Subject: Financial Report for the Third Quarter of Fiscal Year 2019-20

Department: County Administration

Contact: Meegan Jessee  Phone: 530.552.3312

Meeting Date Requested: May 12, 2020

Regular Agenda ☐  Consent Agenda ☒

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

The Financial Report for the Third Quarter of FY 2019-20 provides an update on the national, State, and local economies; summarizes the quarterly analysis of expenditures and revenues; provides an update on the financial impacts from the Camp Fire and COVID-19 pandemic; and provides an update on cash balances and reports on current pension, retiree health and long-term debt obligations as of March 31, 2020.

Fiscal Impact:

Does not apply.

Personnel Impact:

Does not apply.

Action Requested:

Accept for information.
Date:        April 28, 2020
To:          Butte County Board of Supervisors
From:        Meegan Jessee, Deputy Administrative Officer
Subject:     Financial Report for Third Quarter of Fiscal Year 2019-20

OVERVIEW
The Butte County financial report for the third quarter of fiscal year 2019-20 contains updates on the economy, expenditures, revenues, the fiscal impacts from the Camp Fire and COVID-19 pandemic, cash balances, pension and retiree health liabilities and long-term debts for the period ending March 31, 20201.

Economy:    The U.S. economy is in stark contrast to the economy reported in the second quarter report. The COVID-19 pandemic and related social distancing policies beginning in mid-March has resulted in a dramatic economic slowdown. The depth and duration of the pandemic and related economic impacts are not fully known, but the initial data is just starting to be available along with early projections.

Expenditures: At the end of the third quarter, the County had expended $374.0 million from a budget totaling $641.0 million, which is about 58% of budget. Overall County expenditures as a percent of budget were somewhat lower than prior year due to large multi-year projects (Jail Expansion, Evidence Storage/Morgue, Neal Road Recycling and Waste Facility expansion) that have been budgeted but not yet expended in the current fiscal year.

Revenues:   Through the third quarter of the fiscal year, the County received $372.5 million or about 61% of budgeted revenues. Through the same quarter of the previous fiscal year the County received 61% 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 as well as impacts to discretionary revenue is included in the report.

1 Note the County financial information reported in the Quarterly report is based on the County’s Finance System and can vary from the County’s Comprehensive Annual Financial Report (CAFR), which provides summarized information and includes a section that is based on full accrual accounting while the Finance System records modified accrual accounting.
COVID-19 Financial Impacts:  The COVID-19 pandemic is affecting the County’s finances including direct expenditures in response to the pandemic, as well as the impact to the economy and County revenues. A summary of the evolving situation is included in the report.

Cash Balances:  The General Fund operating cash balance was approximately $5.2 million at the end of March 2020, compared to $7.9 million the prior year. The $2.7 million negative variance is primarily due to the timing of the 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, as well as the current balances in the pension trusts.

Debt:  During the third quarter of fiscal year 2019-20, principal payments totaling $155,806 and interest payments of $1,078,020 were made against long-term debt obligations. No additional long-term debt was secured by the County during the third quarter of the current fiscal year.

ECONOMIC UPDATE
The April 2020 Revised “California Forecast: Sales Tax Trends and Economic Drivers,” (attachment A) provided by HdL Companies on April 8th provides a State and national economic forecast. This forecast is produced by HdL and Beacon Economics and provided quarterly to the County 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 forecast this quarter includes expanded information about anticipated impacts from the COVID-19 pandemic and the measures implemented to slow the spread of the virus.

The report projects the U.S. economy will experience negative growth in the fourth quarter of the current fiscal year, U.S. real GDP growth of 0.1% in fiscal year 2020-21 and 2.0% in fiscal year 2021-22, and higher unemployment through the fourth quarter of the current fiscal year. Beacon Economics is projecting the California median existing home price to be $532,216 during fiscal year 2020-21 and $564,823 during fiscal year 2021-22, but as the COVID-19 pandemic continues, it becomes more likely home values will be negatively affected. Statewide, total sales tax is projected to decrease by 36.1% in the fourth quarter of the current fiscal year and decrease by 1.5% in fiscal year 2020-21. In addition to the “California Forecast: Sales Tax Trends and Economic Drivers,” local unemployment, building and home sales data is provided below.

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Unemployment: Butte County’s preliminary unemployment rate in March, which is based on mid-month data, was 6.7%, up from 5.4% in the previous month, 4.2% at the close of the second quarter of the current fiscal year and 6.2% a year ago. In March, the size of the labor force in Butte County was estimated at 98,800, which was a decrease from 102,700 at the end of the second quarter of the current fiscal year and 100,400 from a year ago. The unemployment rate in Butte County while higher than that of the State and the U.S., which were 5.3% and 4.5%, respectively, in March, Butte County continues to be lower than that of the neighboring counties of Sutter and Tehama (Figure 1).

Building Activity: The total number of building permits issued for the unincorporated area of Butte County during the third quarter of fiscal year 2019-20 increased by 11.4% over the third quarter of fiscal year 2018-19. An average of 267 building permits of all types were issued per month for the unincorporated area of Butte County in the third quarter, which is a 25.6% decrease from the monthly average of 359 in the previous quarter and an 11.7% increase from the monthly average of 239 during the third quarter of fiscal year 2018-19. The 106 residential building permits issued for the unincorporated area of Butte County during the third quarter is slightly down from the 117 residential building permits issued in the previous quarter and a 100% increase over the 53 residential permits issued during the third quarter of fiscal year 2018-19. Of the 106 residential building permits issued in the unincorporated area of Butte County during the third quarter of the current fiscal year, 65 permits or 61% were to Camp Fire survivors. Figure 2 below shows the number of all types of building permits issued per month for the last ten years.

Figure 2

Butte Issued Building Permits (Through March 2020)

Data Source: Butte County DDS

Median Home Price and Home Sales: The median sales price of existing single-family homes in Butte County during March 2020 was $365,000, up 7.7% from $338,750 in the previous month and a 1.1% decrease from the median price of $369,000 in March 2019. Figure 3 shows the changes in the monthly median home price in Butte County during the period October 2018, which immediately preceded the Camp Fire, through March of the current fiscal year. Home sales in Butte County during March 2020 were up by 16.9% from the previous month and down by 36.1% from March 2019.

Data Source: CA Assoc. of Realtors
EXPENDITURE REPORT
At the end of the third quarter of fiscal year 2019-20, the County had expended $374.0 million from a budget totaling $641.0 million. As shown in the graph below (Figure 4), the County spent $156.0 million on salaries and benefits, $96.2 million on services and supplies, $71.6 million on other charges, such as payments between funds and contributions to other agencies, $43.0 million on other financing uses and $7.2 million on capital assets. Overall, the County expended 58% of the budget through the third quarter as compared to 60% at this time last fiscal year, which is a decrease primarily due to large multi-year projects (Jail Expansion, Evidence Storage/Morgue, Neal Road Recycling and Waste Facility expansion) that have been budgeted but not yet expended in the current 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 4

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<tr>
<th>Category</th>
<th>Expenditure</th>
<th>Percentage</th>
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<tr>
<td>Salaries &amp; Employee Benefits</td>
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<td>Services &amp; Supplies</td>
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<td>Appropriation For Contingency</td>
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<td>0.0%</td>
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<tr>
<td>Special Items</td>
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<td>0.0%</td>
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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 large multi-year projects (Jail Expansion and Evidence Storage/Morgue) that have been not yet been expended.
- County Service Areas (CSAs) budgets often include maintenance/repair costs and make associated transfers as needed; a number of CSAs have pending transfers that are scheduled to occur in the fourth quarter, and other CSAs have not needed maintenance/repairs during the third quarter. Additionally CSA 164 – Animal Control, which accounts for 13% of budgeted CSA expenditures, reimburses the Public Health fund for animal control services in the fourth quarter.
• Debt Service expenditures are low due to a delay in the processing of a journal entry recording of POB payments. Funds for payment are on deposit with a trustee, and payments are recorded on a quarterly basis. Payments are up-to-date, and record of payments will be caught up in the fourth quarter.

• Enterprise Funds operating plans (budget), which record the operations of the Neal Road Recycling and Waste Facility, includes a number of capital projects which have not yet been completed. Additionally a budgeted land acquisition has not yet occurred, and two budgeted large equipment purchases are scheduled to occur in the fourth quarter.

• Fish and Game includes many small grant projects, some of which are delayed in the current fiscal year.

• General Fund Miscellaneous includes transfers made to support large multi-year projects. Budgeted transfers have not been made by close of the third quarter.

• Information Systems Department expenditures are low due to timing of transfers for equipment replacement that will be completed by the end of the fiscal year.

• 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.

• The Miscellaneous unit is made up of a single fund which houses a number of Camp Fire related grants. The grants include support for permit fees for Camp Fire rebuilds, support for the Sheriff's Office, funds that can be used to directly support Camp Fire survivors through the Department of Employment and Social Services as well as funds for the Paradise community services facility which now houses a number of County and other services. As new grants come online it can take some time to stand up the program including hiring staff which results in lower expenditures during that startup period.

• The Non-Operating funds account for restricted revenues that can be used to reimburse operating funds for specific projects or purchases, by way of transfers. Some projects and associated transfers have been completed, other projects are compete but transfers are still being processed and other projects or purchases are not yet done.

• Public Works budget includes many capital projects with budgets not yet expended. The Midway Bridge project is underway, and the Oroville Quincy Highway and Foothill Boulevard projects are scheduled to begin during this fiscal year. A number of other projects have not yet been started or have been delayed to next year, including the South Oroville Safe Routes to School project.

Two Departments had expenditures totaling more than 75% of budget. These are noted as follows:

• Clerk-Recorder expenditures are higher than anticipated due to costs related to the primary election.

• Non-Operating Public Works budget includes transfers for the East Gridley-Larkin Signal project. The East Gridley-Larkin Signal project has been completed as have all associated transfers, which account for 98% of the total budget.
Figure 5

Department Expenditures
(% of Total Budget—Through March 31, 2020)

Agriculture Commissioner - 68%
Assessor - 67%
Auditor-Controller - 69%
Behavioral Health Department - 59%
Board Of Supervisors - 68%
Capital Projects - 10%
Child Support Services Department - 68%
Clerk-Recorder - 70%
County Administration Department - 55%
County Counsel - 65%
County Service Area - 41%
Debt Service - 26%
Development Services Department - 57%
District Attorney - 68%
Employment & Social Services Department - 66%
Enterprise Funds - 48%
Equipment Replacement - 68%
Farm & Home & 4H Dept - 58%
Fire Department - 65%
Fish & Game - 35%
General Fund Miscellaneous - 44%
General Services Department - 58%
Human Resources Department - 67%
Information Systems Department - 40%
Internal Service Funds - 67%
Library - 68%
Miscellaneous Community Development - 10%
Miscellaneous - 43%
Non-Operating Admin - 43%
Non-Operating Behavioral Health - 69%
Non-Operating Clerk-Recorder - 26%
Non-Operating DESS - 66%
Non-Operating District Attorney - 17%
Non-Operating Fire - 46%
Non-Operating Library - 0%
Non-Operating Probation - 69%
Non-Operating Public Health - 53%
Non-Operating Public Works - 50%
Non-Operating Sheriff - 64%
Probation Department - 60%
Public Health Department - 37%
Public Works Department - 72%
Sheriff-Coroner - 66%
Treasurer-Tax Collector - 66%
Water/Resource Conservation Department - 48%

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Figure 6 below displays fiscal year budget amount and year to date 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 66%, somewhat higher than the previous year, but the same as fiscal year 2017-18. The variation between years is primarily due to the timing of the quarterly $3.7 million CAL FIRE payment. In fiscal years 2016-17, 2017-18, and the current fiscal year the third quarterly payment was made by the close of third quarter, but in fiscal year 2018-19 the third quarterly payment was not made until the fourth quarter.

![Fiscal YTD Expenditures--General Fund Depts.](chart)

*Figure 6 Fiscal YTD Expenditures--General Fund Depts.
Current & Preceding 3 FYs--Through Mar. 31*

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REVENUE REPORT
Through the third quarter of fiscal year 2019-20, as reflected below in Figure 7, the County received $372.5 million or 61% of budgeted revenues compared to the same as this time last year. Figure 7 below shows graphically in an OpenGov report, which can be found here, 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.

Figure 7
Figure 8 on page 10 shows revenues received by each County department through the end of the third quarter. Many 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 revenues are lower than anticipated due to a delay in payments from the State due to COVID-19. Grants have been billed and revenue is anticipated in the fourth quarter.
- Capital Projects receives reimbursement for projects. A number of large multi-year capital projects (Jail Program, Evidence Storage/Morgue) have limited expenditures to date, reducing associated revenues.
- County Administration revenues are lower than anticipated due to federal grants which have been billed but not yet fully received.
- District Attorney revenues are lower than anticipated due to a delay in processing non-operating transfers.
- Equipment Replacement funds receive revenue as transfers that are typically done in April, after property tax revenue is received. This results in lower revenue in the second half of the fiscal year.
- Fire Department revenues are low due to the timing of reimbursements which cannot be processed until the associated purchases have been made. A budgeted purchase for equipment was not completed by the end of the third quarter thus the transfer from the non-operating fund has been delayed.
- General Services revenues are low due to a variety of delayed facilities projects resulting in delayed cost reimbursement revenues.
- Miscellaneous Community Development includes the Community Development Block Grant (CDBG) and HOME programs. The unit has low revenues due to the number of projects completed and the timing of billings from outside consultants.
- Non-Operating District Attorney revenues are lower than anticipated due to delays in various billings. Full revenues are expected by the end of the fiscal year.
- Non-Operating Library revenues vary based on the donations received by the Library.
- Water/Resource Conservation Department revenues are based in part on reimbursement from the Proposition 1 grant. The grant has been billed and revenue is anticipated in the fourth quarter. Additionally, a portion of budgeted revenue will not be received as it is associated with the Paradise Irrigation District Intertie Project, which was terminated in November 2019.

A number of Departments had revenue receipts totaling more than 75% of budget. These are noted as follows:

- Assessor revenues are higher than anticipated related to user fee revenue.
- Auditor-Controller revenues are higher than anticipated due to $507,000 in time expired checks through June 30, 2016 that have been cleared through the General Fund.
- Board of Supervisors revenues are higher than anticipated due to the receipt of Camp Fire insurance proceeds, which are related to the rent of Supervisor Teeter’s Office temporary office while repairs are made to the office damaged by the Camp Fire.
- Debt Service revenues are higher than anticipated due to the timing of debt payments, the majority of which occur during the first half of the fiscal year.
- Development Services revenues are higher than anticipated related to permit revenues for the Camp Fire rebuild as well as a larger number of permits filed in December 2019 ahead of the
building code changes that went into place in January 2020. Additionally, fine revenue related to violations to the County’s marijuana cultivation ordinance is typically received in the second and third quarters.

- Enterprise Funds revenues, which record the operations of the Neal Road Recycling and Waste Facility, are high related to disposal fees charged for Camp Fire debris.
- Library received an insurance payout for damages from the Camp Fire that was not included in the budget and has resulted in higher than anticipated revenues.
- Non-Operating Fire revenues fluctuate depending on the year’s fire season severity, which varies greatly from one fiscal year to the next.
- Non-Operating Public Works received higher than anticipated impact fee revenues through the end of the third quarter.

**Figure 8**
**Department Revenues**
(% of Total Budget-Through March 31, 2020)
Figure 9 displays fiscal year budget amount and year to date revenues at the close of the third quarter fiscal year 2019-20 among General Fund Departments. General Fund Departments received 59% of budgeted revenues, which is consistent with 59% of budgeted revenues received at the same time last fiscal year.

**General Purpose Revenues:** Through the close of March, 56% of budgeted General Purpose Revenues have been received. Through the end of the fiscal year it is currently anticipated that total General Purpose Revenue will come in higher than the budgeted amount by approximately $3.2 million. The anticipated increase over budget is due to a number of factors, including anticipated Camp Fire disaster reimbursement of $3.5 million, PSPS revenues of $408,000, and DWR settlement reimbursement revenues of $365,000 in the General Fund. offsetting these revenues is an anticipated shortfall in Prop 172 Public Safety statewide sales tax revenues related to the economic impacts of the COVID-19 pandemic of approximately $1.5 million as well as other smaller adjustments. The anticipated shortfall related to Prop 172 does not include any of the potential cash flow challenges related to deferral of and payment plans for local and Prop 172 Public Safety sales tax. Staff will continue to closely monitor General Purpose Revenues particularly as it relates to the COVID-19 pandemic and the associated economic impacts and will provide updated projections at Budget Hearings.
CAMP FIRE FINANCIAL IMPACTS

The Camp Fire continues to impact the County’s finances, ranging from direct costs for response and recovery to increased revenues at the Neal Road Recycling and Waste Facility to reductions in property tax revenues. However, the rate of spending has slowed, claims are being submitted to CalOES and FEMA and some of the uncertainly in this area has been resolved.

Direct Costs for Response and Recovery: The County continues to respond to the Camp Fire, primarily related to the tree debris removal process and other recovery activities. The County will expect to receive 75%-90% of reimbursable costs from FEMA and of the remaining 10%-25% it is anticipated that 75% of those costs will be reimbursed by the State. That leaves a local share of 2.5%-6.25% for costs deemed reimbursable by FEMA and CalOES. Not all costs will be reimbursable.

Through March the County had expended approximately $33 million on Camp Fire response and recovery efforts. While the County continues to make expenditures related to the Camp Fire, the pace of spending has slowed. Staff have submitted many of the Camp Fire claims to CalOES and FEMA for review and payment and we are beginning to see some of the reimbursements come in. Staff anticipate all initial claims will be finalized by the beginning of June. However, the claiming process will continue for five to ten years as various components of the response, recovery and infrastructure work is completed. The County is required to seek available insurance reimbursement for the State debris and tree debris removal efforts. This effort cannot begin for debris until the State finishes its accounting, which is not anticipated until about a year after the operation ended. If a similar pattern is true for tree debris removal than it will be at least two years until the County could begin insurance collections related to tree debris. Similarly the tree and debris removal operations damage County roadways, but the County cannot complete claims for those damages until the operations have ended. Staff will make every effort to wrap up claims and get reimbursement as soon as possible, however it is important to understand that this will be a long-term effort for some items.

FEMA, CALOES and Insurance Revenues: To date the County has received $8.8 million in FEMA and CalOES funds and $4.3 million in insurance reimbursements for building repairs, equipment replacements, and other Camp Fire related losses. Staff have made significant progress completing claims for federal and State reimbursement, have received over $600,000 in recent months and anticipate additional reimbursement in the coming months. As building repairs move forward the County will receive additional insurance reimbursement as well.

Property Tax Revenue Impacts: County discretionary revenues have been impacted by the Camp Fire and will continue to be impacted until the rebuild is complete. The most significant of these is property tax, which is backfilled by the State through fiscal year 2020-21. The County’s current year backfill is $4.3 million, which includes a $1.7 million backfill of our combined secured and unsecured roll as well as $2.6 million in property tax in lieu of VLF backfill. It is anticipated that in fiscal year 2021-22 the County will have close to a $4 million shortfall in property tax revenues in the General Fund depending on the number of properties that have been rebuilt. Given the long term nature of the Camp Fire recovery the rebuild will not be complete by the time the backfill ends. Staff are working on data analysis to help identify properties most likely to be rebuilt in the near term which will help identify out year property tax revenue impacts. This effort has been slowed down by the COVID-19 pandemic, but continues.
COVID-19 PANDEMIC FINANCIAL IMPACTS

The COVID-19 pandemic will have an impact on the County’s finances related to both response costs and impacts from the economic downturn resulting from the COVID-19 pandemic.

**Direct Costs for Response:** The County is currently responding to the COVID-19 pandemic by way of the Public Health Department Operations Center, which is supported by the County Emergency Operations Center. Activities include Public Health response as well sheltering and information sharing. Aside from regular staff time most response costs, not otherwise funded, should be eligible for State and federal reimbursement with a 6.25% local share. Costs through April 24th totaled approximately $2 million though most of that is for regular staff time. Additionally, both Public Health and Social Services have received some local, State and federal grants and allocations, which can be dedicated to specific activities such as sheltering. Staff will continue to monitor costs and work with CalOES and FEMA to seek reimbursement.

**Economic, Revenue and Cash Flow Impacts:** The COVID-19 pandemic and related social distancing policies have resulted in significant impacts to the nation’s economy that will impact the County’s revenues. The full impact to the County’s revenues will ultimately depend on the depth and duration of this event as well as the speed at which the economy recovers. Staff are following economic projections and analyzing potential impacts. Below is a brief summary of what is known to date:

- **Sales Tax.** The County receives about $5.5 million in local sales tax receipts from sales in Butte County and about $115 million in statewide sales tax, which funds health and human services and public safety programs. HdL, the County’s sales tax consultant, is anticipating that statewide sales tax receipts in the current year will be about 9.5% short of the prior year and another 1.5% reduction in the budget year. This assumes a lifting of stay-at-home orders at the end of May and that the virus has run its course by September. These estimates continue to be refined and staff are working to analyze the impacts on the various programs funded by this revenue and on the County budget in general, and will provide updates as additional information is known. In addition to the impacts to sales tax revenues the State has instituted a number of deferral and payment plan options for businesses that will further impact the timing of the receipt of sales tax revenues and may impact the cash flow of the County. It is anticipated that the first sales tax payment that will be impacted by the decline in sales tax and the deferral of payments are the May payments.

- **Property Tax.** The County receives about $68 million in property tax annually. There were concerns about the receipt of the second installment of property tax payments, which was due April 10th. Property tax is an essential revenue for the County, cities, special districts and schools and was paid as expected. Had property taxes not come in timely, it could have triggered significant cash flow issues for local agencies. If property values are impacted by the economic downturn, due to the timing of the property tax process it is not anticipated that the County would see those impacts until fiscal year 2021-22.

- **Other Revenues.** The County’s budget relies on a variety of revenues, which may be impacted by the COVID-19 pandemic and related economic downturn. This ranges from property transfer tax, to vehicle license fees, to user fees and fee for service billing and court fine revenues. Analysis on these revenues is ongoing.

- **Federal Stimulus Funds.** The federal government has passed several stimulus bills designed to help address economic impacts from the COVID-19 pandemic. Of the funds that are relevant to local government many of them are targeted to specific programs such as public health,
emergency preparedness, elections, homelessness and law enforcement. The majority of these programs are passed through the State to the local government. Staff are monitoring these funding opportunities which in most cases require State action before the County or other local agencies can apply or otherwise access the funds. The only generalized COVID-19 relief is the Coronavirus Relief Fund for State governments and large (over 500,000 population) local governments. It is not clear if the State will pass a portion of their allocation through to local governments will a population under 500,000.

Staff will continue to analyze impacts to the County’s budget in general, and are reviewing revenue assumptions in the fiscal year 2020-21 Recommended Budget, which was mainly developed prior to the COVID-19 pandemic. Staff anticipate presenting recommended adjustments to the budget at Budget Hearings in June as well as potential adjustments later in summer or fall as the State budget is finalized and additional information is known about the impacts to the County budget.

CASH BALANCES
The General Fund cash balance at the end of the third quarter of fiscal year 2019-20 was $5.2 million, compared to $7.9 million the prior year. The $2.7 million relative decrease to the General Fund cash balance can be attributed to the quarterly payment made to CAL FIRE. In the current fiscal year the County has made one more payment to CAL FIRE than at the same time last year. Each quarterly CAL FIRE payment is approximately $3.7 million. 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.

At the end of the third quarter of fiscal year 2019-20 there was an outstanding cash advance of $139,169 from the General Fund to the CDBG Fund due to the timing of reimbursements.

PENSION PLAN FUNDED STATUS
Figure 12 below presents the most recent funded status of the County’s pension plans. This is the same information that was provided in the last quarterly report.

The County contracts with CalPERS to provide pension benefits. The County has two pension plans for County employees. The first is for safety employees and includes deputy sheriffs, correctional deputies, probation officers, and district attorney investigators. The second is for miscellaneous employees and includes all non-safety County employees.
The funded status is determined by CalPERS actuaries and is provided annually to the County. The complete reports can be found on the Butte County website at: http://www.buttecounty.net/administration/ActuarialReports.aspx. The funded status refers to the funds accumulated to pay for benefits earned in the past based on actuarial assumptions compared to the total liability for those benefits.

On January 29, 2019 the Board of Supervisors adopted the Butte County Pension Strategy, which includes the County’s participation in Internal Revenue Code Section 115 irrevocable pension trusts for the miscellaneous and safety employee pension plans to help stabilize future contributions rates. Those trusts are now open. As of March 31, 2020 the miscellaneous trust has a balance of approximately $800,000 and the safety trust has a balance of approximately $1.5 million.

RETIREE HEALTH PLAN FUNDED STATUS
Figure 13 below presents the most recent funded status of the County’s retiree health plan as of June 30, 2020 per a new actuarial report received by the County in April of 2020. This update was prepared in the spring in preparation for the June 30, 2020 year end reports. 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.

Prior to fiscal year 2014-15 the County funded the retiree health plan on a pay-as-you-go basis. Beginning in fiscal year 2014-15 the County initiated a plan to begin pre-funding the retiree health plan and as of March 31, 2020 the County had accumulated $6.6 million. The plan has decreased in value from $7 million as of the second quarter report; however as of 4/17/2020 the plan value has increased to $7.7 million. It is expected that due to the volatility of the current economy the plan will continue to experience similar shifts in value.
LONG-TERM DEBT
The Long-Term Debt schedule, Figure 14, presents balances as of March 31, 2020.

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<td>$45,820,000</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>7,188,954</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>920,333</td>
<td>53,252</td>
<td>8/1/2050</td>
</tr>
<tr>
<td>Total Certificates of Participation</td>
<td>$9,100,000</td>
<td>$8,109,287</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>5,092,299</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>56,943</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>59,196</td>
<td>62,275</td>
<td>4/10/2020</td>
</tr>
<tr>
<td>2017 Government Campus Infrastructure Financing</td>
<td>2,658,000</td>
<td>2,368,910</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>402,220</td>
<td>108,050</td>
<td>4/13/2023</td>
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<tr>
<td>Total Capital Leases</td>
<td>$11,574,382</td>
<td>$7,979,568</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>1,085,000</td>
<td>1,102,396</td>
<td>7/1/2020</td>
</tr>
<tr>
<td>2017 Equipment Lease-Purchase</td>
<td>816,393</td>
<td>334,197</td>
<td>171,039</td>
<td>11/15/2021</td>
</tr>
<tr>
<td>2019 Equipment Lease-Purchase</td>
<td>825,103</td>
<td>669,297</td>
<td>179,514</td>
<td>3/18/2024</td>
</tr>
<tr>
<td>Total Neal Road Recycling and Waste Facility</td>
<td>$5,861,496</td>
<td>$2,088,494</td>
<td>$1,452,949</td>
<td></td>
</tr>
<tr>
<td>TOTAL LONG-TERM DEBT</td>
<td>$76,430,878</td>
<td>$63,997,349</td>
<td>$7,692,150</td>
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</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 $1,233,826 in debt payments, $155,806 of which resulted in principal reductions as detailed in Figure 15.

<table>
<thead>
<tr>
<th>Debt Description</th>
<th>Principal Paid</th>
<th>Interest Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Obligation Bonds Series A</td>
<td></td>
<td>$801,961</td>
</tr>
<tr>
<td>Pension Obligation Bonds Series B</td>
<td></td>
<td>$98,426</td>
</tr>
<tr>
<td>2104 Hall of Records</td>
<td></td>
<td>$125,807</td>
</tr>
<tr>
<td>2010 Bangor Fire Station #55 Renovation Project</td>
<td></td>
<td>$18,407</td>
</tr>
<tr>
<td>2019 Equipment Lease Purchase</td>
<td>$155,806</td>
<td>$23,708</td>
</tr>
<tr>
<td>2006 Certificates of Participation Refunding</td>
<td></td>
<td>$9,711</td>
</tr>
<tr>
<td>TOTAL DEBT PAYMENTS</td>
<td>$155,806</td>
<td>$1,078,020</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.

### Outstanding Debt and Ratios (Through March 31, 2020)

**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>of Capital</td>
<td>Certificates</td>
<td>of Lease</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>$45,820</td>
<td>$8,234</td>
<td>$8,752</td>
<td>-$</td>
</tr>
<tr>
<td>2020</td>
<td>$45,820</td>
<td>$8,109</td>
<td>$7,980</td>
<td>-$</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.

Delivering Revenue, Insight and Efficiency to Local Government Since 1983
CORONAVIRUS (COVID-19) Impacts on California Sales Tax

The swift reaction by consumers and businesses to the outbreak of coronavirus (Covid-19) in the U.S. has caused a massive decrease in spending on certain goods and services. The national and state response combined with the uncertainty of how long the presence of the virus will disrupt the U.S. economy has made forecasting local government revenues particularly challenging. This forecast was developed in early April after numerous news updates detailing "shelter-in-place" related impacts, comparisons to previous economic downturns like the Great Recession, studying the data, reports and projections of many industry specific analysts and monitoring various updates up to that time.

The forecast assumes that the statewide ‘shelter-in-place’ directive will continue until the end of May 2020, although volume testing may allow health care agencies an understanding of the extent of the virus and implement more site specific containment actions that allow some businesses and schools to slowly reopen and return to work. Based on recovery reports from China and South Korea, our forecast still assumes that the virus will have run its course by the end of September, however it does not consider a return of the virus and potential economic impacts after the current period at this time. Under our ‘end of May’ scenario, declines in sales tax revenues are expected to continue through the fourth quarter of 2020 with only moderate gains for several quarters thereafter. With the most dramatic decreases expected during the first and second quarters of 2020, future comparisons to these periods will be positive. However, overall dollars will still be less than the same period in 2019 noting a prolonged flat rebound.

Already marginal or overly leveraged businesses still may not survive a lengthy shutdown even with federal subsidies and our observation from previous downturns; the return to previous spending patterns after significant income interruptions is not immediate and often evolves. Consumers may now take even more time to fully get back to previous leisure travel, dining and discretionary spending habits. Businesses similarly may become more cautious about capital investment and the number of employees to hire after emerging from an economic crisis. Business travelers who had to resort to teleconferencing may continue to teleconference. Formerly avid brick-and-mortar shoppers may find that online shopping and delivery services suits them just as well.

The percentage changes in HdL's quarterly forecasts are statewide. Every local jurisdiction has its own distinctive sales tax demographics and business characteristics and the depth of the impact will vary. Further, as individual client budget forecasts are constructed, we will continue to monitor for subsequent economic changes that may have not been reflected in earlier forecasts.
### Autos/Transportation

**1Q20** -12.0%  |  **2Q20** -55.0%  |  **2020/21** -6.3%

Numerous industry observers including Cox and JD Power have predicted 80% or more declines in auto sales while Shelter-in-Place (SIP) regulations are in force, similar to reported results from Chinese auto dealers in February. Anecdotal reports indicate sales may now indeed be declining near that amount. Once showrooms are fully reopened, sales are expected to remain depressed as consumers suffer from job losses and heightened levels of economic anxiety. Recent industry forecasts from ALG, JD Power, RBC and others predict new car sales decreases anywhere from 10 to 34% in 2020 overall. HdL is projecting a decrease of 25% for the auto/transportation category as a whole, exceeding the 20% worst annual decline seen in 2008 during the Great Recession.

### Building/Construction

**1Q20** -7.0%  |  **2Q20** -40.0%  |  **2020/21** -0.1%

Recent regional decision makers have put most construction on hold; the threat remains that jurisdictions outside the Bay Area will stop work for prolonged periods during the next 3 months. Supply chain issues are a problem but manageable in the near term. Some jurisdictions are having difficulty keeping up with required inspections with some handling it remotely or others allowing self-inspection. As the pandemic continues, permit levels will decline, leading to less work for future periods. Without government incentives, housing development is likely to dry up as the effects of growing unemployment further limit the pool of prospective buyers. Commercial projects, although holding entitlements and permits, may no longer pencil. Even if construction demand remains strong after the pandemic passes, existing capacity limits will throttle growth as crews must first deal with the growing backlog of work.

### Business/Industry

**1Q20** -15.0%  |  **2Q20** -30.0%  |  **2020/21** -5.4%

Most categories within this group are expected to decline over next few quarters with the Coronavirus disruption of supply chains deepest in first and second quarters. Companies needing components for manufacture of consumer electronics, pharmaceuticals, machinery and trucks may be particularly impacted. Depending on inventory availability, there may be a temporary boost in the demand for food processing, medical, and telecommunication equipment and supplies. The major winner will be for industrial zoned fulfillment and logistics centers that also happen to be "point of sale" for the products that they ship. The Coronavirus quarantines are expected to accelerate the shift from brick and mortar stores to online shopping and produce double digit gains in those specific cases.

### Food/Drugs

**1Q20** 5.0%  |  **2Q20** 5.0%  |  **2020/21** 2.0%

The current pandemic has not restricted access to grocery and drugs stores. While operational and safety modifications have occurred, consumers can still acquire household essentials at both chain and local establishments. Some products are in short supply, temporarily, as anxious shoppers acquire larger quantities of certain products. Cannabis businesses are also open and expected to perform fairly well, given the circumstances. The SIP mandates create expectations to merchandise from this group being delivered directly to homes or through curbside pickup.

### Fuel/Service Stations

**1Q20** -10.0%  |  **2Q20** -50.0%  |  **2020/21** 0.0%

As a result of COVID-19, the consumption of fuel, have either slowed or stopped. The combination of strong supply and weak demand for fuel has pushed oil barrel prices down to historically low levels. Fuel prices in California are now averaging less than $3 per gallon. With lower prices and less fuel being consumed because of SIP restrictions, taxes generated are expected to significantly drop in the second quarter of 2020 and remain down until the middle of the first quarter of 2021. Oil prices should then increase into the range of $45 to $55 per barrel toward the end of 2021 and into 2022. However, oversupply may keep gas prices relatively low and moderate potential sales tax recovery.
HDL CONSENSUS FORECAST – APRIL 2020
STATEWIDE SALES TAX TRENDS

General Consumer Goods
1Q20 -15.0% | 2Q20 -45.0% | 2020/21 -2.5%

Core retail sales are expected to see significant drops as society practices social distancing measures to combat the spread of COVID-19 at the recommendation of health professionals and government leaders. With SIP orders expected to continue well into the second quarter of 2020, the effect on consumer spending and retail sales are expected to be extremely disturbed. Shuttered malls, shopping centers and retailer stores all will be adversely impacted. State and federal programs are being set up to assist small businesses to temper short term cash flow declines and permanent closures. While the immediate fallout subsides, brick and mortar retail sales are expected to be bleak into the summer months. As consumer confidence drops and employment woes set in, the effects are projected to negatively impact discretionary spending throughout the remainder of 2020.

Restaurants/Hotels
1Q20 -10.0% | 2Q20 -60.0% | 2020/21 -6.5%

The restaurant industry is reporting 65% drops in revenue and the hotel industry is reporting drops of over 85% due to the COVID-19 shelter-in-place. Restaurants and other facilities that prepare and serve food are restricted to delivery or take-out. Consumers are shifting their food spending to groceries as quarantines continue, which could impact the long-term outlook for the sector if dining habits change. After the shelter-in-place is lifted, dining rooms are expected to operate at reduced capacity for continued social distancing. This industry is very vulnerable to closure given the already increasing tight operating margins and staff costs pre virus impacts. Most major hotels have laid off most of the staff, while others have announced they will temporarily shut down.

State and County Pools
1Q20 15.0% | 2Q20 10.0% | 2020/21 7.3%

This is one segment that is expected to stay positive, even in the midst of the virus crisis. The primary driver is the coincidental arrival of new out of state taxes; early results from the Wayfair decision implementation, which launched in the second quarter of 2019 under AB147, added new revenues at the State and local level. The marketplace facilitator phase started October 1st; current and next year forecasting comprises Wayfair’s total impact on anticipated use taxes distributed via the countywide pools. Online shopping surged in March as buyers complied with crowd avoidance mandates; some chose to stock up early expecting weeks of limited store access. Going forward, spending will be focused on high priority necessities, balanced against available retailer inventories and rapid increases in unemployment which shrinks overall purchasing capacity.

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 decrease of -8.19% for Fiscal Year 2019/2020 and -1.82% in 2020/2021.
NATIONAL AND STATEWIDE ECONOMIC DRIVERS

**U.S. Real GDP Growth**

<table>
<thead>
<tr>
<th>2020/21</th>
<th>2021/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.1%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

The current state of affairs in the global and U.S. economy is unlike anything experienced in modern times, and like many forecasting organizations, Beacon Economics is working to fully grasp the scope of what is happening and exactly how it might shift the economic outlook. There are many potential outcomes to this crisis. And while it is easy to underestimate the resilience of the U.S. economy, that does not diminish the risks posed by the worldwide Coronavirus (Covid-19) pandemic—it is the greatest threat to the nation's economic expansion in over a decade. Despite it all, it is by no means fait accompli that the U.S. economy is about to fall into a recession of any scale, much less a major one. At the center of the uncertainty are the actions being taken by businesses, consumers, and regulators to contain the disease. There have been wholesale cancelations of conferences, travel, sporting events, live entertainment, and really any forum in which large groups of people gather. Public health mandates, both voluntary and otherwise, have led many businesses to implement short run work-from-home policies for their employees and closed restaurants and bars across the nation to close temporarily. This sudden halt in economic activity will create turmoil in the economy in the coming weeks and it is highly likely that the U.S. economy will experience negative growth in the second quarter. But if the shock is short lived enough, the economy will catch up, possibly with a positive third quarter that makes up for much of the loss in the second.

**CA Unemployment Rate**

4.0% | 4.0%

The big unknown is how long the shock to the economy will last. The CDC has recommended that public gatherings of more than 50 people cease for 8 weeks. In addition, we know that university closures will last for many months. While university employees will be paid, many businesses surrounding universities will be adversely affected as staff and students are their primary source of income. Coupled with federal stimulus, and a resumption of some semblance of normalcy within a couple of months, immediate economic hardship could be somewhat temporary, with consumption deferred to a later period. But those dark clouds could turn into a storm for the state's economy if this unprecedented draw down in peacetime consumption endures into the summer.

**CA Median Existing Home Price**

$532,216 | $564,823

The state's strong fourth quarter paints a picture that is a far cry from the beginning of the year when the stock market had just seen a major correction, there was anxiety about trade uncertainty, and forecasts about a national and global slowdown were coming from all quarters. Unfortunately, the anxiety has returned due to the COVID-19 pandemic. Home prices won't drop under our baseline scenario, but the likelihood of them being affected continues to increase the longer the situation drags on.

**CA Residential Building Permits**

126,449 | 131,572

The number of housing permits issued in the state peaked in the first quarter of 2018 and has trended lower since then. Even before this downturn, the state was in the midst of a housing shortage. As the shortage persists, it will create two primary effects. First, it will put upward pressure on housing prices, exacerbating affordability problems, and second (relatedly), it will shape the nature of the state's labor force.

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.

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Fax: 424.646.4660