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 biennial budget, to clarify and illustrate Council's long-range financial policy direction, and to integrate the estimated long-term operating impacts from 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 past history and the new increase. 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 FY 2015 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 is $863,700 in FY 2016. In subsequent years this amount is inflated annually at a rate of 3% (the assumed inflation rate.)

3. Land Sales – The County has future plans that would involve sale of County land parcels. There parcels include A-19 (residential), A-19 (affordable housing), A-3/A-7, A-8 (residential), and A-8 (affordable housing). Since the timing of sales will be subject to future development plans and subject to Council approval, they have not been included in the projections. When and if these sales occur the proceeds will be available to fund future CIP and affordable housing projects.

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 that actually generates GRT.

   The most recent information now available is based upon a projected leveling-off of spending at LANL. At this time, the federal budget for federal fiscal year (FFY) 2016 just been proposed. Because this is one of the initial sources of input used by the County to estimate GRT revenues, the current projections may have a higher degree of potential variability than in prior years. The GRT revenues are estimated to change as follows (in $millions):

(in $millions)	Actual	Actual	Actual	Actual	Actual	Actual	Projected										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2023	2024
	58	51	57	51	43	39	41	43	44	45	46	46	47	48	49	50	52
%Change		-12.1%	11.8%	-10.5%	-15.7%	-9.3%	5.1%	4.9%	2.3%	2.3%	2.2%	0.0%	2.2%	2.1%	2.1%	2.0%	2.0%

LONG RANGE FINANCIAL PROJECTION

There has been a significant amount of volatility in GRT and therefore the County is taking a conservative approach to budgeting this revenue source into the future. GRT revenues are projected to increase by 4.9% over projected revenues for 2015, but this is after a projected 29% decrease for FYs 2012 – 2015. For FY 2017 and beyond, there is a 2% annual inflation factor assumed for GRT revenue growth. Estimated GRT from retail expansion is also included beginning in FY 2015. Beginning in FY 2018, there is an annual compounding decrease of $105K also included in the projection associated with the phase out of hold harmless GRT payments from the State.

5. In FY 2016, there is a projected property tax increase to re-implement the $1.5 million that was removed in FY 2011. After 2016, average annual valuation increases are estimated to be 3%.

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

Operating Expenditure Assumptions:

1. In FY 2017 and beyond, General Fund Expenditures are estimated to inflate annually at an average of 3%.

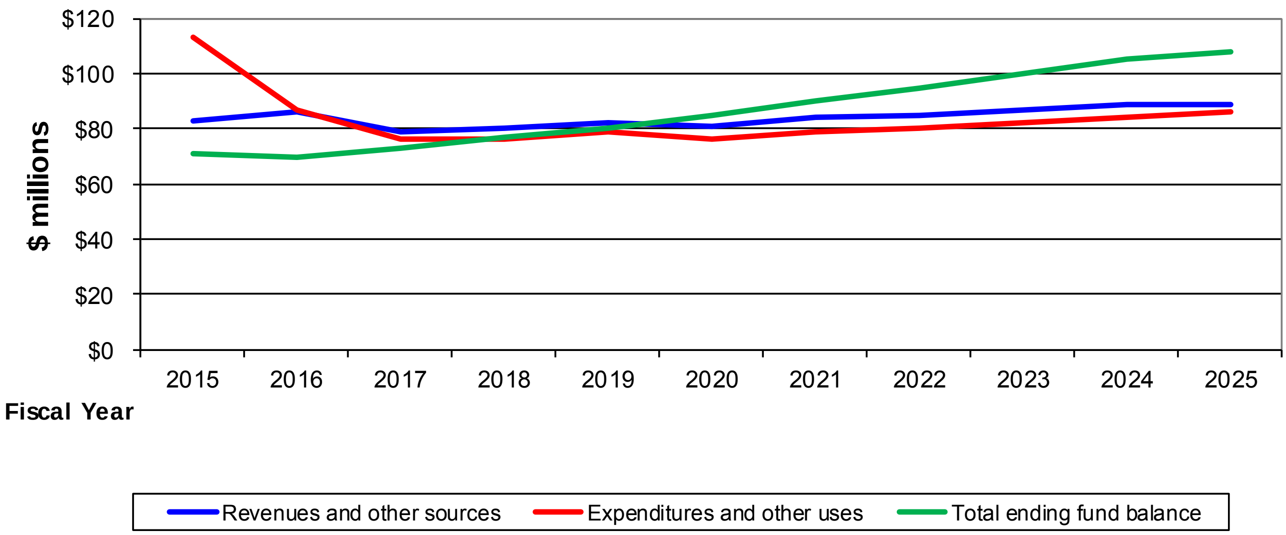
2. Expenditures in other special revenue funds inflate at varying rate of 1% to 3% annually.

LONG RANGE FINANCIAL PROJECTION

The following table and graph illustrate the projected outcomes.

Governmental Activities Summary (in $ millions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total beginning fund balance	101	71	70	73	77	80	85	90	95	100	105
Revenues and other sources	83	86	79	80	82	81	84	85	87	89	89
Expenditures and other uses	(113)	(87)	(76)	(76)	(79)	(76)	(79)	(80)	(82)	(84)	(86)
Total ending fund balance	71	70	73	77	80	85	90	95	100	105	108



It should be noted that the majority of the positive fund balance growth projected above is in the CIP fund. Once a new CIP program is developed and approved by Council, this balance could be the source of funding and would decrease accordingly.

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 tax status of the contractor changes and/or the nature and size of LANL operations changes, and/or State tax law changes unfavorably).

There are several suggested mitigation strategies. The first is already completed and involved the structure of the GRT revenue bonds. They were structured so that a portion is callable, allowing early repayment. They were also structured so that repayment is “front-loaded” requiring larger principle payments earlier. One of our previous strategies was to use a portion of projected surpluses (in the earlier years of the LRFP when the risks are less) to build up a committed fund balance to possibly repay the GRT revenue debt early, when it is callable. In FY 2013, the fund balance was used to refund the callable

LONG RANGE FINANCIAL PROJECTION

bonds early, reduce annual debt service costs, and realize an estimated current net present value savings of over $1.7 million. The second strategy has been to slow down the pace of the County's capital program to ensure that fund balance levels remain at targeted levels. The third strategy is on-going and is to find efficiencies where possible, realign personnel with changing operations, and eliminate vacant positions when possible, thereby reducing recurring operating costs.

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. It also projects that some additional capacity for other projects will be available over the long-term.