

FY 2026-27 Recommended Budget GENERAL FUND MULTI-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.

This analysis looks at three possible approaches to constraining the future growth of budgeted Net County Cost (use of discretionary resources) for Fiscal Year (FY) 2027-28 through FY 2030-31, using the FY 2026-27 Recommended Budget as the base year. For each of the three scenarios, the analysis evaluates the projected annual difference between General Fund discretionary revenues and budgeted Net County Cost and the resultant impact on the General Fund's discretionary fund balance and reserve funding as a percentage of General Fund revenue.

Projection Scenarios and Assumptions

The three scenarios used for this analysis are:

- Unconstrained Approach
- Moderately Constrained Approach
- More Constrained Approach

Common Assumptions

All three scenarios start with the FY 2026-27 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 5% below the budgeted level to estimate the annual impact on projected unrestricted fund balance.

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

- Changes in existing debt service requirements, including for the County's Pension Obligation Bonds, which are scheduled to be fully paid off in FY 2030-31

- Future payments associated with the County's settlement of a lawsuit with UC Davis, with annual amounts of approximately \$8 million through FY 2033-34, except for the FY 2028-29 payment of approximately \$16 million
- Reductions in revenue neutrality payments from cities in the County, with an approximate \$11 million reduction in FY 2028-29 when the last of those payments ends
- Additional annual cost of \$49 million by FY 2028-29 for the County Medically Indigent Services Program as enrollment in that program is expected to ramp up following Medi-Cal eligibility changes enacted with H.R. 1

All three scenarios also assume that:

- Discretionary revenue will increase at an average annual rate of 4.5%, consistent with the long-term historical average growth rate
- Semi-discretionary revenue will increase at an average annual rate of 3%, consistent with long-term forecasts for statewide sales tax revenue
- Departmental revenue will generally keep pace with cost increases

The County is currently underway with a Jail System Master Plan, with recommendations expected in December 2026. While it is anticipated that additional capital, debt financing needs, and associated operating costs will be identified, this analysis does not reflect the use of projected discretionary revenue for those costs or other capital improvements that may be required over the forecast period.

Unconstrained Scenario

In the Unconstrained Scenario, budgeted expenditures (other than those described above) are assumed to increase at an average annual rate of 3.5%, which is generally reflective of underlying cost increases without significant program reductions, operational efficiencies, or revenue enhancement.

Moderately Constrained Scenario

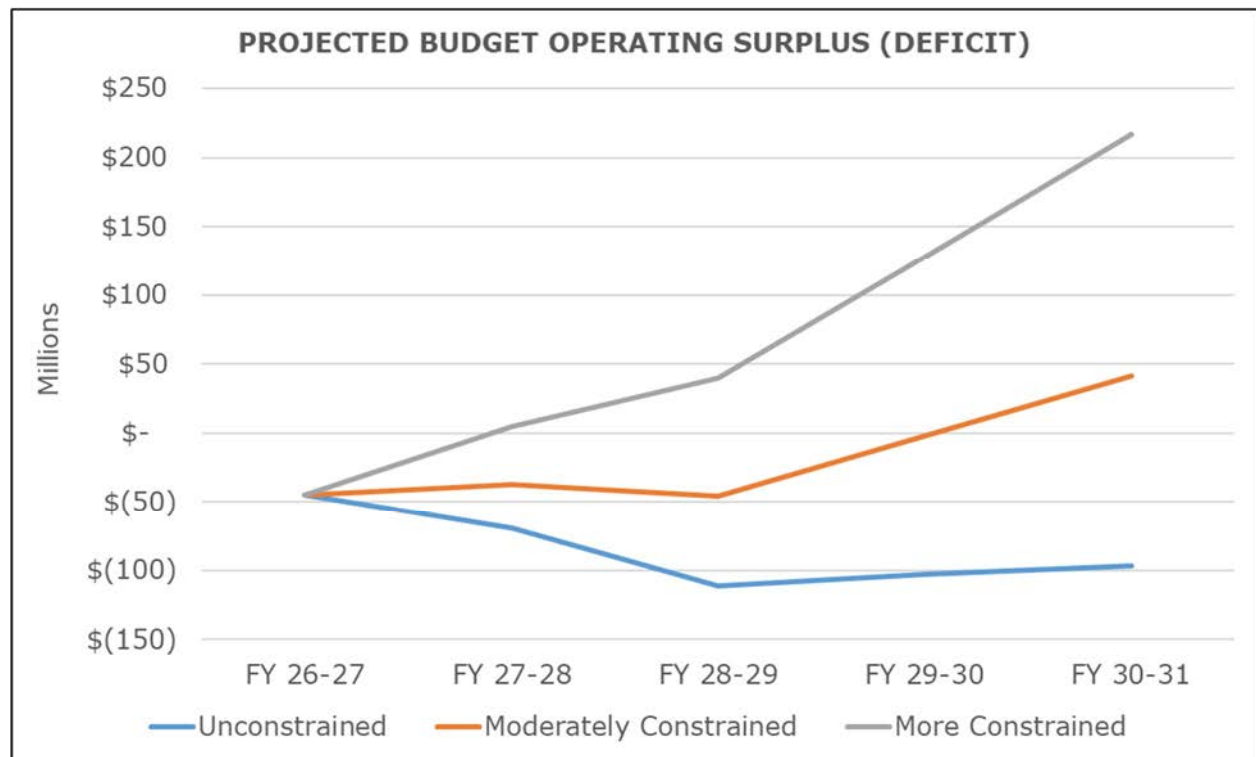
The Moderately Constrained Scenario assumes slower growth in underlying expenditures compared to the Baseline Scenario, at an average annual rate of just 2.0%. This scenario is consistent with a budget approach that limits expenditure growth by identifying and implementing operational efficiencies and departmental revenue enhancement, as well as likely requiring some level of program reductions.

More Constrained Scenario

The More Constrained Scenario assumes no growth in underlying expenditures during the forecast period. Given likely increases in labor, services, and supplies costs, this scenario would almost certainly require additional significant program reductions, the impact of which could be minimized by implementation of operational efficiencies and revenue enhancements.

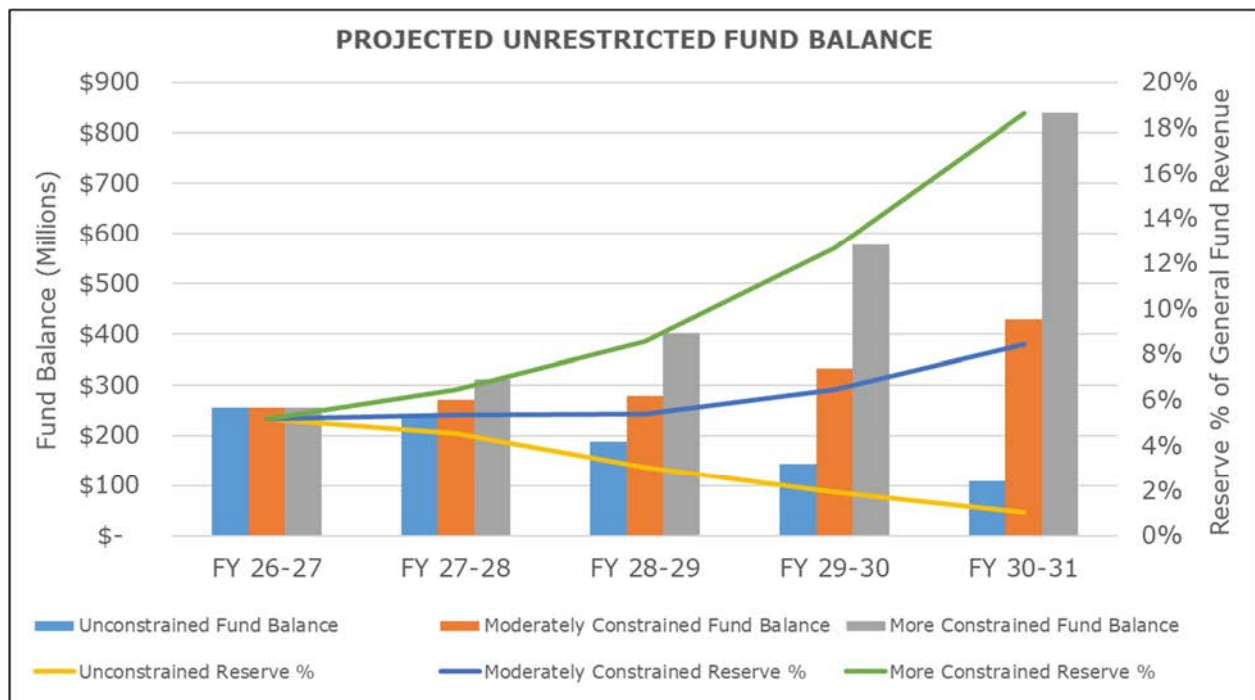
Projected Results

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



The Unconstrained Scenario shows budgeted Net County Cost exceeding discretionary revenues, resulting in a projected operating deficit, in each year of the forecast period. In the Moderately Constrained Scenario, discretionary revenues are projected to exceed budgeted Net County Cost, resulting in a projected operating surplus, by the end of the forecast period in FY 2030-31. In the More Constrained Scenario, the budget is projected to be in operating surplus throughout the forecast period, except for FY 2026-27.

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 bars in the chart below, which also impacts the General Fund reserve funding ratio displayed in the lines in the chart below. These percentages compare to an overall reserve policy target of 17%.



Under the Unconstrained Scenario, the General Fund’s unrestricted fund balance is projected to decline in each year of the forecast period to approximately \$100 million by FY 2030-31, with reserves representing just 1% of General Fund revenues compared to the policy target of 17%. In the Moderately Constrained Scenario, the FY 2030-31 projected unrestricted fund balance reaches approximately \$400 million, with a reserve funding ratio of

9%. In the More Constrained Scenario, the FY 2030-31 projected unrestricted fund balance reaches approximately \$800 million, with a reserve ratio of 19%, exceeding the reserve policy target of 17%.

The wide range of projected results in these three scenarios illustrates the potential impact of approaches to constrain Net County Cost in future budget years to ensure structural balance and adequate reserve funding levels. As with any forecast, future circumstances may vary widely from the assumptions used for a variety of reasons, with actual results falling outside the projection range. With those limitations in mind, the following conclusions can be drawn from this analysis:

- Without a constrained approach to budget development, it is unlikely that the General Fund would be in structural balance in the near future, with the Unconstrained Scenario showing annual revenue/budgeted Net County Cost deficits throughout 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, as shown in the two constrained scenarios.
- Although none of these scenarios assumes an economic downturn during the projection period, 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 result in higher reserve funding levels that would lessen the need for expenditure and service reductions during future economic downturns.
- While this analysis does not reflect potential costs resulting from the Jail System Master Plan, a more constrained approach to budget development would result in additional discretionary funding capacity for these costs.