

LONG RANGE FINANCIAL PROJECTION

This Long Range Financial Projection (LRFP) is prepared in accordance with Financial Policies Section IX, Long Range Financial Projection, located in the "Other Information" section. 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, economic development, housing or other 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 most of this analysis, with the exception of total County GRT revenues which include Environmental Services and Fire Funds. The LRFP is also modeled based on FY2026 projected ending figures, based on assumptions currently known at the time of budget development, and is subject to change when actual realized audited financial statements are completed.

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 FY2027 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 FY2027. The inflation rate was set at 3% thereafter.
3. Land Sales – The County does not have plans in FY2027 that would involve the sale of County land parcels. 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. Over the past year, the County has continued discussions with LANL regarding reductions in the Laboratory's overall tax liability. These changes began to affect County GRT collections in FY2025, which is reflected in the downward trend starting that year. To strengthen long-term revenue stability, the Council adopted a .625% GRT increment during FY2026. This increase takes effect on July 1, 2026, and is incorporated into the financial model shown below. The projected rise in GRT revenues beginning in FY2027 is driven by the new .625% increment, followed by an assumed 3% annual inflationary growth in subsequent years.

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

(in \$millions)												
Actual		Projected										
FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036
107	88	92	113	117	121	123	127	131	135	139	143	147
11.2%	-18.0%	4.9%	22.3%	3.7%	3.0%	2.3%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
		* 5/8 Cent GRT		*Admin Fee Rebate								

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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 FY2028 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 \$3,050,000 per year transfer from the General Fund to the Economic Development Fund is comprised of \$400,000 per year for the housing loan programs, \$1,250,000 in grants for the Los Alamos Public Schools and University of New Mexico – Los Alamos, and \$1,400,000 in economic development infrastructure and LEDA projects. These recurring transfers are projected to continue through 2036. FY2027 transfers also include additional one-time transfers of \$5,010,000 in support of economic development infrastructure and LEDA projects.

4. FY2027 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)													
	<u>FY2024</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>	<u>FY2032</u>	<u>FY2033</u>	<u>FY2034</u>	<u>FY2035</u>	<u>FY2036</u>
Total beginning fund balance	173	209	210	145	131	130	130	134	138	143	153	164	178
Revenues and other sources	187	182	267	184	192	190	193	195	202	204	210	214	220
Expenditures and other uses	(151)	(181)	(332)	(198)	(193)	(190)	(189)	(191)	(197)	(194)	(199)	(200)	(206)
Total ending fund balance	209	210	145	131	130	130	134	138	143	153	164	178	192

The projected fund balance fluctuation from FY2025 to FY2026 is primarily due to the decline in GRT revenues, and the draw down of fund balance to cover budgeted expenditures. The projected revenue and expenditure increases in FY2026 reflect the inclusion of \$75 million in bond proceeds and the associated bond-funded project costs. 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.

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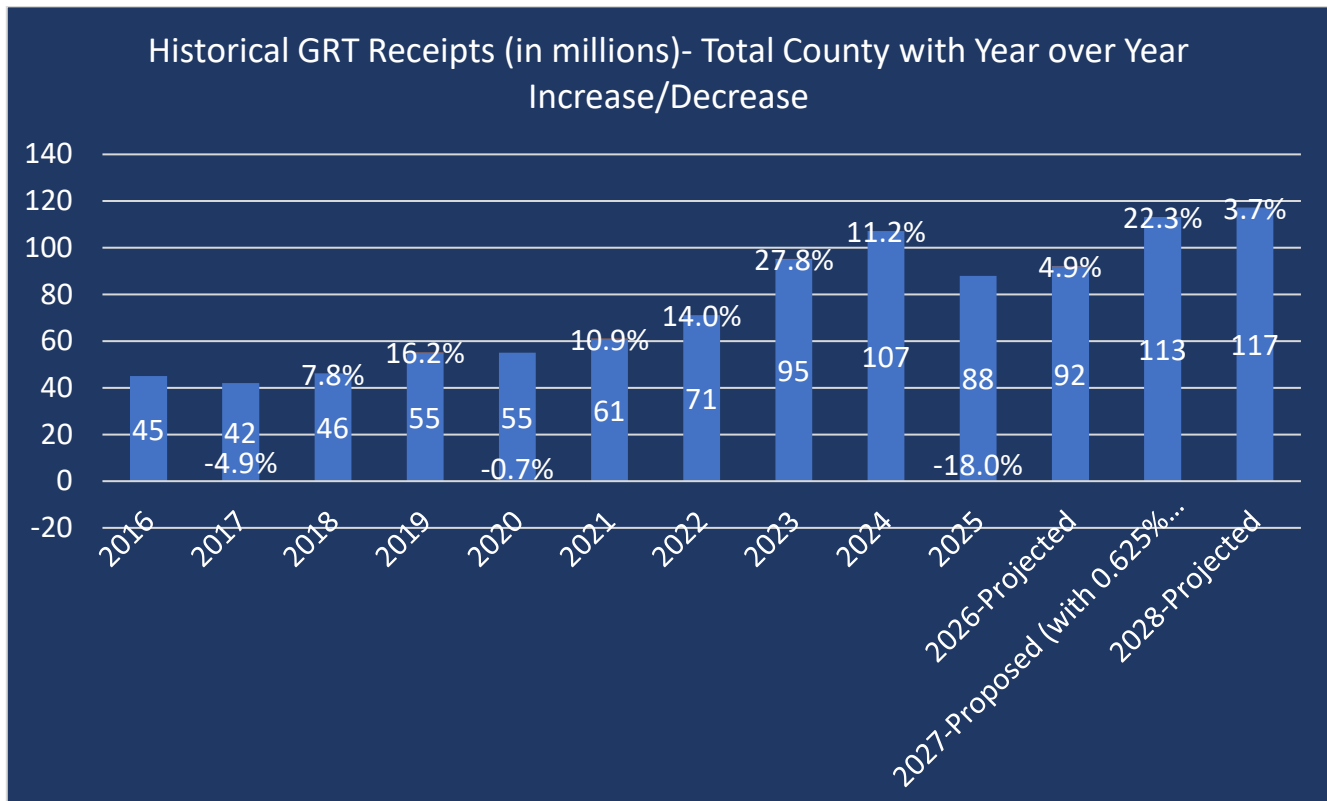
Financial Risks and Mitigation Strategies

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).

The Council's regional strategy to pursue a State legislative change in 2019 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.

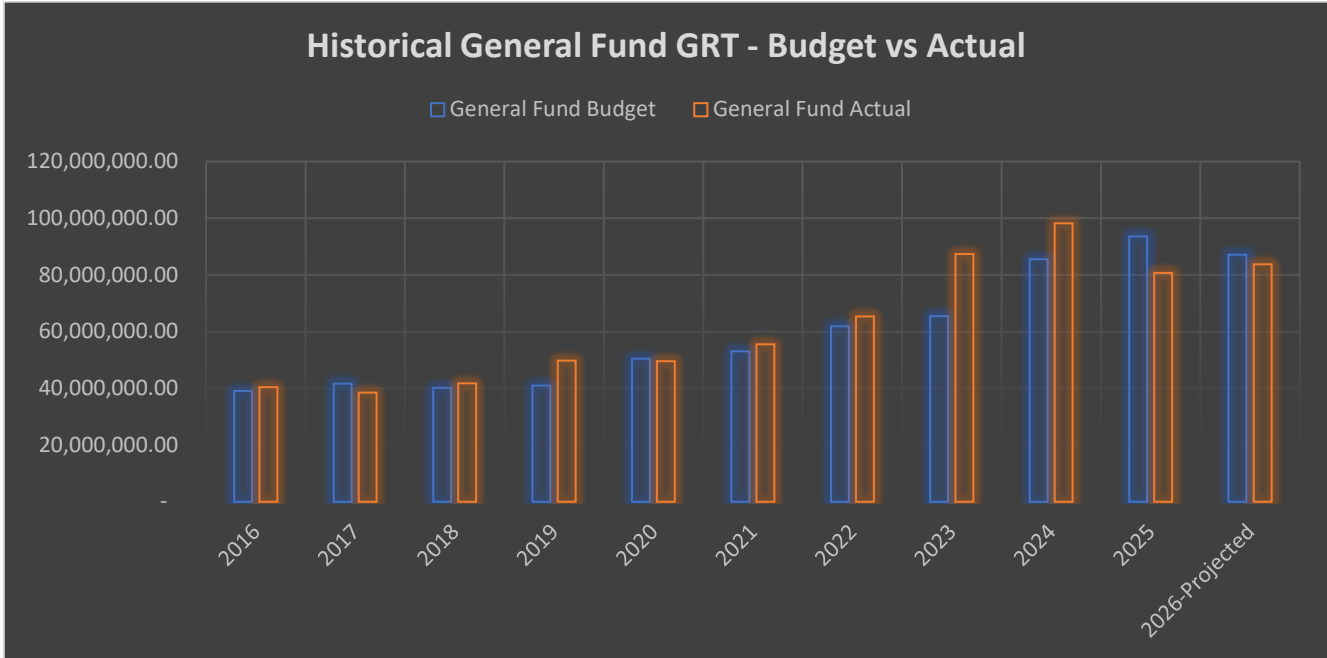
Beginning in FY2027 and proposed in this LRPF, an additional 5 percent has been added for a total of a 25 percent reserve target of unassigned ending General Fund balance. This additional reserve target provides for more resilience in years of GRT volatility. In addition, a basic tenet of the County's 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.

The County experienced a notable decline in Gross Receipts Tax (GRT) revenues in FY2025, reflecting an 18% decrease from the prior year. To support a more resilient revenue base moving forward, the Council approved a 0.625 cent GRT increment effective July 1, 2026. This adjustment is incorporated into the financial projections beginning in FY2027 and is expected to provide a meaningful boost to recurring revenues. The increment helps offset recent volatility and positions the County to maintain service levels, invest in priority initiatives, and plan for future capital needs or to fund future strategic initiatives with greater predictability. A visual of the historical GRT receipts that have been received is presented below:



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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, the County did spend down reserves with an operating shortfall of \$7.8 million. The County projects to continue to spend down reserves in FY2026 with a projected operating shortfall of an estimated \$23 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 year 2026 includes \$40 million in bond proceeds for the Broadband project and \$35 million in bond proceeds to fund various other capital projects. FY2027 proposes transfers from the General Fund in the amount of \$9.4 million, and another \$36 million in fiscal years 2028 and 2029 to catch up with the new GRT increment needed to support the proposed level of projects proposed. Some of the large projects that have been either removed or deferred to later years include the North Mesa Recreation Space, Social Services Facility and Fire Station 6. 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 and economic plans accordingly.