BUTTE COUNTY ADMINISTRATION
Finance and Risk Management

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PAUL HAHN
Chief Administrative Officer

Date: April 26, 2012

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 third quarter financial report for Butte County operations contains updates on the economy, expenditures, revenues, cash balances and long-term debts for the three month period that ended March 31, 2012.

Economy: There is mixed news from trends in the latest economic data. Economic output continues to rise, as does inflation, but both at a moderate pace. Consumer spending power and confidence remains low, but are improving. Purchases of new homes and construction activity are still suppressed, despite historically low borrowing costs. Home prices may be stabilizing, but joblessness remains high.

Expenditures: Expenditures by County departments were cumulatively on budget and generally on track in comparison to the same quarter of the prior fiscal year. Overall, the County has expended 60% of the budget through the end of the third quarter of this fiscal year. Last fiscal year, the County expended 63% of its budget through the third quarter.

Revenues: About 53% of the annual estimated general purpose revenues were received during the first three quarters. Departmental revenues are trending at the same rate as this time last year, and generally on track with the budget. Through the third quarter of the fiscal year, the County received 56% of budgeted revenues. Last year at this time, the County had also received 56% of budgeted revenues.

Cash Balances: General Fund operating cash was higher in the third quarter of fiscal year 2011-2012 compared to fiscal year 2010-2011. No use of Tax Revenue Anticipation Note (TRAN) funds has been necessary this fiscal year. A $1.7 million cash advance was made from the General Fund to the Behavioral Health Fund in the third quarter, but this cash advance is significantly less than the advance made in the third quarter of last fisca1 year.

Debt: During the third quarter, interest payments of nearly $240,000 were made against long-term debt obligations. No new loans were secured in January, February or March of 2012.

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, increased at an estimated annual rate of 2.95% in the quarter ending March 31, 2012. This increase marks the eleventh straight quarter of positive GDP growth and is primarily the result of increased consumption, private investments, and exports (see Figure 1).

The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. The national CPI has increased since the second quarter by 1.65% as demonstrated in Figure 2 below.

Figure 1

Figure 2

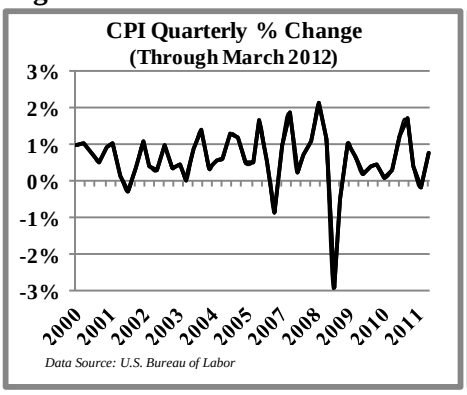

Figure 3

Consumer's assessment of current business and labor market conditions improved this quarter, as depicted in Figure 3. The Consumer Confidence Index (CCI) measures the relative financial health, spending power, and confidence of the average consumer. In March 2012, the Conference Board's CCI measure was 70.2 (100 = normal). The CCI has been consistently climbing since August of 2011 and has increased 8.8% since December 2011. The Consumer Confidence Index is an important measurement, because consumer confidence drives large personal purchases such as houses, automobiles and recreational vehicles.

Employment: The State's unadjusted unemployment rate in March 2012 was 11.5%, down from March 2011 when it was 12.3%. The countywide unemployment rate in February 2012 was 13.6%, also a decline from February 2011. Butte County had 13,775 employable residents considered unemployed in February 2012; within the 13,200 to 15,000 range that unemployment has been since January of 2011. While unemployment in Butte County is higher than state and national averages, it continues to remain lower than rates experienced in adjacent counties, as illustrated in Figure 4 on the next page.

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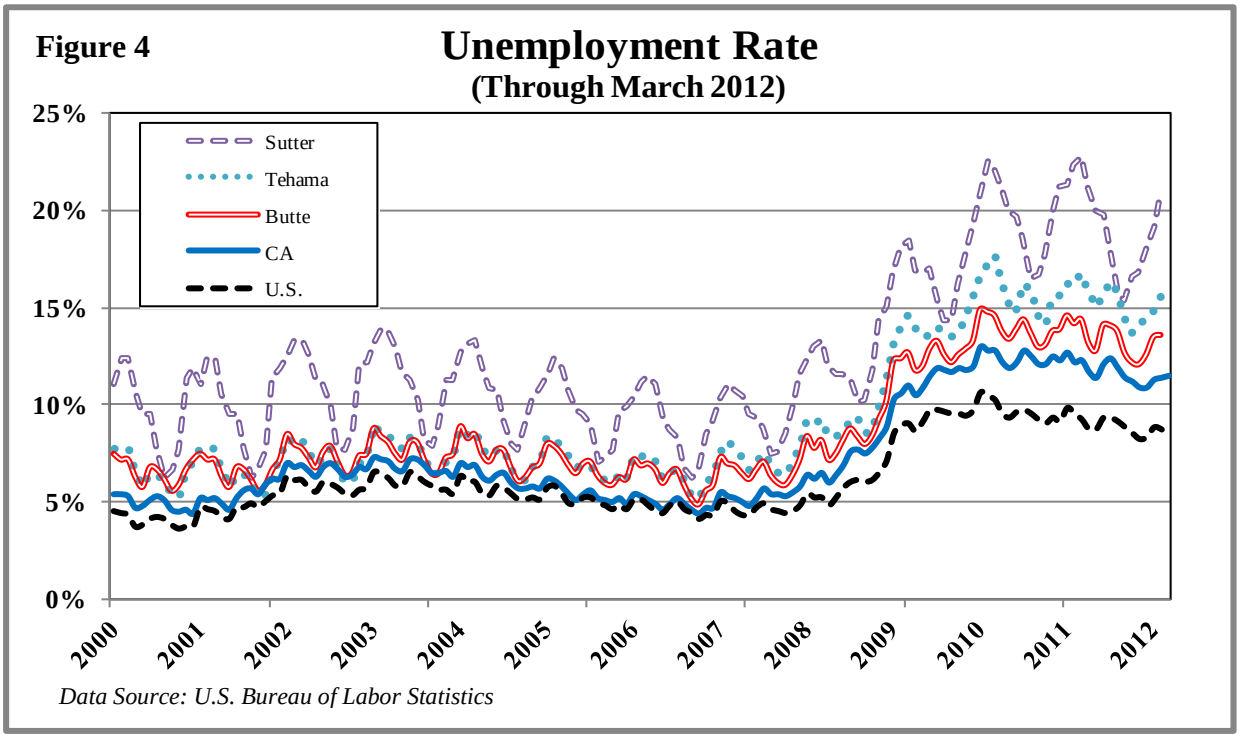


Other State and Local Economic Indicators: The statewide permit issuance rate was consistent with prior years. About 2,350 residential building permits were issued statewide during January which is consistent with the prior year's January permit issuances (see Figure 5).

Local construction permitting in the unincorporated area of the County was 99% of the third quarter last fiscal year. Overall, the permitting figures for the first quarter of the last three years have been relatively consistent in comparison, as shown in Figure 6. Building appears to continue to be relatively flat.

The median price of existing, single-family homes sold in California during the month of March 2012 was $291,080, a 9.2% increase from the previous month and a 1.6% decrease from a year earlier. Existing home sales statewide during March decreased by 4.5% compared to February.

Figure 5

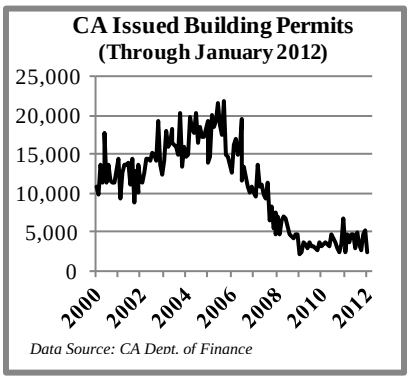
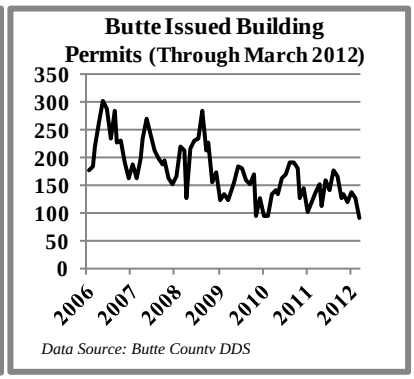


Figure 6



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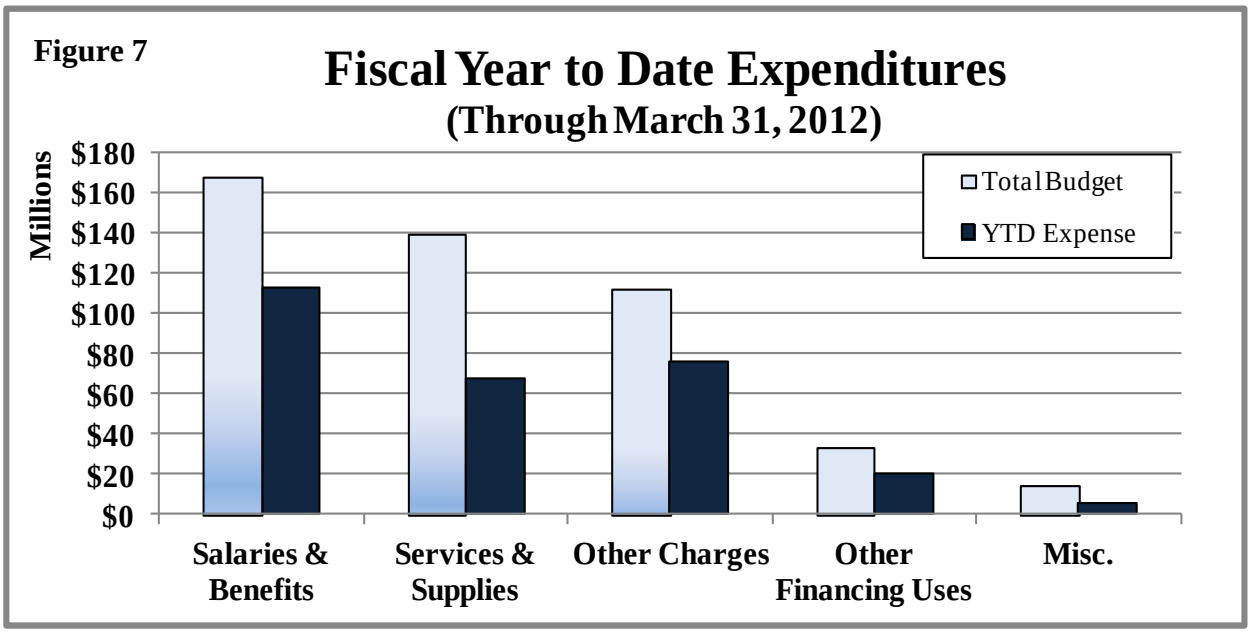
EXPENDITURE REPORT

At the end of the fiscal year 2011-2012 third quarter (July 1, 2011 through March 31, 2012), the County had expended $281 million[1] from a budget totaling $466 million. As shown in Figure 7 below, the County spent $112 million on salaries and benefits, $67 million on services and supplies, and $76 million on other charges, such as payments between funds and contributions to other agencies. The remaining $26 million in expenditures were for other financing uses and miscellaneous expenditures. Other financing uses are primarily operating transfers between budget units. Miscellaneous expenses include capital assets and building depreciation.

Overall, the County expended 60% of the budget through the fiscal year 2011-2012 third quarter. Although 75% of the fiscal year elapsed between July 1 and March 31, it is typical for expenditures overall to be less than 75% at the end of the third quarter. For example, many services and supplies are based on monthly billings that, by their nature, are paid at least a month after the service was provided. Additionally, normal staff turnover creates some salary savings. Last year at this time the County had similarly expended 63% of its budget.



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[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.

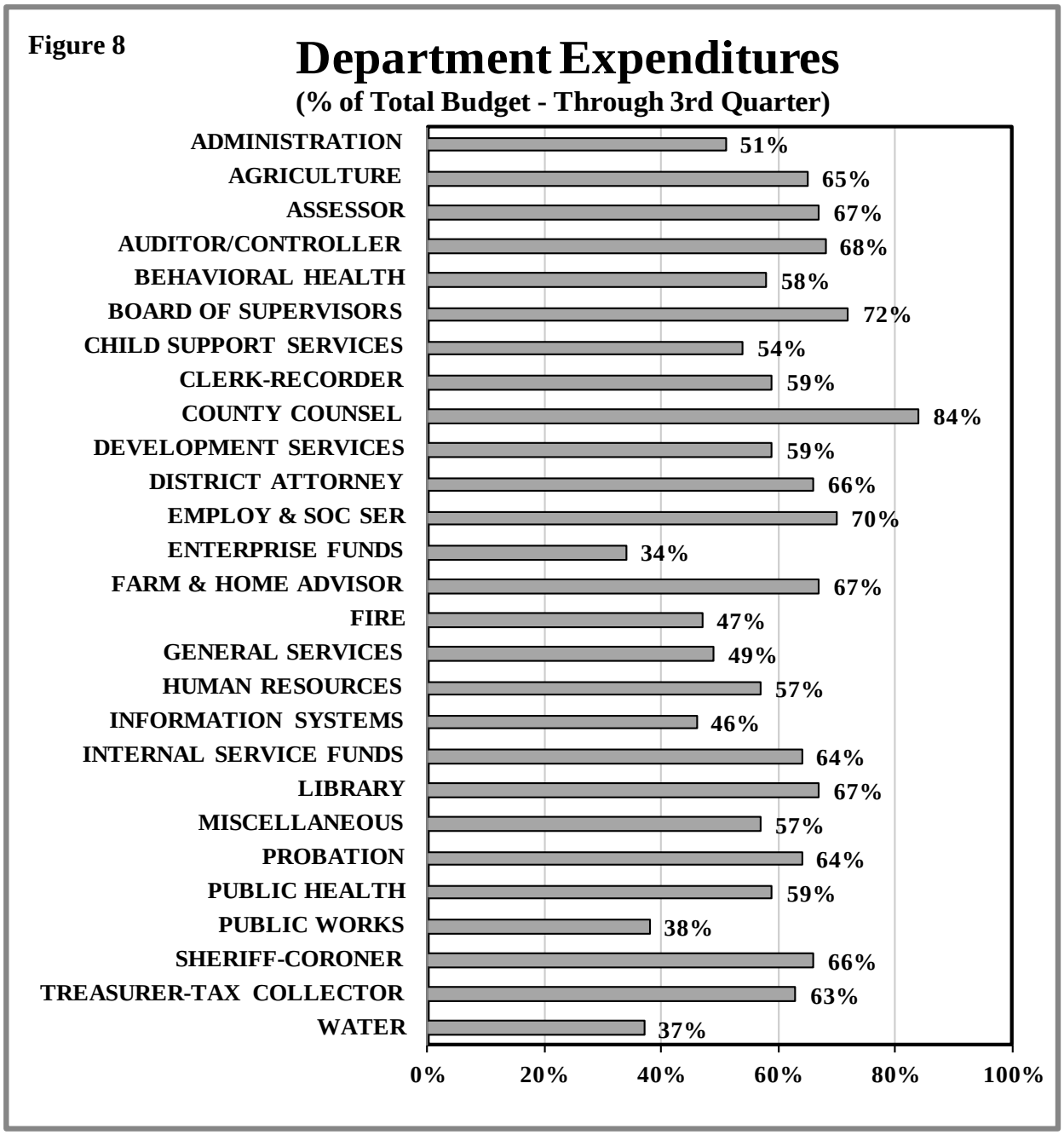


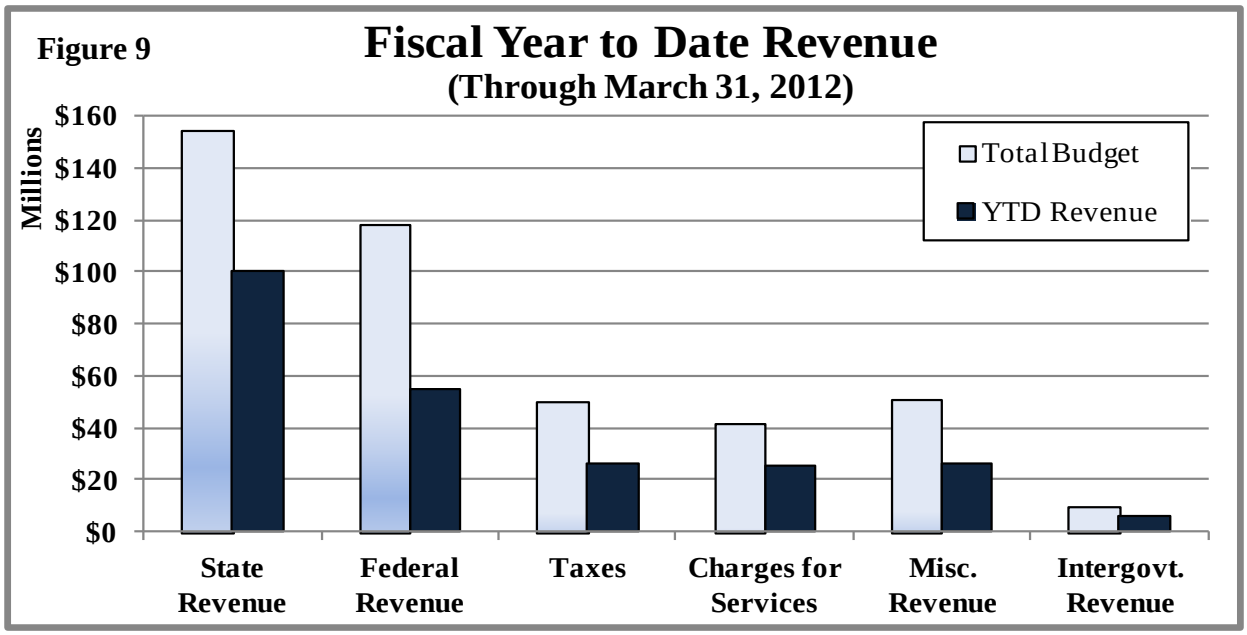
Figure 8 shows the percentage of budget expended by each County department. Most departments have expended between 50% and 75% of their budget through the third quarter, which is similar to prior years. A number of departments have expended less than 50% of their budget for the year. The Public Works and the Water and Resource Conservation Departments have budgeted projects that have not been expended and will be completed in the subsequent fiscal year. For example, the Ord Ferry Bridge is now planned for fiscal year 2012-2013 and some of the grant funded projects planned in the Water and Resource Conversation Department are now planned for fiscal year 2012-2013. The Fire Department budget includes the State CAL FIRE agreement, and only two of the quarterly payments had been made to CAL FIRE by the end of the third quarter. Additionally, General Services has a number of projects that will be completed this spring when fair weather may be reasonably expected and Information

System's budget includes a transfer to the Capital Project Fund which will be completed once work on the Bloomer Mt. Communication Tower, planned for this spring, is completed.

The enterprise funds (Neal Road Recycling and Waste Facility) include capital purchases and improvements of over $3 million. Some of this work has been delayed and is no longer planned for fiscal year 2011-2012. However, due to the accounting requirements of enterprise funds, annual depreciation is recorded as an expense for capital purchases and improvements, and not the entire project costs. Additionally, the budget includes over $800,000 in principal debt payments that will not be recorded as current year expenditures.

REVENUE REPORT

Through the third quarter of the fiscal year, as reflected in Figure 9, the County received 56% of budgeted revenues[2]. This is the same percent of revenues that the County had received last year at this time.



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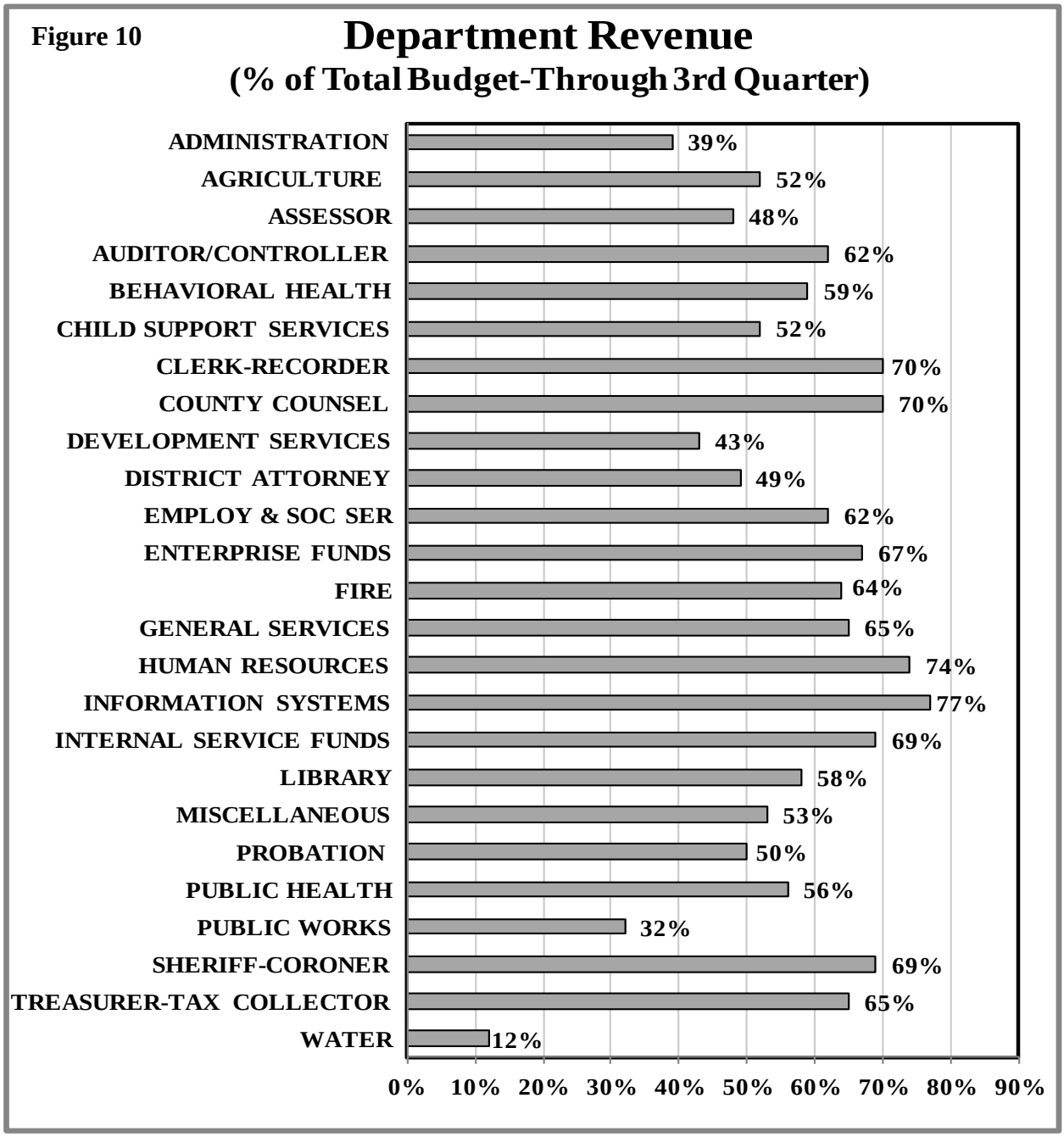
[2] For the purpose of this report the County's budgeted revenues include all departmental operating budgets, internal service funds (for example Workers' Compensation and General Liability), enterprise funds (Neal Road Waste and Recycling Facility) as well as a number of miscellaneous budget units such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

Figure 10 below shows revenues received by each County department to date as a percentage of budget.



Most department revenues are between 40% and 75% of budget through the third quarter, consistent with revenue patterns from previous years. A number of departments have received less than 40% of budgeted revenue. For example, the Water and Resource Conservation Department revenue consists primarily of grant funds. Due to the timing of claiming these expenditures, the department has not yet received the grant revenues and some of these expenditures are now anticipated in fiscal year 2012-2013, so the related revenue will not be received until fiscal year 2012-2013. Similarly, the reimbursement revenue currently budgeted in the Public Works Department for the Ord Ferry Bridge project is not anticipated until fiscal year 2012-2013, when the project will be completed. Finally, the Administration

Department's revenue is low due to the timing of Emergency Management related grant funds that are anticipated in the fourth quarter, or subsequent fiscal years.

General Purpose Revenues, included in Figure 10 above as part of the miscellaneous budget units, are coming in much as anticipated. Through the end of the third quarter, 53% of budgeted general purpose revenue has been received. Current projections indicate actual year end revenues may come in somewhat higher than budgeted due in part to stronger than anticipated Public Safety Sales Tax revenues. Figure 11 below shows year to date receipts of general purpose revenue.

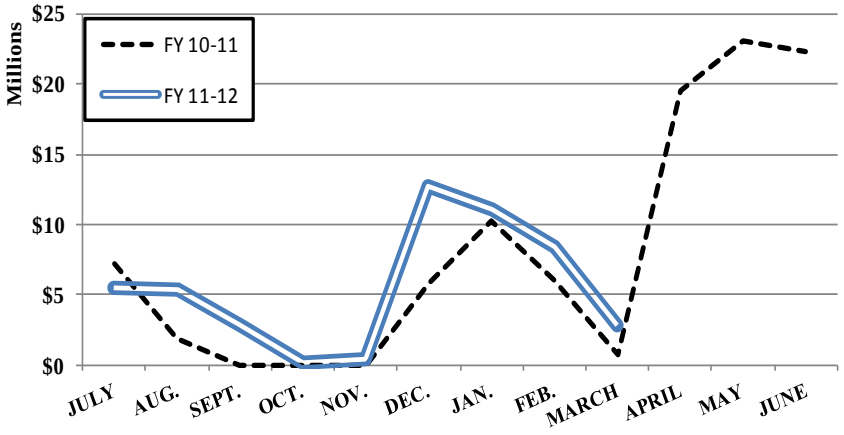
Figure 11 General Purpose Revenue Receipts (Through 3rd Quarter)

Account Title	Budget	YTD Receipts	YTD %
Property Taxes	44,740,491	23,715,403	53%
Teeter Plan Proceeds	1,000,000	0	0%
Local Sales Tax	3,586,000	2,154,794	60%
Other Taxes	1,059,200	746,639	70%
Licenses & Permits	1,546,873	465,057	30%
Fines, Forfeitures & Penalties	1,338,900	667,098	50%
Interest-County Treasury	1,000,000	276,474	28%
Public Safety Sales Tax	13,004,500	7,777,286	60%
RDA City of Chico	4,600,000	3,417,418	74%
Tobacco Settlement Funds	2,000,000	0	0%
Other Misc. Revenue	1,216,325	788,643	65%
Total General Purpose Revenue	**$75,092,289**	**$40,008,814**	**53%**

GENERAL FUND OPERATING CASH REPORT

General Fund operating cash for the third quarter of fiscal year 2011-2012 is tracking close to that of the same period in the prior year, as shown in Figure 12. The ending cash balance at March 31, 2012 is stronger at $2,783,883, compared to $761,697 the same date last year. Relative to fiscal year 2010-2011, General Fund cash has been in a stronger position, as evidenced by the fact that no Tax Revenue Anticipation Note (TRAN) funds have been advanced to the General Fund for any month this fiscal year through the third quarter.

Figure 12 General Fund Cash Balances



While timely State payments to counties remains a constant uncertainty, there is notable cash flow improvement for funding to the Department of Behavioral Health. The General Fund advance made to Behavioral Health at the end of the third quarter was $1,714,970. One year ago, at the end of the same quarter, the advance was $6,974,587. This improvement is due to an increase in productivity at the local level, and more timely payments from the State.

Figure 13

GENERAL FUND - CASH ADVANCES AT MARCH 31, 2011

Advances **To** General Fund:	
From TRAN* proceeds	$ -
Advances **From** General Fund:	
To: Behavioral Health	$ 1,714,969.51
Total Advances from General Fund	$ 1,714,969.51

* *Tax Revenue Anticipation Note*

The second installment of property taxes is due in April. As a result, the anticipated cash flow trend is expected to be similar for the fourth quarter of the current year compared to that of the prior year.

LONG-TERM DEBT To provide the public, including holders of debt, accurate, timely, and transparent financial data, long-term debt information is regularly recorded and reported for use internally, as well as by outside agencies, such as credit rating agencies, that monitor the fiscal health of the County. The following Long-Term Debt schedule, Figure 14, and Outstanding Debt and Ratios schedule, Figure 15, present data as of March 31, 2012. No principal payments were made towards long-term debt during the third quarter. However, the following interest payments were made:

- 2010 Bangor Fire Station #55 Certificate of Participation: $19,686.85
- 2003 Certificates of Participation: $19,305.00
- 2006 Certificates of Participation: $200,650.00

Based upon a pre-application submitted to the United States Department of Agriculture (USDA) for the construction of a Hall of Records, the USDA determined the County to be eligible for financing and requested a formal application be submitted. The total costs of the project have not been determined at this time. The Board of Supervisors approved submission of a formal application to the USDA at the April 10, 2012 Board meeting.

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Figure 14

Type of Debt	Original Loan Amount	Current Balance	Avg. Annual Payment*	Maturity Date
Bonds Payable				
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
Total Bonds Payable	***$ 49,895,000***	***$ 49,895,000***	***$ 4,167,816***	
Certificates of Participation				
2003 Certificates of Participation	5,150,000	1,205,000	421,140	7/1/2014
2010 Bangor Fire Station #55 COP	1,100,000	1,088,000	55,379	8/1/2050
Total Certificates of Participation	***$ 6,250,000***	***$ 2,293,000***	***$ 476,519***	
Capital Leases				
Chico Memorial Hall - 492 Rio Lindo	583,400	391,755	61,156	4/10/2020
Chico Memorial Hall - 554 Rio Lindo	670,900	438,720	62,275	4/10/2020
Ford Motor Credit	32,581	-		8/20/2011
Total Capital Leases	***$ 1,286,881***	***$ 830,475***	***$ 123,431***	
Notes Payable				
California Energy Commission				
-Solar Project Phase 1	2,777,000	1,680,565	277,181	12/22/2018
-Solar Project Phase 2	390,000	256,225	35,786	6/22/2020
Total Notes Payable	***$ 3,167,000***	***$ 1,936,790***	***$ 312,967***	
Neal Road Recycling and Waste Facility				
2006 Certificate of Participation	12,025,000	9,770,000	1,193,436	7/1/2021
Loan - California Integrated Waste Mngt Board	500,000	250,000	50,000	6/1/2016
Total Neal Road Recycling and Waste Facility	***$ 12,525,000***	***$ 10,020,000***	***$ 1,243,436***	
TOTAL LONG-TERM DEBT	**$ 73,123,881**	**$ 64,975,265**	**$ 6,324,169**	

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Figure 15

Outstanding Debt and Ratios

(In Thousands, Except Debt Ratios)

	Government Activities (A)				Neal Road Recycling and Waste Facility (B)			Total Outstanding Debt (A+B)	Debt Ratios	
Fiscal Year	Bonds	Loans/ Notes	Certificates of Participation	Capital Leases	Loans	Certificates of Participation	Capital Leases	Primary Government	Debt as a % of Assessed Property Values	Debt per County Resident
2005	$ 61,515	$ 4,111	$ 4,540	$ 688	$ -	$ -	$ 1,289	$ 72,143	0.4894%	$ 332
2006	$ 57,212	$ 3,935	$ 3,920	$ 1,479	$ 500	$ -	$ 784	$ 67,830	0.4123%	$ 311
2007	$ 56,424	$ 2,903	$ 3,290	$ 1,097	$ 450	$ 12,025	$ 303	$ 76,492	0.4649%	$ 351
2008	$ 50,575	$ 2,703	$ 2,650	$ 1,134	$ 400	$ 12,025	$ 20	$ 69,507	0.3854%	$ 315
2009	$ 50,492	$ 2,494	$ 2,300	$ 1,029	$ 350	$ 12,025	$ 20	$ 68,710	0.3680%	$ 311
2010	$ 50,403	$ 2,278	$ 1,945	$ 922	$ 300	$ 11,300	$ -	$ 67,148	0.3739%	$ 308
2011	$ 49,895	$ 2,053	$ 2,680	$ 832	$ 250	$ 10,550	$ -	$ 66,260	0.3634%	$ 299
2012	$ 49,895	$ 1,937	$ 2,293	$ 830	$ 250	$ 9,770	$ -	$ 64,975	0.3623%	$ 293

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