LONG RANGE FINANCIAL PROJECTION

This Long Range Financial Projection (LRFP) is prepared in accordance with Financial Policies Section IX, Long Range Financial Projection. The purpose is to provide a longer-term context for the budget, to clarify and illustrate Council's long-range financial policy direction, and to integrate the estimated long-term operating impacts from transfers from the general fund to fund capital projects into the operating budget projections.

The focus of the LRFP is on the general governmental operations of the County. The Joint Utilities and other proprietary funds are excluded from this analysis.

Baseline Scenario

The key assumptions built into the baseline LRFP are the following:

Revenue Assumptions:

1. Charges for services, franchise taxes and interfund/interdepartmental charges are estimated using a simple forecast based upon history. The primary assumptions for each of these lines was that the specific mix of revenues would remain stable over time and that there were no significant plans or other revenue interrelationships that would require a more refined projection model.

2. Grants – The detail for FY2026 was reviewed and those items that were one time in nature or declining were reduced in future years. The base estimate for expected recurring revenues in the General fund is an estimated $1,488,546 in FY2026. The inflation rate was set at 3% thereafter.

3. Land Sales – The County has plans that would involve the sale of County land parcels. Land sales revenue totaling approximately $1,800,000 is included in the CIP Fund for FY2026. Any land sales will be subject to future development plans and subject to Council approval.

4. GRT revenue – The two primary sources of input for GRT revenue projections are the federal budget projections and input from LANL regarding projected spending. While the first input drives the other, it is the spending subject to tax that generates GRT. There have been continued discussions with LANL about decreases to LANL's overall tax liability, which have begun to decrease GRT received by the County. This is primarily reflected in projected declines starting in FY2025, which is earlier than prior year projections. This is a partial driver for a proposed one-quarter cent (1/4) GRT increment (which is assumed to be adopted in FY2027 in the financial model below).

   The GRT revenues are estimated to change as follows (in $millions):

(in $millions)												
Actual		Projected										
FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
95	107	93	96	106	110	114	116	120	123	127	131	135
27.8%	10.8%	-14.7%	2.9%	9.7%	3.5%	2.9%	2.3%	2.9%	2.9%	2.9%	2.9%	2.9%
				* 1/4 Cent GRT	*Admin Fee Rebate							

The increases experienced in FY2023 and FY2024 are consistent with higher LANL budgets, increased hiring and spending at LANL, and with YTD taxable receipts in those years.

5. There are no specific property tax rate adjustments projected. However, if the County chooses to pursue General Obligation Debt for certain purposes, then the associated property tax rate adjustments would be discussed and proposed at that time. **NOTE** – the state's yield control formula will impact the calculated levied rate, so Council and the public should expect to see some minor

rate changes from the state calculation when the rates are certified from the state in September and presented to the Council for adoption.

6. If not specifically addressed, revenues are projected to follow either historical trends or historical averages.

Operating Expenditure Assumptions:

1. In FY2027 and beyond, General Fund Expenditures are estimated to inflate annually at an average of 3%.

2. Expenditures in other special revenue funds inflate at varying rates of 1% to 3% annually or match projected revenues for specifically required spending by law.

3. The total of $1,850,000 per year transfer from the General Fund to the Economic Development Fund is comprised of $400,000 per year for the housing loan programs, $1,200,000 in grants for the Los Alamos Public Schools and University of New Mexico – Los Alamos, and $200,000 in potential LEDA programs. These recurring transfers are projected to continue through 2034. FY2026 and FY2027 transfers also include additional one-time transfers of $2,800,000 in support of economic development infrastructure and LEDA projects.

4. FY2026 and forward includes planned operational costs within Community Services for small capital purchases, and Public Works for major facilities maintenance needs in the General Fund for capital projects under construction and for planned future projects.

The following table illustrates the projected outcomes of combined governmental funds:

Governmental Activities Summary (in $ millions)													
	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Total beginning fund balance	140	175	205	158	134	139	134	134	138	139	143	151	160
Revenues and other sources	160	183	259	181	182	170	179	181	183	187	193	197	202
Expenditures and other uses	(125)	(153)	(306)	(205)	(177)	(175)	(179)	(177)	(182)	(183)	(185)	(188)	(192)
Total ending fund balance	175	205	158	134	139	134	134	138	139	143	151	160	170

The projected fund balance fluctuation in FY2025 and FY2026 is primarily due to the decline in GRT revenues, and the draw down of fund balance to cover budgeted expenditures. The projected increase in the GRT revenues starting in FY2027 is from the projected ¼ cent GRT increment, and then normal inflation of 3% growth is built in for out years. This projection can be affected by many factors but especially if any decrease in GRT is realized.

Financial Risks and Mitigation Strategies

The most significant risk inherent in this LRFP is that projected GRT tax revenue from LANL decreases substantially (either the taxable status of the contractor or the spending/tax exemption changes and/or the nature and size of LANL operations changes, and/or State tax law changes unfavorably).

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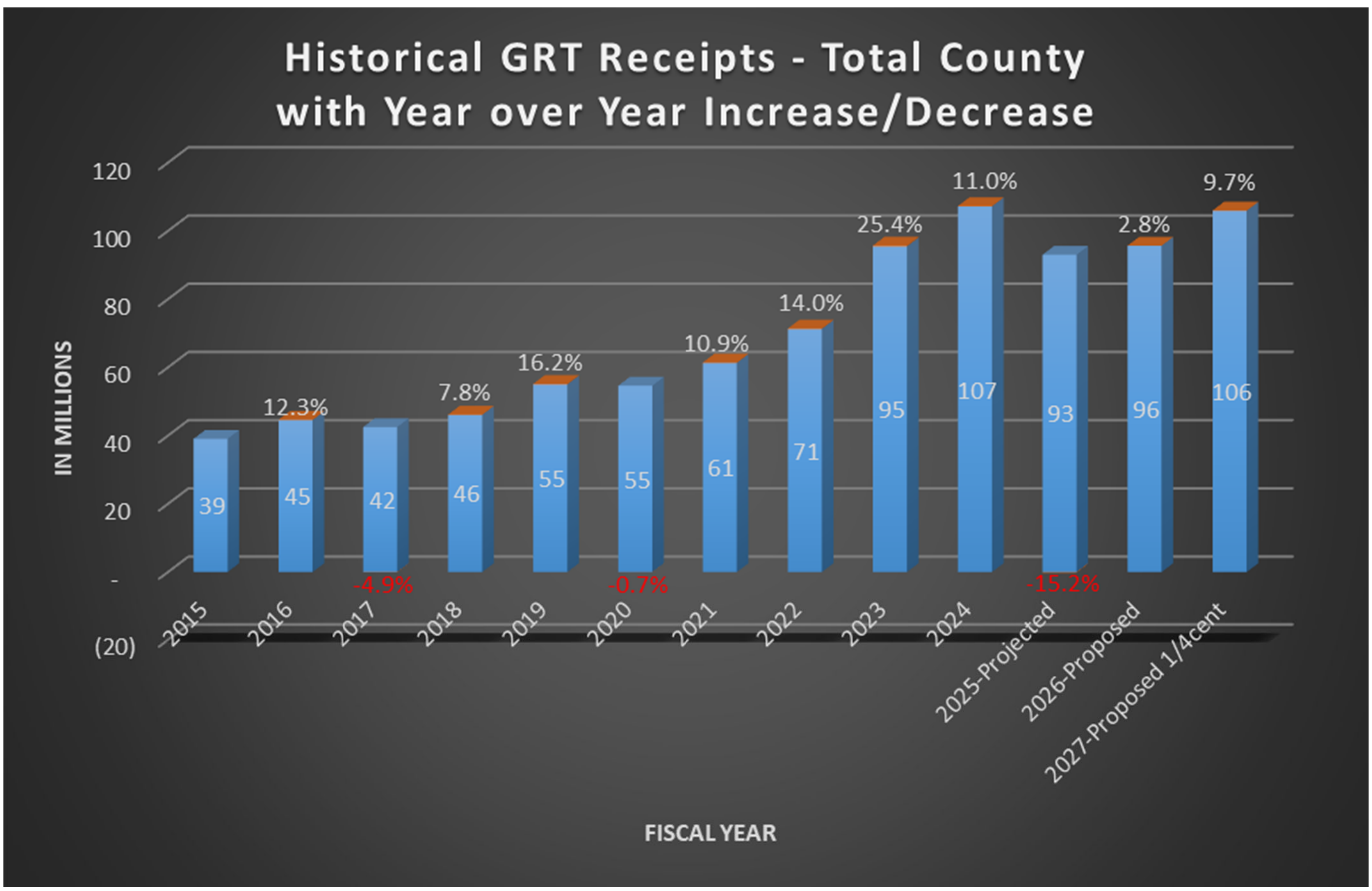
The Council's regional strategy to pursue a State legislative change was successful and has alleviated the risk associated with the tax status of the LANL contractor. Under the new law, any federal or state lab contractor will be subject to GRT, regardless of non-profit status. Another element used by the County is to have a relatively conservative policy for fund balance targets. This enables the County to have some lead time to react to unexpected GRT changes. In addition, a basic tenet of the County's ongoing budget development processes is to find efficiencies where possible, realign personnel with changing operations, and take measures in reducing recurring operating costs where possible.

As mentioned above, another looming risk that has been projected since staff guidance to Council beginning with the County's FY2024 budget is a projected decline in gross receipts from certain production activities driven by LANL that are subject to tax. Initial projections assumed a decline that would have needed the support of the adoption of a ½ - cent GRT increment to be in effect as early as January 1, 2025. Through variations of projected vs actual GRT receipts realized, Council last provided guidance to bring forth a ¼ - cent GRT increment to be effective as of July 1, 2026 or the beginning of Fiscal Year 2027. The proposed FY2026 budget and GRT projections continue to support the ¼ - cent increment to be enacted as of that date. Council will need to take all formal action necessary to adopt the increment by March 31, 2026, to become effective as of July 1, 2026, which is projected in this ten-year long range financial projection. A visual of the historical GRT receipts that have been received is presented below:



Should actual GRT continue to decline further than projected in FY2025 and FY2026, there will be enough time to consider going back to a ½ - cent GRT increment as described above, and/or take further measures to weather the downturn.

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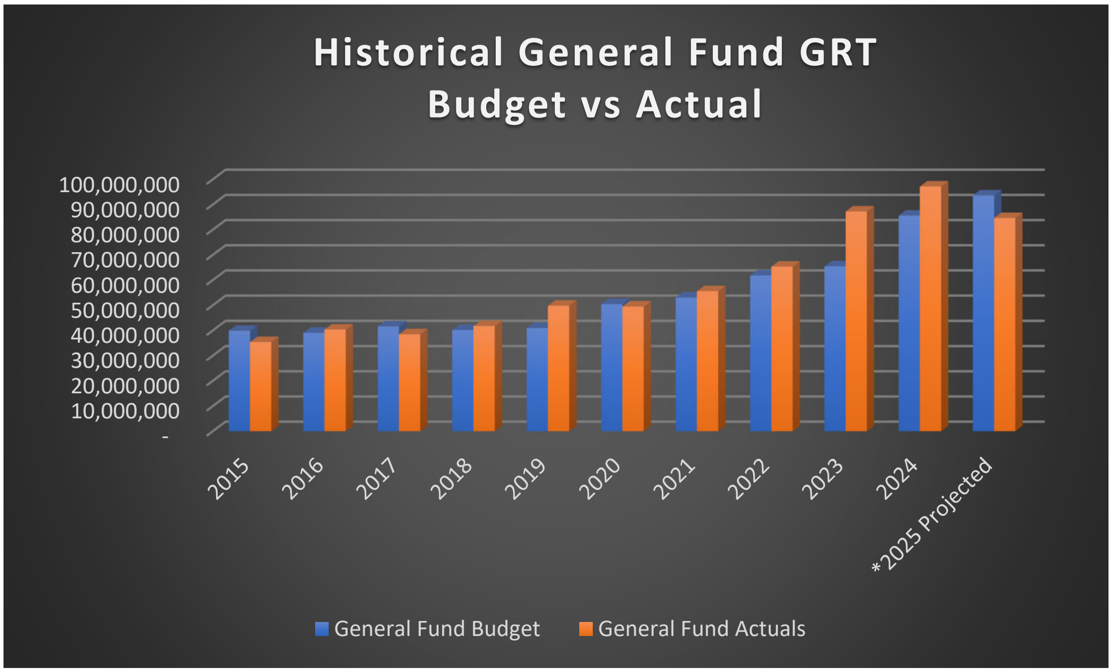
Part of the County's resiliency in managing fluctuating GRT revenues has been due to the approach of carefully budgeting revenues conservatively in times of growth and balancing spending to achieve positive results in ending fund balance. This has significantly contributed to healthy reserves building up over the past four years. Beginning in FY2025, we project spending down reserves with a projected operating shortfall of an estimated $20.7 million. Below are historical General Fund budgeted vs actual GRT revenues:



SUMMARY

The purpose of the LRFP is to illustrate the potential long-term impacts of operating and capital plans from a comprehensive perspective. The Capital Improvement Program, implemented as a whole and based upon the stated assumptions, is projected to generate positive economic benefit and to improve the quality of life for the community, although there are risks that will need to be managed carefully. In this LRFP, fiscal years 2027 and 2028 assume deferred transfers from the General Fund in the amount of $19 million, and another $15 million in fiscal years 2029 and 2030 to catch up with a new GRT increment needed to support the proposed level of operating budgets proposed. Some of the large projects that have been either removed or deferred to later years include the North Mesa Community Recreation Space, Tween Center and Fire Station 6, along with lowered funding for various other identified projects. The ability to fund the capital plan relies on the excess unassigned fund balance in the General Fund after operating expenditures and reserve targets have been met. This excess fund balance after meeting targeted reserves provides additional capacity for other projects that become available over the long-term and will be revisited each fiscal year to budget for long term capital plans accordingly.