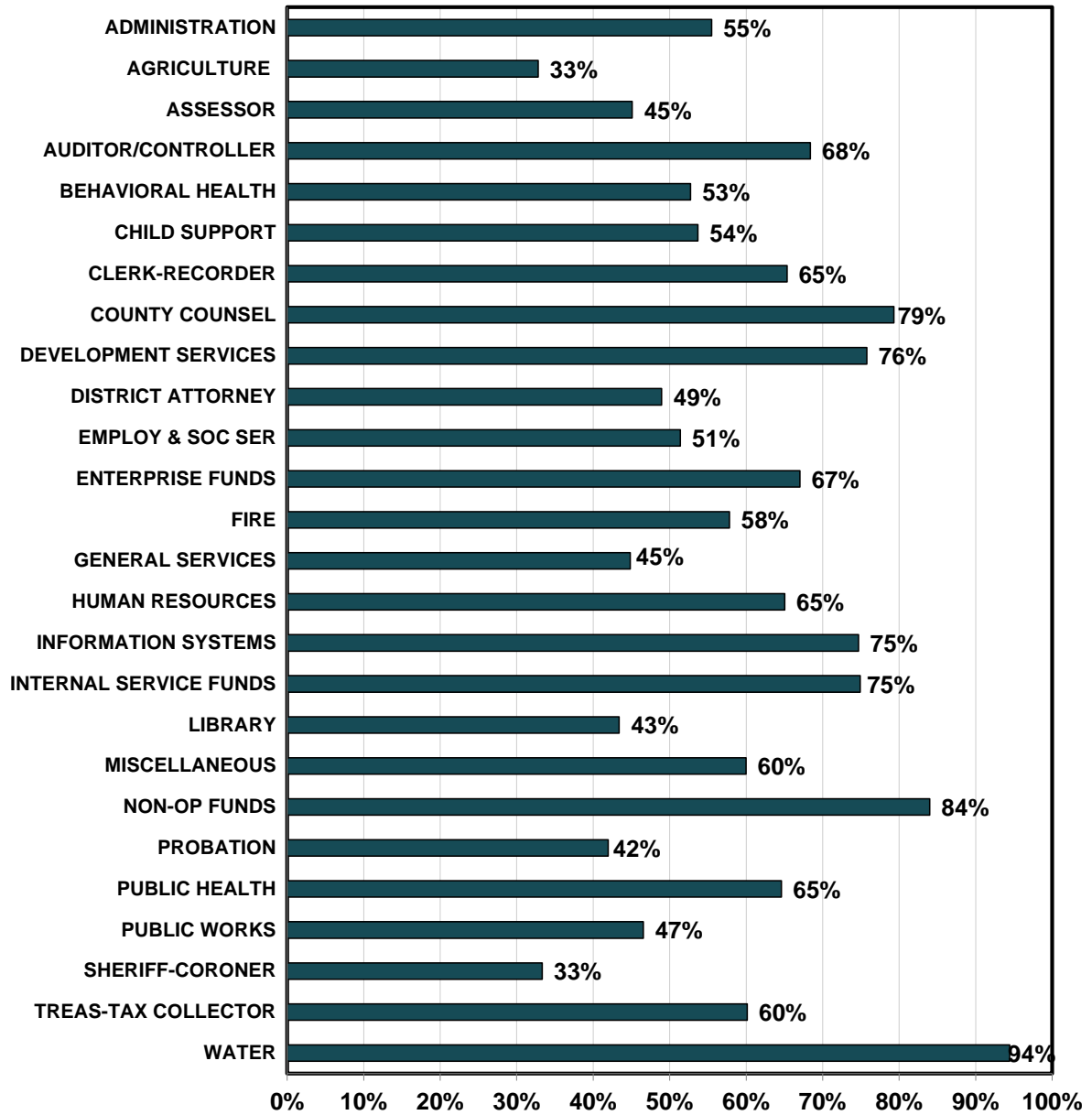
Four departments have received more than 75% of their budgeted revenue by the close of the third quarter. Development Services continues to experience strong Building Permit activity. County Counsel received unanticipated revenue from legal services for public guardian and administrator. The Water and Resource Conservation Department has higher than average revenues because of grant payments received ahead of the related expenditures. The non-operating funds are above 80% of budgeted revenue due to the transfer of almost \$50 million in restricted funds from operating funds to the new non-operating funds.

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

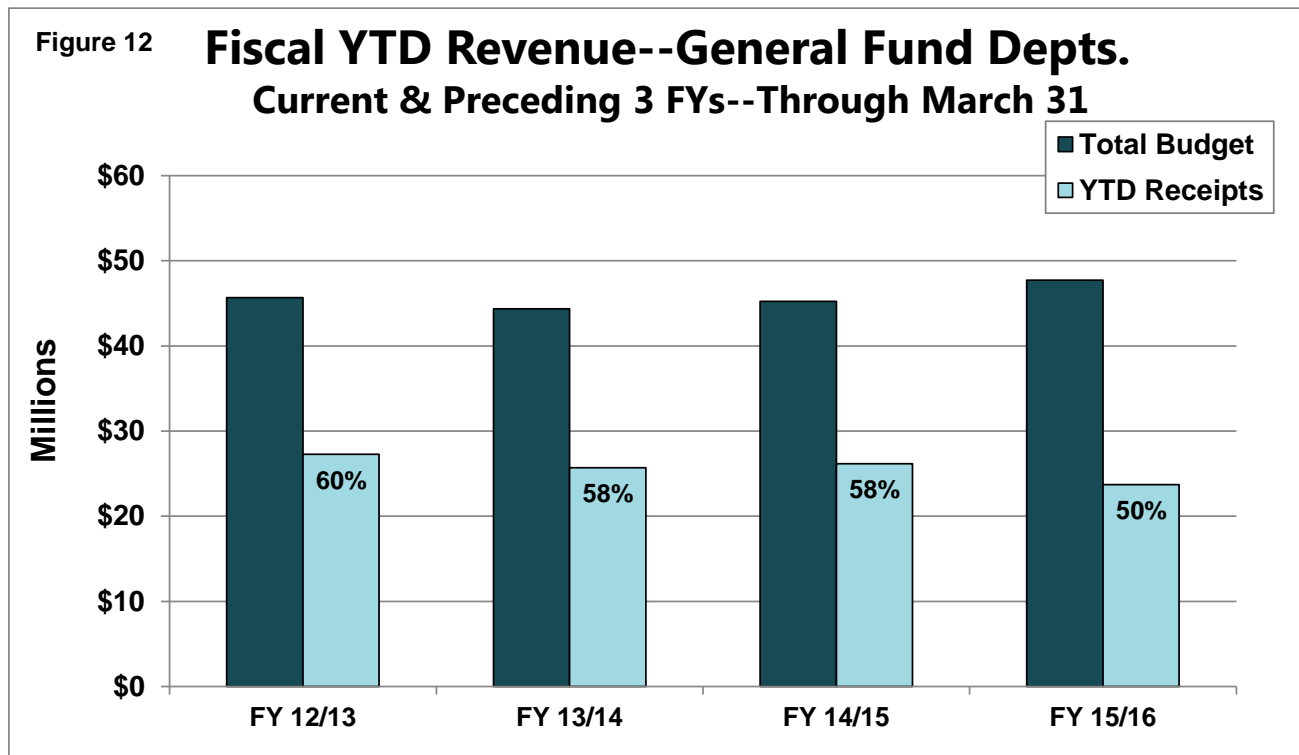
Figure 11

Department Revenues

(% of Total Budget-Through March 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 third quarter, General Fund Departments had received 50% of budgeted revenue, which is lower than the average percentage of revenue collected by this time in the fiscal year. Most of this difference may be attributed to the timing of transfers from non-operating funds to operating funds after the close of the third quarter in the Sheriff and Probation departments.



General Purpose Revenue: Through March, 53% of General Purpose Revenues (included in Figure 11 above as part of the miscellaneous budget unit) has been received, similar with prior years. Last year at this time 55% of General Purpose Revenue had been received; the year before, 53% has been received thru the third quarter. Current projections indicate that total General Purpose Revenue receipts will come in \$5.3 million higher than budgeted. This is primarily the result of the following: 1) current estimates indicate that property tax payments will be approximately \$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 \$700,000 higher than budgeted, due primarily to strong statewide sales tax growth; 3) \$850,000 in unanticipated pre-2004 State mandate claim interest already received; and 4) anticipated strong property transfer tax revenues.

Figure 13

General Purpose Revenue Receipts

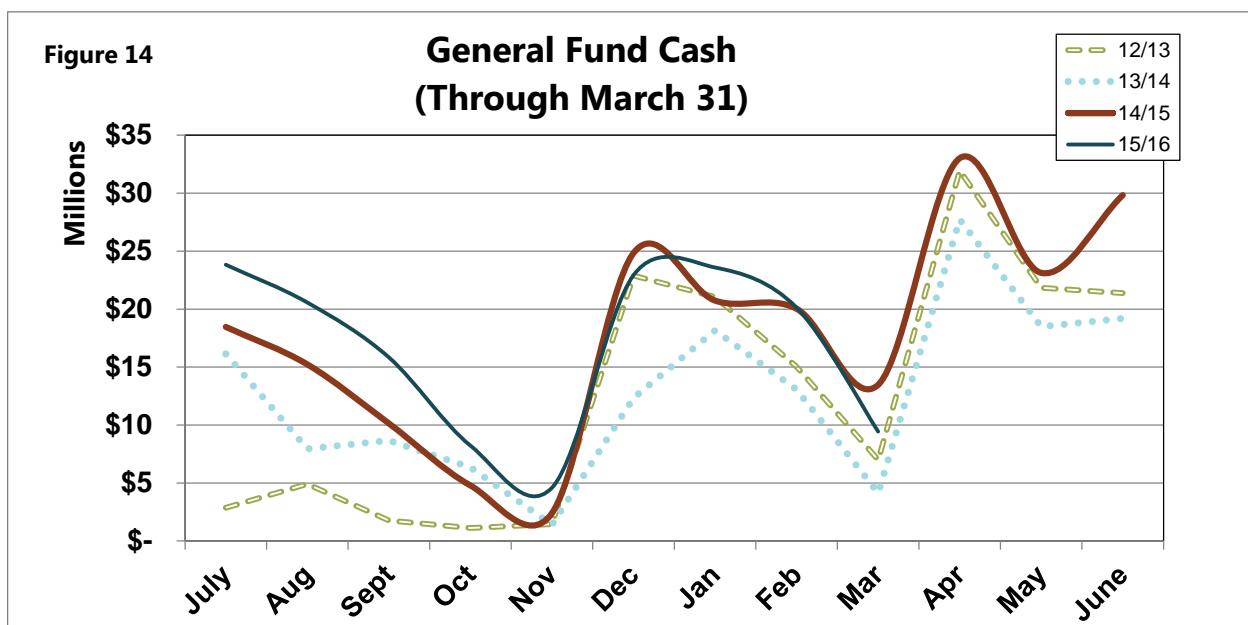
(Through 3rd Quarter)

Account Title	Budget	YTD Receipts	YTD %
Property Taxes	56,354,105	29,520,403	52%
Prop 172 Sales Tax	15,566,000	8,998,117	58%
Local Sales Tax	4,999,000	2,433,648	49%
Property Tax Transfers	820,000	682,573	83%
Other Taxes	415,000	314,403	76%
License & Permits	1,221,000	395,876	32%
Interest-County Treasury	220,000	983,900	447%
Lease Table A	3,360,000	1,595,716	47%
Fines, Forfeitures, & Penalties	1,256,000	743,044	59%
Tobacco Settlement Funds	1,900,000	-	0%
Other Misc. Revenues	1,429,000	1,101,730	77%
Total General Purpose Revenue	\$87,540,105	\$46,769,410	53%

CASH BALANCES

The General Fund operating cash balance at the end of the third quarter of fiscal year 2015-16 was \$9.4 million, compared to \$13.5 million at the end of the third quarter of fiscal year 2014-15. The approximate \$4.1 million decrease over the balance at the end of the third quarter of fiscal year 2014-2015 is due primarily to the timing of payments to the State for fire services. Approximately \$3.4 million more was paid to the State for fire services in the third quarter because two quarterly payments cleared during the third quarter of fiscal year 2015-16 compared with just one last year.

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



LONG-TERM DEBT

The following Long-Term Debt schedule, Figure 15, presents balances as of March 31, 2016.

On February 22, 2016, the County entered into a Lease-Purchase Agreement with Ford Motor Credit Company for the purchase of a 2016 Ford F250 truck for the Sheriff's Office. The total purchase price was \$33,513, with four (4) annual in advance payments of \$9,235 each.

Figure 15 LONG-TERM DEBT (THROUGH MARCH 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		2,629,431	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	7,242,195	(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	\$ 8,222,528		\$ 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 Enterprise Licensing Agreement)	2,313,309	-		769,733	1/30/2016
Total Capital Leases	\$ 3,567,609	\$ 516,222		\$ 893,164	
Lease-Purchase Agreements					
Ford Motor Credit Company	34,059	24,823		9,235	2/22/2019
Total Lease-Purchases	\$ 34,059	\$ 24,823		\$ 9,235	
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	304,869		104,976	2/20/2019
Total Neal Road Recycling and Waste Facility	\$ 13,583,924	\$ 6,904,352		\$ 1,464,621	
TOTAL LONG-TERM DEBT	\$ 79,347,592	\$ 65,071,033		\$ 7,536,319	

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

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

During the third quarter of the current fiscal year, the County made a total of \$916,451 in debt payments, \$874,491 of which resulted in principal reductions as detailed in the Figure 16 below. The En Pointe Technologies Microsoft Enterprise Agreement was paid in full during the third quarter.

Figure 16 **LONG-TERM DEBT PAYMENTS**

Debt Description	Principal Paid	Interest Paid
Pension Obligation Bonds Series B		\$35,343.00
Lease/Purchase-JP Morgan Chase Bank	\$98,359.00	\$6,616.00
En Pointe Technologies	\$766,896.00	
Ford Motor Credit Company	\$9,235.00	
TOTAL DEBT PAYMENTS	\$874,490.00	\$41,959.00

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 17

Outstanding Debt and Ratios (Through March 2016)
(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	
		Loans/	Certificates	Capital	Lease-		Certificates	Lease-		Debt as a % of	Debt per
Fiscal	Bonds	Notes	of	Leases	Purchase	Loans	of	Purchase	Primary	Assessed Property	County
Year			Participation		Agreements		Participation	Agreements	Government	Values	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	\$ 7,696	\$ 1,283	\$ -	\$ 50	\$ 6,320	\$ 745	\$ 65,633	0.3326%	\$ 288
2016	\$ 48,480	\$ 923	\$ 8,223	\$ 516	\$ 25	\$ 50	\$ 6,320	\$ 534	\$ 65,071	0.3236%	\$ 294