Subject: Financial Report for Third Quarter Fiscal Year 2018-19

Department: County Administration  Meeting Date Requested: May 21, 2019

Contact: Meegan Jessee  Phone: 530.552.3312

Regular Agenda ☑  Consent Agenda ☐

Department Summary: (Information provided in this section will be included on the agenda. Attach explanatory memorandum and other background information as necessary).

The Financial Report for the Third Quarter provides an update on the national, State and local economies; summarizes the quarterly analysis of expenditures and revenues; and provides an update on cash balances and reports on current pension, retiree health, and long-term debt obligations as of March 31, 2019. Additionally, the report includes updated information on the cost and revenue impacts of the Camp Fire.

Fiscal Impact:
Does not apply.

Personnel Impact:
Does not apply.

Action Requested:
Accept for Information.

Administrative Office Review: Brian Ring, ACAO
Date: May 7, 2019
To: Butte County Board of Supervisors
From: Meegan Jessee, Deputy Administrative Officer
Subject: Financial Report for Third Quarter of Fiscal Year 2018-19

OVERVIEW
The Butte County financial report for the third quarter of fiscal year 2018-19 contains updates on the economy, expenditures, revenues, cash balances and long-term debts for the period ending March 31, 2019. Additionally, the report includes updated information on the cost and revenue impacts of the Camp Fire.

Economy: The U.S. economy continues to grow and that growth, along with low unemployment and steady job growth, is projected to continue.

Expenditures: At the end of the third quarter, the County had expended $357.3 million or 61% from a budget totaling $589.1 million, similar to 60% at the same time last year.

Revenues: Through the third quarter of the fiscal year, the County received $333.2 million, or 61% of budgeted revenues. Through the same quarter of the previous fiscal year the County received 58% of budgeted revenues.

Camp Fire Financial Impacts: The Camp Fire has resulted in significant and ongoing financial impacts. A summary of current response and recovery costs and well as impacts to discretionary revenue is included in the report.

Cash Balances: The General Fund operating cash balance was approximately $7.9 million at the end of March, compared to $4.4 million the prior year. The improvement from the last quarters General Fund cash position is largely due to CalOES and FEMA disaster reimbursement and the timing of quarterly CAL FIRE payment.

Pension Plan and Retiree Health Plan Funded Status: The funded status of both the County’s retiree health plan and two CalPERS pension plans is included in the quarterly report, but has not changed since the last report. The funded status of the retiree health plan is updated every two years with an additional annual supplement, and the CalPERS pension plan funded status is updated annually. Details on these plans are provided later in the report.
Debt: During the third quarter of fiscal year 2018-19 principal payments totaling $112,019 and interest payments of $301,883 were made against long-term debt obligations. Additionally, the County secured financing in the amount of $825,103 for the purchase of a waste handler tractor for the Neal Road Recycling and Waste Facility and paid off financings from the Ford Motor Company for a truck for the Sheriff’s office and equipment for the Neal Road Recycling and Waste Facility.

ECONOMIC UPDATE
The State and national economic update is accomplished with the inclusion of the “California Forecast: Sales Tax Trends and Economic Drivers,” (attachment A) provided by HdL Companies. This forecast is produced by HdL and Bacon Economics and provided quarterly to the County at no additional cost as part of the County’s sales tax auditing contract with HdL. It includes both a consensus forecast on statewide sales tax trends by HdL as well as a forecast on national and statewide economic drivers by Beacon Economics, an independent research and consulting firm. The “California Forecast: State Tax Trends and Economic Drivers” efficiently provides a concise, professional economic forecast.

The “California Forecast: Sales Tax Trends and Economic Drivers,” projects GDP growth of 2.6% in fiscal year 2018-19, slowing to 2.2% in fiscal year 2019-20 along with the continuation of historically low unemployment and steady job growth. The median home price in the State is projected to continue to grow along with increasing residential building permits during fiscal year 2019-20. Statewide, sales tax is projected to increase 2.5% in fiscal year 2018-19 and 1.2% in fiscal year 2019-20.

In addition to the “California Forecast: Sales Tax Trends and Economic Drivers,” local unemployment, building and home sales data is provided below.

Unemployment: Butte County’s unemployment rate in March of the current fiscal year was 6.2%, up from the rate of 5.3% at the close of the previous quarter and the revised rate of 5.5% from a year ago. In March, the size of the labor force in Butte County was estimated at 104,500, which was a decline from the 106,800 at the end of the previous quarter and an increase from the 102,200 from a year ago. While the unemployment rate in Butte County remains higher than that of the State and the U.S. as a whole, it remains lower than that of the neighboring counties of Sutter and Tehama (Figure 1).

Building Activity: In the third quarter of fiscal year 2018-19 an average of 239 building permits were issued per month for the unincorporated area of Butte County, which is a 7% increase from the monthly average of 223 during the third quarter of fiscal year 2017-18 and a 23% increase from the monthly average of 195 issued per month during the last quarter. Figure 2 below shows Butte County building permits per month for the last ten years.
Median Home Price and Home Sales: The median sales price of existing single-family homes in Butte County during March 2019 was $369,000, an increase of 6.8% from the previous month and a 17.1% increase from the median price of $315,000 in March 2018. Home sales in Butte County during March 2019 were up by 9.1% from the previous month and by 40.3% from March 2018. The effects of the November 2018 Camp Fire resulted in the loss of over 14,000 personal residences in Butte County. Since the fire, sales of single family homes in the communities outside of the burn scar have experienced an upsurge as fire survivors purchase homes in the area. Figure 3 above shows the median home prices in Butte County for the past ten years.

EXPENDITURE REPORT
At the end of the third quarter, the County had expended $357.3 million from a budget totaling $589.1 million. As shown in Figure 4 below, the County spent $149.2 million on salaries and benefits, $86.6 million on services and supplies, $70.7 million on other charges, such as payments between funds for services provided between County departments and contributions to other agencies, and $7.9 million on capital assets. The remaining $42.9 million in expenditures were for other financing uses and special items expenditures, which consist primarily of operating transfers and other charges between budget units. The majority of these are transfers between departments and non-operating funds. Overall, the County expended 61% of the budget through the third quarter of fiscal year 2018-19, as compared to 60% at this time last fiscal year.

Figure 4 below shows graphically in an OpenGov report, which can be found here, the County’s actual expenditures by type through the third quarter. OpenGov reports are from the County’s Financial Transparency Portal, which provides interactive County financial data at www.buttecounty.net/administration/Finance.
Figure 5 on page 6 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 had expenditures totaling less than 50% of budget. These are noted as follows:

- Capital Projects includes many large multi-year projects (Jail Expansion, Evidence Storage/Morgue, and Chico Communications Tower) that have not yet been expended.
- County Counsel expenses are low due primarily to intrafund transfers which are recorded as negative expenditures. Additionally there have been lower than anticipated professional services costs through the third quarter.
- County Service Areas (CSAs) budgets often include maintenance/repair funds that are only expended as needed; unneeded funds are not spent.
- Debt Service expenditures are low due to timing of debt payments.
- The Fire Department is provided through a contract with CAL FIRE with payment typically at least one quarter in arrears. As of the close of quarter three, only the quarter one and two payments had been made. Additionally, several large purchase orders have not yet been paid, but are expected to be paid by year end.
- Fish and Game expenditures are low due to the timing of grantees claiming their reimbursements.
- Information Systems Department expenses are low due to the timing of annual transfers to the equipment replacement fund and because many software licenses are due in the second half of the year.
- Internal Service Funds, which are used to account for the County's insurance programs are low primarily due to timing. Outstanding payments for Workers Comp and liabilities obligations will be made during the fourth quarter. Additionally, some costs are coming in lower than budgeted due to active case management.
• Miscellaneous Community Development includes the Community Development Block Grant (CDBG) and HOME programs. The unit is at less than 50% of budgeted expenditures due to the number of projects completed and the timing of billings from outside consultants.

• Public Works includes many capital projects with budgets not yet expended. The Midway Bridge project is in progress; Oroville Quincy Highway and Foothill Blvd. are going into construction during April; Hegan Lane and Las Plumas – South Oroville Safe Routes to School have been delayed to next year; and the Skyway Guardrail Replacement and Centerville Road Embankment Repairs will begin soon.

• The Non-Operating funds are reimbursements to the related operating fund for expenditures made, and are not transferred until the related expenditure is completed. The following Non-Operating funds have expended less than 50% of budget through the end of the third quarter:
  o The Non-Operating Clerk-Recorder funds have low transfers due to a large planned historical records preservation project that has not yet happened.
  o The Non-Operating District Attorney funds have low transfers due to a case management project that is not yet complete, and an attorney vacancy in the Real Estate Fraud unit.
  o The Non-Operating Fire funds have low transfers due to several large purchase orders that have not yet been paid, but are expected to be by year end.
  o The Non-Operating Public Works funds have low transfers due to a number of projects awaiting completion. The East Gridley Larkin project has recently been completed, and the related transfer will be completed by the end of the fiscal year.
  o The Non-Operating Sheriff fund has low transfers due to vacant positions associated with the Rural County Sheriff program, as well as the purchase of several vehicles that has been delayed to next fiscal year.

The Non-Operating Library fund is the one unit with expenditures that exceed 75% of budget. The Non-Operating Library fund receives donations and as eligible expenses are incurred the associated transfers are completed.

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Figure 5

Department Expenditures
(% of Total Budget - Through March 31, 2019)

- Agriculture Commissioner: 67%
- Assessor: 70%
- Auditor-Controller: 68%
- Behavioral Health Department: 63%
- Board Of Supervisors: 69%
- Capital Projects: 44%
- Child Support Services Department: 64%
- Clerk-Recorder: 69%
- County Administration Department: 56%
- County Counsel: 37%
- County Service Area: 47%
- Debt Service: 64%
- Development Services Department: 67%
- District Attorney: 67%
- Employment & Social Services Department: 50%
- Enterprise Funds: 62%
- Equipment Replacement: 70%
- Farm & Home & 4H Dept: 41%
- Fire Department: 44%
- Fish & Game: 50%
- General Fund Miscellaneous: 60%
- General Services Department: 63%
- Human Resources Department: 43%
- Information Systems Department: 39%
- Internal Service Funds: 70%
- Library: 48%
- Miscellaneous Community Development: 71%
- Non-Operating Admin: 71%
- Non-Operating Behavioral Health: 56%
- Non-Operating Clerk-Recorder: 27%
- Non-Operating DESS: 61%
- Non-Operating District Attorney: 4%
- Non-Operating Fire: 38%
- Non-Operating Library: 69%
- Non-Operating Probation: 75%
- Non-Operating Public Health: 0%
- Non-Operating Public Works: 46%
- Non-Operating Sheriff: 68%
- Probation Department: 56%
- Public Health Department: 44%
- Public Works Department: 70%
- Sheriff-Coroner: 66%
- Treasurer-Tax Collector: 62%
- Water/Resource Conservation Department: 72%

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Figure 6 below displays budgeted and actual expenditures at the close of the third quarter among General Fund departments for the current and preceding three fiscal years. As shown in the graph, total expenditures among General Fund departments are currently 63%, somewhat lower than previous years which ranged from 63% to 66%. The decrease in fiscal year 2018-19 compared to fiscal year 2017-18 is primarily due to the timing of CAL FIRE payments – there had only been two quarterly payments made by the end of quarter three of the current year, compared to three payments made by the end of quarter three last year. If the third payment had been made by the end of quarter three in the current year, the percent of budget would be closer to 65%, which is consistent with the two prior years.

![Figure 6: Fiscal YTD Expenditures--General Fund Depts. Current & Preceding 3 FYs--Through Mar. 31](image)

**REVENUE REPORT**

Through the third quarter of fiscal year 2018-19, as reflected below in Figure 7, the County received $333.2 million in revenue. This amounts to 61% of budgeted revenues, as compared to 58% at this time last fiscal year. Figure 7 below shows graphically in an OpenGov report, which can be found [here](https://www.buttecounty.net/administration/Finance), the County’s actual revenues by type through the third quarter. OpenGov reports are from the County’s Financial Transparency Portal, which provides interactive County financial data at [www.buttecounty.net/administration/Finance](http://www.buttecounty.net/administration/Finance).

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Figure 8 shows revenues received by each County department through the end of the third quarter. Most departments received revenues between 50% and 75% of their budgeted amounts through the fiscal year. A number of departments had revenue receipts less than 50% of budget. These are noted as follows:

- Agriculture Commissioner budgeted revenues include grant funds and reimbursements, which were not received by the end of the third quarter, but are anticipated within the fiscal year.
- Board of Supervisors revenues consist of the quarterly lease payment from Paradise Recreation and Parks, which is anticipated to be received in full by the end of the fiscal year.
- County Administration budgeted revenues include Federal grant funds that have not yet been received.
- Capital Projects receives reimbursement for projects. Many large budget multi-year capital projects (Evidence Storage/Morgue, Chico Communications Tower) have spent less than anticipated through the end of the third quarter, reducing associated revenues.
- Equipment Replacement revenues are primarily transfers from the General Fund and are typically completed in April, after property tax revenue is received.
- Fire Department revenues are low due to the timing of grant funds and reimbursements that were not received by the end of the second quarter, but are anticipated by the end of the fiscal year.
- General Services has not received $2.8 million in budgeted disaster related revenue, and it is not anticipated in the current fiscal year.
- Miscellaneous Community Development recently received a new Housing Rehabilitation Grant. The revenue has been budgeted but no reimbursements have been received yet.
- Public Works has not received $4.5 million in budgeted disaster revenue, and it is not anticipated in the current fiscal year.
• Water/Resource Conservation Department revenues are based on reimbursement from the Proposition 1 grant. Revenue related to expenditures in the first and second quarters is anticipated to be received by the end of the fiscal year. Revenue related to expenditures in the third and fourth quarters are anticipated to be received next fiscal year.

There are also departments with revenues that exceed 75% of budget. Specifically:

• The Assessor’s Office received a $150,000 unanticipated State grant for a GIS project, increasing the Department’s revenues.
• Debt Service revenues fluctuate due to the timing of collections for debt services. Pension Obligation Bond payment collections are done monthly, while other collections (Motorola, Hall of Records) are complete for the year.
• Development Services revenues are high due to increased permit activity, as well as increased code enforcement revenue due to marijuana enforcement.
• Fish and Game revenues are high as a percent of budget as they fluctuate based on the number of fines throughout the year.
• Internal Service Funds are slightly higher due to interest revenue; otherwise revenue comes from charges to departments and is at exactly 75%.
• Library revenues are high due to receipt of higher than budgeted grants, as well as higher transfers from the Non-Operating Library.
• Non-Operating funds hold restricted revenues until the funds are spent. The following Non-Operating funds have received more than 75% of budgeted revenues through the end of the third quarter:
  o The Non-Operating Admin funds include disaster funds that are then transferred to the appropriate operating fund. Through the third quarter it had received $6.6 million in budgeted FEMA disaster funds. Additional funds are anticipated in the fourth quarter.
  o The Non-Operating Clerk Recorder funds received increased revenue due to the operating fund processing an increased number of recordings and vital records copies through the end of the third quarter.
  o The Non-Operating District Attorney funds received unanticipated asset forfeiture funds.
  o The Non-Operating Fire funds are at 437% of budgeted revenues because revenues are based on how often the County’s equipment is used by CAL FIRE on State-funded incidents. Due to recent fire activity revenues are very high.
  o The Non-Operating Library fund revenues are high due to higher than anticipated donations to the Library.
  o The Non-Operating Public Works funds revenues are comprised of impact fees, which are higher due to increased building activity primarily near Chico.
  o The Non-Operating Sheriff funds revenues are high due to increased Inmate Welfare revenues due to a new vendor. Additionally, unanticipated asset seizure revenues were received through the end of the third quarter.
Figure 9 displays budgeted and actual revenues at the close of the third quarter fiscal year 2018-19 among General Fund departments. County departments received 58% of budgeted revenues, an increase from fiscal year 2017-18 primarily due to timelier non-operating fund transfers, which are up to 55% of budget in current fiscal year compared to 49% at this time last fiscal year.
General Purpose Revenue: Through the close of March, 56% of budgeted General Purpose Revenues had been received. Through the end of the fiscal year it is anticipated that total General Purpose Revenue will come in approximately a $1 million higher than the budgeted amount. The County’s lost property tax revenues related to the Camp Fire will be backfilled by the State and other discretionary revenue shortfalls related to the Camp Fire are primarily offset in the current year by the unanticipated $500,000 in Rule 20A revenues received by the County earlier in the year. Additionally a number of revenues are trending higher than anticipated in the budget including prop 172 statewide sales tax, tobacco settlement funds, and RDA residual property tax revenues.

### Figure 9
**Fiscal YTD Revenue--General Fund Depts.**
**Current & Preceding 3 FYs--Through Mar. 31**

<table>
<thead>
<tr>
<th></th>
<th>FY 15/16</th>
<th>FY 16/17</th>
<th>FY 17/18</th>
<th>FY 18/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Budget</td>
<td>50%</td>
<td>58%</td>
<td>57%</td>
<td>58%</td>
</tr>
<tr>
<td>YTD Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Millions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 15/16</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>FY 16/17</td>
<td></td>
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<tr>
<td>FY 17/18</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>FY 18/19</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Figure 10
**General Purpose Revenue Receipts**
(Through 3rd Quarter)

<table>
<thead>
<tr>
<th>Account Title</th>
<th>Budget</th>
<th>YTD Receipts</th>
<th>YTD %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>64,210,000</td>
<td>33,592,982</td>
<td>52%</td>
</tr>
<tr>
<td>Sales and Use Taxes</td>
<td>5,270,000</td>
<td>3,014,748</td>
<td>57%</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>1,858,000</td>
<td>1,527,269</td>
<td>82%</td>
</tr>
<tr>
<td>State Revenue</td>
<td>18,467,629</td>
<td>11,325,214</td>
<td>61%</td>
</tr>
<tr>
<td>Federal Revenue</td>
<td>501,000</td>
<td>268,033</td>
<td>53%</td>
</tr>
<tr>
<td>Other-In-Lieu Revenue</td>
<td>21,000</td>
<td>21,748</td>
<td>104%</td>
</tr>
<tr>
<td>Use Of Money &amp; Property</td>
<td>4,093,000</td>
<td>2,235,738</td>
<td>55%</td>
</tr>
<tr>
<td>Fines, Forfeitures &amp; Penalties</td>
<td>2,997,000</td>
<td>751,577</td>
<td>25%</td>
</tr>
<tr>
<td>Tobacco Settlement</td>
<td>1,950,000</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Other Sales</td>
<td>58,000</td>
<td>503,336</td>
<td>868%</td>
</tr>
<tr>
<td>Charges For Services</td>
<td>1,868,000</td>
<td>1,037,155</td>
<td>56%</td>
</tr>
<tr>
<td>Licenses, Permits, &amp; Franchise Fees</td>
<td>1,491,700</td>
<td>326,359</td>
<td>22%</td>
</tr>
<tr>
<td>Other Financing Sources</td>
<td>6,748,839</td>
<td>6,517,339</td>
<td>98%</td>
</tr>
<tr>
<td><strong>Total General Purpose Revenue</strong></td>
<td><strong>$109,534,166</strong></td>
<td><strong>$61,221,497</strong></td>
<td><strong>56%</strong></td>
</tr>
</tbody>
</table>
CAMP FIRE FINANCIAL IMPACTS

The Camp Fire has had, and continues to have, a substantial impact on the County’s finances. The County has incurred and will continue to incur costs related to the Camp Fire, some of which are reimbursable and others that are not. It is anticipated that these impacts will continue into the future and have effectively created a new normal for the County that is not yet quantifiable.

Cost Impacts: The County is continuing to respond to the Camp Fire. Through March the County had expended almost $16 million on Camp Fire response and recovery efforts. The County continues to work with CalOES and FEMA to prepare the documentation and receive reimbursement for eligible expenses. Generally speaking, reimbursable emergency response costs include the non-regular staff costs related to emergency response and debris removal. However, the regular time of staff working on debris removal is eligible for reimbursement. These totals do not include any of the substantial mutual aid costs that we anticipate. Staff are working with our mutual aid partners to put the required documentation in place to facilitate reimbursement.

Based on recent legislation the County expects to receive 90% of reimbursable costs from FEMA and of the remaining 10% it is anticipated that at least 75% of those costs will be reimbursed by the State. That leaves a local share of 2.5%. The County’s State and federal representatives are working to increase the State and federal shares with the hope of eliminating the local share.

In addition to the direct costs of Camp Fire response and recovery the County continues to see impacts to County throughout operations ranging from increased vacancies from employees impacted by the fire to challenges hiring staff due to lack of housing to significant increases in the cost of infrastructure and building projects.

Discretionary Revenue Impacts: County discretionary revenues have been impacted in the current year and will be impacted in the budget year as well. The Assessor’s Office is close to completing adjustments to the County’s Assessed Value related to the Camp Fire and has removed $1.86 billion, over 8%, from the County’s assessed value. Additional adjustments to land value, which is not eligible for adjustment in the calamity process, are anticipated in the budget year. The State will provide property tax revenue backfill for the current year and next two years, but it is not anticipated that the rebuild will be complete at that point and so out year property tax impacts are anticipated.

Other discretionary revenues, not backfilled by the State, will also be impacted including local Sales Tax revenues (up to $180,000 annually) due to the impact to businesses in the unincorporated area, reductions in PG&E and Comcast franchise fees (approximately $70,000) and impacts to the County’s Teeter Plan (approximately $1,000,000 annually). The Teeter Plan is related to the administration of property tax revenues and provides a mechanism for the County to advance delinquent property tax payments to the all the taxing entities in the County. In return, the County retains the fees and penalties related to delinquent tax payments. Annually the County expects about $2 million in revenue from the operation of the Teeter Plan. If large numbers of residents in the impacted area default on their property taxes that revenue would be reduced.
CASH BALANCES

The General Fund cash balance at the beginning of the third quarter was $4.9 million less than at the beginning of the third quarter of last year; however by the end of the third quarter the cash balance was $7.9 million, $3.5 million more last year at the same time. The relative improvement to the General Fund cash balance can be attributed to several items as follows:

- The County received $6.6 million in CalOES and FEMA disaster reimbursement related to the Camp Fire, which helped reimburse the County for costs incurred in response to the fire.
- In the current fiscal year the County has made one fewer quarterly payment to CAL FIRE than at the same time last year. Each quarterly CAL FIRE payment is approximately $3.5 million.
- Additionally during the third quarter, County Departments caught up on non-operating transfers, which improved cash balances, and the revenues to the general fund for services provided by the General Fund to other funds are higher than the prior year by about $500,000 per quarter.

If adjusted for the timing of the CAL FIRE payment the General Fund cash balance at the end of the third quarter would be similar to prior years.

As shown in Figure 11 the overall trends for General Fund operating cash for the five-year period are consistent from year to year. Balances decline in the first and second quarters of the year until the first installment of property tax is received in December, then decline again until the second installment of property tax is received in April.

Previous reports have noted outstanding advances from the General Fund to other funds; at the end of the third quarter of fiscal year 2018-19 there were no outstanding cash advances from the General Fund.

PENSION PLAN FUNDED STATUS

Figure 12 below, presents the funded status of the County’s pension plans. This is the same information that was provided in the last quarterly report. The funded status is determined by CalPERS actuaries and is provided annually to the County each summer. The complete CalPERS reports can be found on the Butte County website at: http://www.buttecounty.net/administration/ActuarialReports.aspx.

The County contracts with CalPERS to provide pension benefits. The County has two pension plans for County employees. The first is for safety employees and includes deputy sheriffs, correctional deputies, probation officers, and district attorney investigators. The second is for miscellaneous employees and includes all non-safety County employees.
RETIREE HEALTH PLAN FUNDED STATUS
Figure 13 below presents the funded status of the County’s retiree health plan as of July 1, 2018. This is the same information that was provided in the last quarterly report. The retiree health actuarial is updated every two years, with a supplement issued annually. The information below is from the supplement issued on November 6, 2018. The County provides limited retiree health benefits to retired employees based on the bargaining unit that the employee worked in and when the employee started with the County. For most retirees benefits range from eligibility to continue to purchase group health insurance through the County to County paid health insurance premiums for a period of time.

<table>
<thead>
<tr>
<th>Butte County Pension Plans</th>
<th>As of June 30, 2017</th>
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<tbody>
<tr>
<td>Safety Plan</td>
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<tr>
<td>Unfunded Accrued Liability</td>
<td>$56,842,000</td>
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<td>Funded Ratio</td>
<td>71.1%</td>
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<tr>
<td>Miscellaneous Plan</td>
<td></td>
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<tr>
<td>Unfunded Accrued Liability</td>
<td>$183,705,214</td>
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<tr>
<td>Funded Ratio</td>
<td>73.8%</td>
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<table>
<thead>
<tr>
<th>Retiree Health Insurance Plan</th>
<th>As of July 1, 2018</th>
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</thead>
<tbody>
<tr>
<td>Unfunded Accrued Liability (GASB 75)</td>
<td>$65,320,371</td>
</tr>
<tr>
<td>Funded Ratio</td>
<td>6.4%</td>
</tr>
</tbody>
</table>
LONG-TERM DEBT

The Long-Term Debt schedule, Figure 14, presents balances as of March 31, 2019. During the third quarter, the County secured financing in the amount of $825,103 for the purchase of a waste handler tractor for the Neal Road Recycling and Waste Facility and paid off financings from the Ford Motor Company for a truck for the Sheriff’s office and equipment for the Neal Road Recycling and Waste Facility.

<table>
<thead>
<tr>
<th>Type of Debt</th>
<th>Original Loan Amount</th>
<th>Current Balance</th>
<th>Avg. Annual Payment*</th>
<th>Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds Payable</td>
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</tr>
<tr>
<td>Pension Obligation Bonds</td>
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<td></td>
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</tr>
<tr>
<td>- Series A</td>
<td>28,020,000</td>
<td>26,990,000</td>
<td>2,761,441</td>
<td>6/1/2034</td>
</tr>
<tr>
<td>- Series B</td>
<td>21,875,000</td>
<td>19,875,000</td>
<td>1,857,191</td>
<td>6/1/2034</td>
</tr>
<tr>
<td>Total Bonds Payable</td>
<td>$49,895,000</td>
<td>$46,865,000</td>
<td>$4,618,632</td>
<td></td>
</tr>
<tr>
<td>Certificates of Participation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014 Hall of Records</td>
<td>8,000,000</td>
<td>7,297,954</td>
<td>357,114</td>
<td>7/1/2054</td>
</tr>
<tr>
<td>2010 Bangor Fire Station #55 Renovation Project</td>
<td>1,100,000</td>
<td>936,333</td>
<td>53,252</td>
<td>8/1/2050</td>
</tr>
<tr>
<td>Total Certificates of Participation</td>
<td>$9,100,000</td>
<td>$8,234,287</td>
<td>$410,366</td>
<td></td>
</tr>
<tr>
<td>Capital Leases</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motorola Solutions Inc.</td>
<td>7,166,380</td>
<td>5,790,687</td>
<td>757,453</td>
<td>12/15/2026</td>
</tr>
<tr>
<td>Chico Memorial Hall - 492 Rio Lindo</td>
<td>583,400</td>
<td>109,962</td>
<td>61,156</td>
<td>4/10/2020</td>
</tr>
<tr>
<td>Chico Memorial Hall - 554 Rio Lindo</td>
<td>670,900</td>
<td>115,467</td>
<td>62,275</td>
<td>4/10/2020</td>
</tr>
<tr>
<td>Ford Motor Credit Company</td>
<td>34,059</td>
<td>-</td>
<td>-</td>
<td>2/22/2019</td>
</tr>
<tr>
<td>2017 Government Campus Infrastructure Financing</td>
<td>2,658,000</td>
<td>2,516,041</td>
<td>221,269</td>
<td>10/1/2032</td>
</tr>
<tr>
<td>2018 Grader and Tractor Truck Lease</td>
<td>495,702</td>
<td>495,702</td>
<td>108,050</td>
<td>4/13/2023</td>
</tr>
<tr>
<td>Total Capital Leases</td>
<td>$11,608,441</td>
<td>$9,027,859</td>
<td>$1,210,203</td>
<td></td>
</tr>
<tr>
<td>Neal Road Recycling and Waste Facility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006 Certificates of Participation Refunding</td>
<td>4,220,000</td>
<td>2,150,000</td>
<td>1,102,396</td>
<td>7/1/2020</td>
</tr>
<tr>
<td>2014 Equipment Lease-Purchase</td>
<td>500,000</td>
<td>-</td>
<td>-</td>
<td>2/20/2019</td>
</tr>
<tr>
<td>2017 Equipment Lease-Purchase</td>
<td>816,393</td>
<td>497,436</td>
<td>171,039</td>
<td>11/15/2021</td>
</tr>
<tr>
<td>2019 Equipment Lease-Purchase</td>
<td>825,103</td>
<td>825,103</td>
<td>179,514</td>
<td>3/18/2025</td>
</tr>
<tr>
<td>Total Neal Road Recycling and Waste Facility</td>
<td>$6,361,496</td>
<td>$3,472,539</td>
<td>$1,452,949</td>
<td></td>
</tr>
<tr>
<td>TOTAL LONG-TERM DEBT</td>
<td>$76,964,937</td>
<td>$67,599,685</td>
<td>$7,692,150</td>
<td></td>
</tr>
</tbody>
</table>

*From FYE 6/30/18 to maturity per amortization schedules
During the third quarter of the current fiscal year, the County made a total of $413,902 in debt payments, $112,019 of which resulted in principal reductions as detailed in Figure 15.

Figure 15  
**LONG-TERM DEBT PAYMENTS**

<table>
<thead>
<tr>
<th>Debt Description</th>
<th>Principal Paid</th>
<th>Interest Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Obligation Bonds Series - B</td>
<td>$134,006.93</td>
<td></td>
</tr>
<tr>
<td>2014 Hall of Records</td>
<td>$127,714.00</td>
<td></td>
</tr>
<tr>
<td>2010 Bangor Fire Station #55 Renovation Project</td>
<td>$18,726.65</td>
<td></td>
</tr>
<tr>
<td>Ford Motor Credit Company</td>
<td>$8,737.15</td>
<td>$498.06</td>
</tr>
<tr>
<td>2014 Equipment Lease-Purchase</td>
<td>$103,281.57</td>
<td>$1,694.84</td>
</tr>
<tr>
<td>2006 Certificates of Participation Refunding</td>
<td></td>
<td>$19,242.50</td>
</tr>
<tr>
<td><strong>TOTAL DEBT PAYMENTS</strong></td>
<td><strong>$112,018.72</strong></td>
<td><strong>$301,882.98</strong></td>
</tr>
</tbody>
</table>

Figure 16 displays the County’s long term debt over a period of ten years as a percentage of the total assessed value of County property and debt per County resident.

Figure 16  
**Outstanding Debt and Ratios (Through March 2019)**  
(In Thousands, Except Debt Ratios)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Governmental Activities (A)</th>
<th>Neal Road Recycling and Waste Facility - Business Type Activities (B)</th>
<th>Total Outstanding Debt (A+B)</th>
<th>Debt Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Certificates</td>
<td>Loans/ of Capital</td>
<td>Certificates</td>
<td>Leases</td>
</tr>
<tr>
<td>Fiscal Year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>$50,403</td>
<td>$2,278</td>
<td>$1,945</td>
<td>$922</td>
</tr>
<tr>
<td>2011</td>
<td>$49,895</td>
<td>$2,053</td>
<td>$2,680</td>
<td>$832</td>
</tr>
<tr>
<td>2012</td>
<td>$49,895</td>
<td>$1,819</td>
<td>$2,237</td>
<td>$792</td>
</tr>
<tr>
<td>2013</td>
<td>$49,895</td>
<td>$1,575</td>
<td>$1,835</td>
<td>$699</td>
</tr>
<tr>
<td>2014</td>
<td>$49,545</td>
<td>$1,322</td>
<td>$1,422</td>
<td>$611</td>
</tr>
<tr>
<td>2015</td>
<td>$49,075</td>
<td>$1,059</td>
<td>$7,696</td>
<td>$1,283</td>
</tr>
<tr>
<td>2016</td>
<td>$48,480</td>
<td>$654</td>
<td>$8,583</td>
<td>$450</td>
</tr>
<tr>
<td>2017</td>
<td>$47,745</td>
<td>$400</td>
<td>$8,471</td>
<td>$7,512</td>
</tr>
<tr>
<td>2018</td>
<td>$46,865</td>
<td>$136</td>
<td>$8,354</td>
<td>$9,801</td>
</tr>
<tr>
<td>2019</td>
<td>$46,865</td>
<td>0</td>
<td>$8,234</td>
<td>$9,028</td>
</tr>
</tbody>
</table>
HdL provides relevant information and analyses on the economic forces affecting California’s local government agencies. In addition, HdL’s Revenue Enhancement and Economic Development Services help clients to maximize revenues.

HdL serves over 500 cities, counties and special districts in California and across the nation.
HDL CONSENSUS FORECAST – APRIL 2019

STATEWIDE SALES TAX TRENDS

2018/19 | 2019/20

| TOTAL | 2.5% | 1.2% |

**Autos/Transportation**

A slight dip in auto sales is expected as the lending environment transitions from easy credit to the highest vehicle loan rates in a decade. Despite the solid economy, signs of strain are building as recent data indicates record number of Americans are 90-days or more behind on their car loans. An additional threat is possible enactment of automotive import tariffs as political rhetoric and trade brinkmanship escalate internationally. While the purchase of more expensive, clean-fuel vehicles has boosted tax revenue in recent quarters, this trend is expected to temporarily wane and exacerbate the expected near-term slow down.

**Building/Construction**

5.4% | 3.3%

This winter’s heavy rains have not been a deterrent to ongoing construction. While delaying new projects’ earthwork, most developments that had foundations in place before the rains came are experiencing few lost days of productivity. The current momentum from existing projects is expected to continue but concerns over stagnate home prices, rising interest rates and construction material prices are causing home builders to reconsider new starts. In fire and flood impacted areas, remediation work will keep contractors busy while home supply stores and rock aggregate sellers should also see brisk business.

**Business/Industry**

2.3% | 1.9%

This sector as a whole appears to have settled in at a growth rate of roughly 2% per quarter. Investment in software, new technology, data storage, artificial intelligence and automation to offset the tightening labor market are primary drivers. Purchases of construction and transportation equipment remain strong. Surveys indicate optimism about general business conditions although the uncertainty of future tariffs and the potential impact of federal policy changes on California’s economy remain a concern.

**Food/Drugs**

2.5% | 2.5%

Tax receipts improvement during the final quarter of 2018 came from cannabis-related operations. Results declined from drug stores while grocery merchant’s returns were flat. Automation and robotics are integral ingredients to holding down supermarket and drug store costs while enhancing customer alternatives including at-home delivery. Competition remains fierce between prepared meal providers, traditional stores and boutique alternative concepts. Cannabis businesses should contribute to the overall increases as more state and local agency permits are issued for growing, manufacturing and dispensary facilities.

**Fuel/Service Stations**

2.8% | -2.2%

Extraction from the Permian Basin in West Texas now has the U.S. on track to become a net exporter of crude oil within the next few years. Reports are this production has a breakeven of about $35-$40 per barrel, ensuring future supply even if global prices decrease from the current market value. In California, spring is upon us and local gas prices are on the rise as the refineries switch over to the more expensive summer blend. Peak consumer prices should not exceed last year, so overall sales tax revenue will likely decrease as a result.

**General Consumer Goods**

0.0% | 0.0%

Structural changes within the retail industry influenced by consumer preferences, younger shoppers and increased technology has led to a shift in retailer’s growth strategies. Sprawling floor plans are being shifted to smaller store concepts with more personalized merchandise offerings. Diminishing the physical and digital divide is integral to the customer experience as a focus on promoting in-store pickups gains momentum. Struggles of ingrained brands continue to overshadow many success stories like the expansion of off-price shopping and beauty concepts. A tightening of the global economy and public perceptions could curtail discretionary spending.

**Restaurants/Hotels**

2.1% | 2.0%

Forecasted trends decelerated for the fifth quarter in a row in the restaurant category. The number of newly opened restaurants outpaced population growth resulting in declines in same-store sales. Along with other continuing challenges, the staffing crisis in the industry is impacting ability to provide the highest level of service at a time when service is the key attribute of the restaurant/hotel experience. Revenue increases will moderate when compared to patterns of the past three years.

**State and County Pools**

5.7% | 5.0%

CDTFA begins collecting taxes in April from specific out-of-state retailers who prior to the SCOTUS ‘Wayfair’ decision were not subject to collection. Payment is required from merchants that sell tangible goods for delivery into California through the internet, catalog, telephone or other means. The State Legislature seems poised to adopt AB 147 prior to this start date, providing clarifying laws including taxpayer exemption limits. E-commerce strategies such as chatbots, specialized brand creation, artificial intelligence (AI) and expanded marketplace offerings should contribute to future upticks in countywide pools revenues.

**Proposition 172** projections vary from statewide Bradley-Burns calculations due to the state’s utilization of differing collection periods in its allocation to counties. HdL forecasts a statewide increase of 3.33% for Fiscal Year 2018/2019 and a gain of 0.87% in 2019/2020.
U.S. Real GDP Growth

From a technical or data standpoint not much has changed in Beacon Economics' forecast for the U.S. economy. The framing of the outlook is another story. While little has changed in the actual economy, much of the public discourse surrounding the economy has taken a sharp turn for the worse. This new wave of pessimism has likely been driven by the recent sell-off in the stock market, slowing home sales and rising interest rates. Yet, as we see it, these short run trends do not amount to anything that could truly threaten the current expansion. So, for now, Beacon Economics is forecasting the expansion to continue and, barring some unexpected external impact, does not anticipate any major change in economic growth leading up to the 2020 election.

U.S. Unemployment Rate

Aside from the rapidly growing Federal budget deficit, the U.S. economy looks to be well-balanced in terms of the structure of growth and is exhibiting solid fundamentals including healthy private sector debt levels, adequate consumer savings rates, rising wages and an increased pace of homebuilding and business investment. Unemployment is also low, yet job growth remains steady. Economic expansions do not have life cycles. Rather they continue until there is a sustained negative shock to the system. Predicting a recession is a function of foreseeing that shock. At this point, there are some pressure points in the economy—but nothing in its current form could cause an economic downturn.

CA Total Nonfarm Employment Growth

Looking ahead through 2019, the question is, where will growth occur in California? The answer depends on the type of growth. Over the past three years, half of the job gains among the state's industries have occurred in its population serving sectors. California can count on employment increases in its population serving industries to continue in the coming quarters, but if the state wants to increase the size of its economic pie, its external industries will need to fuel that growth. This is a key challenge for California's newly elected governor and the rest of the state.

CA Unemployment Rate

California’s unemployment rate inched up to 4.2% in December, a 0.1 percentage point increase over November. However, the driving force behind the increase was an uptick in the state's labor force, which grew by 75,800 during the month. While labor force growth was slow from a year-over-year perspective earlier in 2018, stronger growth over the past several months has helped push year-over-year gains to 1.1%. This bodes well for the year ahead as employers can count on workers to fill open positions.

CA Median Existing Home Price

Mortgage rates are now hovering just below 4.5%, up one percentage point from where they were a couple of years ago. But while this is a recent high, it is hardly a historic one. In fact, it is still lower than at any time between 1968 and 2008. Rates are higher but they certainly aren't high. The California housing market slowed last year as a result of the bump in mortgage rates. However, there is a big difference between a housing pause and a housing bust. That the market is responding to changes in interest rates is a good thing. Prices need to adjust to a higher carrying cost; once that happens, the market should get back on track. The slowing pace of sales is part of that process.

CA Residential Building Permits

California has consistently failed to build enough new housing to keep pace with population growth. CEQA, NIMBY-ism, local permit ordinances and fees plus Proposition 13 have all played a role in the under-supply of new housing units. Mitigating the unintended consequences of each of these should remain a policy objective for the state moving forward. Beacon's current forecast calls for residential permits to exceed 130,000 new units next fiscal year, and gradually increase thereafter. However, these new units are not expected to be enough to stem the tide of under-supply.
California’s allocation data trails actual sales activity by three to six months. HdL compensates for the lack of current information by reviewing the latest reports, statistics and perspectives from fifty or more economists, analysts and trade associations to reach a consensus on probable trends for coming quarters. The forecast is used to help project revenues based on statewide formulas and for reference in tailoring sales tax estimates appropriate to each client’s specific demographics, tax base and regional trends.

Beacon Economics has proven to be one of the most thorough and accurate economic research/analytical forecasting firms in the country. Their evaluation of the key drivers impacting local economies and tax revenues provides additional perspective to HdL’s quarterly consensus updates. The collaboration and sharing of information between Beacon and HdL helps both companies enhance the accuracy of the work that they perform for their respective clients.