ATTACHMENT 5

FY 2022-23 Recommended Budget
GENERAL FUND FIVE-YEAR SENSITIVITY ANALYSIS

Introduction and Approach

In developing the budget for the upcoming fiscal year, it is important to understand the potential impact of budget year decisions on future fiscal years. A budget that is not structurally balanced, with ongoing expenditures exceeding ongoing resources, can lead to funding shortfalls in future years with expenditure needs greater than available resources. Additionally, known or expected changes in future revenues and expenditures should be considered when making budget year decisions to ensure the sustainability of budgeted service levels on an ongoing basis.

Because future year revenues and expenditures depend on a number of factors that cannot be predicted with any degree of certainty, it is useful to evaluate different scenarios based on a range of assumptions to understand the possible outcomes. To understand the County's General Fund fiscal position in future fiscal years, this analysis looks at three possible scenarios to produce a range of projected revenues and expenditures for Fiscal Year (FY) 2022-23 through FY 2027-28. For each of the three scenarios, the analysis evaluates the projected annual difference between General Fund discretionary revenues and Net County Cost (use of discretionary resources) and the resultant impact on the General Fund's discretionary fund balance.

Projection Scenarios and Assumptions

The three scenarios used for this analysis are:

- Baseline Scenario
- Conservative Scenario
- Optimistic Scenario

Common Assumptions

All three scenarios start with the FY 2022-23 Recommended Budget as the base year for revenues and budgeted expenditures. Additionally, to reflect the fact that actual Net County Cost is generally less than budgeted Net County Cost, the analysis projects Net County Cost at 10% below the budgeted level, consistent with the recent historical difference between budget and actual Net County Cost.

All three scenarios also include adjustments for the following known or likely changes in future year revenues and expenditures:

- Changes in debt service requirements, in particular for the County's Pension Obligation Bonds, which have significant scheduled debt service reductions in FY 2025-26 and FY 2026-27
- Increases in staffing and facility costs to comply with the Mays consent decree, reflecting a total of approximately $25 million of ongoing Growth in addition to expenditures included in the FY 2022-23 Recommended Budget
- An assumed $10 million of additional ongoing Net County Cost Growth each year
- Reductions in revenue neutrality payments from cities in the County as those arrangements wind down over the forecast period

All three scenarios also assume that:

- Semi-discretionary and categorical revenue will generally keep pace with cost increases, and
- Underlying expenditures, or "cost of doing business" will increase at an average annual rate of 3%.

Baseline Scenario

The Baseline Scenario is meant to reflect a continuation of the status quo, with revenue and expenditure assumptions generally in line with historical growth rates. This scenario is the most realistic to use for planning purposes and includes the following assumption starting in FY 2023-24:

- Discretionary revenue and reimbursements will increase at an average annual rate of 4.5%.

Conservative Scenario

The Conservative Scenario assumes a less optimistic rate of revenue growth compared to the Baseline Scenario in order to illustrate the potential impact of somewhat less favorable economic conditions. Starting in FY 2023-24, this scenario assumes:

- Discretionary revenue and reimbursements will increase at an average annual rate of 3%, compared to 4.5% in the Baseline Scenario.

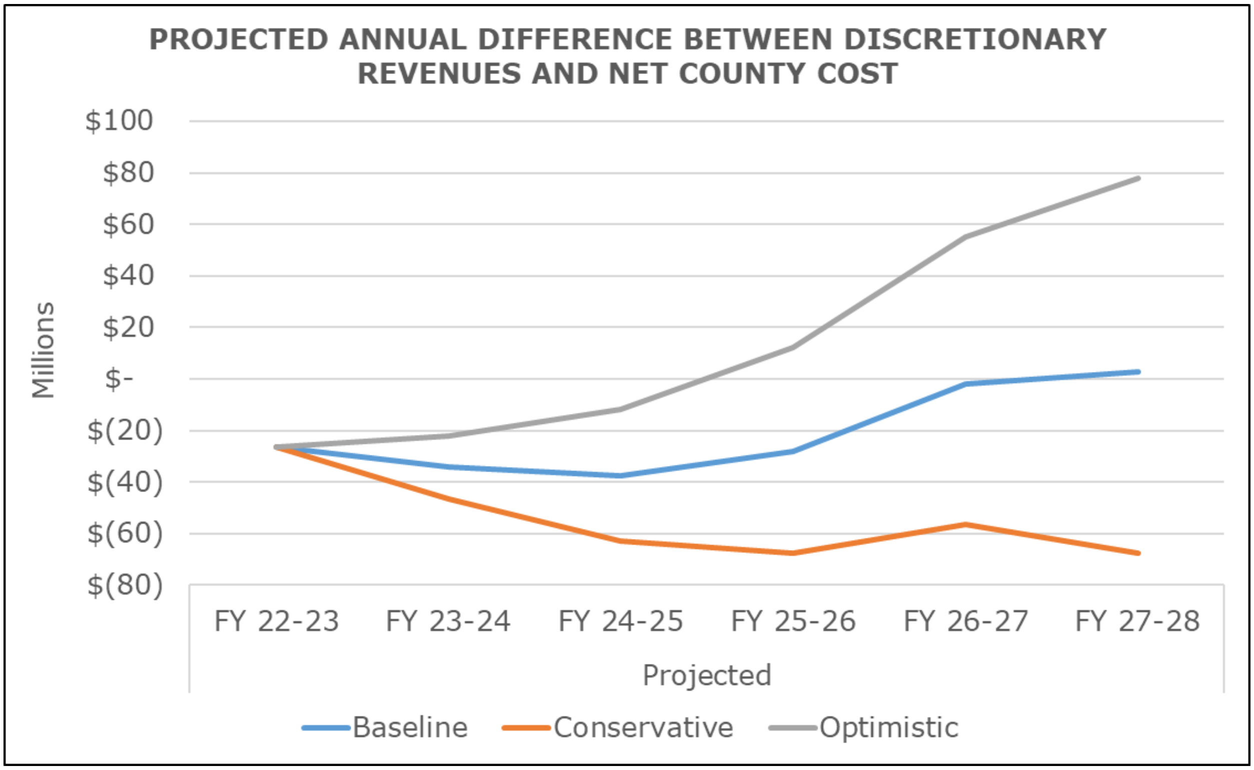
Optimistic Scenario

The Optimistic Scenario assumes a more optimistic rate of revenue growth compared to the Baseline Scenario in order to illustrate the potential impact of somewhat more favorable economic conditions. Starting in FY 2023-24, this scenario assumes:

- Discretionary revenue and reimbursements will increase at an average annual rate of 6%, compared to 4.5% in the Baseline Scenario.

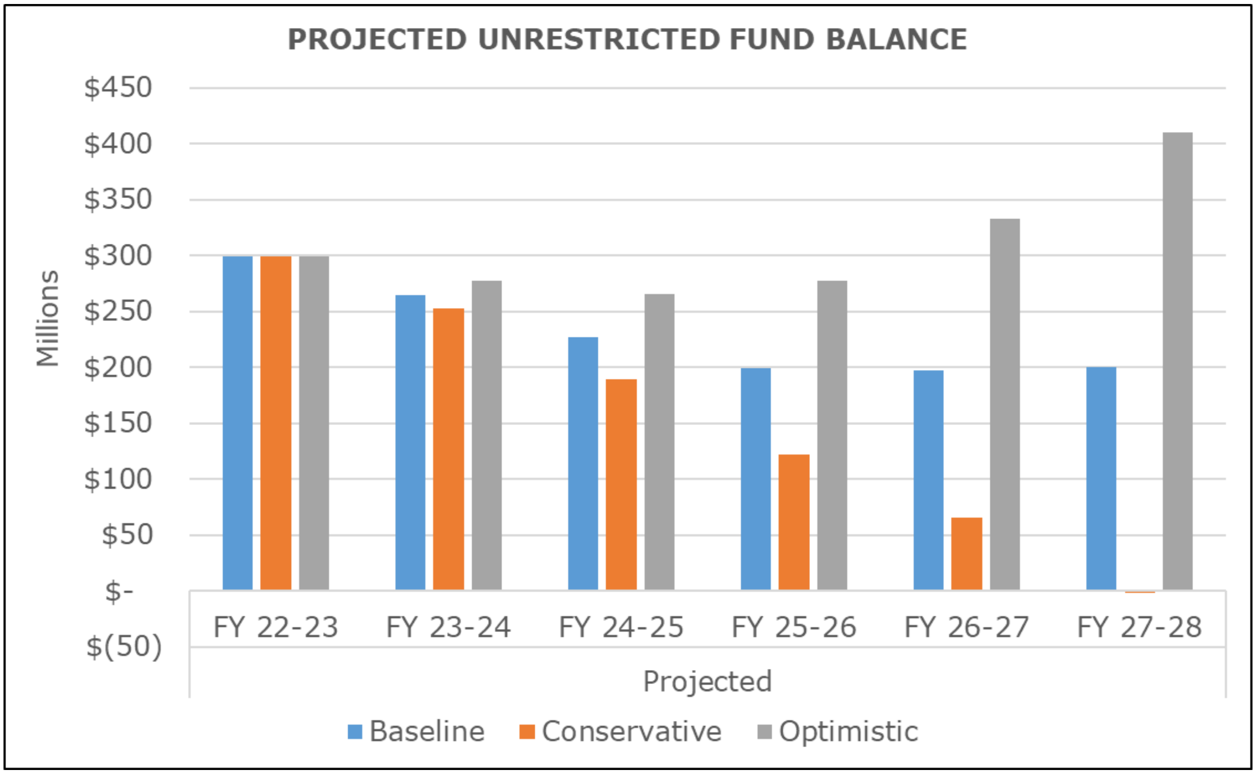
Projected Results

The annual difference between projected discretionary revenues and Net County Cost for each of the three scenarios is displayed on the chart below.



The Baseline Scenario shows projected Net County Cost exceeding discretionary revenues until the final year of the projection period – FY 2027-28. In the Optimistic Scenario, discretionary revenues are projected to exceed Net County Cost beginning in FY 2025-26. In the Conservative Scenario, Net County Cost is projected to exceed discretionary revenues throughout the forecast period.

Projected annual differences between discretionary revenues and Net County Cost either contribute to or reduce the projected unrestricted fund balance in the General Fund, as shown in the chart on the following page.



Under the Baseline Scenario, the General Fund's unrestricted fund balance is projected to decline from $300 million in FY 2022-23 to approximately $200 million by FY 2027-28. In the Optimistic Scenario, the FY 2027-28 projected unrestricted fund balance reaches approximately $400 million. In the Conservative Scenario, the projected unrestricted fund balance continues to decline during the forecast period and actually reaches negative $2 million by FY 2027-28. As a practical matter, budget reductions would need to be made under the projected assumptions in this scenario in order to achieve a balanced budget and avoid a negative fund balance.

The wide range of projected results in each of the three scenarios illustrates the sensitivity of the projections to the assumptions used in developing them. Additionally, future circumstances may vary widely from the assumptions made in developing these projections for a variety of reasons, with actual results falling outside the projection range. With those limitations in mind, it is still possible to draw some useful conclusions from this analysis, including that:

- Without adjustment to the current course, it is not likely that the General Fund will be in structural balance in the near future, with the Baseline Scenario showing an average annual discretionary revenue/Net County Cost deficit of approximately $20 million. This means that: (1) the County likely will need to continue to rely on the use of fund balance to balance the General Fund budget and; (2) the unrestricted fund balance is likely to decline over the forecast period.
- While many things are largely outside the County's control, including future growth in discretionary revenue, changes could be made to bring the General Fund into structural balance more quickly than shown in the Baseline Scenario. For example, limiting future year Growth to $5 million instead of $10 million and reducing the annual increase in underlying Net County Cost from 3% to 2.5% would produce results approximating the Optimistic Scenario under the Baseline Scenario revenue assumptions.
- Achieving structural balance by aligning ongoing Net County Cost with ongoing discretionary revenues would not only help ensure the sustainability of budgeted service levels into the future, it would also preserve unrestricted fund balance as an available resource to be used to lessen the need for expenditure and service reductions during future economic downturns.