

### 3 ECONOMICS

#### *A. Introduction*

This section presents an overview of the Butte County economy, information on the existing and projected real estate conditions within the unincorporated portion of the county, as well as the county's existing fiscal conditions. Real estate market trends will likely drive development within the portion of the unincorporated county for the foreseeable future.

Located in the northern Sacramento Valley, away from California's heavily urbanized areas, Butte County has historically been known as an agricultural county. Productive farmlands currently dominate much of the landscape in the flat western parts of the county that are blessed with fertile soils and proximity to the Sacramento River and other waterways that drain out of the mountains to the east. However, the county's economy is undergoing change in response to local, regional, and national trends and this is driving changes in the local landscape.

Much of the county's new development is anticipated to occur within the spheres of influence of Oroville and Chico. Development is attracted to these areas because of proximity to the large and growing base of existing residents, businesses, and amenities located in the cities, as well as the availability of existing infrastructure. Although there have been no formal annexation proposals for these development areas, the County should understand that annexation could occur at some point in the future. In the outlying areas, little development is currently planned. Incremental development of new housing in the small communities that are more distant from the incorporated cities is likely to continue at slow rates, constrained by limited access and infrastructure. In these areas, new commercial development will be small-scale, local-serving retail, services and offices, and these limited developments will only be successful in those locations that offer visibility and access to nearby residents as well as through-traffic on main travel routes.

In addition to understanding the types of development planned for the unincorporated areas, the County should be aware of the fiscal implications of development within the unincorporated portion of the county. The fiscal implications of development can differ significantly based on location. For example, development that occurs within a Tax Rate Area (TRA) that allocates a larger than average share of the basic property tax to the County will generate more revenues than the same development that is built within a TRA that allocates an average or smaller share of the basic property tax to the County. Service costs can also vary based on location. For example, if 3,000 new residential units were built within a rural community in the unincorporated portion of the county and the existing Sheriff

service standard is insufficient to meet the demand from new development, then the County would need to adjust service standards for the entire community, not just the new residential units, which could lead to disproportionately high costs of providing Sheriff services to the community. On the other hand, if new residential units were scattered about the rural portion of the county, such development could lead to inefficiencies in service delivery.

On a more global scale, the County also faces fiscal issues related to development that occurs within both the unincorporated and incorporated portions of the county. The County Board of Supervisors has discretion over how to spend a relatively small portion of its budget, while restrictions imposed by outside funding sources dictate how most of the budget is spent. This has important implications for the County as it considers the impacts of growth over the General Plan horizon. A chief concern for the County with regard to its fiscal condition is that while such a large portion of its budget is funded with restricted revenues, these revenues do not tend to increase proportionately with growth in the county's service population. In order to assist the County in choosing optimal land use alternatives, the fiscal portion of this Chapter presents these issues along with the County's existing baseline fiscal conditions.

## ***B. Existing Conditions***

### **1. Agriculture and Timber Production**

Agriculture has a major influence on the Butte County landscape and its economy. According to the Butte County 2019 Crop & Livestock Report (hereafter, Crop & Livestock Report), published by the Butte County Agricultural Commissioner, just under 425,670 acres of land were harvested in Butte County in 2019, representing 41 percent of the county's total land area. Although harvested acreage fluctuates from year to year, the total in Butte County has remained relatively stable over the last five years with 420,011 acres harvested in 2015. Field crops made up the majority of 2019 acreage with 310,582 acres, followed by fruit and nut crops with 108,113 acres. Of all crops, rice accounted for the most total acreage, with nearly 96,780 bearing acres, followed by walnuts (56,312 bearing acres) and almonds (39,025 bearing acres).

Data published in the Crop & Livestock Report indicate that in 2019, the value of countywide agricultural and timber production was \$688 million, down from \$773 million in 2015, despite an increase in total crop acreage. Over the four-year span, some crops increased in value per acre, but significant crop value declines were experienced by fruit and nut crops (down 27 percent per acre) and timber (down 39 percent overall—timber acreage is not available). The value of harvested timber and

timber products declined in the 1990s into the early 2000s. Since 2003, the value has leveled off, although there is volatility from one year to the next. There was an increase in the run-up to the 2008/09 recession, a subsequent decline, and then a recovery. Nevertheless, the value of timber sales from 2003 through 2018 averaged \$17.3 million a year, 68 percent less than the annual average from 1994 to 2000, when adjusted for inflation. This represents a significant decrease in economic activity in the eastern part of the county since the 1990s, but it had been somewhat consistent since 2003.

## **2. The Local Economy**

A conventional approach to understand an economy's structure is to examine the number of jobs in major economic sectors. Comparing an area's employment distribution to that of the region and state helps identify the local economy's specializations and sectors that are underdeveloped. In the present case, the local economy refers to the unincorporated area of Butte County, the regional economy refers to Butte County as a whole, and the analysis provides comparisons to the statewide economy.

### **a. Total Employment**

The number of jobs in the unincorporated area of Butte County increased from 10,700 jobs in 2003 to 14,000 in 2018 (the most recent year for which data is available). This 31-percent increase in jobs in the local economy exceeds the 22-percent increase countywide and 25-percent increase statewide. The unincorporated area has far fewer jobs per household, 0.44, compared to the county, 0.89, and the state, 1.31. However, the more rapid growth of jobs in the unincorporated area has translated into a larger increase in jobs per household from 2003 to 2018, a 49-percent increase in the unincorporated area compared to a countywide increase of 10 percent and a statewide increase of 12 percent.

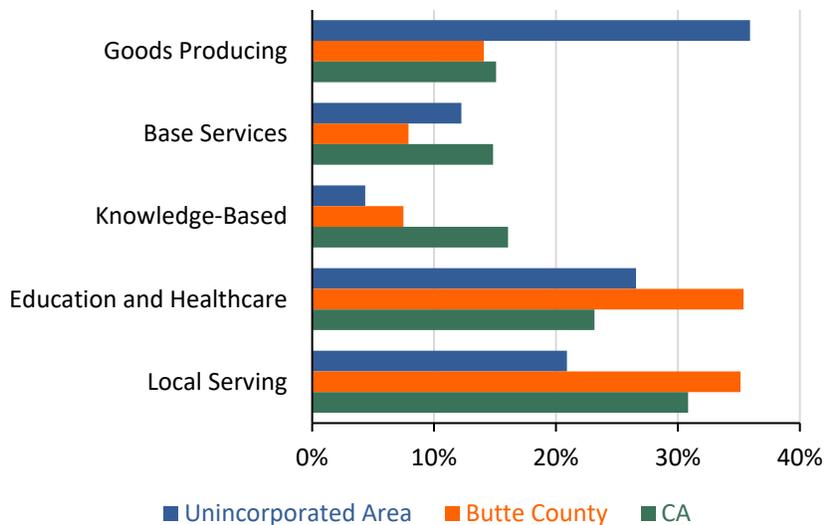
### **b. Employment by Major Groups of Economic Sectors**

Breaking down the changes by major groupings of economic sectors provides a better understanding of the structure of the local economy and how it is growing. The major groups of economic sectors (described in more detail in the following sections) are goods-producing sectors, base-services sectors, knowledge-based sectors, education and health care sectors, and local-serving sectors. Figure 3-1 shows the employment in each major sector as a percentage of the total number of jobs, averaged for 2016 through 2018.

There are two large differences between the local economy and the countywide and statewide economies. First, goods-producing sectors provide more than twice as many jobs in unincorporated Butte County than the sectors provide across the county and the state. Second, local-serving sectors provide a significantly smaller portion of jobs in the unincorporated areas relative to the percentage of jobs provided countywide and statewide.

Regionally, the data show that the Butte County economy is more specialized in economic sectors that provided goods and services to county residents and, perhaps, residents in adjacent jurisdictions. The goods-producing, base services, and knowledge-based sectors provide a smaller percentage of jobs than these sectors account for statewide.

**Figure 3-1 Share of Total Employment by Major Groups of Economic Sectors; Unincorporated Butte County, Butte County, and California; Average for 2016 through 2018**



Source: PlaceWorks, 2021, using employment data from the US Census Bureau’s Longitudinal Employer-Household Dynamics Program.

Table 3-1 provides the rate of growth in employment by major groups of economic sectors from 2003 to 2018. Employment in the unincorporated areas outpaced employment countywide in each group of major economic sectors, except in health and education. Even though growth in these sectors was slightly above the overall rate of job growth in the unincorporated area, it substantially lagged behind these

sectors’ growth in the regional and state economies. Interestingly, employment in knowledge-based sectors in the unincorporated area increased by 20.1 percent, almost as much as the statewide growth, but decreased countywide.

**TABLE 3-1 TOTAL PERCENTAGE CHANGE IN EMPLOYMENT BY MAJOR GROUPS OF ECONOMIC SECTORS; UNINCORPORATED BUTTE COUNTY, BUTTE COUNTY, AND CALIFORNIA; 2003 TO 2018**

	Unincorporated Area	Butte County	California
Goods-Producing	38.9%	30.5%	-0.2%
Base Services	36.7%	2.7%	23.9%
Knowledge-Based	20.1%	-6.6%	25.2%
Health and Education	34.2%	52.0%	54.2%
Local Serving	16.4%	9.5%	22.5%
Total Employment	31.3%	22.3%	24.9%

Source: PlaceWorks, 2021, using employment data from the US Census Bureau’s Longitudinal Employer-Household Dynamics Program.

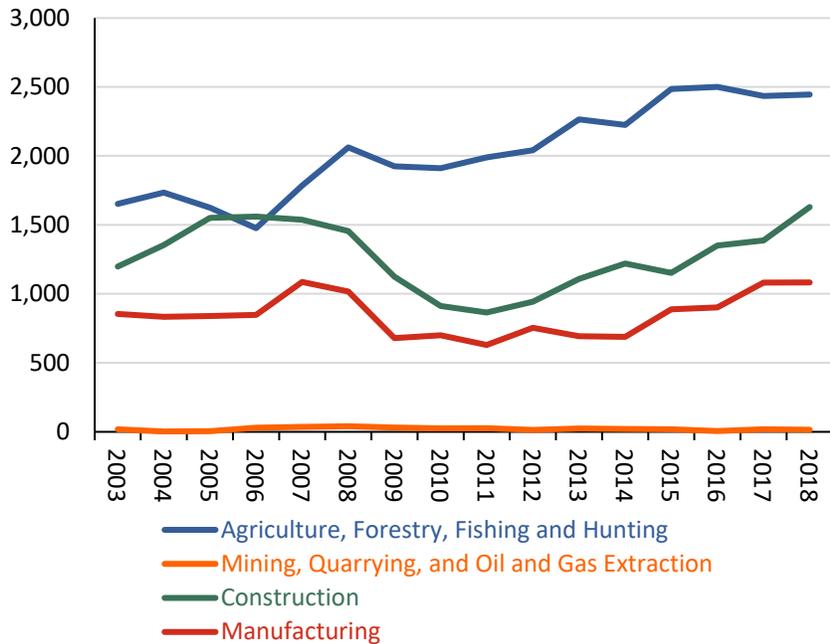
*i. Goods-Producing Economic Sectors*

Businesses in this group of sectors are involved in harvesting and extracting commodities, transformation of raw materials, and the production of final goods. The group includes the following sectors: agriculture, forestry, fishing and hunting; mining, quarrying, and oil and gas extraction; construction; and manufacturing. Figure 3-2 shows the number of jobs in each of these sectors in the unincorporated area from 2003 to 2018.

Half of this group’s employment in the unincorporated area is in the agricultural, forestry, fishing, and hunting economic sector, and 78 percent of the countywide employment in this sector is in the unincorporated area. From 2003 to 2018, employment in this sector in the unincorporated area increased 48 percent, more than three times the rate of growth statewide. Given the declining value of timber production and increasing value of agriculture production discussed previously, the 2018 Camp Fire and 2020 North Complex Fire are expected to have minimal impact on jobs in this sector since 2018. Similarly, the COVID-19 pandemic is not expected to have significantly affected employment in this sector.

Another 30 percent of this group’s employment in the unincorporated area is in the construction sector. The unincorporated area accounts for 37 percent of the countywide employment in construction. It is important to note that jobs in the construction sector are accounted for at the location of the businesses employing construction workers and not at the site of individual construction projects. In the unincorporated area, the construction sector lost many jobs with the 2008/09 recession, but by 2018, the number of jobs was higher than ever. The fires may have had a short-term impact on construction jobs, but, assuming that funding is available, the recovery can be expected to support an increasing number of jobs in this sector.

**Figure 3-2 Number of Jobs in Each Goods-Producing Sector; Unincorporated Butte County; 2003 to 2018**



Source: PlaceWorks, 2021, using employment data from the US Census Bureau’s Longitudinal Employer-Household Dynamics Program.

*ii. Base Services Economic Sectors*

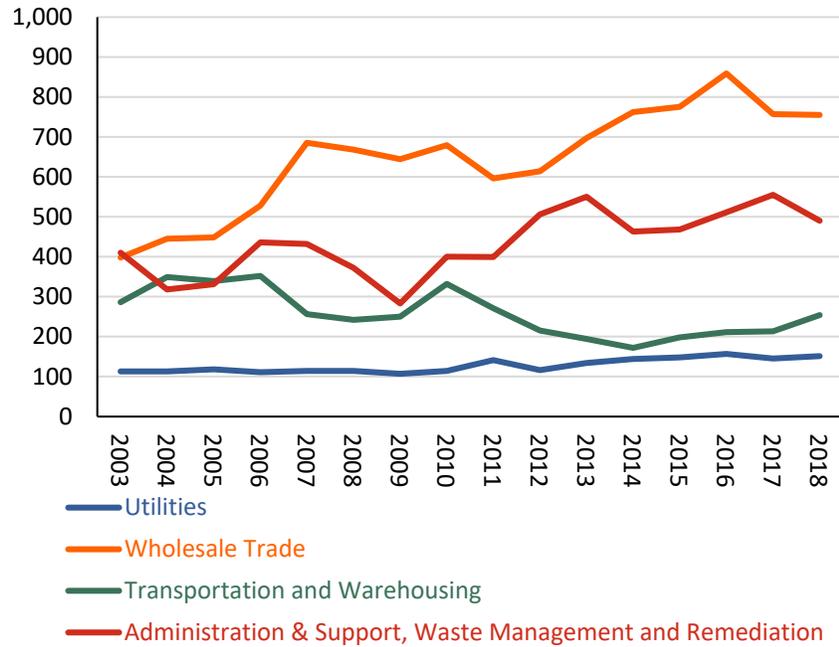
Businesses in this group of sectors provide necessary services to goods-producing businesses and to other types of businesses and households. The group includes utilities; wholesale trade; transportation and warehousing; administration and

support; and waste management and remediation. Figure 3-3 shows the employment in each of the base services sectors in the unincorporated area from 2003 to 2018.

The wholesale trade sector provides 47 percent of the jobs in the group of sectors, and 39 percent of the countywide jobs in this sector are in the unincorporated area. From 2003 to 2018, the number of jobs in this sector in the unincorporated area increased 90 percent, five times the growth rate countywide and two times the rate statewide. Because this sector distributes goods to retail stores, it can be expected that fire-related demand reduction (see the discussion under retail trade below) may have had a partial impact since 2018. More concerning is the pandemic-related reduction in sales at retail stores, which can be expected to put downward pressure on employment in this sector starting in 2020. In contrast, transportation and warehousing, which includes distribution to wholesalers and fulfillment centers, is expected to weather the pandemic economic disruption fairly well. However, this sector accounts for about half the share of jobs in this group in the unincorporated area and countywide relative to statewide employment. From 2003 to 2018, the number of jobs in this sector declined in the unincorporated area and countywide, while increasing 45 percent statewide.

The administration and support, waste management, and remediation sector accounts for another 31 percent of the jobs in this group of sectors in the unincorporated area. However, this sector accounts for substantially more jobs countywide and statewide. Employment growth in this sector in the unincorporated area and countywide, about 20 percent from 2003 to 2018, lagged statewide growth, 26 percent. It is hard to draw specific conclusions about this sector because more than a third of the jobs countywide were at employment services businesses, which provide temporary staffing across many different sectors.

**Figure 3-3 Number of Jobs in Each Base Services Sector; Unincorporated Butte County; 2003 to 2018**



Source: PlaceWorks, 2021, using employment data from the US Census Bureau’s Longitudinal Employer-Household Dynamics Program.

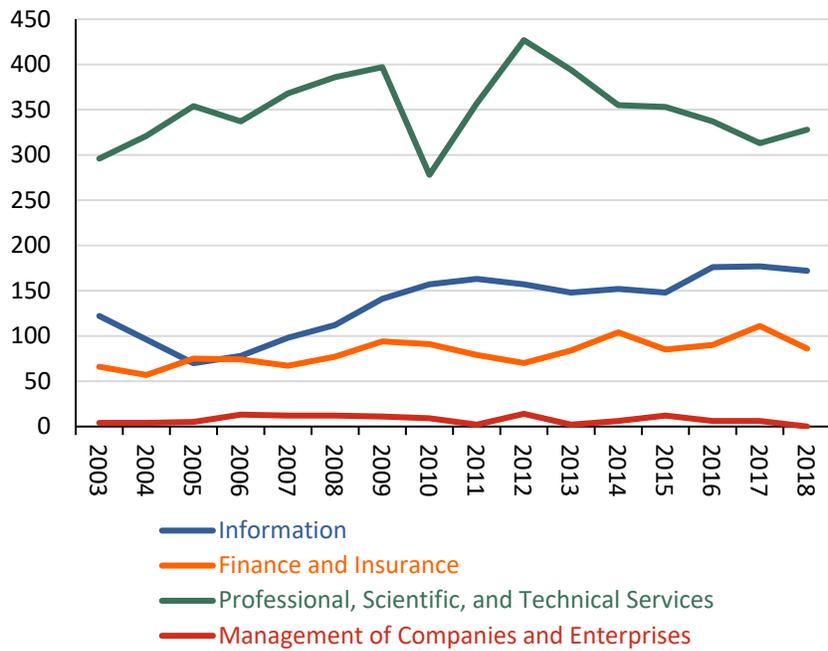
*iii. Knowledge-Based Economic Sectors*

Businesses in this group of sectors rely extensively on educated and skilled workers and provide services to businesses and individuals. The group includes information; finance and insurance; professional, scientific, and technical services; and management of companies and enterprises. Figure 3-4 shows the employment in each of the knowledge-based sectors in the unincorporated area from 2003 to 2018.

As discussed previously, this group of sectors is very small in the local and regional economy, accounting for less than 5 percent of jobs in the unincorporated area and just over 7 percent of countywide jobs. The largest economic sector in this group—professional, scientific, and technical services—provides just over 2 percent of the total jobs in the unincorporated area and 3 percent of countywide jobs. Because this group of sectors accounts for about half the percent of jobs countywide as it accounts for statewide, these sectors may be an important focus for countywide economic development. Nevertheless, growth in these sectors is unlikely to have a

substantial effect on land use and development in the unincorporated area of the county.

**Figure 3-4 Number of Jobs in Each Knowledge-Based Sector; Unincorporated Butte County; 2003 to 2018**



Source: PlaceWorks, 2021, using employment data from the US Census Bureau’s Longitudinal Employer-Household Dynamics Program.

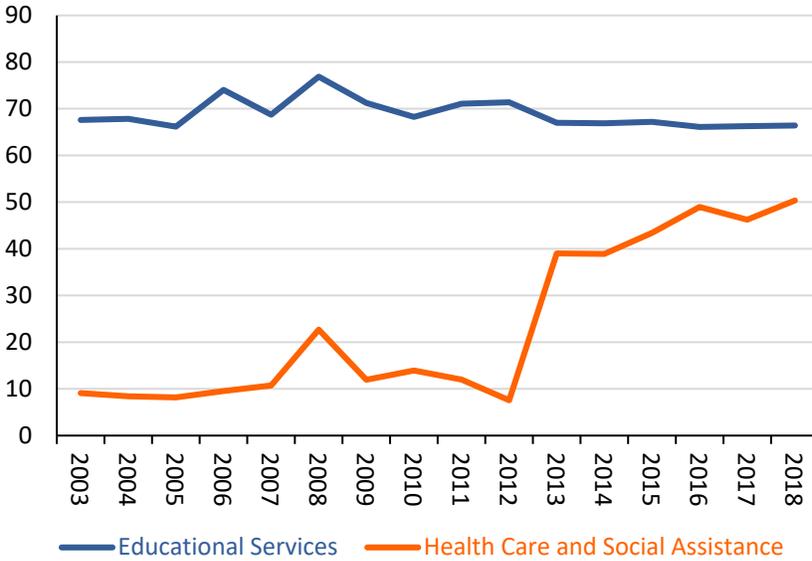
*in. Education and Healthcare Economic Sectors*

Businesses in this group of sectors provide health care and educational services to individuals. These businesses are separated from local-serving sectors because the payment/funding for services and the decisions on where to locate are less tied to residents. The group includes educational services and health care and social assistance. Because these sectors (as well as the local-serving sectors in the next section) typically provide services to local residents, the analysis measures the number of jobs per 1,000 households, rather than the number of jobs as a percentage of total jobs. Figure 3-5 shows the employment in the education and health care sectors per 1,000 households in the unincorporated area from 2003 to 2018.

The unincorporated area has 66 jobs in educational services per 1,000 households, lower than the countywide rate, 107 jobs, and the statewide rate 113 jobs. The unincorporated area accounts for 22 percent of countywide education jobs. While it might appear that the unincorporated area is underserved, schools in incorporated jurisdictions often serve residents in adjacent unincorporated areas. The fact that the countywide number of jobs in education per household is similar to the statewide rate suggests that overall Butte County is adequately served. From 2003 to 2018, the number of education jobs in the unincorporated area of the county per 1,000 households remained rather level at an average of 69 jobs and ranging from a low of 66 in 2016 to a high of 77 in 2006. However, the number of jobs per 1,000 residents increased 17 percent countywide and 7 percent statewide from 2003 to 2018. With the displacement of households and other disruptions caused by the two fires, it can be expected that the number of education jobs in the unincorporated area may have been impacted since 2018, and the number of education jobs countywide may have decreased with the decline in the total number of households. In addition, it can be expected that some school districts may have constrained hiring in response to budget pressures resulting from the pandemic. However, it is not expected that the pandemic will have lingering impacts on the number of education jobs.

The unincorporated has 49 jobs in the healthcare and social assistance sector per 1,000 residents, substantially below the countywide rate, 207 jobs, and the statewide rate, 187 jobs. The lower rate of jobs in this sector in the unincorporated area reflects hospitals and associated services being located in incorporated jurisdictions. The higher rate of jobs in this sector countywide relative to the state suggests that healthcare and social assistance service providers are providing services to residents in adjacent counties. The number of healthcare and social assistance jobs in the unincorporated area per 1,000 residents increased 454 percent from 2003 to 2018. This is much higher than growth countywide, 49 percent, and statewide, 68 percent. The number of jobs increased dramatically in all three places in 2013 as healthcare coverage under the federal Affordable Care Act went into effect. With the aging of the baby boom generation, it is expected that healthcare spending will continue to grow, and the number of jobs in this sector will continue to increase.

**Figure 3-5 Number of Jobs in Education and Healthcare Sectors per 1,000 households; Unincorporated Butte County; 2003 to 2018**



Source: PlaceWorks, 2021, using employment data from the US Census Bureau’s Longitudinal Employer-Household Dynamics Program, and number of households estimates from the CA Department of Finance.

*v. Local-Serving Economic Sectors*

Businesses in this group tend to provide services directly to individual customers. The group includes the following sectors: retail trade; real estate and rental and leasing; arts, entertainment, and recreation; accommodation and food services; other services; and public administration. For each sector in this group,

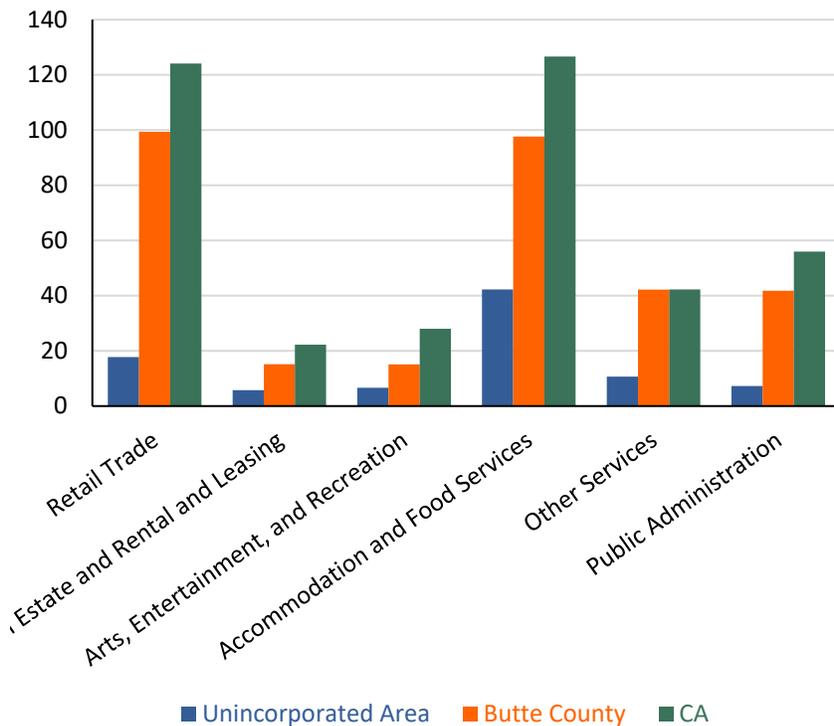
shows the number of jobs per 1,000 households for the unincorporated area, Butte County, and the state.

For each of the sectors, the number of jobs per 1,000 households is somewhat less for the county relative to the state. However, this difference is not unexpected for a predominantly rural county that is not part of one of the major metropolitan areas.

Figure 3-6 show very large discrepancies between the unincorporated area and the county as a whole, especially for retail trade, accommodation and food services, and other services. While some difference is to be expected—unincorporated areas are less dense and less populous, and they lack water and sewer infrastructure in most cases—the magnitude of the differences suggests that there is potential to support additional local-serving businesses. There is no magic number for how many businesses an unincorporated area can serve. It depends on the number of households and level of income as well as the distance to the nearest commercial district in an incorporated area.

With the displacement of households and other disruptions resulting from the fires, it can be expected that there is less consumer spending in the affected areas and the number of jobs in local-serving sectors will have declined since 2018. Economic recovery in the affected areas will depend on how long it takes for displaced households to return to permanent housing and the number of households that are able to and choose to return. Based on national and statewide data, it can also be expected that the economic impacts of the pandemic will have reduced the number of jobs in local-serving sectors in 2020. More importantly, the long-term shift from spending at stores to online purchases of goods has accelerated with the pandemic. There is a general expectation that retail stores will not return to pre-pandemic levels of economic activity. Similarly, with accommodations, there is a general expectation that there will be permanent reductions in business travel and that the lodging industry will not fully recover to pre-pandemic levels. For restaurants, the concern is that many restaurants have closed permanently and that returning to pre-pandemic levels of economic activity will take several years.

**Figure 3-6 Number of Jobs in Local-Serving Economic Sectors per 1,000 Households; Unincorporated Butte County, Butte County, and California; Average for 2016 to 2018**



Source: PlaceWorks, 2021, using employment data from the US Census Bureau’s Longitudinal Employer-Household Dynamics Program, and number of households estimates from the CA Department of Finance.

c. Land Use and Development Implications of the Local Economy

Strength in the agricultural, forestry, hunting, and fishing sector should continue to support agricultural land uses in unincorporated areas. However, continued declines in the value of timber harvest suggest potential issues in the eastern parts of the county.

Continued strength in other goods-producing sectors, including manufacturing and construction, should continue to support industrial land use and development in unincorporated areas. However, declines in warehousing and transportation coupled with potential pandemic impacts on wholesaling could offset some of the industrial

strength expected from goods-producing sectors. The majority of industrial activity in the unincorporated portion of the county is clustered near Highway 99 and Highway 70, as access to transportation nodes is required for this type of use. Industrial space in the more remote regions of the county is sparse, agriculture-based and tends to be situated near existing railroad tracks.

There is little expectation that growth in knowledge-based sectors will support significant office development in the unincorporated area of the county. However, continued growth in healthcare can be expected to support new medical office development. Capitalizing on this potential will require land area suitable for commercial development in proximity to areas of concentrated population in unincorporated areas.

The data suggests that there may be latent demand for additional commercial development for local-serving businesses in unincorporated areas. However, the impact of the fires and the pandemic may suppress this market demand. The most likely opportunities for new commercial development in unincorporated areas will be those areas where new residential development can be expected. There is very little information available regarding market conditions in areas located away from the incorporated areas in Butte County. Areas like Forest Ranch and Stirling City have only basic neighborhood-serving retail establishments in the form of a small market or general store, and currently do not have any commercial properties for sale or lease. More populated unincorporated areas like Durham have the same category of neighborhood-serving retail and also include the minimum office space required for basic local-serving businesses, such as health-related services and real estate offices. Lack of water and sewer infrastructure will likely keep population density low and hinder the viability of commercial uses in these outlying areas.

### **3. Market Trends**

Real estate development activity in Butte County is concentrated within the incorporated cities. Residential development in the unincorporated portion of the county is primarily focused on the north and south periphery of Chico, southern Oroville, and Thermalito. When the current General Plan was being prepared, the regional housing market, like the markets across the state and nation, was in a tremendous upcycle, which began declining in 2006 before crashing with the 2008/09 recession. The 2007 Setting and Trends Report noted that the then currently proposed or under development residential projects would add more than 3,000 new housing units to southern Oroville, 500 in Thermalito and 200 in north Chico. Although the housing market has recovered from the 2008/09 recession, it has yet to produce the number of housing units being constructed prior to the recession. In

the past five years, the Butte County Planning Commission has only had four proposed development projects with more than ten lots come before it. This is not to say that the Planning Commission has not been busy, only that housing development is not as vigorous as it had been. Nevertheless, recovery from the two fires may drive a substantial amount of housing construction, but most of this will be in areas already planned, zoned, and subdivided for housing.

Outside of rebuilding from the fires in the eastern portions of the county, outlying areas of the unincorporated portion of the county are currently experiencing little residential growth, with no substantial developments planned or proposed. In time, it is possible that these areas will demand additional retail services beyond a basic market, such as a restaurant or coffee shop. Future office development will likely focus on basic, community-oriented services, such as medical services in a community that has a higher-than-average number of seniors, or real estate services in a community that is experiencing growth.

Industrial growth in the county is almost entirely focused near the Highway 99 corridor. Industrial space in the unincorporated region is not common outside of agricultural related industrial uses like the rice storage and processing facilities in Richvale.

#### **4. Property Values and Market Conditions**

Data for residential property values is readily available because there are many sales each year that can be tracked. However, commercial and industrial businesses often lease the property where they operate, and the ones that own their facilities tend to own them for a long time. Thus, there is limited data available to provide an assessment of commercial and industrial property values in the unincorporated areas of the county.

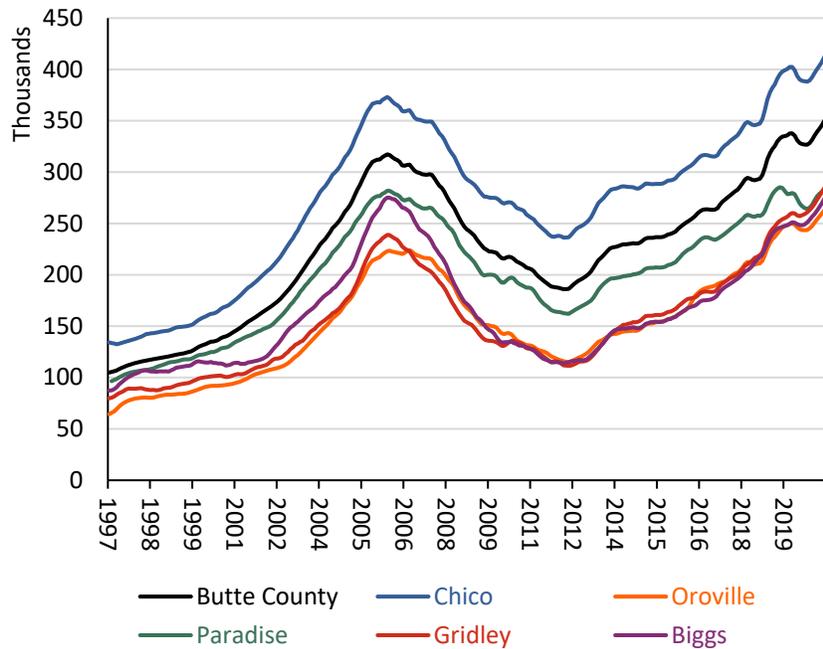
##### **a. Residential**

Figure 3-7 shows the value of a typical single-family house countywide and in each of the incorporated jurisdictions from 1997 to 2021. For all six areas represented in the chart, the escalation in home values prior to the 2008/09 recession and the subsequent decline starting in 2006 are clearly evident. In all six of the areas, home values began to increase again in 2012. The data are derived from home sales and do not reflect the value of homes destroyed in the two fires. There is no drop in the estimated value of houses in 2018, although values declined in Paradise from August through October 2019. There is, however, a decline in home values across all six areas for the first part of 2020. This decline is an impact of the COVID-19 pandemic.

Home values began to increase again in April 2020 (Biggs and Gridley), June (Oroville), and July (countywide, Chico, and Paradise).

Over the past five years, home values have increased substantially: 34 percent in Paradise, 40 percent in Chico, 45 percent countywide, 65 percent in Oroville, 71 percent in Gridley, and 73 percent in Biggs. Property tax revenues have not increased commensurately because Proposition 13 limits the increase in taxable assessed value to no more than 2 percent per year.

**Figure 3-7 Typical Single-Family House Value; Butte County and Incorporated Jurisdictions; Monthly, January 1997 to January 2021**

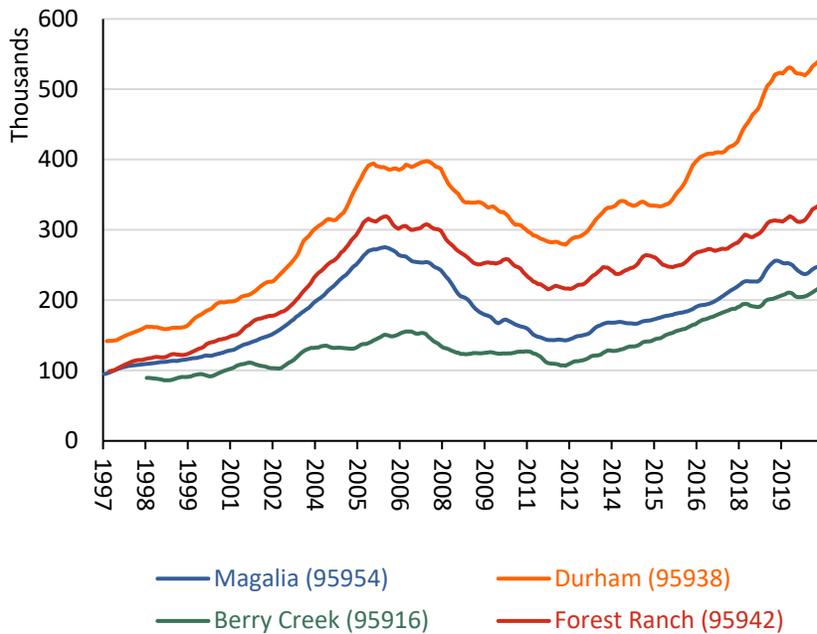


Source: PlaceWorks, 2021, using data from the Zillow Home Value Index; data reflect the value of the typical single-family house in the 35 to 65 percentile price range and are smoothed and seasonally adjusted.

Figure 3-8 shows the same typical home value data for the zip code areas for four unincorporated communities: Magalia, Durham, Berry Creek, and Forest Ranch. These home values show the same upward and downward trend of escalation and steep decline associated with the 2008/09 recession. Magalia has the same three-

month steep decline in the late summer and fall of 2019. Finally, these communities have also experienced a substantial appreciation in property values over the last five years: 39 percent in Forest Ranch, 40 percent in Magalia, 45 percent in Berry Creek, and 59 percent in Durham.

**Figure 3-8 Typical Single-Family Home Value; Zip Code Area for Select Unincorporated Communities; Monthly, January 1997 to January 2021**



Source: PlaceWorks, 2021, using data from the Zillow Home Value Index; data reflect the value of the typical single-family house in the 35 to 65 percentile price range and are smoothed and seasonally adjusted.

Taken together, the increase in home values in all these areas and countywide suggests that the housing market is strong. However, it also suggests that Butte County faces the same issue that plagues the state: the market is not producing enough housing and has not been since the 2008/09 recession. This is true for the many households displaced by the two fires that still see no permanent housing solution on the horizon. It is also true for young people wanting to move out on their own, households that are doubled up just to afford housing, and those who would migrate to Butte County for the strong job growth but for the lack of a place to live.

b. Retail

With stay-at-home orders to combat the COVID-19 pandemic and a greatly reduced appetite for in-person shopping even when the orders have been lifted, this is a poor time to assess the market conditions for retail. Nevertheless, posted asking lease rates for retail space in Chico and Oroville are no higher and in many cases are lower than reported in the 2007 Setting and Trends Report. Furthermore, with asking lease rates mostly under \$18 per square foot, lease revenue is very likely insufficient to support new retail development and very likely insufficient to support sales of retail property without a very motivated seller.

It is still too early to know exactly what the near-term future holds for the retail market. Prior to the pandemic, online sales had been growing at the expense of bricks and mortar stores, which have never fully recovered from the 2008/09 recession based on inflation-adjusted per household spending. During the pandemic, online sales have skyrocketed. The general consensus is that spending at retail stores will never fully recover. This means the market will likely support fewer stores going forward. However, retail growth may happen in areas with significant residential growth.

Retail vacancies may become problematic in the near term, although this may be more of an issue for the incorporated jurisdictions than it will be in the unincorporated area of the county. Excess vacant space typically puts downward pressure on market rate rents, which, in turn, hinder property owners from reinvesting in their properties and inhibit new development. As the economy emerges from the pandemic and retail market conditions become clearer, it may become necessary to repurpose some commercial properties in order to minimize excess vacancies.

In contrast to retail stores, spending at restaurants, on an inflation-adjusted per household basis, had been steadily growing for many years. The pandemic has forced temporary and permanent closure of many restaurants. It may take time for the food service industry to recover, but the expectation is that eventually restaurant growth will resume and the long-term trend of expansion will continue.

c. Office

As with retail, stay-at-home orders have affected office-based businesses, but the impacts have been different. The internet does not necessarily replace local office-based businesses, although improvements in technology allow some businesses to offer their services without in-person meetings. Even healthcare has seen an uptick in telemedicine.

The bigger effect on office-based businesses has been improvements in technology that facilitate remote work. Many office workers may not return to full-time work at the office. Some may work almost exclusively at home, but many may work at home some days and at the office on other days. The general consensus is that office-based businesses will seek to reduce their office footprint. However, most office leases are long term, so the impact of this shift may take several years to manifest itself in vacant office space. Nonetheless, this shift can be expected to put downward pressure on office lease rates and, consequently, reduce the value of existing office property and hinder new office development.

The same technology that facilitated working from home has also compensated for travel restrictions. Business travel, which is the most profitable segment in the travel industry, is not expected to return to pre-pandemic levels. This will weaken the hospitality industry, namely lodging establishments and some restaurants.

Posted leasing rates for office space in Chico and Oroville are somewhat higher than the rates identified in the 2007 Settings and Trend Report. This suggests that the office market has strengthened since then and that the pandemic and resulting technology improvements have not yet impacted the office market. Nevertheless, the county should expect weak demand for office space and office development going forward.

d. Industrial

Unlike the office and retail market. The industrial market has generally been unscathed by the pandemic, at least from an economic perspective. Posted leasing rates for industrial properties are generally in line with the leasing rates identified during the preparation of the current general plan. However, the growth in goods-producing and base services sectors suggest continued support for industrial building space and new industrial development as vacant industrial space becomes sparse.

***C. Projected Growth and Development***

**1. Residential Development**

Growth in population and households, in addition to the loss of more than 14,000 housing structures in the Camp Fire (2018) and North Complex Fire (2020), drives demand for residential development. Table 3-2 provides projections for population, households, and housing from the Butte County Association of Governments

(BCAG).<sup>1</sup> BCAG projects that the population residing in the unincorporated area of Butte County will increase 32.3 percent, from 67,640 in 2020 to 86,466 in 2040. This is following a population decline of 16.6 percent from 2018 (81,088 residents) to 2020, as a result of the 2018 Camp Fire. With the BCAG-projected decrease in the average household size from 2.39 to 2.28 over this period, the number of households would increase by 23.8 percent. To accommodate this household increase, BCAG projects that 7,899 new housing units would need to be constructed between 2020 and 2040. BCAG also projects that almost 3,000 housing units will be constructed by 2020. It is not specified in the BCAG projections how many of these new housing units are replacements for housing destroyed in the fires and how many reflect new growth in other parts of the unincorporated area of the county.

**TABLE 3-2 PROJECTED POPULATION, NUMBER OF HOUSEHOLDS, AND NUMBER OF HOUSING UNITS; BUTTE COUNTY, 2018 TO 2040**

	Incorporated Jurisdictions	Unincorporated Area	Countywide Total
<b>Population</b>			
2018	145,286	81,088	226,374
2020	142,651	67,640	210,291
2025	155,016	75,040	230,056
2030	160,713	80,621	241,334
2035	168,220	83,046	251,266
2040	175,554	86,466	262,020
<b>Households</b>			
2018	63,381	35,880	99,261
2020	54,186	32,057	86,243
2025	59,692	34,902	94,594
2030	64,055	36,982	101,037
2035	69,869	37,577	107,446
2040	75,240	38,949	114,189
<b>Housing Units</b>			
2018	63,443	35,910	99,353
2020	54,131	31,991	86,122
2025	60,602	33,756	94,358

<sup>1</sup> While the Draft Post Camp Fire Regional Growth Forecast data does account for the destruction of housing in the Camp Fire; the forecasts do not account for housing destroyed in the North Complex Fire.

	Incorporated Jurisdictions	Unincorporated Area	Countywide Total
2030	65,106	35,643	100,749
2035	69,596	37,669	107,265
2040	74,035	39,890	113,925

Source: PlaceWorks, 2021 using population, average household size, and number of housing units projections from the Butte County Association of Governments' *Draft Post Camp Fire Regional Growth Forecast, 2021*.

## 2. Nonresidential Development

Growth in employment is the primary driver of demand for new nonresidential development. Table 3-3 estimates the change in employment in each economic sector in the unincorporated area of Butte County based on the BCAG-projected employment. These employment projects are used in the following sections to estimate the nonresidential development potential created by the projected employment growth.

**TABLE 3-3 PROJECTED INCREASE IN EMPLOYMENT BY ECONOMIC SECTOR; BUTTE COUNTY UNINCORPORATED AREA; 2020 TO 2040**

	2020–25	2025–30	2030–35	2035–40
Farming, Mining, Logging, and Construction	28	21	165	119
Manufacturing	7	5	41	29
Wholesale Trade	7	6	45	32
Retail Trade	7	5	42	31
Transportation, Warehousing, and Utilities	10	8	60	43
Information	2	1	11	8
Finance and Insurance	0	0	0	0
Real Estate and Rental and Leasing	4	3	22	16
Professional and Business Services	9	7	53	38
Education, Health Care, and Social Assistance	25	19	148	107
Leisure and Hospitality	9	7	56	40
Other Services	65	50	388	279
Government	-6	-4	-34	-24

Source: PlaceWorks, 2021, using countywide employment projections from the Butte County Association of Governments' *Provisional Long-Term Regional Growth Forecasts 2018–2040, 2019*, employment projects by economic sector data from the CA Employment Development Department, and unincorporated area percentage share of countywide employment by economic sector data from the US Census Bureau's *Longitudinal Employer-Household Dynamics Program*.

a. Retail/Commercial

Retail development would accommodate employment growth in the retail trade, finance and insurance, real estate, leisure and hospitality, and other service sectors. From 2020 to 2040, these sectors are projected to add up to 1,025 jobs in the unincorporated area. However, 53 percent of these jobs will be in the accommodation and food services sectors. Development for hotels and restaurants will primarily favor locations with water and sewer service. Thus, many of these jobs may well end up in incorporated jurisdictions. Assuming 40 of the 53 percent of jobs do not occur in the unincorporated area, the total potential employment growth for retail/commercial development is 615. Using an industry standard of 350 square feet per employee (for a mix of retail and commercial services businesses), there is potential demand for up to 215,000 square feet of retail/commercial development over 20 years. However, this demand may be offset somewhat by potential vacancies resulting from the pandemic and the shift to online retail.

b. Office

Office development would accommodate employment growth in information, professional and business services, and education and healthcare. Although education is included here, the projections is for very little growth in education jobs. From 2020 to 2040, employment in these sectors is projected to add almost 430 jobs in the unincorporated area. Assuming an industry standard of 300 square feet per employee (a mix of traditional office space and medical offices), this growth could create demand for up to 128,000 square feet of new office development. As with the retail demand, though, this new development may be offset by rising office vacancies over the next several years.

c. Industrial

Industrial development would accommodate employment growth in the manufacturing, wholesale trade, and transportation, warehousing, and utilities sectors, plus 40 percent of the jobs in the farming, mining, logging, and construction sector (to account for construction jobs only). From 2020 to 2040, these sectors are project to add 160 jobs. The average square feet per employee varies widely between construction and warehousing. The analysis assumes a blended rate of 850 square feet per employee. Thus, growth in these sectors would support the development of up to 136,000 square feet of new industrial facilities.

#### ***D. Baseline Fiscal Conditions***

The COVID-19 pandemic has upended local government finance across the country, especially in counties, which are responsible for public health and have custodial responsibilities for jail populations. For Butte County, there are the added responsibilities of recovery and rebuilding in the aftermath of the Camp and North Complex fires.

This section of the report provides some basic information about the sources of Butte County's General Fund dollars and how the County spends them. In addition, this section includes a brief discussion of other funding mechanisms (e.g. building permit fees, etc.) that would be affected by growth in the unincorporated portion of the county.

##### **1. Budget Overview**

According to the Fiscal Year 2020–21 Adopted Budget, the County's budget totals \$645,300,000. Counties implement many State and federal programs at the local level, and much of the County's budget is State and federal funding for these programs. As noted in the budget document, only about 20 percent of the total budget is under the discretion of the County.

Counties operate at two levels, and this distinction further complicates budgeting. Butte County provides many services to residents countywide, regardless if they live in an incorporated jurisdiction or in an unincorporated area of the County. Examples include public health and the District Attorney. A small portion of the property tax paid by property owners in incorporated jurisdictions help fund regional services. The County also provides local services, similar to some of the services cities provide, to residents in the unincorporated area. A slightly larger portion of the property tax paid by property owners in unincorporated areas help fund both regional services and local services.

This has important implications for the County as it considers the impacts of growth over the General Plan horizon. A chief concern for the County with regard to its fiscal condition is that while such a large portion of its budget is funded with restricted revenues, these revenues do not tend to increase proportionately with growth in the County's service population. With general purpose revenue funding such a small portion of the County's budget, the Board of Supervisors has limited ability to steer its budget to compensate for shortfalls that may arise from the disconnect between rising service costs and restricted revenue sources, forcing

difficult decisions in order to balance the budget while trying to maintain service levels to the greatest extent possible.

## 2. Expenditures

Table 3-4 summarizes the budgeted expenditures for regional services (those provided countywide, in both cities and unincorporated areas). The first column of figures shows the total expenditures, and the second column shows the net County cost for each activity. The final column shows the net per capita costs. Overall, net county costs for regional services total to \$253 per capita.<sup>2</sup>

**TABLE 3-4 BUDGETED EXPENDITURES FOR REGIONAL SERVICES; BUTTE COUNTY; FISCAL YEAR 2020–21**

Budget Function and Activity	Total Expenditures	Net County Cost	Net Cost per Capita
<b>General Government</b>			
Legislative and Administration	8,034,104	5,596,871	27
Finance	22,627,861	-81,504,825	-388
Counsel	1,046,505	403,901	2
Personnel	2,458,425	712,386	3
Elections	3,177,122	1,132,775	5
Communication	5,499,822	639,737	3
Property Management	3,795,211	1,814,847	9
Plant Acquisition	21,329,806	1,489,074	7
Promotion	551,500	332,924	2
Other	3,287,711	3,251,813	15
<b>Public Protection</b>			
Judicial	32,906,216	17,477,405	83
Police Protection	31,229,244	24,283,860	115
Detention/Correction	66,261,644	34,725,207	165
Fire	0	0	
Flood Soil Water Conservation	8,244	8,154	0

<sup>2</sup> CA Department of Finance population estimates for 2021 were not available at the time this report was prepared. The per capita cost are based on the estimated countywide population, 210,291 residents, as of January 1, 2020.

Budget Function and Activity	Total Expenditures	Net County Cost	Net Cost per Capita
Protection Inspection	0	0	
Other Protection	11,691,498	3,656,317	17
<b>Public Ways and Facilities</b>			
Public Ways	0	0	
Transportation Systems	0	0	
<b>Health and Sanitation</b>			
Health	113,073,860	1,884,437	9
<b>Public Assistance</b>			
Administration	112,537,047	12,704,200	60
Aid Programs	76,422,502	19,945,712	95
Veterans Services	491,906	50,365	0
Other Assistance	469,575	18,580	0
<b>Education</b>			
Library Services	4,212,793	3,695,049	18
Ag Education	300,989	300,989	1
<b>Recreation</b>			
Veterans Memorial Buildings	66,047	31,806	0
<b>Debt Services</b>			
Retire Long-Term Debt	5,341,068	589,368	3
<b>Total</b>	<b>526,820,700</b>	<b>53,240,953</b>	<b>253</b>

Source: PlaceWorks, 2021, using data from the Butte County Fiscal Year 2020–21 Adopted Budget and population estimate from the CA Department of Finance.

Table 3-5 summarizes the budgeted expenditures for local services (those provided only in the unincorporated area of the County). The first column of figures shows the total expenditures, and the second column shows the net County cost for each activity. The final column shows the net per capita costs. Overall, net county costs for local services total to \$168 per capita.<sup>3</sup>

<sup>3</sup> CA Department of Finance population estimates for 2021 were not available at the time this report was prepared. The per capita cost are based on the estimated population residing in unincorporated areas, 67,640 residents, as of January 1, 2020.

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**TABLE 3-5 BUDGETED EXPENDITURES FOR LOCAL SERVICES; BUTTE COUNTY; FISCAL YEAR 2020–21**

Budget Function and Activity	Total Expenditures	Net County Cost	Net Cost per Capita
<b>General Government</b>			
Legislative and Administration	0	0	
Finance	4,347,177	-15,658,393	-231
Counsel	0	0	
Personnel	0	0	
Elections	0	0	
Communication	0	0	
Property Management	0	0	
Plant Acquisition	2,458,530	216,402	3
Promotion	0	0	
Other	0	0	
<b>Public Protection</b>			
Judicial	0	0	
Police Protection	0	0	
Detention/Correction	0	0	
Fire	23,690,172	20,387,959	301
Flood Soil Water Conservation	0	0	
Protection Inspection	14,806,644	4,195,790	62
Other Protection	0	0	
<b>Public Ways and Facilities</b>			
Public Ways	51,546,285	2,277,168	34
Transportation Systems	1,380,035	0	
<b>Health and Sanitation</b>			
Health	0	0	
<b>Public Assistance</b>			
Administration	0	0	
Aid Programs	0	0	
Veterans Services	0	0	

Budget Function and Activity	Total Expenditures	Net County Cost	Net Cost per Capita
Other Assistance	5,472,099	-78,102	-1
<b>Education</b>			
Library Services	0	0	
Ag Education	0	0	
<b>Recreation</b>			
Veterans Memorial Buildings	0	0	
<b>Debt Services</b>			
Retire Long-Term Debt	0	0	
<b>Total</b>	<b>103,700,942</b>	<b>11,340,824</b>	<b>168</b>

Source: PlaceWorks, 2021, using data from the Butte County Fiscal Year 2020–21 Adopted Budget and population estimate from the CA Department of Finance.

### 3. Allocation of Expenditures Between Cities and Unincorporated Areas

These per capita costs help provide an understand of how the County’s expenditures are allocated. The County’s total net expenditures in the incorporated area are \$253 per resident. The total net expenditures in unincorporated areas are \$421 (\$253 for regional services and \$168 for local services). The results are lower than the results when the 2007 Settings and Trends Report was prepared. At that time, net per capita expenditures for residents in incorporated areas was \$410 and \$806 for residents in unincorporated areas. The difference may be due to the additional State and federal funding that the County is receiving for recovery from the fires and for the pandemic.

If the amount of expenditures per capita is multiplied by the number of residents (i.e., \$253 for the 210,291 residents in incorporated areas and \$421 for the 67,640 residents in unincorporated areas), the data suggests that 56 percent of the net County costs are allocated to incorporated areas and 54 percent to unincorporated areas. This is the same ratio that resulted from the 2007 analysis. As the previous report noted, while the County has little control over the type and rate of development within the cities, the populations residing within the cities drive a substantial piece of the County’s overall expenditure requirements.

#### 4. General Purpose Revenue Sources

According to the 2020–21 adopted budget, property taxes (including the in-lieu VLF35) account for 35 percent of the general fund, followed by intergovernmental revenues at 22 percent, transfers-in from other funds at 16 percent, and charges for services at 11 percent. Following are discussions of several of important sources of unrestricted revenue.

##### a. Property Taxes

For new development within the unincorporated area, the actual portion of the new property taxes generated by the development that accrues to the County's General Fund will depend on the specific Tax Rate Area (TRA) in which the development is located. The County is divided into numerous TRAs that account for the unique combination of governmental entities that provide services within each respective TRA and receive a share of the property taxes. According to data furnished by the Butte County Auditor-Controller's office, the Butte County General Fund's share of the property tax increment in the unincorporated area TRA's ranges from 7.89 percent to 20.61 percent, with an average allocation rate of 17.45 percent. This means that certain locations within the county will be more attractive for the county for new development from a fiscal perspective than other locations.

For example, if developers build a new home with an assessed value of \$400,000 in a location where the county's share of the basic property tax is 17.45 percent, the County will receive approximately \$698 per year in property tax revenues. However, if the same home is built in an area that yields a lower (7.89 percent) share of the basic property tax for the County, the County will only receive \$316 in property tax revenues. Likewise, if the house is located in a tax rate area with an above average share (20.61 percent) of the basic property tax, the County will receive approximately \$824 in annual property tax revenues. Thus, the location of future developments in relation to County TRAs is an important consideration.

##### b. Property Taxes in Lieu of Vehicle License Fees

Because the State has ceased providing Counties with a pass-through of motor vehicle license fees (VLF), which were based on the number of residents, and replaced that subvention with property tax in-lieu of VLF, which is based on the change in total assessed value within the county, the assessed value of future development will become increasingly important to the fiscal health of the county. For example, according to the County's 2007-2008 budget, this helped to contribute to an increase in the portion of the property taxes that the County retains from approximately 13 percent, to approximately 25 percent.

c. Sales and Use Taxes

The current sales tax rate in Butte County is 7.25 percent with 1 percent of the total taxable sales going to the County's General Fund. The County will receive General Fund revenues from any taxable retail sales that occurs as a result of the retail development under the General Plan.

d. Transient Occupancy Taxes

The County collects tax revenues from lodging establishments within the unincorporated areas of the county. Any time that a person rents a hotel room, six percent is added to the room rate for the transient occupancy tax. Although this is not currently a major revenue source for the County, any new hotel space in the unincorporated portion of the county would generate additional Transient Occupancy Tax (TOT) revenues for the County's General Fund. As tourism becomes a more important economic generator within the county over time, this will become a more significant revenue source.

**5. Fiscal Implications of Growth**

The budget data presented thus far demonstrate that the County provides a wide array of services to benefit the cities as well as the unincorporated areas. To fund these services, the County is largely dependent upon restricted revenues from sources that are beyond its control and which do not necessarily increase in proportion to the County's costs of providing the services. To further complicate the County's challenges in managing its budget, much of the demand (and costs) for County services stems from development within the incorporated cities, yet the County has no control over the development that occurs within the cities.

Although the County has jurisdiction over development in the unincorporated areas, it still must be aware of the potential for cities to expand by annexing adjacent unincorporated areas. When this occurs, certain revenues that currently accrue to the County, will be transferred over to the annexing city. And although some of the County's service responsibility will transfer over to the annexing city, the County will still retain service responsibilities that are equal to 63 percent of total per capita costs and 51 percent of net per capita costs for each resident that is annexed into a city. In light of this, it is very important for the County and cities to cooperate to ensure that revenue sharing agreements that accompany annexations will leave the County with sufficient revenues to continue to maintain adequate levels of services for all county residents.

When contemplating development within the unincorporated areas, the County will find that certain types of development will be more fiscally advantageous than others. Initially, it appears that commercial and industrial development will be most beneficial to the County, because it will generate a full range of revenues; however, without a residential population component, demand for costly County services in the Health and Human Services and Public Protection areas will be low.

#### **6. Other Funding Mechanisms: Development Impact Fees**

Butte County currently collects impact fees from new developments, both residential and commercial, within the unincorporated portion of the county. These fees vary depending on the type of development and location, in accordance with the assessed impacts on County facilities. Residential impact fees cover Library facilities, vehicles, and materials; General Government facilities, vehicles, and equipment; Sheriff Department facilities, vehicles, and equipment; road improvements; Fire Department facilities, vehicles, and equipment; and Jail facilities. However, within the Chico Urban Area, a street facilities fee replaces the roads impact fee applied in the rest of the unincorporated portion of the county. Furthermore, developments within the North Chico Specific Plan area pay impact fees for parks, trails, roads and bridges, storm drainage, and fire department facilities.

The County's impact fees were last updated in 2017 based on a comprehensive impact fee study. The calculated impact fees for new developments only include those projects' fair share of impacts.