



BUTTE COUNTY ADMINISTRATION

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PAUL HAHN
Chief Administrative Officer

Date: April 28, 2011
To: Butte County Board of Supervisors
Paul Hahn, Chief Administrative Officer
From: Gregory G. Iturria, Chief Financial Officer
Subject: Third Quarter Financial Report

OVERVIEW

The 3rd quarter financial report for Butte County operations contains updates on the economy, expenditures, revenues, cash balances and long-term debts for the first nine months of the fiscal year ending June 30, 2011.

Economy: There is mixed news in the latest economic data. Economic output continues to rise and inflation is moderate, but construction activity is slow and joblessness continues to stay high.

Expenditures: Expenditures by County departments are generally on budget and tracking similar to this time last year.

Revenues: General purpose revenues, in aggregate, are trending close but a little short of the budget estimates. Property taxes received in lieu of vehicle license fees will be about \$1 million less than budgeted, but other discretionary revenues, such as Public Safety Sales Tax are trending to come in higher than projected in the budget. Departmental revenues, on the other hand, are trending close to this time last year, and include unanticipated State reimbursement of 2010 special election expenses and other mandated costs reimbursement.

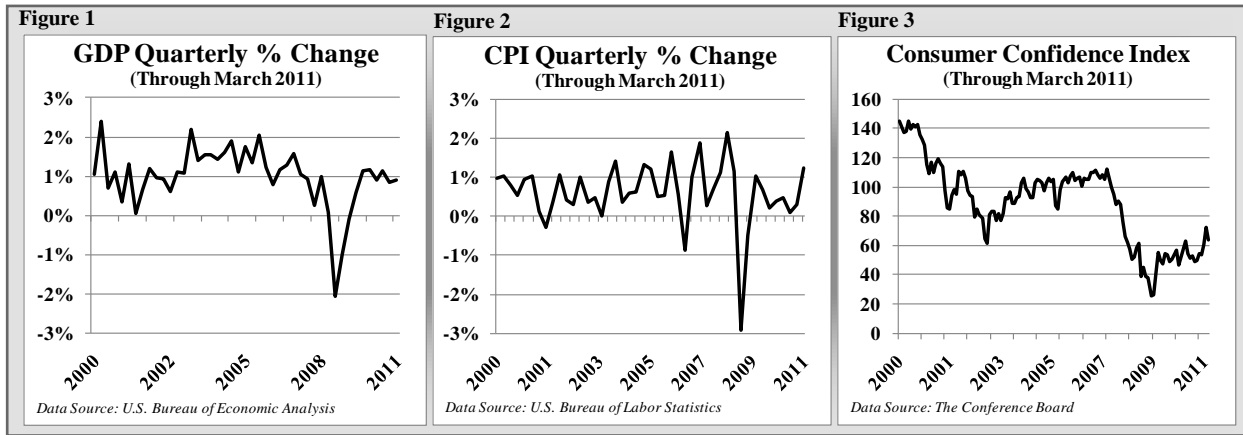
Cash Balances: General Fund operating cash was tracking higher for the 3rd quarter of Fiscal Year 2010/11 to what we saw one year ago. In September, October and November of 2010, Tax Revenue Anticipation Note (TRAN) funds were transferred into the General Fund to cover deficit cash balances. No transfer of TRAN funds was necessary after November of 2010.

Debt: No new long-term debt was issued in the 3rd quarter, but the enclosed debt table has been updated to include the latest debt principal payments.

ECONOMIC REPORT

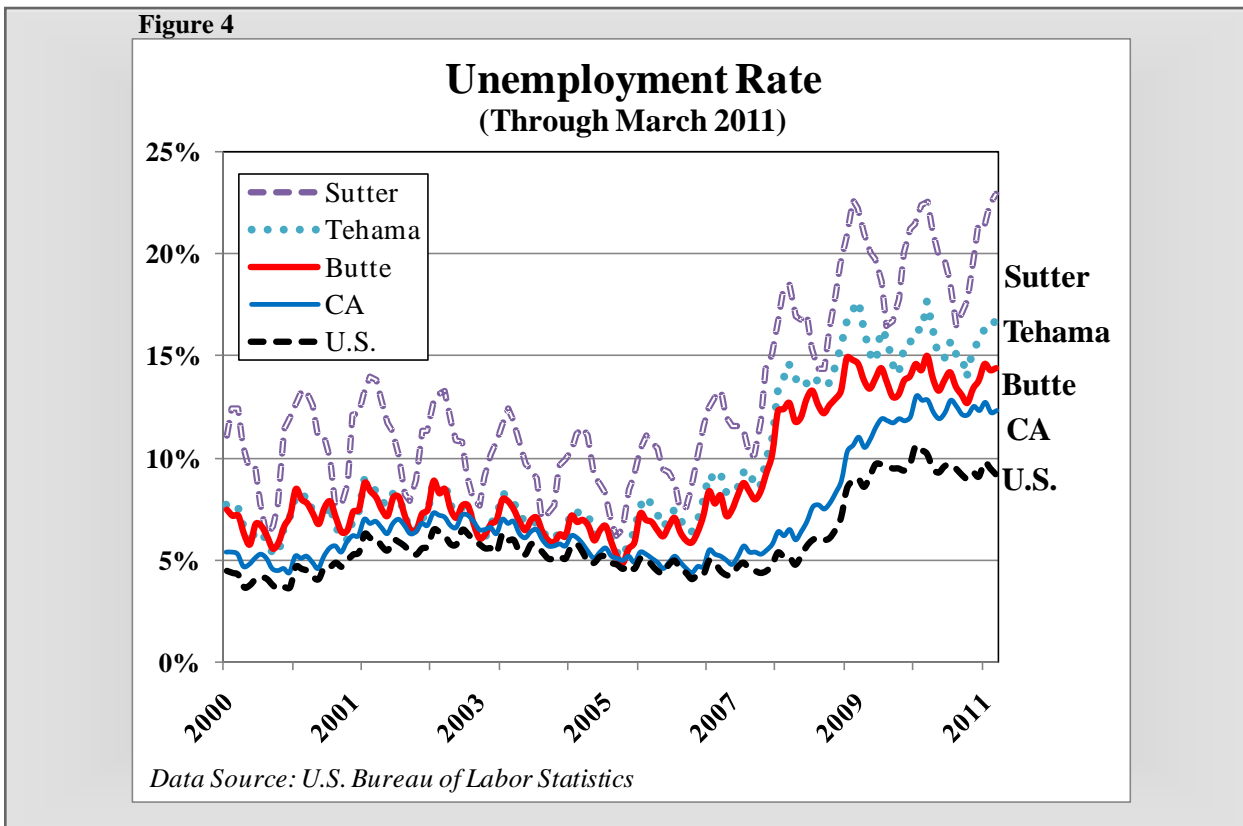
National Economy: The U.S. Gross Domestic Product (GDP), which measures the market value of all final goods and services produced within the country, rose for the seventh straight quarter for the three-

month period ending March 31, 2011. As Figure 1 reflects, the rate of economic growth has slowed down in recent months. The 0.9% growth in GDP for the quarter ending March 31, 2011 is primarily the result of increased personal consumption, private investments, and exports. Imports, which are a subtraction in the calculation of GDP, increased.



Rising gasoline and food prices are creating signs of some inflation. The national Consumer Price Index (CPI) rose by 1.25% in the last quarter after a volatile five year period, as seen in Figure 2 below. CPI measures the average change over time in the prices paid of a variety of consumer goods and services.

In March 2011, the Conference Board’s Consumer Confidence Index (CCI) measure was 63.4 (100 = normal). The CCI measures the relative financial health, spending power, and confidence of the average consumer. While the CCI figure for March 2011 is down 8.6 points from February 2011, a measure of

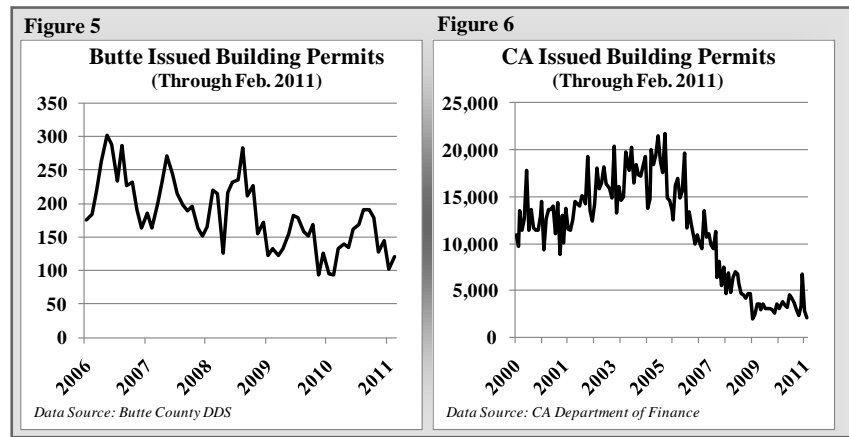


63.4 is the second highest in the last 3 years. Although consumer expectations are still guarded, this data indicates that consumer's belief that better times are ahead continues to stabilize. These future views are important in decisions to buy items like houses and autos.

Employment: The State's unadjusted unemployment rate in March 2011 was 12.3%, down .5% from March 2010. The countywide unemployment rate in March was 14.4%, down 0.6% from March 2010 but still up significantly from four years ago as shown in Figure 4 below. According to preliminary data, Butte County had 15,000 employable residents considered unemployed during March 2011. While unemployment in Butte County is higher than state and national averages, it continues to remain lower than unemployment rates experienced in adjacent counties.

Other State and Local Economic Indicators: The pace of statewide homebuilding continues to be sluggish. 4,894 residential building permits were issued statewide during the combined months of January and February of 2011. This figure is down more than 25% from the same period a year ago and down nearly 83% from the same period in 2005.

Local construction permitting in the unincorporated area of the County in the 3rd quarter of this fiscal year was 12% higher than the same quarter one year earlier. Although permits dipped nearly 20% from the 2nd to 3rd quarter of this fiscal year, this is most likely a seasonal trend and building appears to continue to achieve modest gains since the low point at the end of 2009.



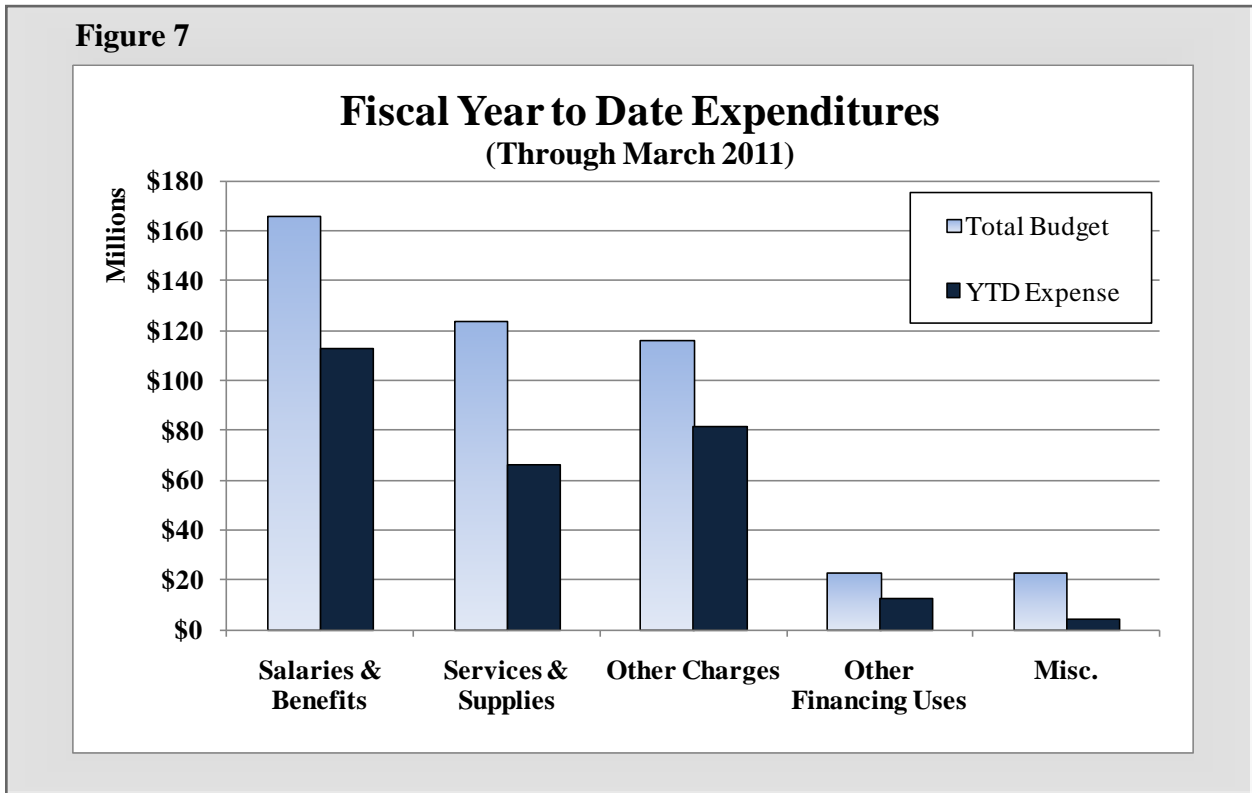
The median price of existing, single-family homes sold in California during the month of March 2011 was \$286,010, a 5.4% increase from the previous month but a 4.9% decrease from a year earlier. March 2011 existing home sales statewide rose by 3.1% compared to February of 2011 and increased by 1.5% from the same period in 2010.

EXPENDITURE REPORT

At the end of the 3rd quarter, March 31, 2011, the County's budget totaled \$452 million and the County had expended \$277 million¹. As shown in Figure 7 on the following page, through the 3rd quarter, the County spent \$112.5 million on Salaries and Benefits, \$66 million on Services and Supplies, and \$81.6

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 Waste and Recycling 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



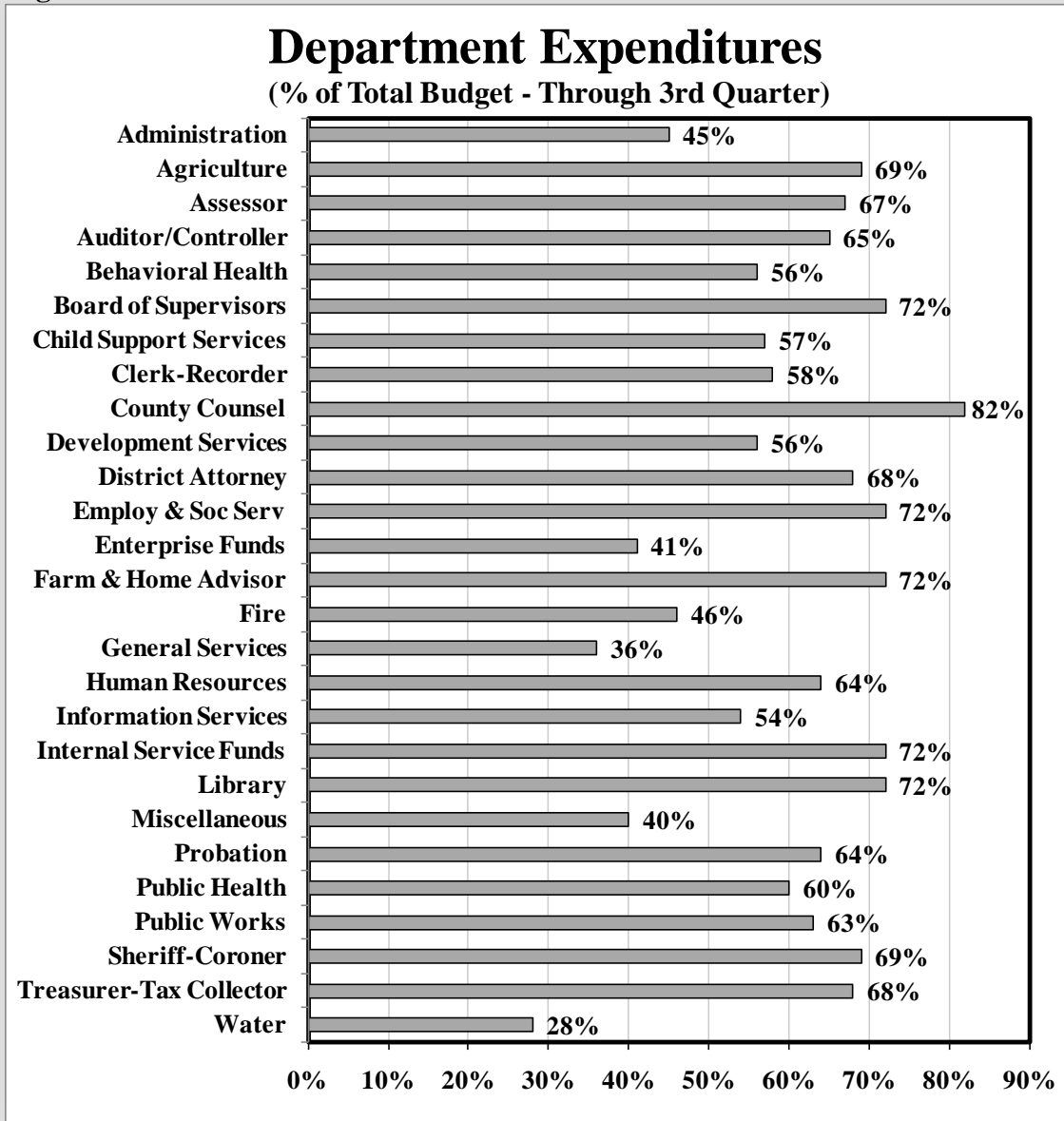
million on Other Charges, such as payments between funds and contributions to other agencies. The remaining \$17 million in expenditures were for Other Financing Uses and Miscellaneous Expenditures. Other Financing Uses are primarily charges between budget units in the same fund and Miscellaneous Expenditures include fixed assets and building depreciation.

Overall, the County has expended 61% of the budget through the 3rd quarter of the 2010/11 fiscal year. Although 75% of the fiscal year elapsed between July 1st and March 31st, it is typical for expenditures overall to be less than 75% at the end of the 3rd quarter. For example, many services and supplies are based on monthly billings that, by their nature, aren't paid until the month following the month of service and normal staff turnover creates some salary savings. Last year at this time the County had expended 59% of its budget.

Figure 8 shows the percent of budget expended by each County Department. The majority of Departments have expended between 50% and 70% of their budget through the 3rd quarter, which is similar to expenditure trends in prior years. County Counsel has spent 82% of budget partly due to timing of billings but largely a result of ongoing litigation expenses that will likely require a budget adjustment before year end.

A number of departments have spent less than 50% of budgeted expenditures for the year. This is primarily due to the uneven flow of expenditures through the course of the year and anticipated year end savings. Administration has expended 45% of budget through the 3rd Quarter. The savings is largely due to grant activities in the Office of Emergency Management commencing late in the year. Both General Services and the Enterprise Funds budget, which accounts for the operations of the Neal Road Waste and Recycling Facility, include a number of building projects and/or maintenance that have not yet been

Figure 8



expended. Although Fire has expended only 46% of budget through March 31, a payment towards the State CalFire agreement early in the 4th Quarter will bring expenditures to approximately 64% - consistent with results from the prior year.

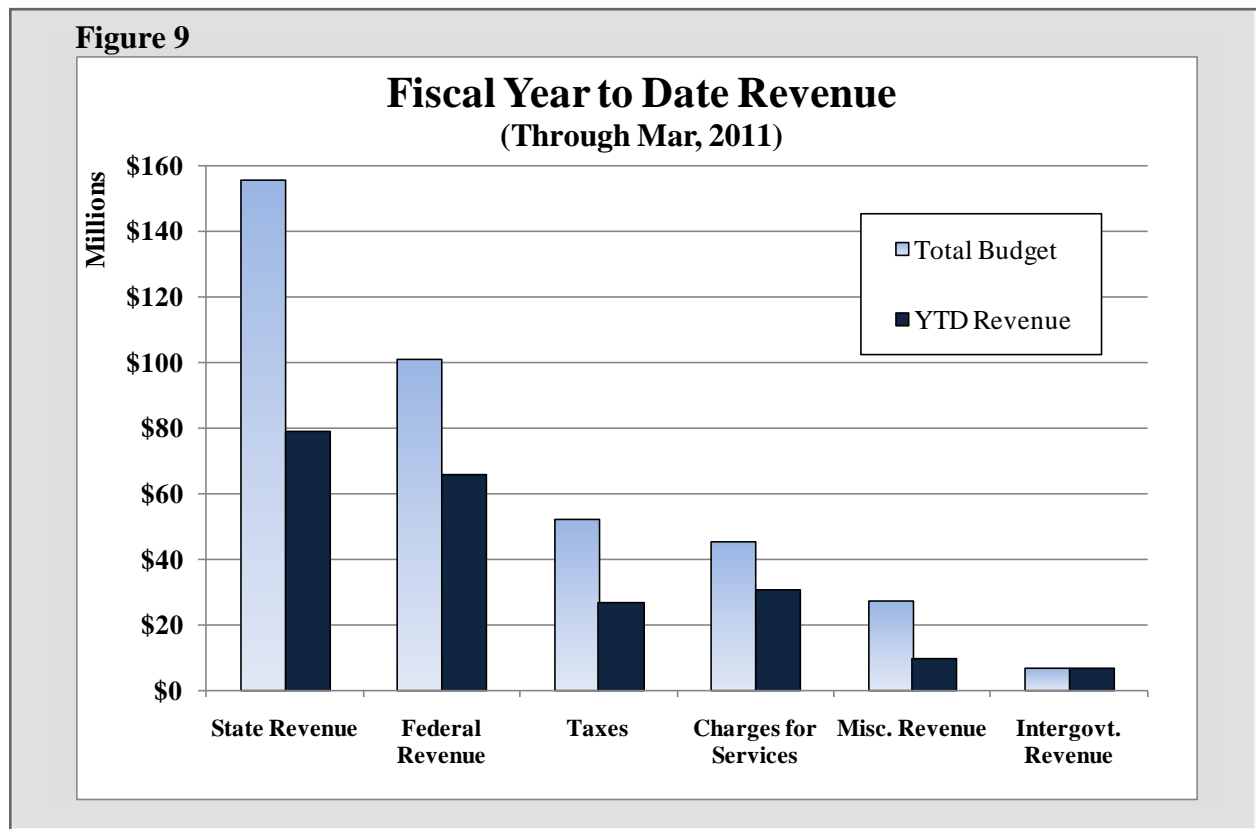
The Miscellaneous budget units overall have only used 40% of budgeted expenditures. Miscellaneous budget units include a wide variety of budget units not directly related to the operations of a particular Department. For example, capital projects, Community Development Block Grants, grand jury expenses and debt service are all included in Miscellaneous. The largest budget unit of the Miscellaneous budgets is General Revenues and Transfers, which accounts for all general purpose revenues received, as well as General Fund transfers to other Funds. Through the 3rd quarter, only 50% of the budgeted transfers to other funds have been made.

The budgeted General Fund transfer to the Department of Employment and Social Services is \$3.7 million. \$1.2 million has been transferred through March 31, 2011. It is currently anticipated that by the end of the year a transfer of up to \$3 million will be required to support mandatory expenditures in the Department of Employment and Social Services. This projection is updated from the budget and 2nd quarter projection based on current trends in the Department of Employment and Social Services.

Public Health and Behavioral Health have both received 75% of the budgeted transfers which are used to meet the County’s required Maintenance of Effort. As discussed above, timing of payments for the state CalFire agreement has kept costs in the Fire Department low through March and as a result, only 47% of budgeted transfers have taken place. The Library has required 82% of its budgeted transfer so far this year and is anticipated to utilize the vast majority of the budgeted transfer before the end of the year.

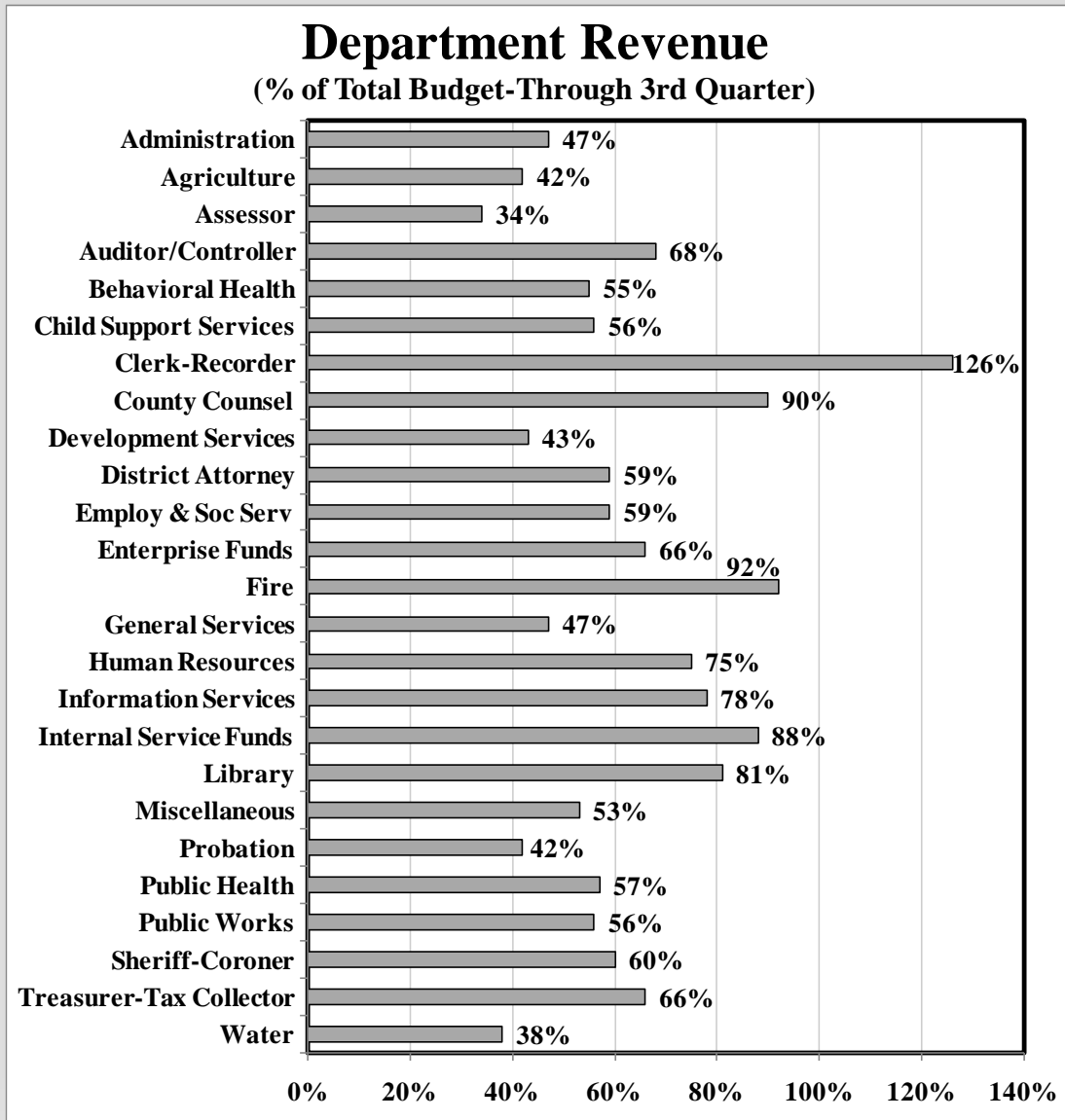
Although the Water Department has expended only 28% of its budget through the 3rd quarter, the Department has used 111% of its budgeted transfer. While the transfer to the Water Fund currently exceeds the budgeted amount, this overage is considered temporary to support the cash flow needs of the department while they await revenue from a number of grants and local water sales. Year end projections for the Water Department actually anticipate general fund savings of \$140,000.

REVENUE REPORT



Through the 3rd quarter of the year the County has received 56% of budgeted revenues². Last year at this time, the County had received 55% of budgeted revenues. The County’s revenues are not evenly spread throughout the year. As seen in Figure 10 below, revenues received by each County department to date vary significantly as a percentage of budget. Many department revenues are reimbursement-based and require the County to expend funds before requesting revenue. For example, Probation receives significant Title IVE funds for Juvenile Hall services that are only received after a lengthy claiming process. Figure 10 shows that most Departments’ revenues are between 35% and 75%

Figure 10



² For the purpose of this report the County’s budgeted revenues include all departmental operating budgets, internal service funds (for example Worker’s Compensation and General Liability), enterprise funds (Neal Road Waste and Recycling 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, General Fund operating transfers to other funds and the Behavioral Health receivable, which documents approved, but yet unpaid, MediCal billings are excluded.

of budget through the 3rd quarter and comparisons with prior year revenue patterns indicate that for the most part this is consistent with historical revenue receipts.

Through the 3rd Quarter, a few departments show higher than anticipated revenues. The Clerk-Recorder received unbudgeted reimbursement for a prior year special election of \$480,000 and the Clerk-Recorder and District Attorney have both received significant unanticipated mandate reimbursement funds that combined total over \$600,000. County Counsel and the Fire Department are also both showing strong revenue receipts in 2010/11, however this is primarily due to 2009/10 revenue that was not posted until 2010/11. Finally, the Internal Service Funds are showing revenues totaling 88% of budget. This is due to the reimbursement of unanticipated insurance settlement payments made in the first half of the year.

Figure 11

| General Purpose Revenue Receipts | | | |
|---|---------------------|---------------------|------------|
| (Through 3rd Quarter) | | | |
| Account Title | Budget | YTD Receipts | YTD % |
| Property Taxes | 46,857,890 | 23,852,131 | 51% |
| Teeter Plan Proceeds | 1,000,000 | 0 | 0% |
| Local Sales Tax | 3,432,300 | 2,217,224 | 65% |
| Other Taxes | 974,070 | 819,618 | 84% |
| Licenses & Permits | 1,550,040 | 455,699 | 29% |
| Fines, Forfeitures & Penalties | 1,444,020 | 723,497 | 50% |
| Interest-County Treasury | 915,000 | 363,301 | 40% |
| Local Public Safety Sales Tax | 11,770,000 | 9,223,786 | 78% |
| RDA City of Chico | 4,377,900 | 3,813,718 | 87% |
| Tobacco Settlement Funds | 2,542,552 | 0 | 0% |
| Other Misc. Revenue | 1,044,850 | 136,882 | 13% |
| Total General Purpose Revenue | \$75,908,622 | \$41,605,856 | 55% |

General Purpose Revenues, included in Figure 11 above as part of the miscellaneous budget unit, are coming in much as anticipated. 55% of budgeted general purpose revenue has been received through the end of March, with the balance of Property Taxes due in April. We are currently projecting a revenue shortfall of approximately \$400,000 for the year, largely due to a decline in the Vehicle License Fee (VLF) in Lieu revenue. VLF in Lieu accounts for \$25 million of the \$46.9 million in budgeted property tax revenues. This is revenue that the County receives in lieu of the Vehicle License Fee revenues the County received until fiscal year 2003/04. VLF in Lieu revenues are calculated each fall by staff in the Auditor's Office based on assessed valuation. Due to the decline in the County's assessed valuation, VLF in Lieu revenues will fall short of budget by approximately \$1 million. Some of this shortfall is offset by higher than anticipated statewide Public Safety Sales Tax revenues (Proposition 172). Figure 11 shows year to date receipts of general purpose revenue.

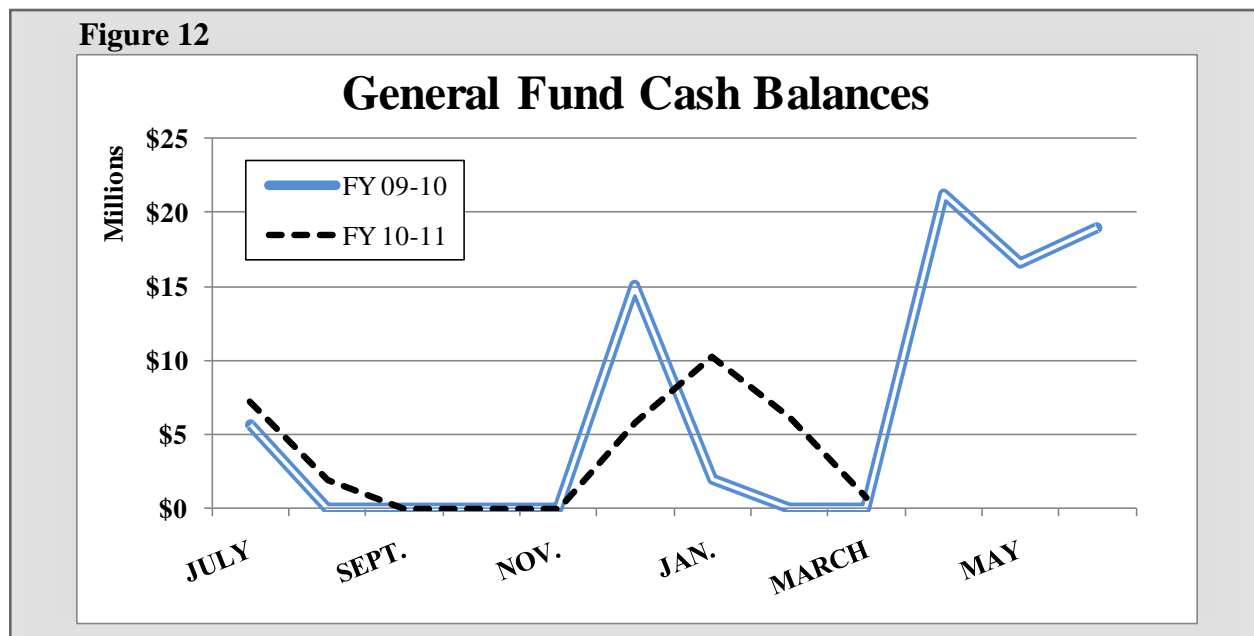
GENERAL FUND OPERATING CASH REPORT

General Fund operating cash has been tracking in a similar pattern for the first six months of the fiscal year compared to the prior year, but increased in the 3rd quarter as explained below. For both Fiscal Year 2009/10 and Fiscal Year 2010/11, Tax Revenue Anticipation Note (TRAN) funds were utilized in the first half. In February of 2010, \$285,343 was transferred and in March of 2010, \$4,457,164 was transferred from TRAN into the General Fund to bring the cash balance to zero. However, no transfers of TRAN funds were necessary during the 3rd quarter of the current fiscal year.

The cash balance at December 31, 2010 was lower when compared to the same date in the prior year (as explained in the Second Quarter Financial Report). However, cash did increase to approximately \$10 million by the end of January, 2011. The increasing balance in January, 2011, compared to the decreasing balance in January of 2010, is the result of three major components. First, the TRAN funds transferred to the General Fund in November of 2010 were transferred back out of the General Fund in December of 2010, thus reducing the cash balance. The TRAN funds transferred in November of 2009 were not transferred back out until January of 2010.

Second, the Department of Employment and Social Services (DESS) was advanced approximately \$7 million in December of 2010. These funds were transferred back to the General Fund in January of 2011 and no advance was necessary for DESS after December. Third, the cash advance to Behavioral Health was \$8,391,317 in January of 2010, compared to an advance of \$5,092,087 in January of 2011. The combination of these three components was the major factor in the flow of cash, comparatively, between January of 2010 and January of 2011.

The decreasing cash balances for both February and March of 2011 are more closely aligned with that of the same two months of 2010. As reflected in Figure 13, the cash balance at the end of March, 2011 was \$761,697. The second installment of property taxes will be received in April, so a significant increase in cash is anticipated, as can be seen on the graph for the prior year.



As noted, the General Fund continues to cover Behavioral Health cash deficits on a regular basis. Payment delays from the State for both Behavioral Health and DESS are a significant cash concern, thus closely monitored by staff. Additionally, TRAN funds are not available for cash flow after April. As stated in the Second Quarter Financial Report, cash advances from other funds may be necessary if sufficient cash is not available in the General Fund for May and June.

Figure 13

| Cash Advances – General Fund (At March 31, 2011) | |
|---|------------------------|
| Advances To General Fund: | |
| From TRAN* proceeds | \$ - |
| Advances From General Fund: | |
| To - CSA 17 South Oroville-Las Plumas Park | \$ 3,921.24 |
| CSA 119 South Fork Estates | \$ 38.45 |
| CSA 200 Stirling City Sewer | \$ 7,479.62 |
| Behavioral Health | \$ 6,974,586.96 |
| Total Advances from General Fund | \$ 6,986,026.27 |
| * Tax Revenue Anticipation Note | |

LONG-TERM DEBT

The following ratio of outstanding debt schedule, Figure 14, and long-term debt schedule, Figure 15, present data as of March 31, 2011. The entries, except for the Ford Motor Credit lease, are unchanged from the Second Quarter Financial Report. With the exception of the monthly payment of principal and interest to Ford Motor Credit, all debt service payments during the 3rd quarter were interest only.

Figure 14

| Ratio of Outstanding Debt by Type (In Thousands, Except Per Capita) | | | | | | | | | | |
|--|-----------------------|-------------------------------|--------------|----------------|--|-------------------------------|----------------|--------------------------|----------------------------------|------------|
| Fiscal Year | Government Activities | | | | Neal Road Recycling and Waste Facility | | | Total Primary Government | % of Assessed Property Tax Value | Per Capita |
| | Bonds | Certificates of Participation | Loans/ Notes | Capital Leases | Loans | Certificates of Participation | Capital Leases | | | |
| 2005 | 61,515 | 4,540 | 4,111 | 688 | | | 1,289 | 72,143 | 0.4894% | \$ 332 |
| 2006 | 57,212 | 3,920 | 3,935 | 1,479 | 500 | | 784 | 67,830 | 0.4123% | \$ 311 |
| 2007 | 56,424 | 3,290 | 2,903 | 1,097 | 450 | 12,025 | 303 | 76,492 | 0.4649% | \$ 351 |
| 2008 | 50,575 | 2,650 | 2,703 | 1,134 | 400 | 12,025 | 20 | 69,507 | 0.3854% | \$ 315 |
| 2009 | 50,492 | 2,300 | 2,494 | 1,029 | 350 | 12,025 | 20 | 68,710 | 0.3680% | \$ 311 |
| 2010 | 50,403 | 1,945 | 2,278 | 922 | 300 | 11,300 | 0 | 67,148 | 0.3739% | \$ 308 |
| 2011 | 49,895 | 2,680 | 2,166 | 902 | 300 | 10,550 | 0 | 66,493 | 0.3647% | \$ 300 |

Figure 15

| Type of Debt | Original Loan Amount | Current Balance | Avg. Annual Payment* | Maturity Date |
|---|----------------------|----------------------|----------------------|---------------|
| Bonds Payable | | | | |
| Butte County Service Area No. 26 Bonds: | | | | |
| 1974 Sewer Bonds | 680,000 | - | - | 1/1/2015 |
| 1975 Sewer Bonds, Series A | 790,000 | - | - | 1/1/2015 |
| 1975 Sewer Bonds, Series B | 380,000 | - | - | 1/1/2015 |
| 1975 Sewer Bonds, Series C | 86,396 | - | - | 1/1/2015 |
| <i>Total CSA 26 Bonds</i> | <i>\$ 1,936,396</i> | <i>\$ -</i> | <i>\$ -</i> | |
| Pension Obligation Bonds | | | | |
| Series A | 28,020,000 | 28,020,000 | 2,475,316 | 6/1/2034 |
| Series B | 21,875,000 | 21,875,000 | 1,692,500 | 6/1/2034 |
| <i>Total Pension Obligation Bonds</i> | <i>\$ 49,895,000</i> | <i>\$ 49,895,000</i> | <i>\$ 4,167,816</i> | |
| Total Bonds Payable | \$ 51,831,396 | \$ 49,895,000 | \$ 4,167,816 | |
| Certificates of Participation | | | | |
| 2003 Certificates of Participation | 5,150,000 | 1,580,000 | 421,140 | 7/1/2014 |
| 2010 Bangor Fire Station #55 COP | 1,100,000 | 1,100,000 | 55,379 | 8/1/2050 |
| Total Certificates of Participation | \$ 6,250,000 | \$ 2,680,000 | \$ 476,519 | |
| Capital Leases | | | | |
| Chico Memorial Hall - 492 Rio Lindo | 583,400 | 421,706 | 61,156 | 4/10/2020 |
| Chico Memorial Hall - 554 Rio Lindo | 670,900 | 476,231 | 62,275 | 4/10/2020 |
| Ford Motor Credit | 32,581 | 3,803 | 9,282 | 8/20/2011 |
| Total Capital Leases | \$ 1,286,881 | \$ 901,740 | \$ 132,713 | |
| Notes Payable | | | | |
| California Energy Commission | | | | |
| Solar Project-Phase 1 | 2,777,000 | 1,885,287 | 277,181 | 12/22/2018 |
| Solar Project-Phase 2 | 390,000 | 281,150 | 35,786 | 6/22/2020 |
| Total Notes Payable | \$ 3,167,000 | \$ 2,166,437 | \$ 312,967 | |
| Neal Road Recycling and Waste Facility | | | | |
| 2006 Certificate of Participation | 12,025,000 | 10,550,000 | 1,193,436 | 7/1/2021 |
| Loan - California Integrated Waste Mngt Board | 500,000 | 300,000 | 50,000 | 6/1/2016 |
| Total Neal Road Recycling and Waste Facility | \$ 12,525,000 | \$ 10,850,000 | \$ 1,243,436 | |
| TOTAL LONG-TERM DEBT | \$ 75,060,277 | \$ 66,493,177 | \$ 6,333,451 | |

* From FYE 6/30/11 to maturity per amortization schedules