Butte County Administration

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Date: February 13, 2018

To: Butte County Board of Supervisors

From: Meegan Jessee, Deputy Administrative Officer

Subject: Second Quarter Financial Report Fiscal Year 2017-18

OVERVIEW

The second quarter ended December 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 2018-19 budget outlook, an update on cash balances and reports on current pension and long-term debt obligations.

Economy: The U.S. economy expanded at a slower-than-projected pace in the second quarter of the current fiscal year. Imports, which subtract from GDP growth, increased at their fastest rate in more than seven years and slowed GDP growth. The U.S. unemployment rate continues to be at historic lows. The shortage of residential housing nationwide is resulting in price increases.

Expenditures: The County expended 38% of the budget in the first six months, the same as the prior year at this time and in line with expectations.

Revenues: Through the second quarter of the fiscal year, the County received 39% of budgeted revenues. Through the same quarter of the previous fiscal year, the County had received 39% of budgeted revenues.

Budget Outlook: The County is facing cost pressures in a number of areas that are likely to exceed revenue growth. Departments are currently in the process of developing their fiscal year 2018-19 requested budgets. County Administration will begin analyzing those requests when they are submitted in March. Budget Hearings are scheduled for June 26th, 2018.

Cash Balances: The General Fund cash balance was $26.2 million at the end of December. Accounting for timing variances this is approximately $4 million less than the balance at the same time last year, an improvement from the $7 million year-over-year reduction seen in the first quarter.

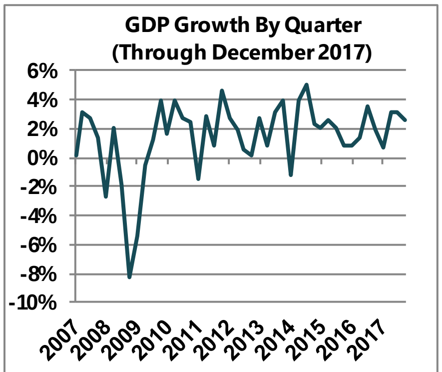
Pension Funded Status: The most recent funded status of the County's two CalPERS pension plans has been added to this report. The Safety Plan is 69.4% funded. The Miscellaneous plan is 72.5% funded. The funded status refers to the funds accumulated to pay for benefits earned in the past based on actuarial assumptions.

Debt: During the second quarter of the current fiscal year, principal payments totaling $1,089,016 and interest payments of $175,128 were made against long-term debt obligations. During the second quarter, the County secured no additional long term debt and paid off an equipment lease-purchase financing that originated in 2013.

ECONOMIC UPDATE

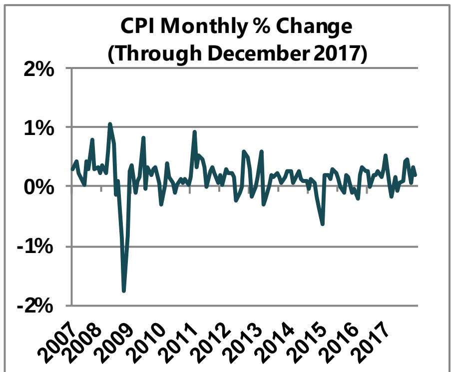
Gross Domestic Product: U.S. Gross Domestic Product (GDP) measures the market value of all final goods and services produced within the country. The advance estimate for the second quarter of the current fiscal year shows GDP increased at an annual rate of 2.6%, below the updated GDP estimate of 3.2% for the first quarter of the current fiscal year and the 3.0% expected by many economists. The deceleration in real GDP in the second quarter reflects a widening of the trade deficit, with imports increasing at double the rate of exports, and a downturn in private inventory investment. The increase in the GDP reflects positive contributions from consumer spending, the biggest part of the economy, which rose 3.8%. Business investment in equipment grew at its fastest pace in three years. Real GDP increased by 2.3% in calendar year 2017 compared to an increase of 1.5% during the 2016 calendar year. Figure 1 below shows annualized GDP growth by quarter for the preceding ten-year period.

Figure 1



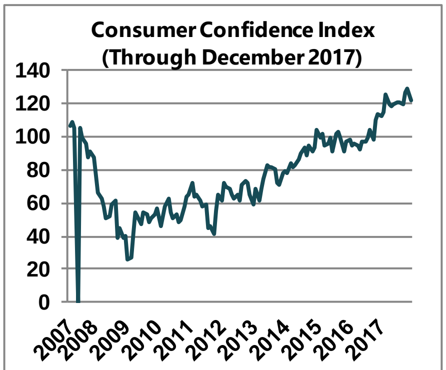
Data Source: U.S. Bureau of Economics Analysis

Figure 2



Data Source: U.S. Bureau of Labor Statistics

Figure 3

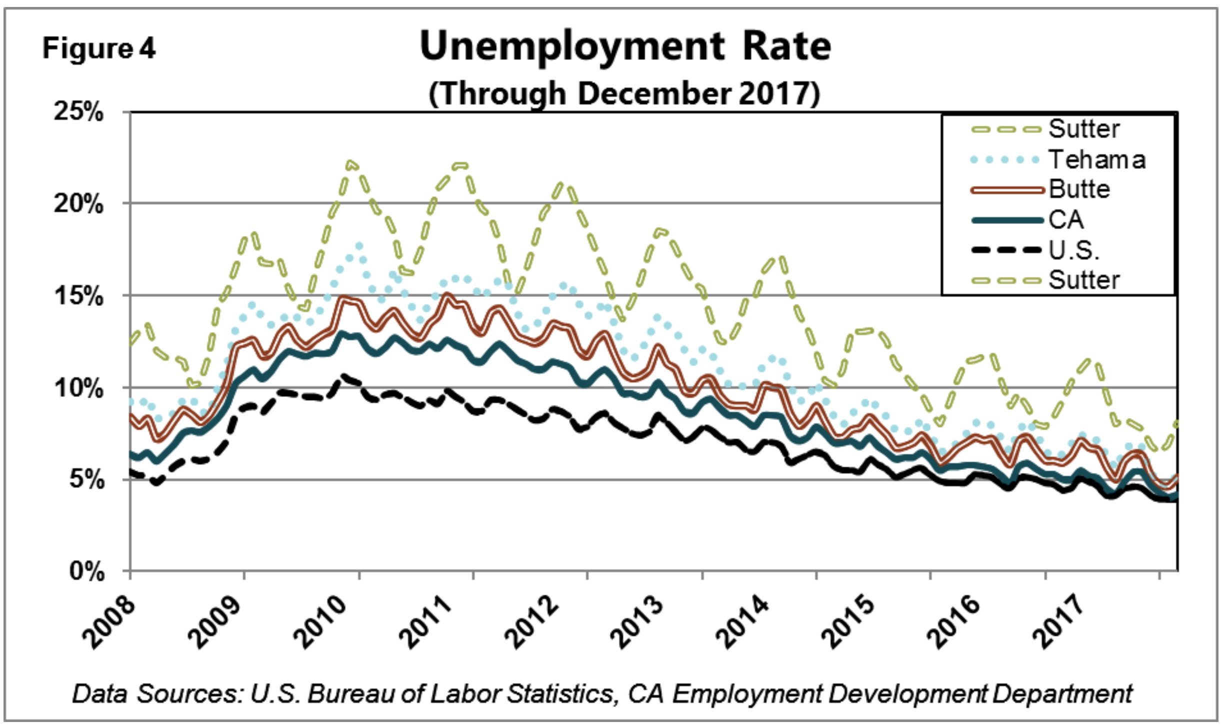


Data Source: The Conference Board

Consumer Price Index: The Consumer Price Index for All Urban Consumers (CPI-U) rose slightly during the second quarter of the current fiscal year. The CPI-U measures the change in prices paid by consumers for a representative group of products and services used for day-to-day living and is used as an economy-wide measure of inflation. The CPI-U rose 0.6% during the second quarter with small increases in October, November and December. The index rose 2.1% during the past twelve months, which was only slightly higher than the 2.0% increase the previous year. Figure 2 above displays the seasonally adjusted month-to-month change in the CPI-U from 2006 through the second quarter of fiscal year 2017-18.

Consumer Confidence Index: Consumer confidence, as measured by the Conference Board's Consumer Confidence Index (CCI), rose during the second quarter of fiscal year 2017-18 to 122.1, up from 119.8 at the end of the first quarter of the current fiscal year, and 113.7 at the end of the second quarter of fiscal year 2016-17 (see Figure 3, above). Consumer confidence declined in December after reaching a 17-year high of 128.6 in November. Based upon a sampling, the decline in confidence was due to less optimism for businesses and job prospects. The historically strong confidence still points to likely economic growth well into 2018. 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 seasonally unadjusted unemployment rate continues to be at an historic low. The preliminary seasonally unadjusted unemployment rate stood at a 4.2% at the end of the second quarter of fiscal year 2017-18. This is a decrease from the 4.7% seen at the close of the first quarter and the 5.0% at the close of the second quarter of fiscal year 2016-17. The State's unemployment rate is slightly above that of the U.S. as a whole, which was 3.9% at the end of second quarter of the current fiscal year; unchanged from the end of the first quarter. The U.S. unemployment rate is the lowest in seventeen years. Butte County's unemployment rate at the close of the second quarter was 5.1%, down from 5.2% at the close of the first quarter of the current year and the 6.1% 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 600 from the previous month and by 200 from December 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: The California Homebuilding Foundation has not released the statistics for December of the current fiscal year, but for the months of October and November of the current fiscal year the pace of homebuilding increased by 26.7% over the same months of fiscal year 2016-17. The number of residential building permits issued statewide during the first five months of the current fiscal year increased by 12.7% over the same period during fiscal year 2016-17. The total number of building permits issued for the unincorporated area of Butte County in calendar year 2017 increased by 231 permits or 9% compared to calendar year 2016. An average of 250 building permits of various types were issued per month in the second quarter of fiscal year 2017-18, which is down from the monthly average of 263 in the previous quarter, but up from the monthly average of 214 issued during the second quarter of fiscal year 2016-17.

Figure 5

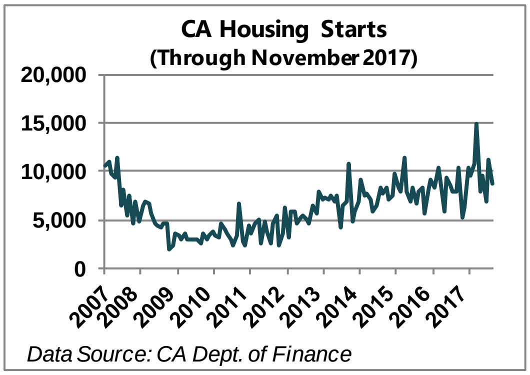
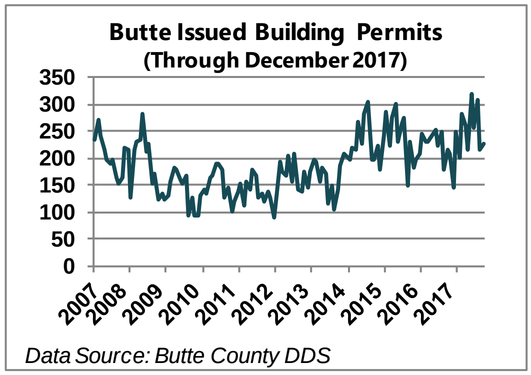


Figure 6



Home Sales: Notwithstanding housing inventory levels being the lowest in more than 13 years, there were 1.4% more existing home sales in California during the one year period ending on December 31, 2017 as compared to the year ending December 31, 2016. The statewide median price of existing, single-family homes sold during December 2017 was $549,560, which was an increase of 0.5% from the previous month and a 7.6% increase from a year earlier. The reduced inventory of existing homes for sale has resulted in an increase in prices and, consequently, an erosion in affordability. 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 2017 was $304,000, a 3.5% increase from the previous month and a 3.3% increase over December 2016. There were 7.5% fewer home sales in December 2017 than in December 2016.

EXPENDITURES

At the end of the second quarter, the County had expended approximately $205.0 million from a budget totaling $540.5 million[1]. As shown in Figure 7 on the following page, the County spent $90.6 million on salaries and benefits, $47.0 million on services and supplies, and $42.8 million on other charges, such as payments between funds and contributions to other agencies. The remaining $24.6 million in expenditures were for other financing uses and miscellaneous expenditures. Other financing uses are primarily operating transfers and between funds. Miscellaneous expenses include capital assets.

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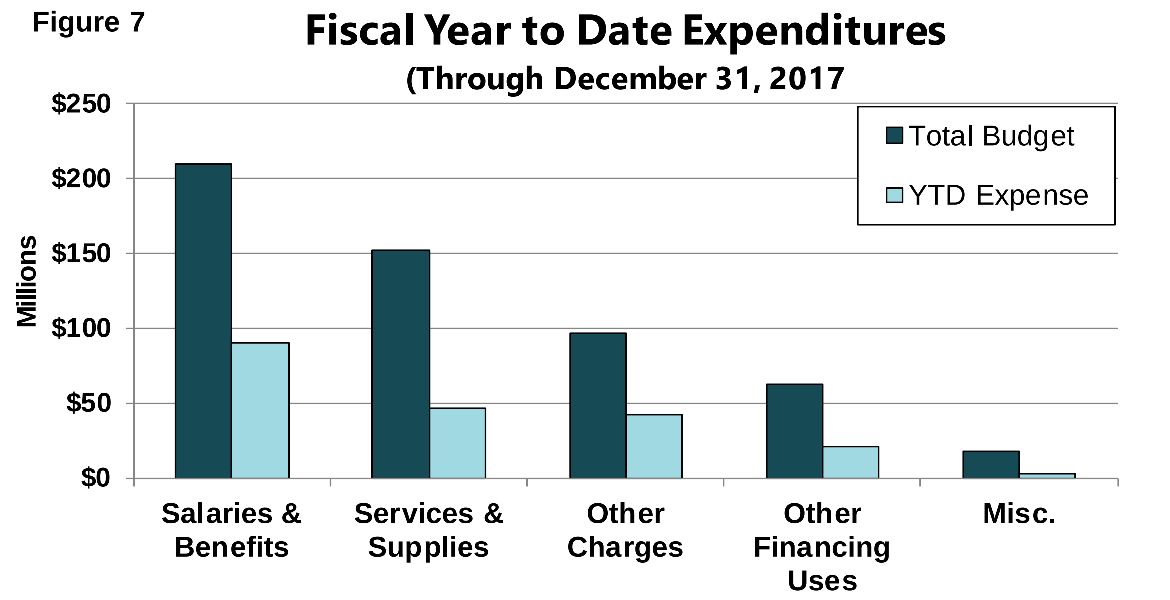
[1] For the purpose of this report the County budget includes all departmental operating and non-operating budgets, internal service funds (for example Workers' Compensation and General Liability), enterprise funds (Neal Road Recycling and Waste Facility) as well as a number of miscellaneous budget units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

Figure 7



Overall, the County expended 38% of the budget through the second quarter of the 2017-18 fiscal year, the same as the prior 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.

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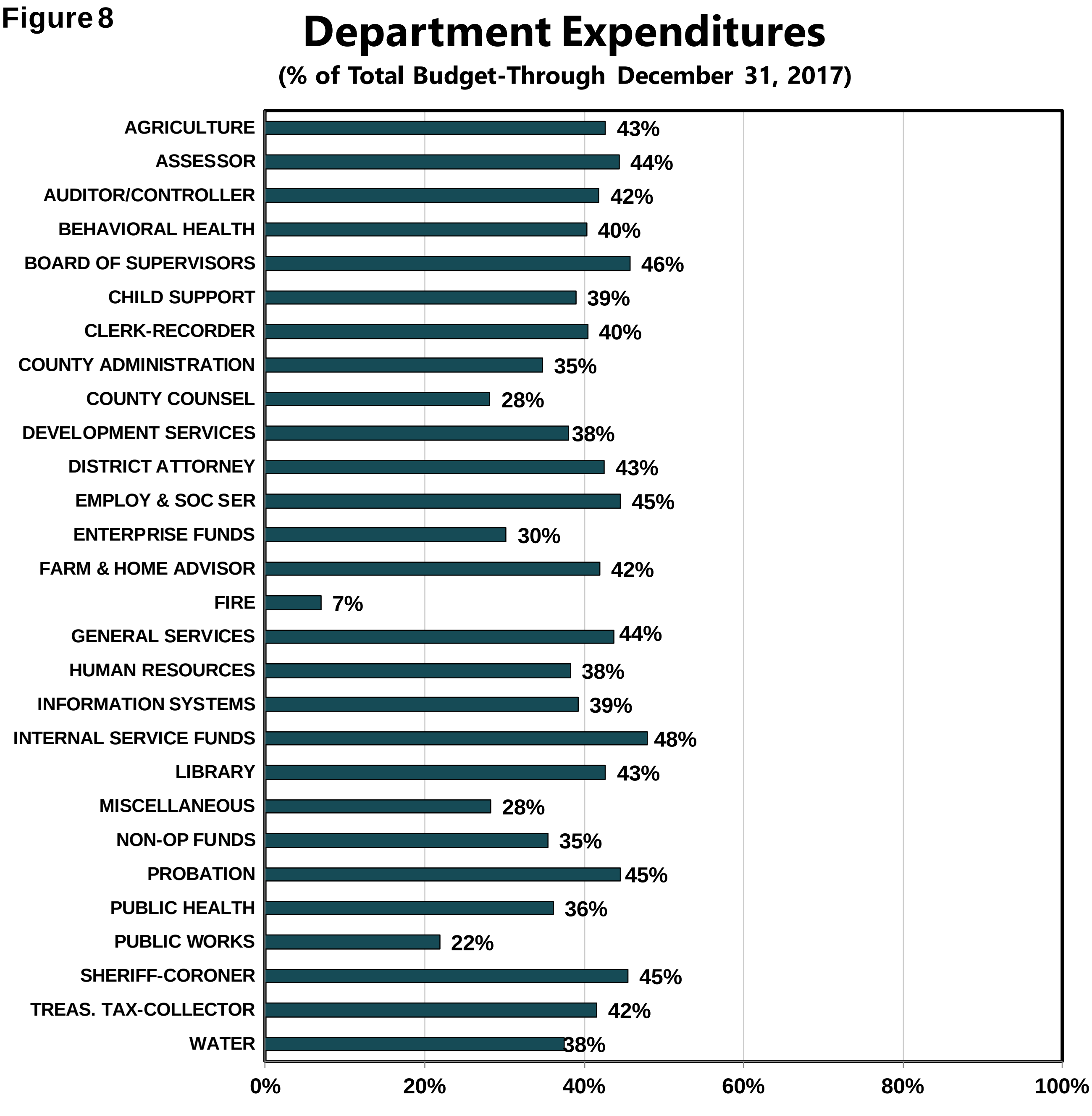
The graph below shows the percentage of budget expended by each County department. Most departments have expended between 35% and 50% of their budget through the second quarter, which is similar to prior years. A number of departments have expended less than 35% of their budget for the year. Although there are a variety of reasons, they all relate to an uneven flow of expenditures through the course of the year. County Counsel is 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 at least one quarter in arrears, currently we are two quarters in arrears. Two CAL FIRE payments are anticipated in the third quarter. The Public Works budget as well as the Miscellaneous grouping, which includes capital projects, have project budgets, which haven't yet been expended.

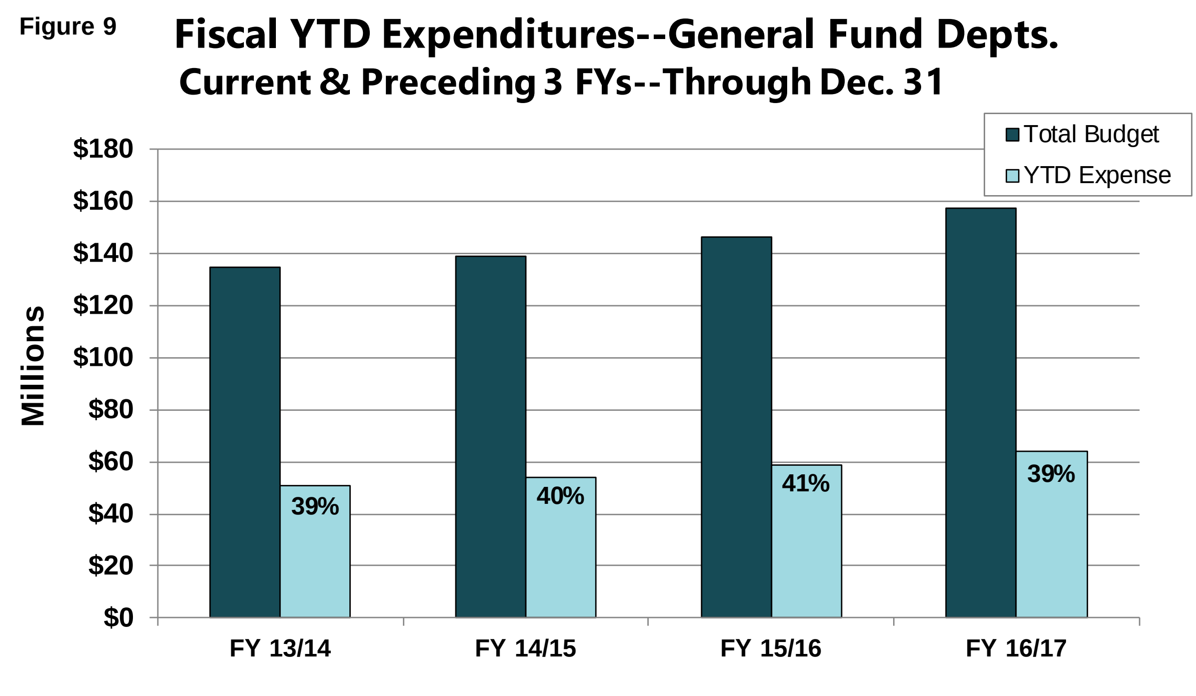
Figure 8



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 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 39% of the budgeted amount, slightly less than the prior year, primarily due to no CAL FIRE quarterly payments in the first half of the year. General Fund salary and benefits, as a percent of budget are actually trending up from the prior year by a couple percent.

Figure 9



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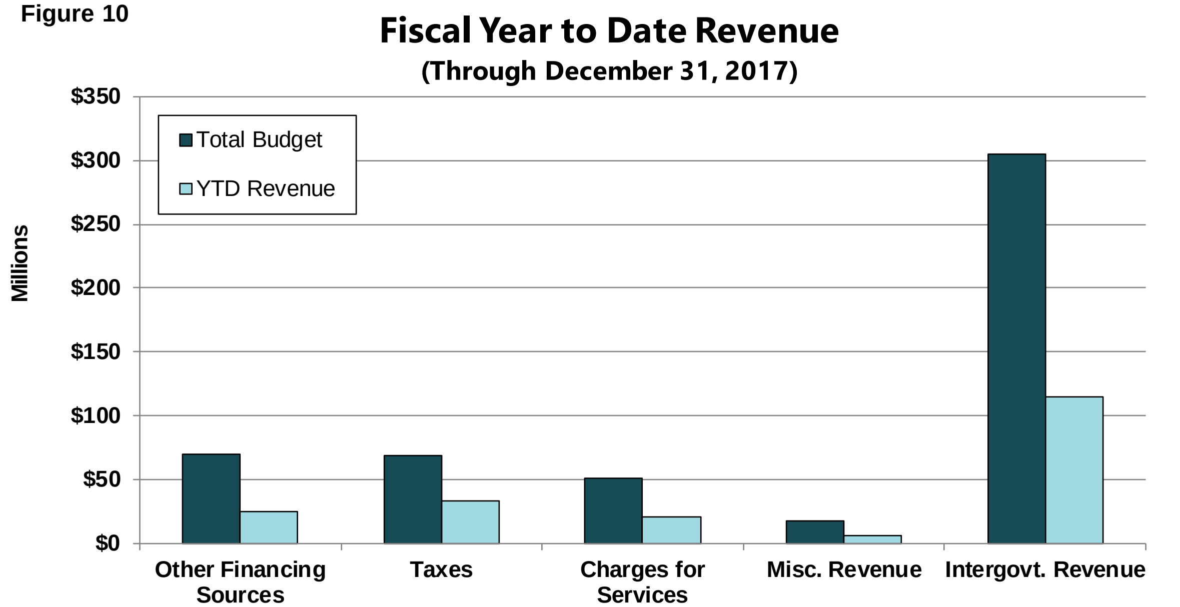
REVENUE REPORT

Through the second quarter of the fiscal year, the County has received 39% of budgeted revenues[2], similar to the same time last year when the County had received 38% of budgeted revenues. The graph below shows total revenues by category.

Figure 10



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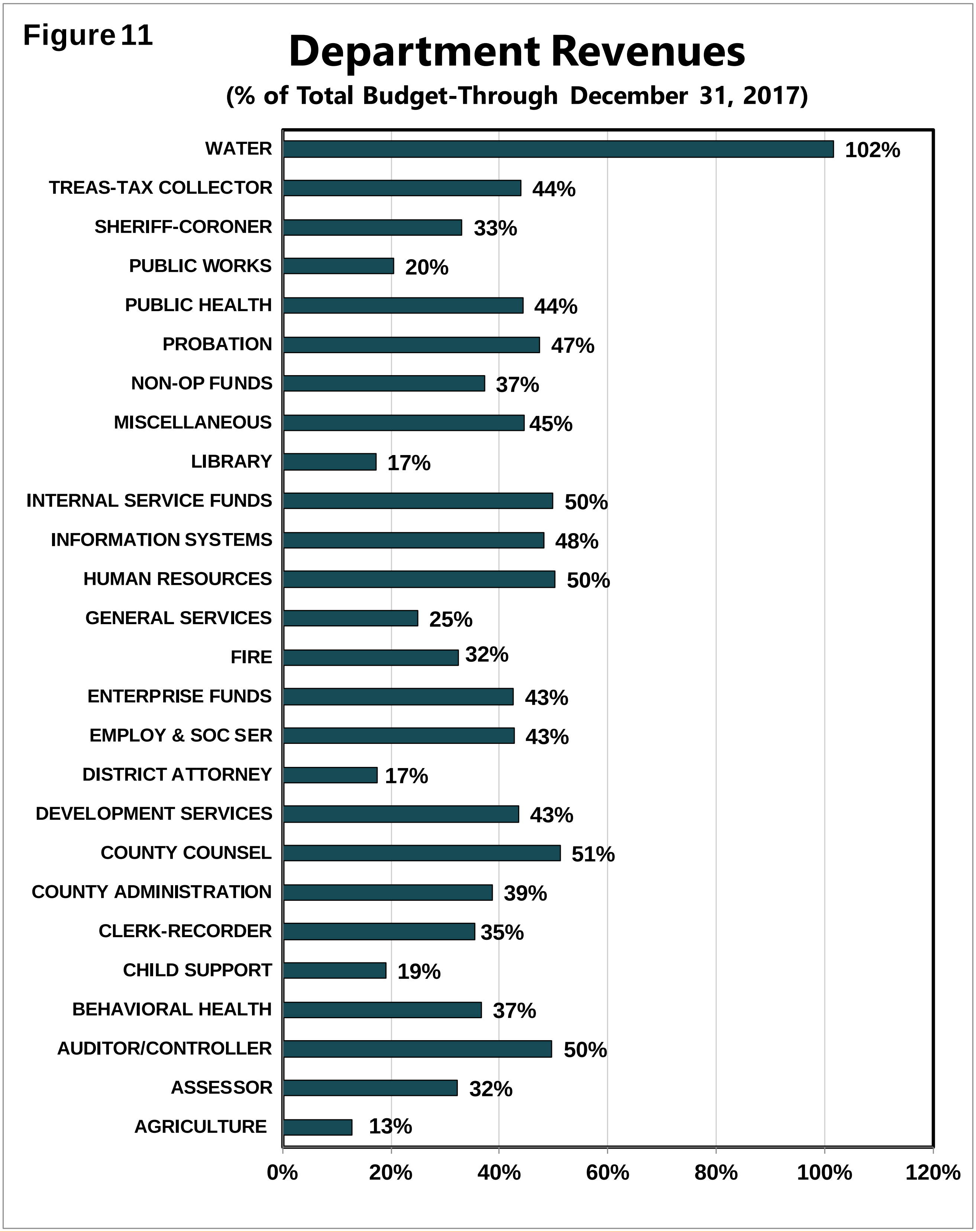
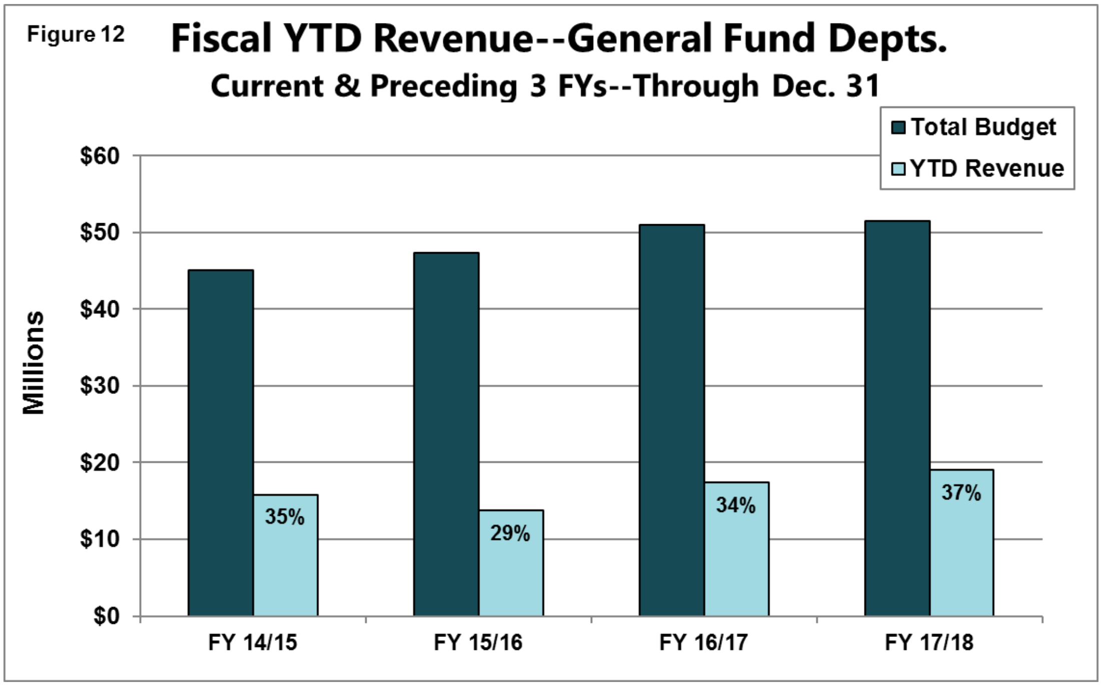
[2] For the purpose of this report the County's budgeted revenues include all departmental operating and non-operating budgets, internal service funds (for example Workers' Compensation and General Liability), enterprise funds (Neal Road Recycling and Waste Facility) as well as a number of miscellaneous 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, 2017 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 Child Support, District Attorney, General Services and Library 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. Public Works and General Services both receive reimbursements for projects. Delays in projects reduce associated revenue. The Water Department is at 102% of budget due to the receipt of $90,000 in revenue originally anticipated for the prior 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 37% of budgeted revenue, more than previous years. The increase is due in part to more timely transfers from non-operating funds.



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General Purpose Revenue: Through the close of December 45% of budgeted General Purpose Revenues had been received. Mid-year projections for 2017-18 discretionary revenue indicate revenues may come in $700,000 short of budgeted revenue due primarily to a lower projection for year-end Teeter Plan 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	61,860,000	30,781,124	50%
Prop 172 Sales Tax	16,900,000	5,375,016	32%
Local Sales Tax	5,152,000	1,946,460	38%
Property Tax Transfers	1,060,000	547,660	52%
Property Tax Administration Fees	221,000	64,692	29%
Other Taxes	467,000	461,256	99%
License & Permits	1,441,000	241,852	17%
Interest-County Treasury	477,000	65,940	14%
Lease Table A	3,700,000	1,851,280	50%
Fines, Forfietures, & Penalties	3,399,000	436,121	13%
Tobacco Settlement Funds	45,000	1,688	4%
Other Misc. Revenues	4,731,000	3,107,054	66%
Total General Purpose Revenue	**$99,453,000**	**$44,880,143**	**45%**

BUDGET OUTLOOK

In preparation for the fiscal year 2018-19 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 no increase in use of County discretionary funds, a reduction scenario, and an expansion scenario. The base scenario reflects continuing modest revenue growth and a lower available fund balance than anticipated in the current year. It is anticipated that the base scenario will be challenging for departments who are experiencing cost pressures that include both scheduled cost of living increases and pension cost increases. Once department budget scenarios are received, staff in the County Administration will work with departments to analyze impacts and update estimated revenues. The CAO's recommended budget will be presented to the Board of Supervisors in early June with budget hearings scheduled for June 26^{th}, 2018.

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CASH BALANCES

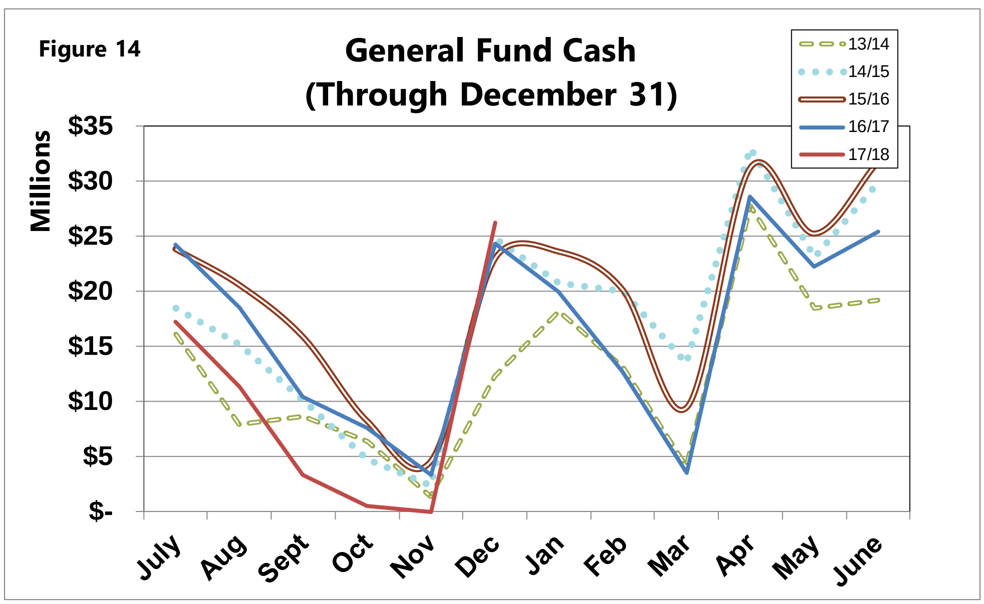
The General Fund cash balance at the end of the second quarter of fiscal year 2017-18 was $26.2 million, compared to $24.4 million in the prior year, however if adjusted to account for some timing variances the current year balance would be closer to $20.2 million, approximately $4.2 million less than the prior year. The timing variances are as follows:

- By December 2016 the County had made one quarterly payment to CalFIRE of approximately $3 million. By December 2017 the County had not made a single payment. This resulted in a cash balance that is about $3 million higher than it would otherwise be.
- In December 2017 the County General Fund received about $1.4 million in state and federal funds related to the Spillway incident, approximately $1 million of that was paid to our cooperating agencies in January. The remaining $0.4 million will remain in the County General Fund. This inflated the current year balance by another $1 million.
- By December 2016 the County had completed a transfer from the General Fund to the equipment replacement funds of approximately $2 million. This transfer was not completed by December 2017. This inflated the current year balance by approximately $2 million.

However, even with these adjustments, there is some improvement in the County's cash balances. Through the first quarter General Fund cash balances had been trending about $7 million lower than the prior year. The improvement in cash balances is due to the receipt of property tax revenues in December.

In November, prior to the receipt of property tax revenues, the County General Fund required an $805,313 cash advance from the Workers' Compensation Fund in order to close the month with a cash balance of zero. The cash advance was repaid in December. Additionally, as of the end of December, the CDBG Fund owed the General Fund $108,656 pending grant reimbursements.

Figure14 shows the general fund cash balances for a 5 year period.



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PENSION PLAN FUNDED STATUS

Figure 15 below, presents the most recent funded status of the County's pension plans. The County contracts with CalPERS to provide pension benefits. The County has two pension plans for County employees. The first is for safety employees and includes deputy sheriffs, correctional deputies, probation officers and district attorney investigators. The second is for miscellaneous employees and includes all non-safety County employees.

The funded status is determined by CalPERS actuaries and is provided annually to the County. The complete reports can be found on the Butte County website at: http://www.buttecounty.net/administration/ActuarialReports.aspx. The funded status refers to the funds accumulated to pay for benefits earned in the past based on actuarial assumptions. The County expects updated reports from CalPERS in late summer. Given changes to the CalPERS actuarial assumptions, it is anticipated that the total unfunded liability of the County will increase along with the County's payments to CalPERS for employee pensions.

Figure 15 PENSION PLAN FUNDED STATUS

Butte County Pension Plans	As of June 30, 2016
Safety Plan	
Unfunded Accrued Liability	$55,419,255
Funded Ratio	69.4%
Miscellaneous Plan	
Unfunded Accrued Liability	$180,083,889
Funded Ratio	72.5%

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LONG-TERM DEBT

The Long-Term Debt schedule, Figure 16, presents balances as of December 31, 2017.

Figure 16 LONG-TERM DEBT (THROUGH DECEMBER 2017)

Type of Debt	Original Loan Amount	Current Balance	Avg. Annual Payment*	Maturity Date
Bonds Payable				
Pension Obligation Bonds				
-Series A	28,020,000	27,360,000	2,716,359	6/1/2034
-Series B	21,875,000	20,385,000	1,837,181	6/1/2034
Total Bonds Payable	***$ 49,895,000***	***$ 47,745,000***	***$ 4,553,540***	
Certificates of Participation				
2014 Hall of Records	8,000,000	7,402,954	360,564	7/1/2054
2010 Bangor Fire Station #55 Renovation Project	1,100,000	951,333	52,864	8/1/2050
Total Certificates of Participation	***$ 9,100,000***	***$ 8,354,287***	***$ 413,428***	
Capital Leases				
Motorola Solutions Inc.	7,166,380	6,482,024	757,453	12/15/2026
Chico Memorial Hall - 492 Rio Lindo	583,400	159,328	61,156	4/10/2020
Chico Memorial Hall - 554 Rio Lindo	670,900	168,955	62,275	4/10/2020
Ford Motor Credit Company	34,059	17,003	9,235	2/22/2019
2017 Government Campus Infrastructure Financing	2,658,000	2,658,000	221,269	10/1/2032
Total Capital Leases	***$ 11,112,739***	***$ 9,485,310***	***$ 1,111,388***	
Notes Payable				
California Energy Commission				
-Solar Project Phase 1	2,777,000	269,188	277,181	12/22/2018
Total Notes Payable	***$ 2,777,000***	***$ 269,188***	***$ 277,181***	
Neal Road Recycling and Waste Facility				
2006 Certificates of Participation Refunding	4,220,000	3,195,000	1,102,396	7/1/2020
2013 Equipment Lease-Purchase	558,924	Paid in Full	-	12/24/2017
2014 Equipment Lease-Purchase	500,000	204,896	104,976	2/20/2019
2017 Equipment Lease-Purchase	816,393	677,890	171,039	11/15/2021
Total Neal Road Recycling and Waste Facility	***$ 6,095,317***	***$ 4,077,786***	***$ 1,378,411***	
TOTAL LONG-TERM DEBT	**$ 78,980,056**	**$ 69,931,571**	**$ 7,733,948**	

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

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During the second quarter of the current fiscal year, the County made a total of $1,264,144 in debt payments, $1,089,016 of which resulted in principal reductions as detailed in Figure 17 below, and paid off an equipment lease-purchase financing that originated in 2013.

Figure 17 **LONG-TERM DEBT PAYMENTS**

Debt Description	Principal Paid	Interest Paid
Pension Obligation Bonds Series - B		$79,257
2013 Equipment Lease-Purchase	$115,750	$2,054
2017 Equipment Lease-Purchase	$158,238	$12,801
Motorola Solutions - Equipment Lease-Purchase	$684,356	$73,097
California Energy Commission-Solar Project Phase 1	$130,672	$7,919
TOTAL DEBT PAYMENTS	**$1,089,016**	**$175,128**

Figure 18 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 18

Outstanding Debt and Ratios (Through December 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	Capital Leases	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	$ 47,745	$400	$ 8,471	$ 7,512	$ -	$ -	$ 4,220	$ 1,137	$ 69,485	0.3281%	$ 309
2018	$ 47,745	$269	$ 8,354	$ 9,485	$ -	$ -	$ 3,195	$ 883	$ 69,931	0.3129%	$ 308