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Date: May 23, 2017

To: Butte County Board of Supervisors

From: Meegan Jessee, Deputy Administrative Officer

Subject: Third Quarter Financial Report Fiscal Year 2016-17

OVERVIEW

The third quarter ended March 31st, 2017. 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 2017-18 budget outlook, an update on cash balances, and reports on current long-term debt obligations.

Economy: The U.S. economy continued to grow at its slowest pace in three years in the third quarter. However, many economists believe the slower growth was due to temporary factors and growth will rebound in the fourth quarter. Wage growth in the third quarter was the fastest in ten years as the labor market nears full employment and business investment on equipment was the strongest since 2015. Also underscoring the economy's underlying strength, consumer and business confidence are near multi-year highs.

Expenditures: The County expended 60% of the budget in the first nine months of the fiscal year in line with expectations. In the period of the prior fiscal year, the County expended 63% 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 which was partially offset by an additional payroll in March.

Revenues: Through the third quarter of the fiscal year, the County received 57% of budgeted revenues. Through the same quarter of the previous fiscal year, the County had received 60% 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 close to the budgeted amount.

Cash Balances: The General Fund cash balance was $3.5 million at the end of March 2017. This is lower than the cash balance at the end of the third quarter of the prior fiscal year due to an additional payroll in March, as well as the transfer for General Fund cash to the IS Equipment Replacement Fund for the public safety radio replacement project, and increasing payroll costs.

Debt: During the third quarter of this fiscal year, principal payments totaling $104,630 and interest payments of $84,237 were made against long-term debt obligations. No new financings were secured by the County during the third quarter.

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 third quarter of fiscal year 2016-17 shows GDP increased at a meager annual rate of 0.7%, down from the updated GDP estimate of 2.1% for the second quarter and 3.5% for the first quarter of fiscal year 2016-17. GDP is a broad measure of economic growth and the annual rate in the third quarter shows the U.S. economy expanded at its slowest pace in three years. Most economists believe the slowdown was tied to temporary effects and expect the pace of growth to rebound in the fourth quarter of fiscal year 2016-17. Consumer spending expanded by 0.3% in the third quarter, down from a 3.5% increase in the second quarter and the smallest increase since 2009. Americans spent less on gasoline and home-heating fuel, due to unseasonably warm weather in January and February and on cool weather clothing. Government spending at all levels was also down in the third quarter and businesses scaled back on inventory production. A bright spot in the economy was a rebound in business investment in structures such as drilling rigs and office buildings and an increase in exports. Fixed business investment increased by 10.4% and accounted for the bulk of U.S. growth in the third quarter. Figure 1 (below) shows annualized GDP growth by quarter for the preceding ten-year period.

Figure 1

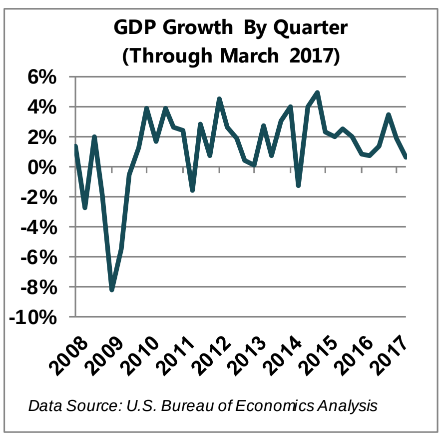


Figure 2

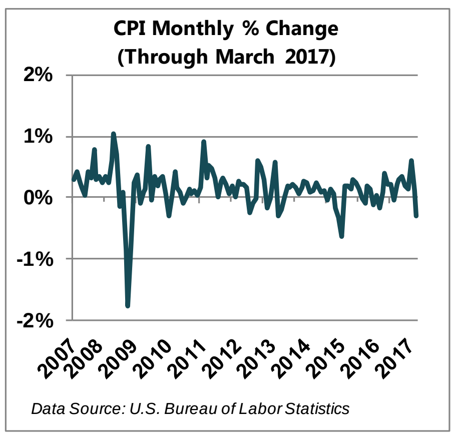
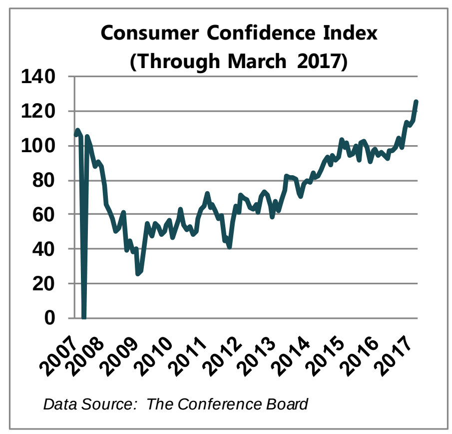


Figure 3

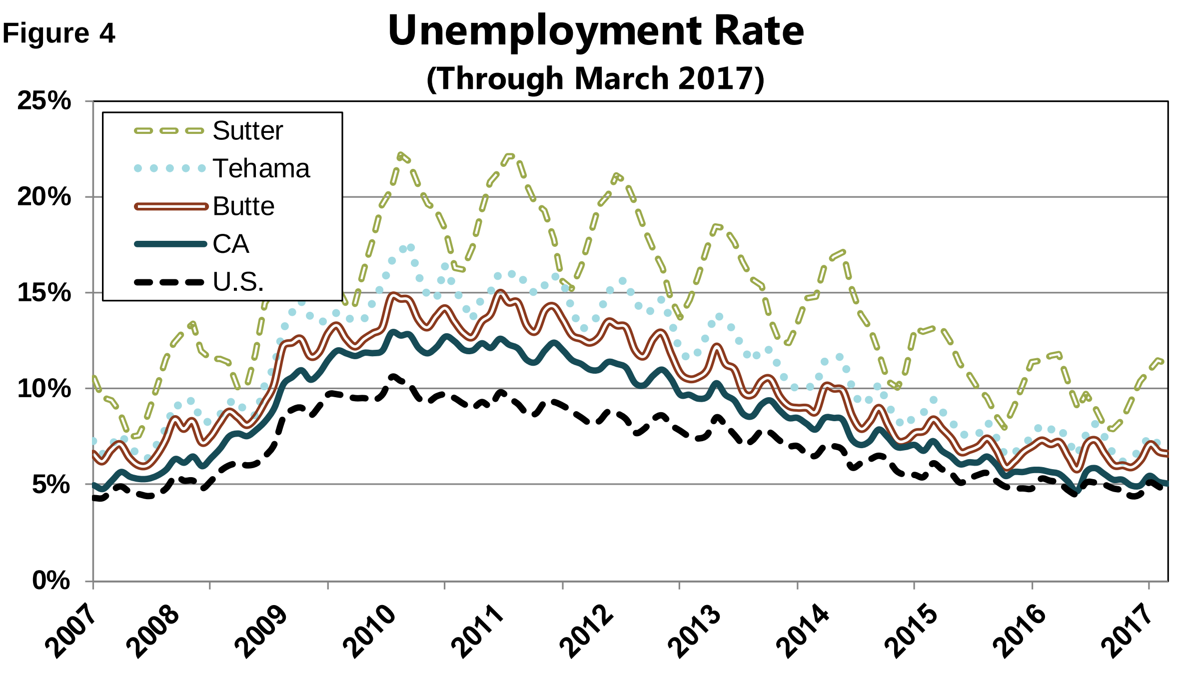


Consumer Price Index: The Consumer Price Index (CPI) rose 0.43% during the third quarter of the current fiscal year with an increase of 0.6% in January and 0.1% in February and a decline of 0.3% in March. The decline in March is the first one-month decrease in the index since February 2016. The all items index rose 2.4% during the twelve-month period ending in March, which is less than the 2.7% increase during the twelve-month period ending in February. The food index rose 0.3% in March with the index for food at home increasing 0.5%, the largest increase since May 2014. The index for all items less food and energy fell 0.1% in March, its first decline since January 2010. The quarterly increase in the CPI allowed the annual inflation rate to reach 2.4% in the third quarter of the current fiscal year. The increases in the CPI through February resulted in the decision by the Federal Reserve in March to again increase the target interest rate by .25%. For the month of March, the slight increases in the indexes for shelter, vehicle insurance, medical care, tobacco and airline fares were more than offset by declines in the energy index, including a 6.2% decline in the gasoline index, and several other indexes, including those for wireless telephone services, new and used vehicles, and apparel. Figure 2, above, displays the seasonally adjusted month-to-month change in the CPI from 2006 through the third 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 third quarter of fiscal year 2016-17 to 124.9, up from 113.7 at the end of the second quarter of the current fiscal year. The CCI at the end of the third quarter is markedly higher than the pre-recession high of 111.9 in July 2007 (see Figure 3, above). According to the CCI, consumers' confidence increased sharply in February and March of the current quarter. 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. With the high level of consumer confidence, many economists point to the likelihood of more spending in the months ahead, a shift that could be accelerated by tax refunds. Many Americans received their tax refunds later than usual this year, which could partially explain why the economy was not quite as robust in March of the current fiscal year.

Unemployment: The State's preliminary seasonally unadjusted unemployment rate stood at a 5.1% at the end of the third quarter of fiscal year 2016-17. This is a slight increase from the 5.0% seen at the close of the second quarter of the current fiscal year and a decrease from the 5.8% at the close of the third quarter of fiscal year 2015-16. The State unemployment rate remains above that of the U.S. as a whole, which was 4.6% at the end of March 2017, down from 5.1% in January 2017.

Figure 4



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

Butte County's unemployment rate at the close of the third quarter was 6.6%, up from 6.3% at the close of the second quarter of the current year, but below the 7.4% rate from a year ago. In March, the size of the labor force in Butte County was estimated at 102,700, which was a decrease of 500 from the previous month and up by 400 from March 2016. 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 decreased during the third quarter of fiscal year 2016-17. The third quarter of the current fiscal year saw an average of 7,232 new home starts per month, which is a 17.6% decrease from the monthly average from the preceding three-month period likely due to the January 1 effective date for new building codes. However, the trend had improved by March with 10,310 new home starts statewide. In Butte County, an average of 201 building permits of various types were issued per month in the third quarter of fiscal year 2016-17, which is down from the monthly average of 214 in the previous quarter and up from 196 experienced during the third quarter of fiscal year 2015-16.

Figure 5

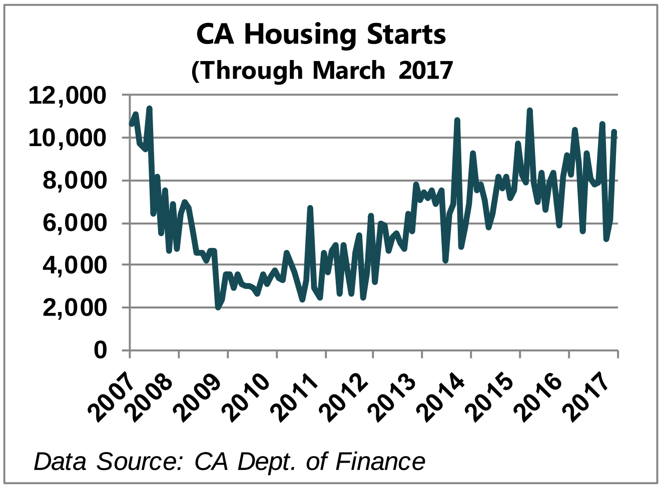
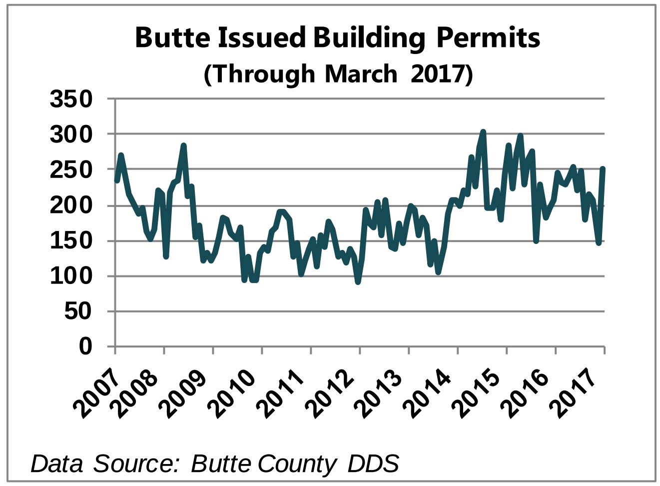


Figure 6



Home Sales: The median price of existing, single-family homes sold in California during March 2017 was $517,020, an increase of 8.0% from the previous month and a 6.8% increase from a year earlier. The number of existing home sales in California during March 2017 was 4.0% more than the number of sales in the previous month and 6.9% more when compared to March 2016. For Butte County, the median price of existing, single-family homes sold during March 2017 was $287,500, a 0.9% decrease from the previous month and a 2.4% increase over March 2016. The number of existing home sales in Butte County in March 2017 was 34.8% more than the number of sales in the previous month and 7.7% less than in March 2016.

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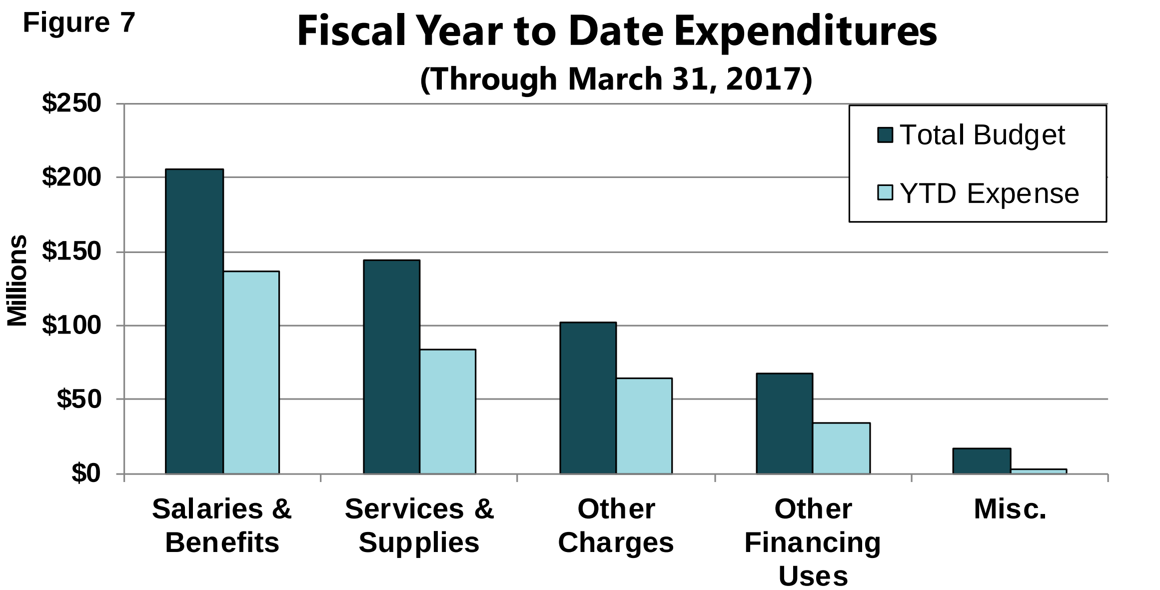
EXPENDITURES
At the end of the third quarter, the County had expended approximately $320.3 million[1] from a budget totaling $536.2 million. As shown in the graph below, the County spent $136 million on salaries and benefits, approximately $83.4 million on services and supplies, and $64.1 million on other charges, such as payments between funds and contributions to other agencies. The remaining $36.8 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

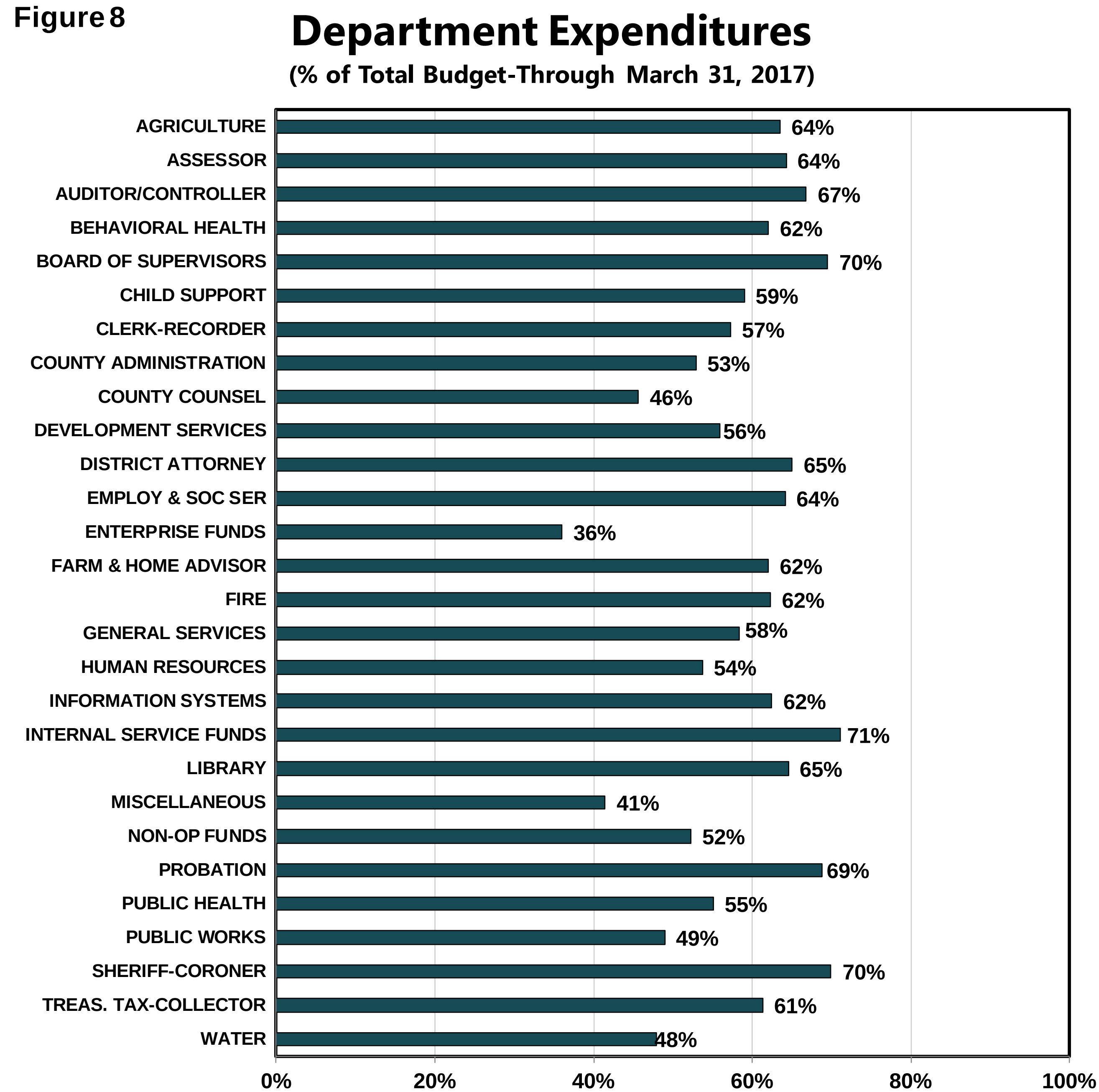


Overall, the County expended 60% of the budget through the third quarter of the 2016-17 fiscal year. Although 75% of the fiscal year elapsed between January 1 and March 31, it is typical for expenditures overall to be less than 75% at the end of the third quarter. For example, many services and supplies 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 63% of its budget, 3% more than this year due in part 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. Salary and benefit costs for the third quarter are higher than the previous year due an additional payroll in March of 2016, recent multi-year labor agreements that include compensation increases, and additional overtime costs during the Oroville Spillway emergency. The County is seeking federal and state reimbursement for the additional costs related to the Spillway. The County has a bi-weekly payroll cycle and, in most months, this results in a two payrolls per month; however for two months each year there are three payrolls. Last fiscal year April had three payrolls. In the current fiscal year March had three payrolls so the third quarter (January, February, March) of the current fiscal year, compared to the last fiscal year had additional salary and benefit costs.

[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.

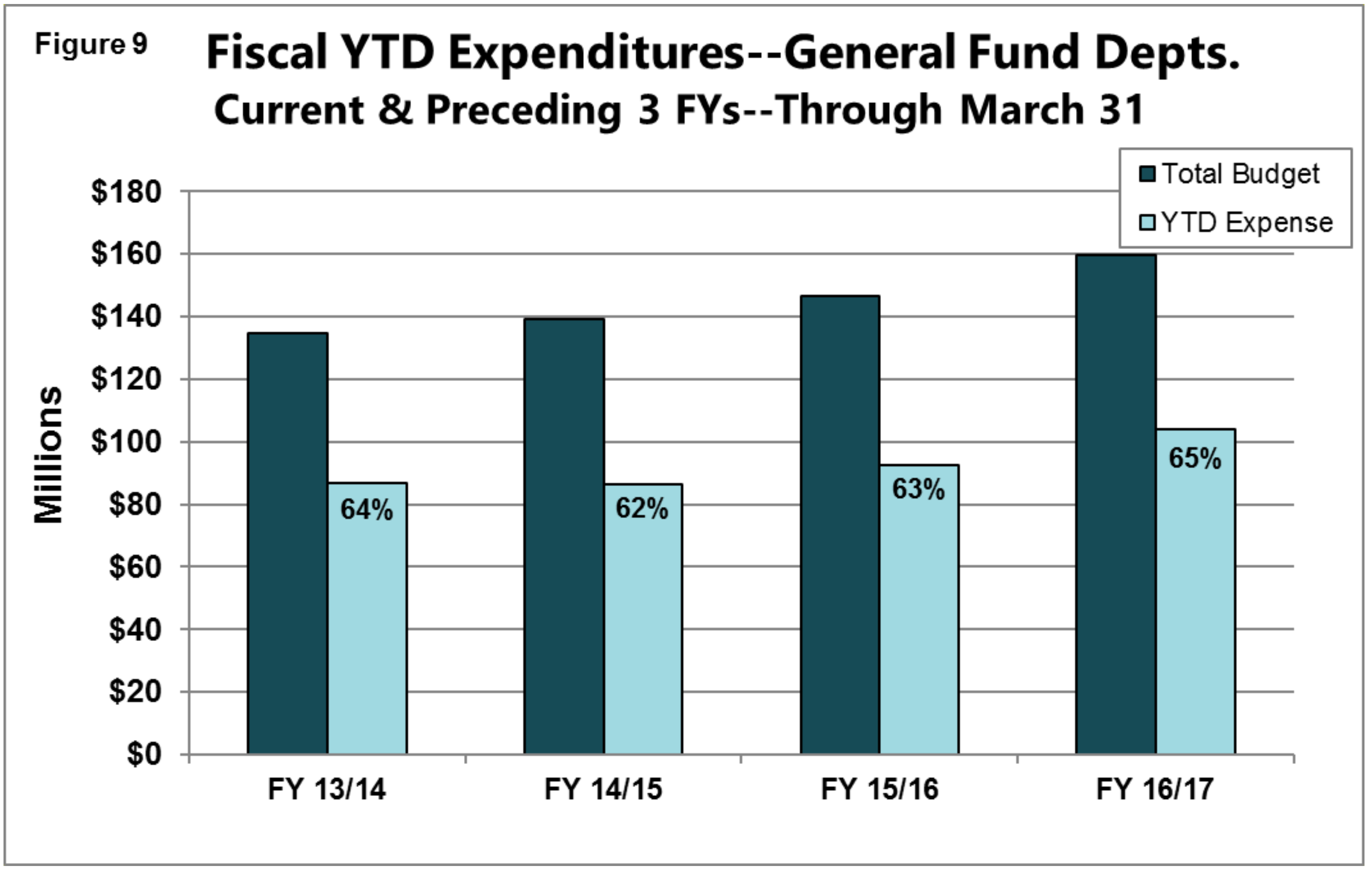
The graph below shows the percentage of budget expended by each County department. Most departments have expended between 50% and 75% of their budget through the second quarter, which is similar to prior years. A number of departments have expended less than 50% of their budget for the year. Although there are a variety of reasons, they all relate to an uneven flow of expenditures through the course of the year. County Counsel has spent less than 50% of budgeted expenditures due primarily to intrafund transfers which are recorded as negative expenditures. The Water Department and Miscellaneous grouping, which includes capital projects, have projects planned for later in the year. Similarly, Public Works had originally anticipated beginning construction on the Midway Bridge in the currently fiscal year, but it will not begin until fiscal year 2017-18. The department also budgeted a variety of equipment purchases, which have not yet been completed.

Figure 8



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 third quarter among General Fund departments for the current and preceding three fiscal years. As shown in the graph, expenditures among General Fund department are 65% of the budgeted amount, ahead of prior years. The increase is primarily related to higher salary and benefit costs in the third quarter as discussed above.



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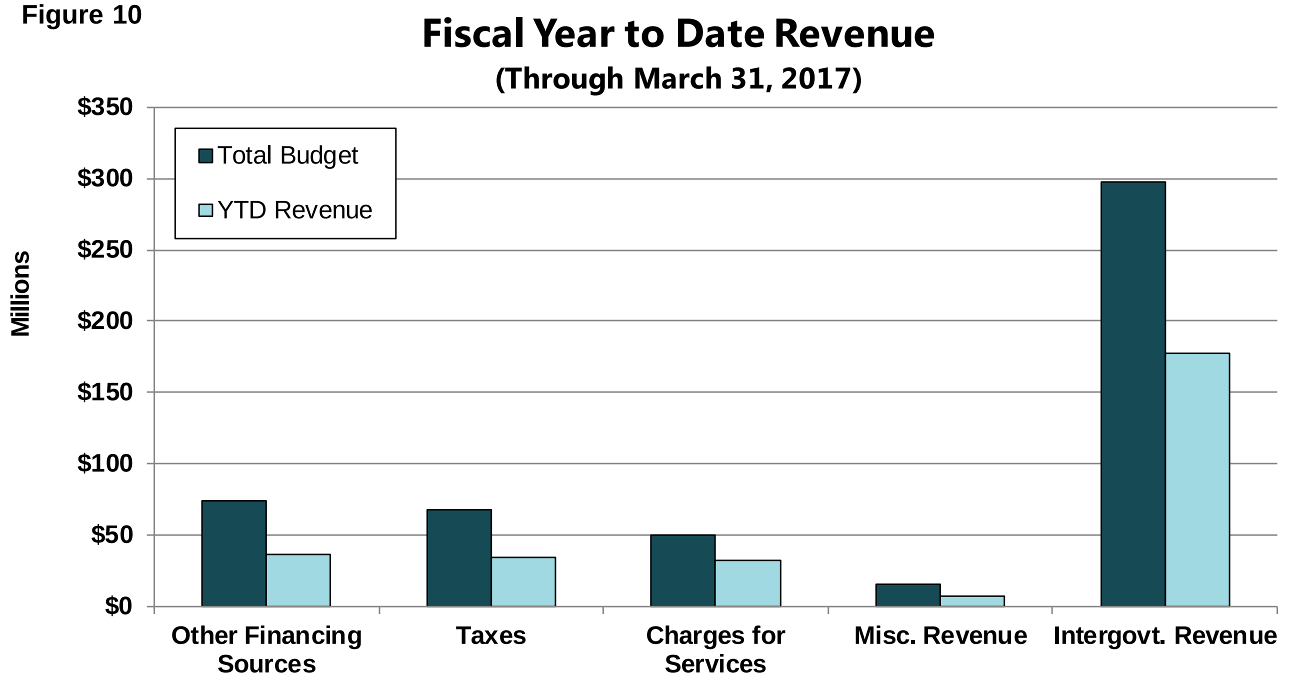
REVENUE REPORT

Through the third quarter of the fiscal year, the County has received 57% of budgeted revenues[2]. This is a lower percentage than the same period last year, when the County had received 60% of budgeted revenues. Similar to expenditures, revenues as a percent of budget where 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.

Figure 10



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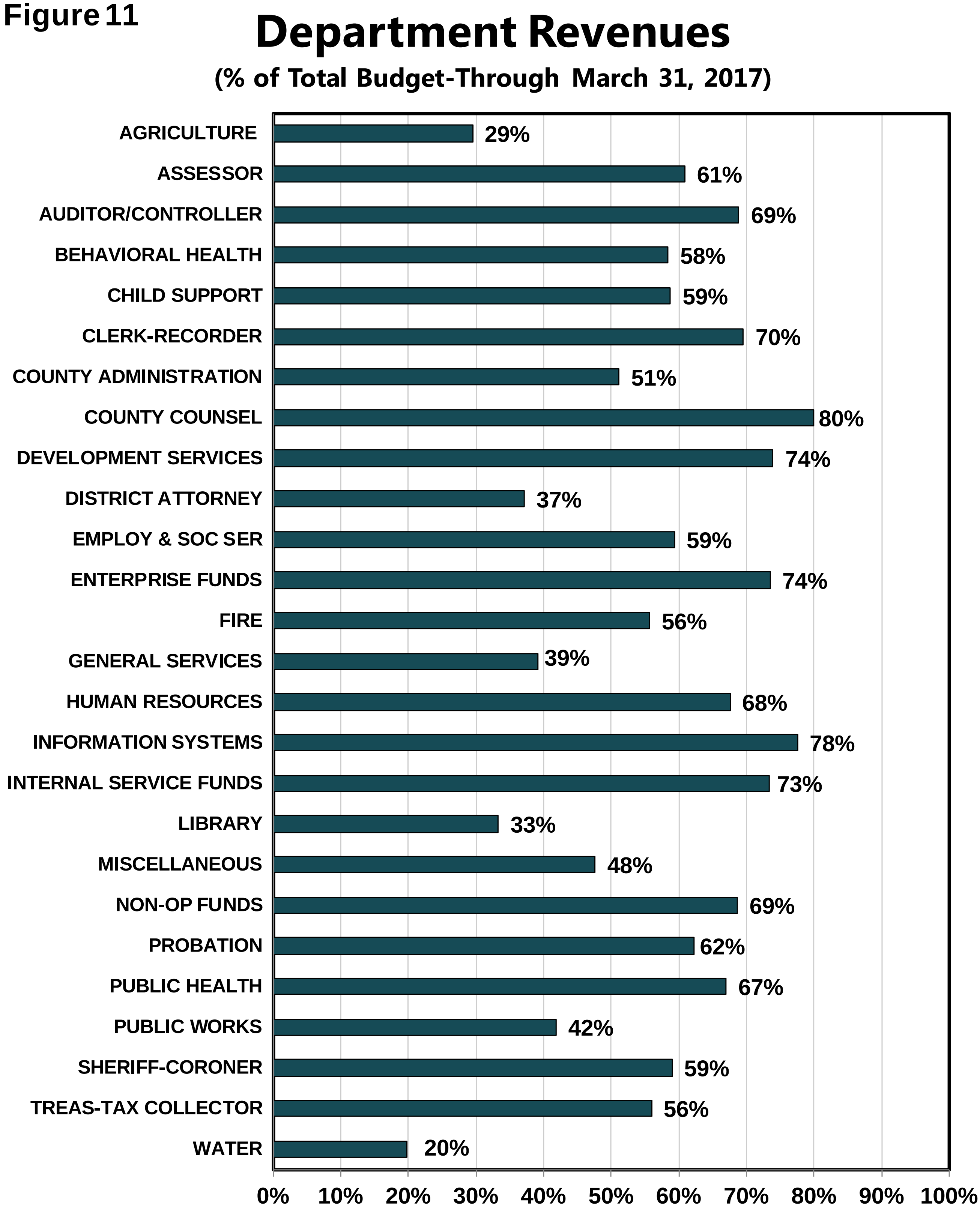
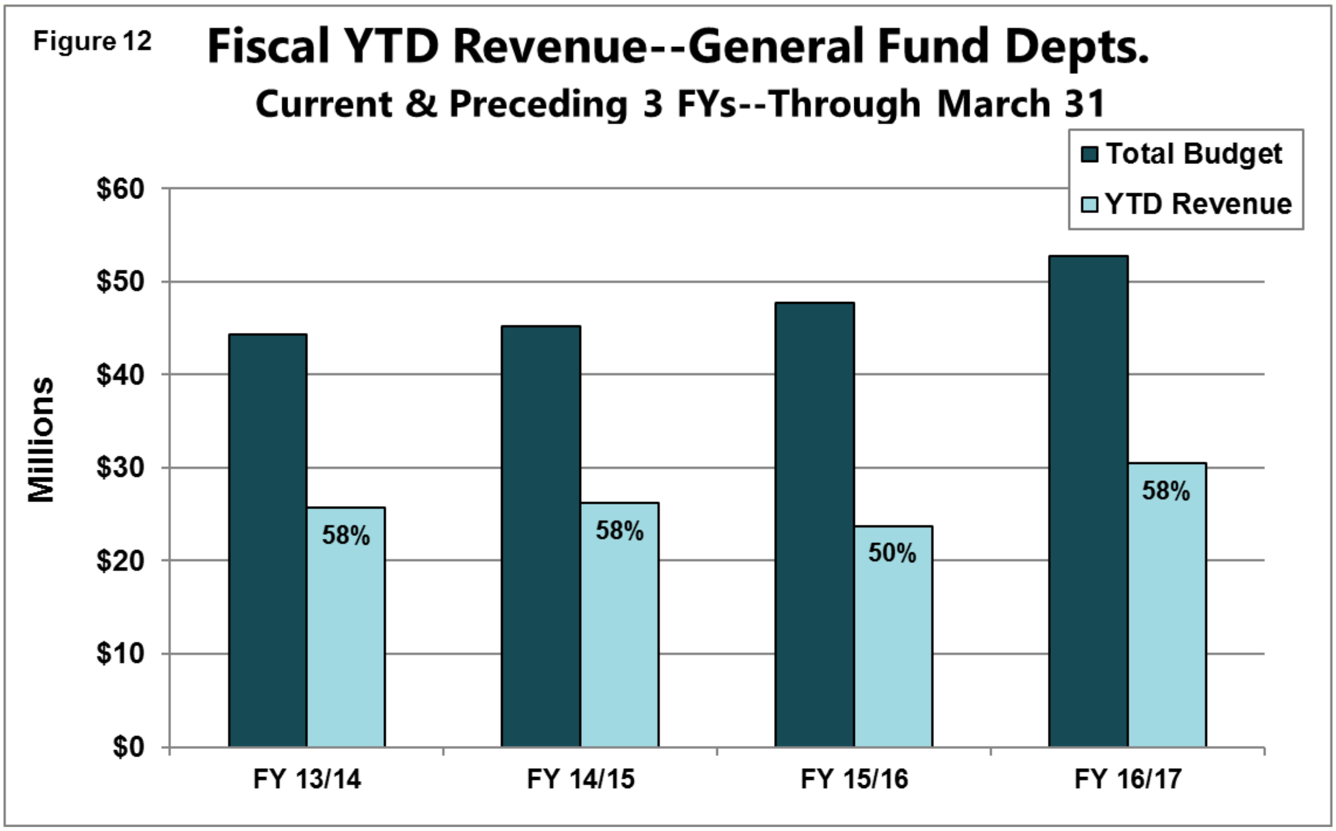
[2] For the purpose of this report the County's budgeted revenues include all departmental operating and non-operating budgets, internal service funds (for example Workers' Compensation and General Liability), enterprise funds (Neal Road Recycling and Waste Facility) as well as a number of miscellaneous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

Figure 11



The chart above shows revenues received by each County Department through March 31, 2017 as a percentage of their budget. Most department revenues are between 40% and 75% of budget through the second quarter, consistent with revenue patterns from previous years. A number of Departments have received less than 40% of budgeted revenue. In most cases, this is simply a timing issue. Grant funds, reimbursements, and other revenues budgeted in Agriculture, District Attorney, General Services, Library, and Water were not received by the end of the second quarter, but have either been received in April or are anticipated prior to the end of the fiscal year. Revenues in County Counsel and Information Systems are higher than normal due to interfund and cost allocation transfers that occur earlier in the year.

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 58% of budgeted revenue. This is more than last year, but consistent with the prior two years.



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General Purpose Revenue: Through March, 49% of General Purpose Revenue (included in Figure 11 above as part of the miscellaneous budget unit) have been received. This is somewhat less than in prior years. Last year at this time, 53% of General Purpose Revenue had been received. Current projections indicate that total General Purpose Revenue receipts will be in line with the budgeted amount of $96.5 million.

Figure 13 **General Purpose Revenue Receipts**

(Through 3rd Quarter)

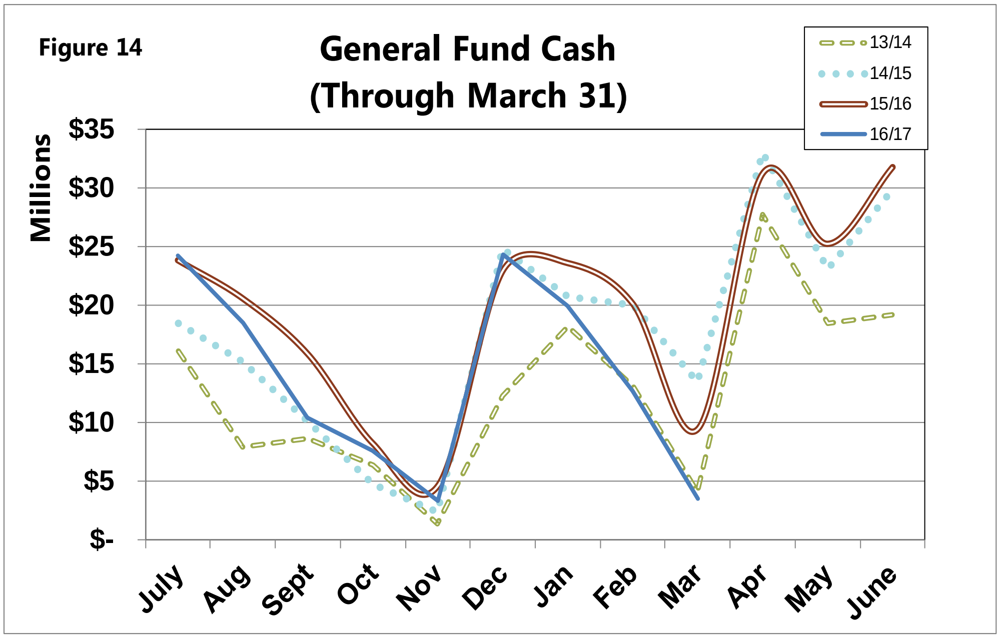
Account Title	Budget	YTD Receipts	YTD %
Property Taxes	61,068,000	30,388,872	50%
Prop 172 Sales Tax	16,841,300	9,242,360	55%
Local Sales Tax	5,076,000	2,891,480	57%
Property Tax Transfers	1,000,000	708,790	71%
Other Taxes	430,000	359,697	84%
License & Permits	1,570,400	336,610	21%
Interest-County Treasury	277,000	117,478	42%
Lease Table A	3,660,000	1,806,103	49%
Fines, Forfietures, & Penalties	1,297,000	743,199	57%
Tobacco Settlement Funds	1,900,000	-	0%
Other Misc. Revenues	3,350,000	1,040,091	31%
Total General Purpose Revenue	**$96,469,700**	**$47,634,680**	**49%**

CASH BALANCES

The General Fund cash balance at the end of the third quarter of fiscal year 2016-17 was $3.5 million, compared to $9.4 million the prior year. The approximate $5.9 million difference between the two years is largely due to the additional $3.58 million payroll during the third quarter of the current fiscal year, which included approximately $408,000 in overtime pay for County personnel involved in the Oroville Spillway incident. The year over year difference in the cash balance is also due to increasing payroll costs as well as the transfer of $1.5 million in General Fund cash to the IS Equipment Replacement Fund for the public safety radio replacement project.

As demonstrated on the graph, the overall trend for the General Fund cash balance in the third 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, then decline again until the second installment of property taxes is received in April.

Figure 14



LONG-TERM DEBT

The Long-Term Debt schedule, Figure 15 below presents balances as of March 31, 2017. During the third quarter of the current fiscal year, no new financings were secured by the County.

Figure 15 LONG-TERM DEBT (THROUGH MARCH 2017)

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	17,003	9,235	2/22/2019
Total Capital Leases	***$ 8,454,739***	***$ 7,608,476***	***$ 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	204,896	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***	***$ 5,357,039***	***$ 1,496,215***	
TOTAL LONG-TERM DEBT	**$ 76,712,056**	**$ 70,444,852**	**$ 7,629,730**	

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

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During the third quarter of fiscal year 2016-17, the County made a total of $188,867 in debt payments, $104,630 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 THIRD QUARTER OF FISCAL YEAR 2016-17

Debt Description	Principal Paid	Interest Paid
Pension Obligation Bonds Series B		$56,200
492 Rio Lindo, Chico, CA	$45,965	$15,192
554 Rio Lindo, Chico, CA	$50,845	$11,430
Ford Motor Company	$7,820	$1,415
TOTAL DEBT PAYMENTS	**$104,630**	**$84,237**

Figure 17

Outstanding Debt and Ratios (Through March 2017)

(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	Lease Obligation (Refinancing)	Lease-Purchase Agreements	Primary Government	Debt as a % of Assessed Property Values	Debt per County Resident
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	$ 7,608	$ -	$ -	$ 4,220	$ 1,137	$ 70,444	0.3331%	$ 314