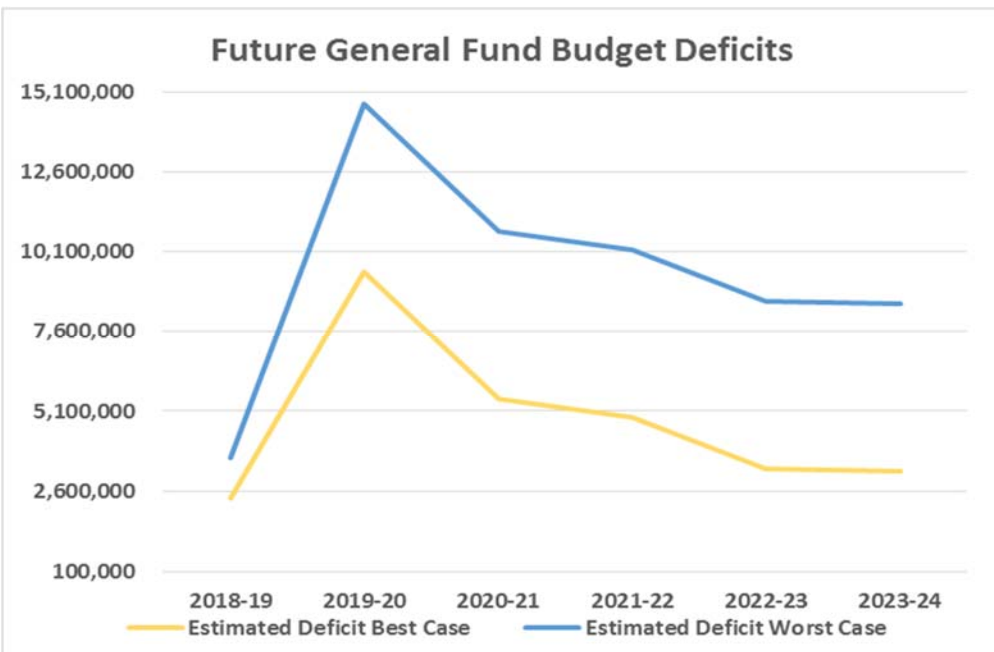
Looking Ahead and Preparing for the Future

Budget Shortfalls Anticipated. Looking ahead, the General Fund is expected to meet its obligations for FY 2018-19 through serious belt tightening. However, by 2019-20 through 2021-22, the General Fund is unlikely to meet its obligations without new or increased General Purpose Revenues or major cost reductions that could potentially impact programs and services. The likely ongoing annual budget shortfall will be $7-$10 million but it could be as high as $12-$15 million if prior year savings are not achieved or general revenues stagnate or decline. By FY 2022-23, revenue growth could potentially cover expenditure growth based on current operations and expected increases since the retirement rates may level out to more modest average increases of 2-3%.

Our five year forecast also assumes the following:

- General Purpose Revenues decline from 5% to 3% average annual growth;
- Increased costs for Salaries and Benefits, with best case 50% cost recovery through current revenues and fees and worst case only 40% cost recovery;
- Annual budget to actuals savings of 0.5-1.0% best case and worst case no savings;
- Assumes all other grant, federal and state funding remains constant;
- Increased costs for In-Home Supportive Services growing annually by $1-$2 million.



If a recession occurs by 2019-20, General Purpose Revenue growth will decline further or be flat. Budget to actual savings of 0.5 to 1.0% are unlikely. Contributions will not be available to preserve the 10% reserves, and a larger deficit will likely be made up by further cuts and/or transfers from reserves.

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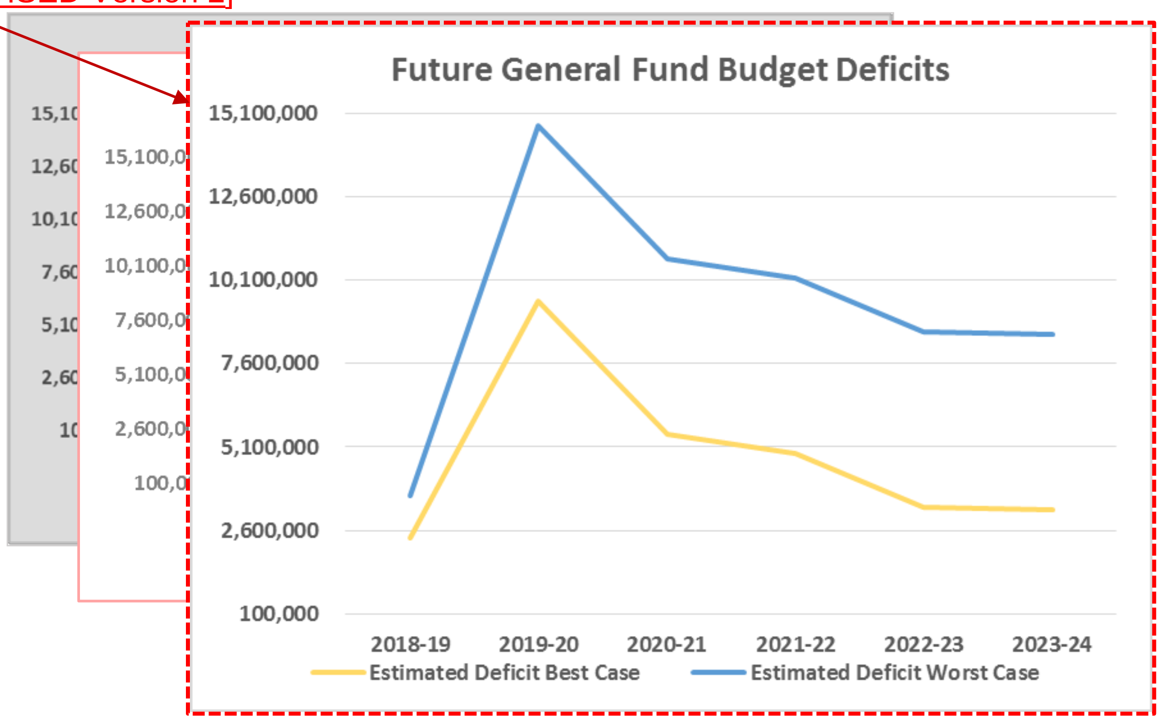

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