



# The Civic Federation

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## **COOK COUNTY FY2011 PROPOSED BUDGET:**

### *Analysis and Recommendations*

**February 16, 2011**

The Civic Federation • 177 N. State Street • Chicago, IL 60601 • [civicfed.org](http://civicfed.org)

*The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.*

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## EXECUTIVE SUMMARY

The Civic Federation **supports** Cook County's \$3.0 billion FY2011 Executive Budget Recommendation. The FY2011 proposed budget reflects a significant effort to reduce expenditures with departmental budgets decreasing by an average of 16% as well as an overall reduction of 1,795.1 full time equivalent (FTE) positions. The new County administration also appears to be on a path towards significant reform of governmental operations, as recommended by the Civic Federation in the Cook County Modernization report. The Civic Federation commends Board President Preckwinkle and her team for their commitment to adopt a plan to roll back the sales tax increase as part of the FY2011 budget process.

The Civic Federation believes that the County still faces significant challenges. Although the recommended budget includes large agency reductions, the County will likely continue to have budgetary shortfalls in coming years due to significant cost drivers, repeal of the remaining portion of the sales tax and because it must address its declining pension funds.

The Federation offers recommendations to help the County improve efficiency and enhance its financial practices, including fully repealing the sales tax increase, undertaking a long-term financial planning process that involves all stakeholders, implementing pension reforms and improving budget communication.

The Civic Federation offers the following **key findings** on the Cook County FY2011 proposed budget:

- The FY2011 proposed operating budget is a decrease of 1.6% compared with the FY2010 adopted operating budget appropriation;
- Considerable budgetary reductions in most County agencies that range between 14% and 18% are largely offset by significant increases in fixed costs;
- The number of FTE positions funded in FY2011 will decrease by 1,795.1. This is a 7.2% decrease from the FY2010 appropriation figures, falling from 24,834.1 FTEs to 23,039.0. However, there are discrepancies in the FTE numbers reported by the County;
- The majority of the FTE reductions will be in the Health System with a decrease in its FTE positions of 1,004.5 between FY2010 and FY2011, which includes some reductions that were not implemented as expected in 2010;
- Approximately 70.7% of the total proposed FY2011 Cook County budget is earmarked for personal services, down slightly from 71.4% in FY2010;
- The property tax levy will be held flat at \$720.5 million, where it has been since FY2001; and
- The unreserved fund balance for the General Fund was \$142.5 million in FY2009 or 11.2% of actual expenditures, an increase from \$103.6 million or 8.1% in FY2008.

The Civic Federation offers the following **recommendations** to Cook County:

- Immediately begin to develop a long-term financial planning process that involves all stakeholders;
- Pass the proposed amendment to the budget to fully repeal the 2008 sales tax increase;
- Develop financial policies recommended by the Government Finance Officers Association, including adopting a fund balance policy that establishes the level of unrestricted fund balance that should be maintained in the General Fund;
- Adopt the governance reforms outlined in the Civic Federation's Cook County Modernization Report;
- Eliminate the subsidies of services for residents of unincorporated Cook County;
- Implement comprehensive pension reforms to reduce costs and liabilities, including requiring employer and employee contributions to actuarially relate to fund health;
- Produce a comprehensive Capital Improvement Plan that includes a prioritized list of all proposed capital projects and funding sources;
- Improve budget communication by adding more details to appropriations and resources data; and
- Publish the Comprehensive Annual Financial Report within six months of the close of the fiscal year.

## **CIVIC FEDERATION POSITION**

The Civic Federation **supports** the Cook County FY2011 Executive Budget Recommendation totaling \$3.0 billion. The recommended FY2011 General Fund budget of \$2.3 billion represents a decrease of 2.3% or \$53.3 million from the adopted FY2010 budget. Although Cook County still has significant financial and policy challenges that must be addressed, the proposed budget begins to put the County on the right fiscal path.

We commend Board President Preckwinkle and her team for their commitment to the full repeal of the sales tax increase, for beginning long-overdue reform of County operations and for making significant budgetary reductions. However, the Civic Federation is concerned that budget shortfalls are likely to continue, the General Fund fund balance is declining and that the County continues to struggle with timely release of its budget and financial statements.

There will need to be a sustained focus on the budget in the coming year through continued commitment to operational reforms and structural changes as well as long-range financial planning that addresses the County's cost drivers, tax structure and that prioritizes services. The Civic Federation also recommends that the County establish financial policies, implement governance reforms and undertake pension reform.

The FY2011 Cook County budget is the first to be developed since the Civic Federation released the *Cook County Modernization Report: A Roadmap for Cook County Government*,<sup>1</sup> which provided a guide for creating a County government that is more efficient, less costly and more accountable. The Modernization Report, which was issued in October 2010, included an in-depth examination of County government and contained recommendations with a timeline for action. The Civic Federation will be issuing a report on the progress made by the new administration after the first 100 days are completed. This position is informed by the Modernization Report's findings and the Federation is pleased that the budget begins to adopt many of the report's recommendations.

### **Issues the Civic Federation Supports**

The Civic Federation supports the following issues related to Cook County's FY2011 Executive Budget Recommendation.

#### ***Commitment to Fully Repealing the Sales Tax Increase***

County Board President Preckwinkle has made a commitment to fully roll back the sales tax hike by 2013<sup>2</sup> from the current rate of 1.25% to 0.75%. The rollback will not be implemented as quickly as the Civic Federation called for in the Cook County Modernization Report. However, the Federation supports the proposed rollback plan because it has been paired with plans for a variety of operational and fiscal reforms. The County's 2008 one cent increase in the sales tax gave Chicago the highest sales tax rate in the nation at 10.25%. Despite the partial rollback of the sales tax rate increase in 2010, resulting in the reduction of the aggregate sales tax rate to 9.75%,

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<sup>1</sup> The report can be accessed at <http://civicfed.org/civic-federation/cookcountymodernization>.

<sup>2</sup> Cook County, "Cook County Board President outlines budget plan for 2011," <http://blog.cookcountygov.com/2011/02/01/899/> (Last visited January 18, 2011).

Chicago is still tied with Los Angeles for the third highest sales tax rate of any major metropolitan area.<sup>3</sup>

### ***Beginning Reform of County Operations***

Cook County suffers from inefficient operations and an outmoded governance structure. Officials have in the past acknowledged that County government is inefficient, but failed to act. The new County administration appears to be on a path towards significant reform of governmental operations. The Transition Report prepared for Board President Preckwinkle released in December 2010 contained many of the recommendations from the Civic Federation's Cook County Modernization Report and the County has engaged outside consultants through the Civic Consulting Alliance to examine operations. A few of the significant reform efforts underway include the following.

#### Capital Projects

Cook County Executive Order 2010-1 placed a moratorium on non-essential capital construction projects. It called for a more transparent and strategic approach for capital projects. It also noted the need for long-term financial planning and improved County efficiency. The Civic Federation has previously identified deficiencies in the County's capital planning and supports the executive order as an important first step in improving the process.

#### Purchasing

The County purchasing function is a logical place to begin to look for cost savings as it has been repeatedly identified in studies of the County as an area ripe for reform, it does not require any significant sacrifices and there are many best practice models that can be followed. The Modernization Report recommended that reform of County purchasing procedures begin in FY2011 including consolidation of spending across the organization. The new President of the County Board quickly appointed a new Purchasing Agent who has committed to working to immediately begin to improve the purchasing function including strategic sourcing or pooling of purchases.<sup>4</sup>

#### Criminal Justice

Criminal justice accounts for largest portion of the Cook County budget and is clearly an area that cannot be ignored as the County attempts to control expenditures. The Modernization Report recommended appointing a public safety task force within the first 100 days of the new administration. The Cook County Transition Report concurred stating that the President will announce a committee to review current inefficiencies in the system and recommend ways to manage the criminal justice system more effectively.<sup>5</sup> Board President Preckwinkle has stated that she intends to expand alternatives to incarceration by investing in programs and working with other County elected officials, which could result in significant cost savings.<sup>6</sup>

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<sup>3</sup> Tax Foundation, "Major Metropolitan Area Sales Tax Rates," August 19, 2010, <http://www.taxfoundation.org/publications/printer/26622.html> (Last visited January 18, 2011).

<sup>4</sup> Cook County, "Preckwinkle appoints leaders in procurement and contract compliance," news release, December 21, 2010.

<sup>5</sup> Cook County Board President-Elect Transition Team, *Cook County Transition Report*, December 7, 2010, p.12.

<sup>6</sup> Speech to the Civic Federation Board by Toni Preckwinkle, Cook County Board President, January 13, 2011.

## Desk Audit

Currently many employees have job titles that do not match their job duties.<sup>7</sup> The County has partnered with a consulting firm to begin a desk audit of its employees, which will include an employee position analysis, a study to identify potential process inefficiencies and a survey of salaries. The purpose of the study is to provide the information needed to determine redundancies and how best to utilize resources. The County expects to use the information to streamline management, reduce costs and improve services.<sup>8</sup> The study will begin in the President's office and will then be followed in the Treasurer's office.<sup>9</sup> The Civic Federation supports this initiative and recommends that it be expanded in the offices of other County elected officials.

## Performance Based Budgeting and Management Initiative

Board President Preckwinkle proposed an ordinance in January to link performance management to the budget process.<sup>10</sup> It will require each department to prepare a quarterly report that establishes measurable goals for the services provided. The Civic Federation recommended in the Cook County Modernization Report that performance measurement be incorporated into the budgeting process within the first 100 days of a new administration and is encouraged that the County has proposed this ordinance.

## ***Making Significant Reductions***

The proposed budget makes some difficult decisions and includes significant budget reductions. Departments have reduced their general funded budgets by an average of 16% and the budget projects a reduction of 1,795.1 full time equivalent (FTE) positions. Employee layoffs and service level reductions are painful, but the lack of proactive fiscal management in the past has made them necessary. Long-term financial planning can help governments make needed adjustments over time instead of such severe short-term changes.

## ***Holding the Property Tax Levy Flat***

The County is again proposing to hold its property tax flat. The County has held its property tax levy flat since FY2001. The Civic Federation supports efforts to limit property taxes as residents continue to struggle with the aftermath of the economic downturn and housing foreclosure crisis. However, it is worth noting that the total tax burden on County residents has not stayed flat. The County has raised other taxes in recent years, shifting its tax structure away from the property tax to home rule taxes such as the sales tax, which are less stable sources of revenue. The County should work to ensure that the property tax burden is not simply being shifted to future taxpayers by not addressing its growing liabilities, particularly its underfunded pension system. The Civic Federation urges the County to determine the appropriate property tax levy in the context of a larger financial plan that encompasses all of its projected revenues, expenditures and liabilities.

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<sup>7</sup> Cook County, "Preckwinkle announces start of comprehensive desk audit," news release, January 20, 2011.

<sup>8</sup> Cook County FY2011 Budget Summary, p.7.

<sup>9</sup> Meeting between the Civic Federation and Kurt Summers, Chief of Staff to President Preckwinkle, January 31, 2011.

<sup>10</sup> Cook County, "Preckwinkle introduces new performance based management and budget initiative," news release, January, 19 2011

Consideration should also be given to capturing any future growth in the property tax base and the individual tax burden as reflected in effective tax rates.

### **Civic Federation Concerns**

The Civic Federation has the following concerns related to Cook County's FY2011 Executive Budget Recommendation and finances.

#### ***Continuing Budget Shortfalls***

The recommended budget includes large agency reductions and many sound deficit closing measures. Despite those noteworthy efforts, the County will likely continue to have budgetary shortfalls in coming years due to the following:

- *Cost drivers:* The County has significant costs that continue to increase unabated. One of the major cost drivers is fixed charges, which are shared costs borne by the County as a whole. The majority of the expenses relate to personnel, such as health insurance and workers compensation. Fixed charges, excluding the Health and Hospitals System (the Health System), are anticipated to increase 60.3% or \$168.4 million from \$279.3 million in FY2010 to \$477.7 million in FY2011 for the General Fund.<sup>11</sup> Those types of increases are not sustainable. The FY2011 budget includes a large settlement related to the jails, but it would still be a large increase without that cost.<sup>12</sup> Fixed costs are one of the factors that have meant that the overall general fund expenditures have only declined 2.3%, despite large across-the-board agency reductions.
- *Repeal of the remaining portion of the sales tax:* The Civic Federation believes that with one of the highest composite sales tax rates in the nation, the sales tax increase must fully be repealed. However, repeal will have a large budgetary impact that will require further expenditure reductions or alternative revenue sources.
- *Non-recurring revenues:* Some of the County's deficit closing measures are not permanent. For example, the \$85.0 million the County expects to generate from proposed bond restructuring is only expected to generate revenue for the next three years and will result in higher future debt service payments. The use of non-recurring revenues means that the deficit will recur when those revenues are no longer available.
- *Pension funds:* The County has a declining pension fund ratio that will require either increased funding and / or an adjustment in non-vested benefits. This will put additional pressure on the rest of the budget as the pension fund requires increases resources.

Another challenge will be making the reductions proposed in the budget. Most of the solutions will require considerable effort in order to implement. In prior years, adopted FTE reductions and budgeted increases in fee revenue have not always materialized. The County will need to have a sustained focus on the budget in the coming year through continued commitment to operational reforms and structural changes as well as long-range financial planning that addresses the County's cost drivers, tax structure and that prioritizes services.

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<sup>11</sup> Cook County FY2011 Citizens' Summary p. 73. The County chooses to budget all fixed costs in one cost center, but other governments allocate such costs to each department to better reflect the cost of providing specific services.

<sup>12</sup> Cook County FY2011 Budget Summary, p. 19.



### ***Health System Revenue Projections***

The Health System is starting to implement a five-year strategic plan that is intended to shift resources from inpatient to outpatient care. Major actions to be taken as part of the plan, including closing the emergency room and inpatient operations at Oak Forest Hospital and most inpatient services at Provident Hospital, make it particularly difficult to forecast revenues in FY2011. The Health System's FY2011 budget shows a 27.3% increase in patient fee revenues, from a FY2010 preliminary figure of \$252.4 million to \$321.2 million in FY2011. Included in fee revenues are a 33.5% increase in fees from Medicaid and a 74.2% increase from private insurers. These projections appear to be optimistic, particularly in light of the fact that Medicaid fees in FY2010 were 22.0% below budget.

### ***Unreserved Fund Balance***

Cook County's unreserved fund balance has declined from \$244.0 million in FY2001 to \$142.5 million in FY2009. As a ratio of expenditures it has gone from 22.9% in FY2001 to 11.2% in FY2009. The FY2010 adopted budget plan included the use of \$25.0 million in fund balance.<sup>13</sup> Although it can be appropriate to utilize fund balance in an economic downturn, the Civic Federation is concerned that the decline in fund balance began prior to the recession and prior to the decline in economically sensitive revenues. Also of concern is that the budget does not include a financial policy that outlines a target General Fund fund balance as recommended by the Government Finance Officers Association.<sup>14</sup> However, the County should be commended for not proposing to further draw down the balance in FY2011.

### ***Timeliness of Budget and Audit Releases***

Cook County's fiscal year begins on December 1 and ends on November 30. The Civic Federation believes that all governments should release audited financial statements no later than six months after the close of their fiscal year and should adopt a budget at least a month in advance of the start of the fiscal year. For the County that would be a November 1 budget adoption and release of the Comprehensive Annual Financial Report (CAFR) on May 31 of the following calendar year. In addition, the public should be provided with ample time to review the budget in advance of the public hearing. Unfortunately, Cook County has fallen into a pattern of delaying the release of its Comprehensive Annual Financial Report (CAFR) and budget documents.

### **Comprehensive Audited Financial Report (CAFR)**

Cook County did not release its FY2009 Comprehensive Audited Financial Report (CAFR) until August 31 2010, nine months after the close of the fiscal year. That is an improvement over the past five years, but still a significant delay.

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<sup>13</sup> Cook County FY2010 Executive Budget Recommendation, Revenue Estimates, p. 2.

<sup>14</sup> The budget states that the County seeks to maintain an aggregate cash balance of at least 5%, but does have a detailed Corporate Fund balance policy as recommended by GFOA.

<b>Cook County: Approximate CAFR Release Date FY2005-FY2009</b>	
<b>Fiscal Year</b>	<b>Release Date</b>
FY2009	August 31, 2010
FY2008	November 30, 2009
FY2007	August 31, 2008
FY2006	October 29, 2007
FY2005	November 29, 2006

Source: Cook County CAFRs, FY2005-FY2009

Cook County's ongoing delays in releasing its audited financial statements diminish its accountability because the public cannot access important financial information needed to assess the government's financial condition in a timely fashion.

### County Budget

The FY2011 budget was not released until February 1, 2011, two full months after the start of the fiscal year. The Civic Federation is aware that there was a change in leadership that complicated the process this year. However, other governments are able to manage timely release of budgets in election years and the County has a long history of delayed budgets. With the exception of the FY2010 budget, recent Cook County budgets have been passed more than two months into the new fiscal year.

<b>Cook County: Budget Adoption FY2006-FY2010</b>	
<b>Fiscal Year</b>	<b>Passage Date</b>
FY2010	November 19, 2010
FY2009	February 20, 2009
FY2008	February 29, 2008
FY2007	February 23, 2007
FY2006	February 9, 2006

Source: Cook County Appropriation Bills FY2006-FY2010

In government a budget serves as both the legal authority to raise revenues and expend funds and as a financial plan. The lack of a plan in place before the start of the fiscal year will make it more challenging to implement. Furthermore, delay in developing the FY2011 meant that reductions were spread over three quarters instead of four, requiring more severe budget reductions. County Board President Preckwinkle has pledged to begin working on the FY2012 budget on March 1 and that the next budget will be submitted and passed before the beginning of the fiscal year.

### **Civic Federation Recommendations**

The Civic Federation offers the following recommendations to support improved efficiency and to enhance financial practices. Additional recommendations for reforming Cook County government can be found in the Cook County Modernization Report.

#### ***Undertake a Long-Term Financial Planning Process That Involves all Stakeholders***

Cook County should immediately begin to develop a long-term financial plan. This is one of the single most important financial practices for local governments to undertake. The Government Finance Officers Association (GFOA) and the National Association Advisory Council on State and Local Budgeting (NASCLB) consider long-term financial planning to be a pillar of proper

financial management. The NASCLB defines the financial planning process as an assessment of the long-term financial implications of current and proposed policies, programs and assumptions with development of appropriate strategies to achieve the plan's goals.<sup>15</sup>

A recent GFOA white paper identified long-term financial planning as the central tool for local governments to become financially resilient, which is characterized by an ability to sustain external shocks such as an economic downturn.<sup>16</sup> Undergoing long-range financial planning can help to address the County's chronically late budgets. Staff will have a plan to help guide development of the budget. The strategizing that occurs during the long-term financial planning process can also supplant some of the discussions that would otherwise wait until the budget is presented thus streamlining the budget process.<sup>17</sup>

A key component of the financial planning process is engaging all stakeholders in the process. The GFOA describes the long-term financial planning process as "not just a staff-driven process. It is consensus-driven and inclusive, involving elected officials, staff, and the public."<sup>18</sup> Among other benefits, involving all stakeholders can help staff refine forecasts, institutionalize planning processes and promote strategic decision making. The County should immediately begin mobilizing for a comprehensive long-term financial planning process.

### ***Pass Amendment to Fully Repeal the Sales Tax Increase***

Board President Preckwinkle introduced an amendment with the FY2011 Executive Budget Recommendation requiring the sales tax increase be fully repealed by 2013.<sup>19</sup> The Civic Federation urges passage of this amendment as part of the FY2011 budget process. The 2008 sales tax increase has been problematic for a number of reasons, including its lack of connection to a financial plan, the regressive nature of the sales tax and its impact on retail sales. The sales tax increase also allowed the elected officials to avoid addressing the underlying cost drivers that made reemergence of the deficit inevitable. The Civic Federation's support for the recommended budget is contingent on the rollback plan being formally adopted in ordinance as part of the FY2011 budget process.

### ***Establish Financial Policies***

Cook County should develop financial policies recommended by the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting and add a financial policies section to its budget. The GFOA recommends that the policies be developed by professional staff, adopted by the governing body and summarized in the budget document. It is important to adopt financial policies to help guide the budget process, frame

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<sup>15</sup> National Advisory Council on State and Local Budgeting, *Recommended Budget Practices*, (Chicago: GFOA, 1998).

<sup>16</sup> Shayne Kavanagh, "Building a Financially Resilient Government through Long-Term Financial Planning," Government Finance Officers Association, [www.gfoa.org/downloads/financiallyresilientgovernment\\_whitepaper.pdf](http://www.gfoa.org/downloads/financiallyresilientgovernment_whitepaper.pdf) (last visited on January 10, 2011).

<sup>17</sup> Shayne Kavanagh, *Financing the Future: Long-Term Financial Planning for Local Government* (Chicago: GFOA, 2007), p. 21.

<sup>18</sup> Government Finance Officers Association, "An Introduction to Financial Planning," (<http://www.gfoa.org/downloads/LTFPbrochure.pdf>) (last visited on January 10, 2011).

<sup>19</sup> Cook County FY2011 Budget Summary, p.7.

major policy initiatives and provide a benchmark for future financial performance. Financial policies can also be an important building block for long-term financial planning.

Especially critical is the adoption of a fund balance policy that establishes the level of unrestricted fund balance that should be maintained in the General Fund.<sup>20</sup> An adequate fund balance is essential for fiscal stability to protect against revenue and expenditure fluctuations. Cook County could also benefit from considering a policy regarding its property tax levy. In addition, the GFOA recommends that at a minimum jurisdictions have policies related to the following:

- **Balanced Budget:** Defines a balanced operating budget, encourages commitment to a balanced budget and provides for disclosure when deviation from a balanced budget is planned or occurs.
- **Long-Range Planning:** Supports a financial planning process that assesses the long-term financial implications of budgets, policies, programs and assumptions.
- **Debt Capacity, Issuance and Management:** Specifies appropriate uses for debt and identifies the maximum amount of debt and debt service that should be outstanding at any time.
- **Reserve or Stabilization Accounts:** Recommends maintaining a prudent level of budget reserves to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.
- **Operating / Capital Expenditure Accountability:** Compare actual expenditures to budgeted expenditures periodically to decide what actions are necessary to bring the budget into balance.
- **Revenue Diversification:** Encourages a diversity of revenue sources to offset fluctuations in individual sources.
- **Fees and Charges:** Identifies the manner in which fees and charges are set and the extent to which they cover services provided.
- **Use of One-time Revenues:** Discourages the use of one-time revenues for ongoing expenditures.
- **Use of Unpredictable Revenues:** Describes the collection and use of major revenues sources considered unpredictable.<sup>21</sup>

### *Adopt Governance Reforms*

Although many of the reforms outlined in the Civic Federation's Cook County Modernization Report have been embraced by the current administration, there has been limited discussion of the report's governance recommendations. Governance is a key area to address because the current structure obscures responsibility, which is one of the root causes of the County's inefficient operations. The County should begin to explore the following Modernization Report governance recommendations:<sup>22</sup>

- Separate the Cook County Forest Preserve District Board from the Cook County Board;
- Create a unified property tax administration office;

<sup>20</sup> Government Finance Officers Association Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

<sup>21</sup> Government Finance Officers Association, Adoption of Financial Policies (2001).

<sup>22</sup> More information on these recommendations can be accessed at <http://civicfed.org/civic-federation/cookcountymodernization>.

- Merge Clerk and Recorder of Deeds Offices; and
- Allow the judiciary to appoint the Clerk of the Circuit Court.

### ***Eliminate Subsidy for Unincorporated Residents***

Cook County government currently provides law enforcement, animal control, liquor control and building and zoning services to the 109,300 residents in county unincorporated areas at a significant cost. Currently all Cook County residents pay taxes to provide services to the residents in the unincorporated areas. Thus, residents in the incorporated areas are subsidizing services for the residents in the unincorporated areas. The residents in the unincorporated areas are paying much less in taxes than they would be if they were charged the full cost of those services. There are three potential strategies to reduce the cost of providing services to the Cook County unincorporated areas: annexation to neighboring municipalities, creating Special Service Areas or transferring responsibilities to neighboring municipalities.<sup>23</sup>

### ***Implement Pension Reforms***

The Cook County pension fund actuarial value funded ratio has fallen from 94.0% to 63.2% over ten years. The unfunded accrued actuarial liabilities have reached \$4.6 billion or \$876 per Cook County resident. While the County's pension fund is not yet in as dire straits as some other state and local pension funds, it soon will be if no action is taken. Major reforms to contributions and benefits will keep the pension fund solvent and distribute tax burden more fairly by tackling the problem sooner rather than requiring larger service cuts or tax increases later to keep promises made to retirees and employees. The Civic Federation's Cook County Modernization Report recommended that the following reforms be implemented within the next four years.

#### **Fund Pensions at the Annual Required Contribution Level**

Employer and employee contributions should be increased and made actuarially related to fund health. The cost to fund at the annual required contribution (ARC) level will be high: In FY2009 the employer cost would have almost tripled, adding an additional \$322.5 million to the current \$188.3 million employer contribution. This cost increase would be reduced if the ARC funding were shared with employees (see the Chicago Transit Authority model—perhaps a 60%/40% employer/employee contribution structure).

#### **Reduce Benefits for Current Employees**

Following the recommendations put forth by the Civic Committee, the County will likely need to reduce non-vested benefits for current employees. Retiree benefits are protected and future hire employee benefits were reduced during the last legislative session. If the pension plan's funded ratio is allowed to deteriorate past the point of recovery, current employee benefits will have to be reduced.

#### **Implement Governance Reforms**

The County should reform board governance to be more balanced with management and citizen members rather than employee/retiree dominated.

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<sup>23</sup> More information on these recommendations can be accessed at <http://civicfed.org/civic-federation/cookcountymodernization>.

### Prohibit Benefit Enhancements Until 90% Funded

Cook County should pursue legislation to prohibit benefit enhancements unless the plan is over 90% funded, enhancements are fully funded with contributions and will expire in five years.

### ***Produce a Capital Improvement Plan***

There are no funds proposed for the Capital Fund for FY2011. The County's FY2010 budget included some information on its capital program in the budget such as estimated five-year cost and descriptions of the projects to be funded. However, more detail regarding the capital needs and the prioritization for projects should be made available in future budgets. In order to ensure the effectiveness of capital spending, Cook County should develop a comprehensive capital improvement plan (CIP) that includes a prioritized list of all proposed capital projects and funding sources. Goals and guidelines in a CIP document help manage capital spending effectively to meet specified goals. These goals should include maintaining current assets while improving those assets through upgrades and monitoring any increase in operational cost that often accompanies new capital projects.

The County's capital program should also identify the funding source for all current and future planned capital investments. The type of funding should be analyzed for the appropriate use of bond funds, pay-as-you-go funds and ongoing capital leases. Long-term bond proceeds should only be used to fund projects with an estimated life as long as or longer than the term of the debt. Investments in capital assets with shorter life spans should be analyzed and prioritized for pay-as-you-go funding or capital leases to ensure effective use of capital funding sources.

### ***Improve Budget Communication***

The Citizens' Summary of the FY2011 Executive Budget Recommendation includes a helpful new section titled Revenue and Expense Allocation which includes charts that summarize the distribution of revenues by program and fund in both dollar and percentage terms. This provides a clear summary of how the County is utilizing its resources. To further improve the document, the following should be added to the document.

#### Additional Appropriations Data

- Aggregate historical actual data by object classification and by fund;
- Breakdown of historical, countywide personnel costs, including salaries, pensions and healthcare data; and
- Explanation of all significant expenditure changes within the budget document. Each departmental summary should include a description of each significant change over 10%.

#### Additional Resources Data

- The prior year estimate and one year of actual information for all data points;
- Historical data for all resources, including the amount of fund balance utilized each year and capital improvements made each year; and
- Aggregate historical revenue by fund.

### Full Time Equivalent Positions

The budget needs improvement in the presentation of Full-Time Equivalent (FTE) positions. The FY2011 budget includes two significantly different numbers for total FTEs in FY2010. The higher of the two numbers makes it appear that a larger FTE reduction will occur in FY2011 than is actually expected. The discrepancy was caused at least in part by the inability of the Health System to make all of the personnel reductions reflected in the FY2010 budget. The County should clearly explain in the narrative what is being represented in the FTE presentation (budgeted numbers, revised numbers, etc.) and identify any revisions in the numbers. If the County is not meeting their FTE reduction targets they should forthrightly acknowledge it in the budget.

### Additional Explanatory Information

The budget would benefit from additional narrative and summary charts including a better explanation of current budgetary issues. The County should also post briefing materials provided to the Cook County Board of Commissioners for departmental review hearings on the Cook County website.

### Enhance Multi-Year Financial Forecasting

Currently, the County's budget document presents projected revenues and expenses for the budget year and three future fiscal years. It also details the models used to forecast revenues. In order to project total expenditures the County applies an annual growth rate consistent with CPI to total general fund expenditures. The County could benefit from a more detailed analysis of projected expenditures which distinguishes between different areas of County expenditures. For example, personnel services should factor in union contracts to determine a more realistic projection. The County should also expand the forecast beyond just general funds. Other areas of expenditures, such as the annuity and benefit fund are critical to the overall financial health of the County. A comprehensive forecast can help set the stage for the County to undertake a long-term financial planning process.

### Performance Measures

Currently, Cook County's budget includes only sporadic reporting of performance measures. Previous budgets included performance measure data under a productivity analysis section and the County formerly published quarterly performance reports. Cook County should collect key performance measurement data and consistently report the data in the budget document. Reporting such data enhances transparency and accountability to the public as well as providing a management tool to County leadership. The presentation should include actual and estimated performance measurement data for at least three prior years, as well as performance targets or estimates for the upcoming budget years. Narrative descriptions of performance measures and results should accompany this data. The data should be a mix of qualitative and quantitative input, output, efficiency and outcome data. Performance measures should relate to departmental goals and objectives; goals should focus on broad direction and purpose while objectives should be specific and measurable. The GFOA provides has a number of resources for governments implementing performance measurement including best practices which can be obtained at [www.gfoa.org](http://www.gfoa.org).

***Produce Audited Financial Statements within Six Months of Close of Fiscal Year***

State law requires counties with a population over 10,000 but under 500,000 to produce audited financial statements within six months of the close of the fiscal year and submit a financial report to the State Comptroller (55 ILCS 5/6-31003). The state’s four largest counties, including Cook County, are effectively exempted from these audit requirements. The Civic Federation has urged the General Assembly to amend 55 ILCS 5/6-31003 and eliminate this exemption. Absent a change to State law, the County should voluntarily release their CAFR within six months of the close of the fiscal year.

**ACKNOWLEDGMENTS**

The Civic Federation would like to express its appreciation to Cook County Chief Financial Officer Tariq Malhance, Budget Director Takashi Reinbold, Special Assistant to the President Letitia Close, Cook County Health and Hospitals System Chief Executive Officer William Foley and Chief Financial Officer Michael Ayres, along with the Cook County and Health System staffs, for their efforts in preparing this budget. We appreciate their willingness to provide us with budget briefings and for answering many of our budget questions.

**FY2011 BUDGET DEFICIT & GAP CLOSING MEASURES**

The Board President’s transition team projected a \$487 million budget deficit for FY2011 when beginning development of the recommended budget. The largest contributors to the budget deficit are decreased tax revenue (primarily due to the sales tax roll back) and increasing personnel costs.

<b>Cook County FY2011 Budget Deficit (in \$ millions)</b>	
<b>FY2011 Deficit Drivers</b>	
Decreased Fees	\$ (33)
Decreased Taxes	\$ (231)
Increased Personnel Costs	\$ (174)
Other Increased Costs	\$ (49)
<b>Total</b>	<b>\$ (487)</b>

Note: Totals may not add due to rounding.  
Source: Budget briefing document “Committee on Finance Budget Hearing Fiscal Year 2011, February 4, 2011” provided by Tariq Malhance, Chief Financial Officer.

The following are the proposed budget deficit closing measures:

- Agency Spending Reductions: These are composed of the agency reductions averaging 16% on an annualized basis. These reductions are not easily visible when examining the total budget numbers. A large portion of the County budget is made up of fixed charges such as health insurance, pension, workers compensation, utilities and other costs that the County chooses not to allocate to individual departments. The budget includes increases in fixed charges of 60.3%. Many fixed charges are difficult to reduce in the short term. The County also has large one-time expenses this year that will be paid out of the fixed charges including a large settlement from a class action lawsuit, which appears to be



included in the County's deficit projections under other increased costs.<sup>24</sup> The increase in fixed costs offset much of the savings from agency reductions.

- **Financial Management:** The County expects to receive \$85 to \$90 million from debt restructuring and \$45 million from a line of credit.
- **Revenue Initiatives:** A variety of revenues are proposed including \$23.7 million in TIF surplus declared by the City of Chicago, \$21 million in increased Treasurer's fees, \$13.5 million in additional fees from the Health System, \$10.2 million from a delinquent tax initiative<sup>25</sup> and other revenue increasing efforts.
- **Special Revenue Funds:** The County has budgeted reimbursement for indirect overhead costs from specials funds that have reserves for the first time.
- **Strategic Initiatives:** These are savings from procurement overall, a desk audit and through span of control (rightsizing employee to manager ratios).<sup>26</sup> The desk audit is expected to generate savings through reassignments and examining manager to worker ratios is expected result in the elimination of unnecessary levels of administration.<sup>27</sup>

<b>Cook County FY2011 Budget Deficit (in \$ millions)</b>	
<b>FY2011 Deficit Closing Measure</b>	
Agency Spending Reductions	\$ 195
Financial Management Restructuring	\$ 136
Revenue Initiatives	\$ 84
Special Revenue Fund Reimbursements	\$ 41
Strategic Initiatives	\$ 32
<b>Total</b>	<b>\$ 487</b>

Note: Totals may not add due to rounding.

Source: Cook County Board President-Elect Transition Team, "Cook County Transition Report, December 7, 2010," p.6.

## **APPROPRIATIONS**

The following section presents trends for FY2011 appropriations for all funds by control officer and by fund.

### **All Funds Appropriations by Control Officer**

The Cook County total operating budget will decrease by 1.6% or \$49.6 million from the FY2010 adopted budget to \$3.0 billion in FY2011. The operating budget is comprised of General Fund, which includes the Corporate, Public Safety and Health Funds used for general County expenses, and the Special Funds which include revenues restricted for particular uses only.

#### ***General Fund***

The General Fund budget will decrease by 2.3% or \$53.3 million from the adopted FY2010 budget to \$2.3 billion in FY2011. This is due primarily to the partial repeal of the increase in the

<sup>24</sup> Cook County FY2011 Budget Summary p. 19.

<sup>25</sup> The County plans to implement improvements to the system for collecting late and unpaid taxes, such as in the case of businesses not paying County cigarette taxes.

<sup>26</sup> Budget briefing document "Fiscal Responsibility: Cook County in 2011" provided by Kurt Summers, Chief of Staff to President Preckwinkle, January 31, 2011.

<sup>27</sup> Cook County FY2011 Budget Summary, p.7.

sales tax and the subsequent decline in revenue.<sup>28</sup> The budget for departments controlled by the President will decrease by 17.5% or \$29.1 million, falling to \$137.3 million. Departments controlled by other elected officials are expected to decrease by 14.3% or \$131.5 million to \$787.3 million in FY2011.

The significant reductions in appropriations for nearly all control officers under the President and other elected officials are offset by a 60.3% increase in Fixed Charges and Special Purpose Funds (excluding Cook County Health System Fixed Charges and Special Purpose Fund). The County proposes to increase appropriations for these costs, which are primarily for fringe benefits including health insurance, from \$279.3 million in FY2010 to \$447.7 million in FY2011, an increase of \$168.4 million. The majority of the increase is attributable to a \$180.6 million increase in Fixed Charges and Special Purpose appropriations for the Public Safety Fund, which include the following additions: \$12.0 million in workers' compensation, \$23.2 million in health insurance, \$10.4 million in unemployment compensation, \$39.0 million in reserves for claims and \$6.0 million in hospital billings for prisoners in police custody.<sup>29</sup>

Between FY2007 and FY2011 General Fund appropriations will increase by 13.0% or \$263.6 million. Appropriations for the Offices Under the President will decrease by 7.8% or \$11.7 million, from \$149.0 million in FY2007 to \$137.3 million in FY2011. Appropriations for all Other Elected Officials will decrease by 0.9% or \$7.5 million during the same time period. Control officers with significant reductions since FY2007 include the Bureau of Administration (28.6% or \$8.4 million), the Clerk of the Circuit Court (13.8% or \$10.8 million) and the Treasurer (46.1% or \$4.4 million). The largest increases in the General Fund appropriations are for the Office of the Inspector General (310.8% or \$1.2 million) and the Sheriff (2.5% or \$9.9 million).

### ***Special Purpose Funds***

Appropriations for the Special Purpose Funds will increase by 0.9% or \$6.6 million over the FY2010 adopted budget. The largest increases in appropriations occurred in the Clerk of the Circuit Court and Chief Judge offices, which collectively increased by 14.0% or \$7.8 million. This is due to increases in special purpose fund appropriations for the Chief Judge including an additional \$6.5 million for adult and juvenile probation and \$5.9 million for the children's waiting room revenue fund.<sup>30</sup> Appropriations for the Chief Administrative Officer will increase by 16.5% or \$3.9 million to \$27.4 million in FY2011 due to a \$3.0 million increase in appropriations for the Motor Fuel Tax Illinois First fund, which pays for construction and improvements of roads and bridges in unincorporated Cook County.<sup>31</sup> Annuity and Benefits will increase by 3.0% or \$5.6 million due to an increase in County obligations.<sup>32</sup>

Since FY2007 appropriations for the Special Purpose Funds have decreased by 2.6% or \$19.2 million. While most control officers have increased their budgets during the past five years, the overall reduction is due to a 27.4% or \$72.6 million decline in Annuity and Benefits. This can be

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<sup>28</sup> Cook County FY2011 Executive Recommendations, Citizen's Summary, p. 9.

<sup>29</sup> FY2011 proposed appropriations compared to FY2010 adjusted appropriations. Cook County FY2011 Executive Recommendations, Y-7.

<sup>30</sup> Cook County FY2011 Executive Recommendations, R-1.

<sup>31</sup> Cook County FY2011 Executive Recommendations, B-1.

<sup>32</sup> Cook County FY2011 Executive Recommendations, Citizen's Summary, p. 9.

attributed to a significant decline in annuity and benefits in FY2008 due to reductions in employee contributions (see Pension section of this report for more information on contributions).<sup>33</sup> Significant increases in appropriations occurred for the Clerk of the Circuit Court and Chief Judge, which collectively grew by 131.3% or \$36.1 million since FY2007.

<b>Cook County Appropriations All Funds by Control Officer: FY2007-FY2011 (in \$ thousands)</b>									
<b>Control Officers</b>	<b>FY2007 Actual</b>	<b>FY2008 Actual</b>	<b>FY2009 Actual</b>	<b>FY2010 Adopted</b>	<b>FY2011 Proposed</b>	<b>2-Year \$ Change</b>	<b>2-Year %</b>	<b>5-Year \$ Change</b>	<b>5-Year %</b>
<b>General Fund</b>									
<b>Offices Under President</b>									
President	\$ 3,000	\$ 4,299	\$ 4,499	\$ 4,374	\$ 3,500	\$ (874)	-20.0%	\$ 500	16.7%
Bureau of Administration	\$ 29,391	\$ 29,386	\$ 29,368	\$ 29,258	\$ 20,977	\$ (8,281)	-28.3%	\$ (8,414)	-28.6%
Bureau of Human Resources	\$ 3,303	\$ 3,335	\$ 3,404	\$ 3,592	\$ 2,941	\$ (651)	-18.1%	\$ (362)	-11.0%
Office of Administrative Hearings	\$ -	\$ -	\$ 446	\$ 927	\$ 752	\$ (175)	-18.9%	\$ -	-
County Auditor	\$ 1,101	\$ 759	\$ 783	\$ 918	\$ 753	\$ (165)	-18.0%	\$ (348)	-31.6%
Public Defender	\$ 52,268	\$ 53,983	\$ 55,440	\$ 58,051	\$ 51,728	\$ (6,323)	-10.9%	\$ (540)	-1.0%
Bureau of Economic Development	\$ 5,996	\$ 6,384	\$ 6,951	\$ 6,508	\$ 5,431	\$ (1,077)	-16.5%	\$ (565)	-9.4%
Bureau of Finance	\$ 10,638	\$ 11,813	\$ 12,307	\$ 13,054	\$ 10,267	\$ (2,786)	-21.3%	\$ (370)	-3.5%
Bureau of Technology	\$ 11,523	\$ 11,444	\$ 16,261	\$ 15,138	\$ 11,968	\$ (3,170)	-20.9%	\$ 445	3.9%
Facilities Management	\$ 31,723	\$ 31,786	\$ 34,484	\$ 34,538	\$ 28,941	\$ (5,598)	-16.2%	\$ (2,782)	-8.8%
<b>Subtotal Offices Under President</b>	<b>\$ 148,942</b>	<b>\$ 153,190</b>	<b>\$ 163,943</b>	<b>\$ 166,360</b>	<b>\$ 137,259</b>	<b>\$ (29,101)</b>	<b>-17.5%</b>	<b>\$ (11,684)</b>	<b>-7.8%</b>
<b>Other Elected Officials*</b>									
Sheriff	\$ 394,684	\$ 420,089	\$ 440,590	\$ 471,270	\$ 404,569	\$ (66,701)	-14.2%	\$ 9,885	2.5%
Chief Judge	\$ 167,256	\$ 178,939	\$ 191,116	\$ 198,279	\$ 169,461	\$ (28,818)	-14.5%	\$ 2,205	1.3%
State's Attorney	\$ 91,878	\$ 98,608	\$ 98,788	\$ 101,175	\$ 88,395	\$ (12,780)	-12.6%	\$ (3,482)	-3.8%
Clerk of the Circuit Court	\$ 78,118	\$ 80,795	\$ 81,787	\$ 80,419	\$ 67,363	\$ (13,056)	-16.2%	\$ (10,755)	-13.8%
County Clerk	\$ 8,399	\$ 8,632	\$ 8,254	\$ 8,624	\$ 7,873	\$ (751)	-8.7%	\$ (526)	-6.3%
Board of Election Commissioners	\$ 366	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ (366)	-100.0%
Assessor	\$ 21,609	\$ 22,281	\$ 27,181	\$ 27,209	\$ 22,170	\$ (5,039)	-18.5%	\$ 561	2.6%
Recorder of Deeds	\$ 8,517	\$ 8,214	\$ 7,850	\$ 7,652	\$ 6,333	\$ (1,319)	-17.2%	\$ (2,184)	-25.6%
Treasurer	\$ 9,632	\$ 6,290	\$ 5,854	\$ 5,474	\$ 5,189	\$ (286)	-5.2%	\$ (4,443)	-46.1%
Board of Review	\$ 6,754	\$ 7,294	\$ 7,543	\$ 8,311	\$ 6,772	\$ (1,539)	-18.5%	\$ 17	0.3%
County Commissioners	\$ 6,281	\$ 7,298	\$ 7,415	\$ 7,944	\$ 6,413	\$ (1,532)	-19.3%	\$ 131	2.1%
Office of the Inspector General	\$ 383	\$ 372	\$ 538	\$ 1,214	\$ 1,572	\$ 358	29.4%	\$ 1,189	310.8%
Public Administrator	\$ 932	\$ 1,093	\$ 1,169	\$ 1,212	\$ 1,172	\$ (40)	-3.3%	\$ 240	25.7%
<b>Subtotal Other Elected Officials</b>	<b>\$ 794,809</b>	<b>\$ 839,905</b>	<b>\$ 878,087</b>	<b>\$ 918,785</b>	<b>\$ 787,281</b>	<b>\$ (131,504)</b>	<b>-14.3%</b>	<b>\$ (7,528)</b>	<b>-0.9%</b>
Cook County Health and Hospital System	\$ 759,395	\$ 750,989	\$ 816,064	\$ 890,956	\$ 815,190	\$ (75,765)	-8.5%	\$ 55,795	7.3%
Cook County Health and Hospital System Fixed Charges and Special Purposes	\$ 77,111	\$ 70,999	\$ 114,551	\$ 82,895	\$ 97,560	\$ 14,665	17.7%	\$ 20,449	26.5%
<b>Subtotal Cook County Health and Hospital System</b>	<b>\$ 836,506</b>	<b>\$ 821,988</b>	<b>\$ 930,615</b>	<b>\$ 973,851</b>	<b>\$ 912,750</b>	<b>\$ (61,100)</b>	<b>-6.3%</b>	<b>\$ 76,245</b>	<b>9.1%</b>
Other Fixed Charges and Special Purpose	\$ 241,194	\$ 228,118	\$ 261,106	\$ 279,345	\$ 447,729	\$ 166,384	60.3%	\$ 206,535	85.6%
<b>Subtotal General Funds</b>	<b>\$ 2,021,452</b>	<b>\$ 2,043,200</b>	<b>\$ 2,233,751</b>	<b>\$ 2,338,341</b>	<b>\$ 2,285,020</b>	<b>\$ (53,321)</b>	<b>-2.3%</b>	<b>\$ 263,568</b>	<b>13.0%</b>
<b>Special Purpose Fund</b>									
Chief Administrative Officer	\$ 16,767	\$ 16,011	\$ 18,912	\$ 23,507	\$ 27,387	\$ 3,880	16.5%	\$ 10,620	63.3%
Cook County Health and Hospital System	\$ 1,325	\$ 6,717	\$ 5,936	\$ 9,794	\$ 9,369	\$ (425)	-4.3%	\$ 8,045	607.4%
Clerk of the Circuit Court/Chief Judge**	\$ 27,469	\$ 32,397	\$ 39,221	\$ 55,705	\$ 63,530	\$ 7,825	14.0%	\$ 36,061	131.3%
County Clerk	\$ 19,400	\$ 27,770	\$ 19,455	\$ 26,365	\$ 21,303	\$ (5,062)	-19.2%	\$ 1,903	9.8%
Sheriff	\$ 950	\$ 1,047	\$ 1,212	\$ 1,486	\$ 1,809	\$ 323	21.7%	\$ 860	90.5%
State's Attorney	\$ 2,843	\$ 4,602	\$ 5,016	\$ 6,827	\$ 3,808	\$ (3,019)	-44.2%	\$ 965	34.0%
Other Control Officers***	\$ 7,504	\$ 29,424	\$ 21,250	\$ 44,793	\$ 21,698	\$ (23,094)	-51.6%	\$ 14,195	189.2%
Self Insurance	\$ 60,051	\$ 101,394	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
Managed Care Support Fund	\$ 274	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
Annuity and Benefits	\$ 264,846	\$ 183,124	\$ 186,100	\$ 186,600	\$ 192,234	\$ 5,634	3.0%	\$ (72,612)	-27.4%
Bond and Interest	\$ 184,941	\$ 212,729	\$ 209,147	\$ 190,760	\$ 272,081	\$ 81,320	42.6%	\$ 87,139	47.1%
Less Debt Restructuring	\$ -	\$ -	\$ -	\$ -	\$ (85,000)	\$ -	-	\$ -	-
Other Restricted Funds	\$ 146,102	\$ 135,570	\$ 119,551	\$ 160,810	\$ 185,030	\$ 24,220	15.1%	\$ 38,928	26.6%
<b>Subtotal Special Purpose Funds</b>	<b>\$ 732,471</b>	<b>\$ 750,786</b>	<b>\$ 625,799</b>	<b>\$ 706,647</b>	<b>\$ 713,249</b>	<b>\$ 6,601</b>	<b>0.9%</b>	<b>\$ (19,222)</b>	<b>-2.6%</b>
Allowance for Uncollected Taxes	\$ 13,098	\$ 11,629	\$ 11,527	\$ 11,598	\$ 8,727	\$ (2,871)	-24.8%	\$ (4,371)	-33.4%
<b>Total Operating Funds</b>	<b>\$ 2,767,021</b>	<b>\$ 2,805,615</b>	<b>\$ 2,871,077</b>	<b>\$ 3,056,586</b>	<b>\$ 3,006,996</b>	<b>\$ (49,591)</b>	<b>-1.6%</b>	<b>\$ 239,975</b>	<b>8.7%</b>
Capital	\$ 212,001	\$ 161,084	\$ 197,799	\$ 518,972	\$ -	\$ (518,972)	-100.0%	\$ (212,001)	-100.0%
<b>Total Budget</b>	<b>\$ 2,979,021</b>	<b>\$ 2,966,699</b>	<b>\$ 3,068,875</b>	<b>\$ 3,575,558</b>	<b>\$ 3,006,996</b>	<b>\$ (568,562)</b>	<b>-15.9%</b>	<b>\$ 27,974</b>	<b>0.9%</b>

\*Some control officers are appointed officials, though they are presented in the Executive Recommendations as Other Elected Officials.

\*\*Includes the Clerk of the Circuit Court, Chief Judge and Clerk of the Circuit Court/Chief Judge.

\*\*\*Includes the Bureau of Information Technology and Automation, Board of Election Commissioners, Recorder of Deeds, Department of Homeland Security and Emergency Management and Treasurer  
Source: Cook County FY2011 Executive Budget Recommendation, Table Q2, p. 73-75.

## All Funds Appropriations by Fund

In FY2011 appropriations for all funds, including capital improvement expenditures, are projected to decrease by 15.9% from the adopted FY2010 appropriations. The large overall

<sup>33</sup> Cook County FY2008 Executive Recommendations, Citizen's Summary, p. 10.

reduction is reflected by the absence of a Capital Improvement Program in the FY2011 budget due to the moratorium issued by Board President Preckwinkle.<sup>34</sup> According to the County, a capital budget will be presented at a later date.<sup>35</sup> Total Operating Funds appropriations are expected to decrease by 1.6% from the prior year.

The Corporate and Health Funds will decrease by \$37.8 million and \$61.1 million respectively in FY2011. Appropriations for the Public Safety Fund will increase by 3.9% or \$45.6 million. In the aggregate, General Fund appropriations will decrease by 2.3% or \$53.3 million to \$2.3 billion in FY2011. Appropriations for Special Purpose Funds are projected to increase by 0.9%, growing from \$706.6 million to \$713.2 million. Special Purpose Funds are used to account for proceeds from earmarked revenue sources and expenditures for specified or restricted purposes. The only decrease in this category will be in Agency or Other Special Purpose Funds which will decrease by 62.1% or \$104.6 million; these funds account for federal, state and private grants. Capital improvement funds had grown significantly from FY2007 to FY2010, increasing by 2,348% or \$497.8 million. However due to the moratorium on capital spending, Cook County has not proposed any appropriations for the Capital Improvement funds for FY2011.

For the period between FY2007 and FY2011 all funds appropriations are projected to increase by 7.8% or \$218.8 million. This represents an increase from \$2.8 billion to \$3.0 billion. Total Operating Funds appropriations are projected to rise by 8.7% since FY2007. Total General Fund Appropriations will increase by 13.0%, or \$263.6 million. Corporate, Public Safety and Health appropriations all show increases over this five-year period, with Public Safety growing by 17.4% or \$179.5 million. Special Purpose Funds appropriations will decrease by 2.6%, or \$19.2 million, over the five-year period. Agency and Other Special Purpose Funds will decrease by \$72.7 million, or 53.2% over the five-year period. Other Restricted Funds will increase by \$38.9 million, or 26.6%.

Cook County Appropriations All Funds by Fund: FY2007-FY2011 (in \$ millions)									
Fund	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Adopted	FY2011 Proposed	2-Year \$ Change	2-Year % Change	5-Year \$ Change	5-Year % Change
Corporate	\$ 155.6	\$ 149.0	\$ 161.5	\$ 201.2	\$ 163.4	\$ (37.8)	-18.8%	\$ 7.9	5.0%
Public Safety	\$ 1,029.4	\$ 1,072.2	\$ 1,141.6	\$ 1,163.2	\$ 1,208.8	\$ 45.6	3.9%	\$ 179.5	17.4%
Health	\$ 836.5	\$ 822.0	\$ 930.6	\$ 973.9	\$ 912.8	\$ (61.1)	-6.3%	\$ 76.2	9.1%
<b>Subtotal General Funds</b>	<b>\$ 2,021.5</b>	<b>\$ 2,043.2</b>	<b>\$ 2,233.8</b>	<b>\$ 2,338.3</b>	<b>\$ 2,285.0</b>	<b>\$ (53.3)</b>	<b>-2.3%</b>	<b>\$ 263.6</b>	<b>13.0%</b>
Annuity & Benefits	\$ 264.8	\$ 183.1	\$ 186.1	\$ 186.6	\$ 192.2	\$ 5.6	3.0%	\$ (72.6)	-27.4%
Bond & Interest	\$ 184.9	\$ 212.7	\$ 209.1	\$ 190.8	\$ 272.1	\$ 81.3	42.6%	\$ 87.1	47.1%
Other Restricted Funds	\$ 146.1	\$ 135.6	\$ 132.2	\$ 160.8	\$ 185.0	\$ 24.2	15.1%	\$ 38.9	26.6%
Agency Special Purpose Funds	\$ 136.6	\$ 219.4	\$ 111.0	\$ 168.5	\$ 63.9	\$ (104.6)	-62.1%	\$ (72.7)	-53.2%
<b>Subtotal Special Purpose Funds</b>	<b>\$ 732.5</b>	<b>\$ 750.8</b>	<b>\$ 638.5</b>	<b>\$ 706.6</b>	<b>\$ 713.2</b>	<b>\$ 6.6</b>	<b>0.9%</b>	<b>\$ (19.2)</b>	<b>-2.6%</b>
Allowance for Uncollected Taxes	\$ 13.1	\$ 11.6	\$ 11.5	\$ 11.6	\$ 8.7	\$ (2.9)	-24.8%	\$ (4.4)	-33.4%
<b>Subtotal Operating Funds</b>	<b>\$ 2,767.0</b>	<b>\$ 2,805.6</b>	<b>\$ 2,883.7</b>	<b>\$ 3,056.6</b>	<b>\$ 3,007.0</b>	<b>\$ (49.6)</b>	<b>-1.6%</b>	<b>\$ 240.0</b>	<b>8.7%</b>
Capital Improvements	\$ 21.2	\$ 161.1	\$ 197.8	\$ 519.0	\$ -	\$ (519.0)	-100.0%	\$ (21.2)	-100.0%
<b>Total</b>	<b>\$ 2,788.2</b>	<b>\$ 2,966.7</b>	<b>\$ 3,081.5</b>	<b>\$ 3,575.6</b>	<b>\$ 3,007.0</b>	<b>\$ (568.6)</b>	<b>-15.9%</b>	<b>\$ 218.8</b>	<b>7.8%</b>

Source: Cook County FY2011 Executive Budget Recommendation, Citizens' Summary, pg. 61-64.

<sup>34</sup> Executive Order 2011-1, "A moratorium on capital programs." Cook County FY2011 Executive Recommendations Citizen's Summary, p. 6.

<sup>35</sup> Cook County FY2011 Budget Summary, p. 31.

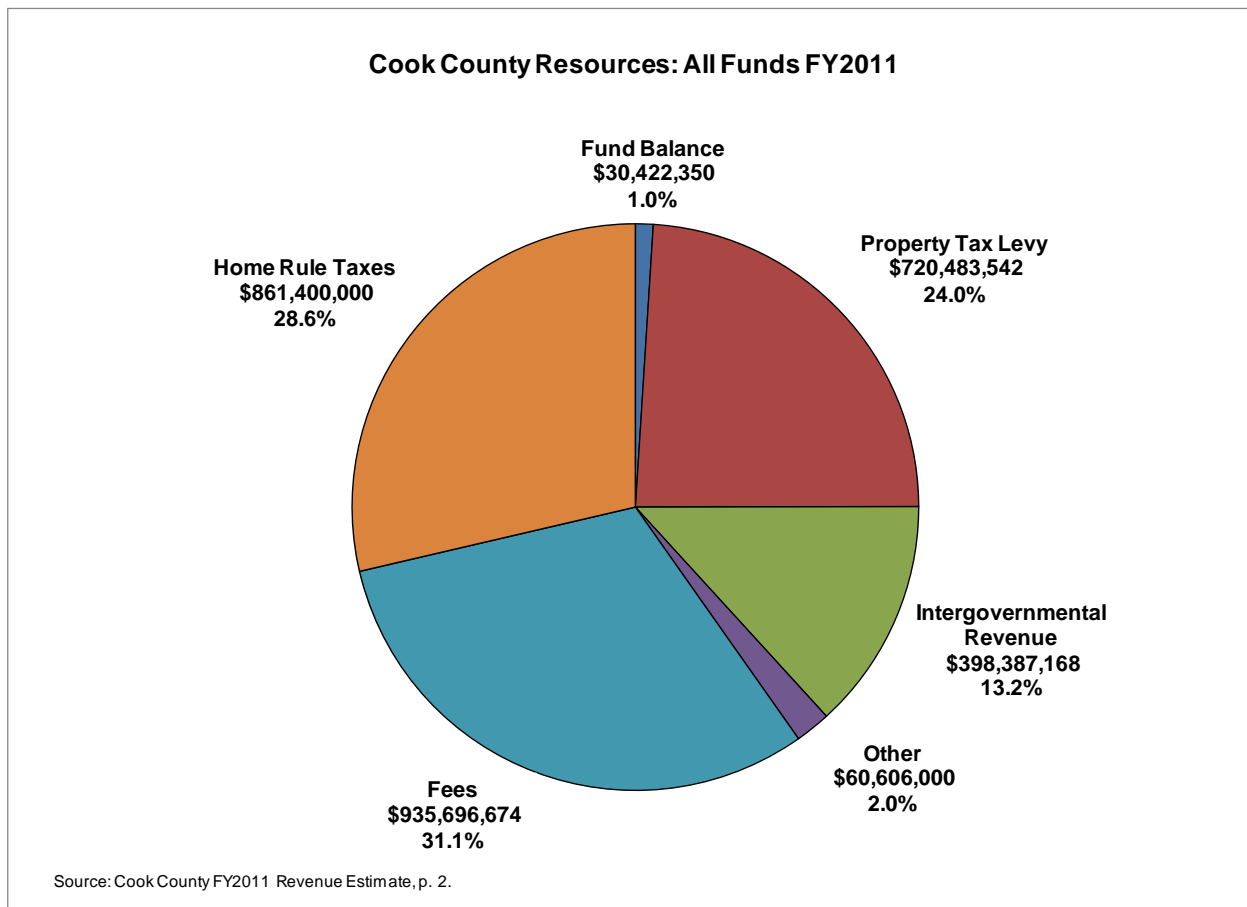
## RESOURCES

This section describes Cook County resources, which include ongoing revenues and other financing sources such as appropriated fund balance.

### Proposed FY2011 Resources

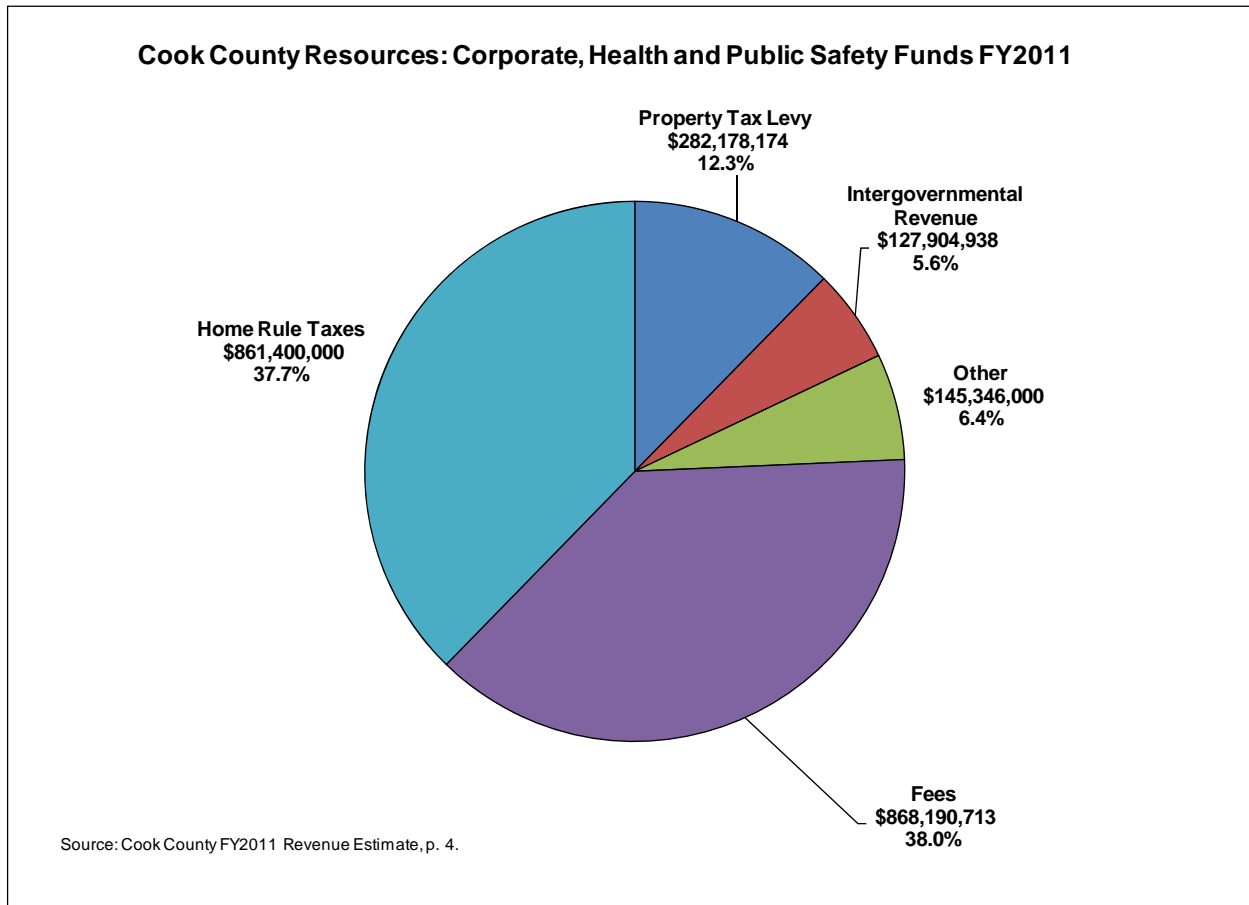
In FY2011 the County expects to generate a total of nearly \$3.0 billion from various revenue sources and withdraw approximately \$30.4 million from Special Fund fund balances.<sup>36</sup> The drawdown of fund balance represents 1.0% of all resources utilized.

Fees, primarily patient fees, represent the largest resource at \$935.7 million or 31.1% of the total. Property taxes and other home rule taxes are also major sources of revenue at 24.0% and 28.6% of the total respectively. Intergovernmental revenue is expected to generate \$398.4 million or 13.2% of total resources.



<sup>36</sup> Cook County FY2011 Executive Budget Recommendation, Revenue Estimates, p. 2.

The next exhibit shows the distribution of the \$2.3 billion of resources for the County’s General Fund, which includes its Corporate, Public Safety and Health Funds. Tax revenues from home rule and property taxes will make up a combined 50.0% of General Fund resources. The \$868.2 million in anticipated fee revenue will make up another 38.0%. The \$145.3 million in other revenue includes \$85.0 million in estimated savings from debt restructuring and \$45.0 million in a short-term line of credit.<sup>37</sup> The line of credit is being used to finance a one-time jail settlement lump-sum payment owed in the Young case.<sup>38</sup> No funds are planned to be drawn from General Fund fund balance in FY2011.



### Revenue Trends Budget Basis

Cook County revenues for all funds are projected to decrease by \$49.4 million or 0.6% between FY2010 and FY2011.<sup>39</sup> In the five-year period between FY2007 and FY2011, Cook County all fund revenues will increase by \$145.0 million or 5.1%. Although overall revenues are fairly steady there have been large changes in individual sources.

<sup>37</sup> Cook County FY2011 Executive Budget Recommendation, Revenue Estimate, p. 14. Refinancing is described as savings, but appears as revenue in the revenue chart.

<sup>38</sup> Cook County FY2011 Budget Summary, p.7. The case involved illegal strip searches at County jails between January 2004 and March 2009. See Michael Miner, “Strip Search Suit Settled — Another Bad Day for the Taxpayers,” *Chicago Reader*, November 16, 2010. Financing used to pay for portion of settlement that is not covered by insurance.

<sup>39</sup> Revenues do not include financial resources generated in previous fiscal periods (appropriated fund balance).

In March of 2008, the County increased its home rule sales tax rate. The one percentage point sales tax increase, from 0.75% to 1.75%, was effective on July 1, 2008. On November 17, 2009, the County Board passed an ordinance to roll back the sales tax rate by one-half of a percentage point, from 1.75% to 1.25%, as of July 1, 2010. Combined receipts of both the home rule sales and use taxes are expected to be \$550.6 million in FY2011, down \$146.4 million or 21.0% from the FY2010 adopted budget. The FY2010 budget does not reflect any of the sales tax decrease from the rollback, while the FY2011 budget includes a full year the one-half percentage point repeal.<sup>40</sup> There still remains a significant increase in sales and use tax revenues when viewed over the longer five-year horizon, with a \$179.9 million or 48.5% million increase from the \$370.6 million collected in FY2007.

The County's property tax levy has been held constant at \$720.5 million since FY2001. Another major source of home rule tax revenue is the cigarette tax. The County anticipates a \$10.7 million or 7.8% decline in Cook County cigarette tax revenues from FY2010 to FY2011. There is a large decrease of \$59.7 million or 32.1% over the five year period, from \$186.0 million in FY2007 to \$126.3 million in FY2011.

The County is proposing a slight increase in revenue from fees, from \$901.0 million in FY2010 to \$935.7 million in FY2011, a \$16.2 million or 3.9% increase. The FY2011 budget includes proposed increases in fee rates such as charge for court service security fees, fees on court-ordered foreclosure sales, law library fees, GIS data sales and medical examiner fees.<sup>41</sup> There have been large changes in fee revenues over the past five years. Overall fee revenue has increased from \$777.8 million in FY2007 to \$935.7 million in FY2011, a \$157.9 million or 20.3% change. The largest source of fee revenue is patient fees, which have increased by \$133.5 million or 29.1% from \$459.0 million in FY2007 to an anticipated \$592.5 million in FY2011. Over the past five years, there have been significant increases in Treasurer's Fees (\$17.3 million or 31.7%) and other fees (\$35.8 million or 38.0%) while Recorder of Deeds Fees have plummeted (-\$32.2 million or -49.9%).

Miscellaneous revenue includes commissions on public telephones, construction and hauling permits, real estate rental income, sale of excess real estate, medical examiners revenue, interest income and some Health System revenues such as fees.<sup>42</sup> It is increasing by 304.0% or \$109.6 million from \$36.0 million in FY2010 to \$145.6 million in FY2011 due to fee increases and the addition of non-recurring sources of revenues from debt restructuring and a line of credit. This brings miscellaneous revenue up near the \$155.1 million received in FY2007.

Intergovernmental revenue provided by other governments is expected to increase by \$80.4 million or 25.3% in FY2011. This is driven primarily by a \$71.6 million or 33.5% increase in reimbursements from other governments which are rising from \$213.4 million in FY2010 to \$285.0 in FY2011 due to \$23.7 million in TIF surplus distributed by the City of Chicago and a net increase of indirect cost recovery of \$15 million. These reimbursements from other

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<sup>40</sup> At the time the rollback was adopted the County projected the impact of the rollback in FY2010 would be a \$31.5 decrease sales tax revenues from the budgeted \$661.0 million to \$629.5 million. Due to the timing of implementation, the roll back impacted two months of FY2011. See revised estimate contained in Cook County, FY2010 Citizens' Summary p. 36.

<sup>41</sup> Budget briefing document "Fiscal Responsibility: Cook County in 2011" provided by Kurt Summers, Chief of Staff to President Preckwinkle, January 31, 2011.

<sup>42</sup> Cook County FY2011 Revenue Estimate p.52.

governments are still 9.1% below the \$313.6 million received in FY2007. There will also be a significant increase in the economically sensitive Personal Property Replacement Tax (PPRT). The PPRT is a corporate income tax collected by the State.<sup>43</sup> It will increase from \$44.8 million in FY2010 to \$53.7 million in FY2011, an increase of \$9.0 million or 20.1%. Despite the anticipated strong increase in revenues, PPRT revenues in FY2011 are expected to be \$8.1 million or 13.1% below FY2007.

Cook County Revenues FY2007-FY2011 (in \$ thousands)									
	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Adopted	FY2011 Proposed	2 Year \$ Change	2 Year % Change	5 Year \$ Change	5 Year % Change
<b>Property Taxes</b>	\$ 720,484	\$ 720,484	\$ 720,484	\$ 720,484	\$ 720,484	\$ -	0.0%	-	0.0%
<b>Home Rule Taxes</b>									
Sales	\$ 320,216	\$ 386,609	\$ 658,832	\$ 661,000	\$ 514,600	\$(146,400)	-22.1%	\$ 194,384	60.7%
TAN Repayment (Sales Tax)	\$ -	\$ -	\$ (121,814)	\$ -	\$ -	\$ -	-	\$ -	-
Use	\$ 50,450	\$ 44,859	\$ 35,611	\$ 36,000	\$ 36,000	\$ -	0.0%	\$ (14,450)	-28.6%
<b>Subtotal Sales &amp; Use Taxes</b>	<b>\$ 370,666</b>	<b>\$ 431,468</b>	<b>\$ 572,629</b>	<b>\$ 697,000</b>	<b>\$ 550,600</b>	<b>\$(146,400)</b>	<b>-21.0%</b>	<b>\$ 179,934</b>	<b>48.5%</b>
Alcoholic Beverage	\$ 26,936	\$ 27,093	\$ 26,718	\$ 26,000	\$ 24,800	\$ (1,200)	-4.6%	\$ (2,136)	-7.9%
Cigarette	\$ 186,039	\$ 162,180	\$ 136,792	\$ 137,000	\$ 126,300	\$ (10,700)	-7.8%	\$ (59,739)	-32.1%
Gas	\$ 101,572	\$ 95,722	\$ 89,940	\$ 95,400	\$ 95,300	\$ (100)	-0.1%	\$ (6,272)	-6.2%
Retail Sale/Motor Vehicles	\$ 3,327	\$ 2,811	\$ 2,006	\$ 1,800	\$ 2,200	\$ 400	22.2%	\$ (1,127)	-33.9%
Wheel	\$ 2,143	\$ 2,071	\$ 1,878	\$ 2,000	\$ 2,000	\$ -	0.0%	\$ (143)	-6.7%
Amusement	\$ 20,286	\$ 21,779	\$ 20,258	\$ 22,500	\$ 24,700	\$ 2,200	9.8%	\$ 4,414	21.8%
Parking Lot	\$ 38,746	\$ 38,315	\$ 36,556	\$ 36,500	\$ 35,500	\$ (1,000)	-2.7%	\$ (3,246)	-8.4%
<b>Subtotal Home Rule Taxes</b>	<b>\$ 749,715</b>	<b>\$ 781,439</b>	<b>\$ 886,777</b>	<b>\$ 1,018,200</b>	<b>\$ 861,400</b>	<b>\$(156,800)</b>	<b>-15.4%</b>	<b>\$ 111,685</b>	<b>14.9%</b>
<b>Fee Revenue</b>									
Patient Fees	\$ 459,040	\$ 406,276	\$ 663,388	\$ 579,000	\$ 592,536	\$ 13,536	2.3%	\$ 133,496	29.1%
Clerk of Circuit Court	\$ 105,464	\$ 106,855	\$ 103,159	\$ 104,185	\$ 108,945	\$ 4,760	4.6%	\$ 3,481	3.3%
Recorder of Deeds Fees	\$ 64,441	\$ 46,308	\$ 34,151	\$ 33,016	\$ 32,259	\$ (757)	-2.3%	\$ (32,182)	-49.9%
Treasurer's Fees	\$ 54,479	\$ 82,744	\$ 79,972	\$ 62,700	\$ 71,760	\$ 9,060	14.4%	\$ 17,281	31.7%
Other	\$ 94,355	\$ 122,518	\$ 127,059	\$ 122,087	\$ 130,197	\$ 8,110	6.6%	\$ 35,842	38.0%
<b>Subtotal Fee Revenue</b>	<b>\$ 777,779</b>	<b>\$ 764,701</b>	<b>\$ 1,007,729</b>	<b>\$ 900,988</b>	<b>\$ 935,697</b>	<b>\$ 16,220</b>	<b>3.9%</b>	<b>\$ 157,918</b>	<b>20.3%</b>
<b>Misc. Revenues</b>									
Misc. Revenues	\$ 155,122	\$ 154,141	\$ 42,595	\$ 36,037	\$ 145,606	\$ 109,569	304.0%	\$ (9,516)	-6.1%
<b>Subtotal Misc. Revenues</b>	<b>\$ 155,122</b>	<b>\$ 154,141</b>	<b>\$ 42,595</b>	<b>\$ 36,037</b>	<b>\$ 145,606</b>	<b>\$ 109,569</b>	<b>304.0%</b>	<b>\$ (9,516)</b>	<b>-6.1%</b>
<b>Intergovernmental Revenues</b>									
Motor Fuel Tax	\$ 34,500	\$ 34,500	\$ 43,500	\$ 44,500	\$ 44,500	\$ -	0.0%	\$ 10,000	29.0%
OTB Commissions	\$ 3,046	\$ 3,119	\$ 2,821	\$ 2,500	\$ 2,500	\$ -	0.0%	\$ (546)	-17.9%
Personal Property Replacement Tax	\$ 61,846	\$ 59,500	\$ 49,586	\$ 44,758	\$ 53,737	\$ 8,979	20.1%	\$ (8,109)	-13.1%
Sales Tax	\$ 4,999	\$ 4,066	\$ 2,983	\$ 2,800	\$ 3,200	\$ 400	14.3%	\$ (1,799)	-36.0%
Income Tax	\$ 10,478	\$ 11,179	\$ 9,602	\$ 10,000	\$ 9,500	\$ (500)	-5.0%	\$ (978)	-9.3%
Reimbursements Other Governments	\$ 313,601	\$ 305,467	\$ 170,331	\$ 213,383	\$ 284,950	\$ 71,567	33.5%	\$ (28,651)	-9.1%
<b>Intergovernmental Revenues</b>	<b>\$ 428,470</b>	<b>\$ 417,831</b>	<b>\$ 278,823</b>	<b>\$ 317,941</b>	<b>\$ 398,387</b>	<b>\$ 80,446</b>	<b>25.3%</b>	<b>\$ (30,083)</b>	<b>-7.0%</b>
<b>Debt Restructuring</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (85,000)</b>	<b>\$ (85,000)</b>	<b>-</b>	<b>\$ (85,000)</b>	<b>-</b>
<b>Total</b>	<b>\$2,831,570</b>	<b>\$2,838,596</b>	<b>\$2,936,408</b>	<b>\$2,993,650</b>	<b>\$2,976,574</b>	<b>\$ 49,435</b>	<b>-0.6%</b>	<b>\$ 145,004</b>	<b>5.1%</b>

Note: Totals may not add due to rounding.

Source: Cook County FY2010 Appropriation Bill, Revenue Estimate, pp. 52, 54, 57, 61, 63; FY2011 Executive Budget Recommendation, Revenue Estimate pp. 41, 43, 46, 50, 52.

<sup>43</sup> The PPRT is a corporate income tax established when the General Assembly abolished all ad valorem property taxes on corporations in 1979 pursuant to the 1970 Constitution. The State distributes PPRT to local governments according to a formula based partly on the governments' share of personal property tax collection in 1976 or 1977.



## Year-End Estimates to Budget Comparisons for Selected Revenues

The previous analysis examined budgeted revenues by comparing the FY2011 proposed budget to the FY2010 adopted budget and actual revenue data for the previous years. However, the amount of revenue actually collected in a fiscal year may differ significantly from the budgeted amount. A new budget is typically based on the amount of revenue a government expects to actually collect in the prior fiscal year (the year-end estimate), not the budgeted amount. This section provides data on how the new estimates for FY2010 year-end compare to the FY2011 budget for selected revenues.

Cook County estimates that FY2010 year-end sales tax revenues will only be 1.0% below the adopted budget. This is surprising because the adopted budget did not incorporate the rollback of the sales tax rate which was implemented in FY2010. There has been strong sales tax revenue growth in the last six months of FY2010,<sup>44</sup> which is likely why there has not been a larger decrease from the adopted budget. The County is expecting the strong growth to continue in FY2011,<sup>45</sup> but has budgeted a 21.3% reduction from the FY2010 year-end estimate because of the rollback in the rate. State sales tax is expected to be 1.2% above budget and the County has budgeted an additional 12.9% above the estimate for FY2011.<sup>46</sup>

Cook County Sales & Use Tax Receipts: Forecast-to-Budget Basis							
FY2010-FY2011 (in \$ thousands)							
	FY2010 Adopted	FY2010 Estimate	Budget / Est. \$ Change	Budget / Est. % Change	FY2011 Proposed	Est / Prop \$ Change	Est / Pro. % Change
Home Rule Sales Taxes	\$ 661,000	\$ 654,239	\$ (6,761)	-1.0%	\$ 514,600	\$ (139,639)	-21.3%
Home Rule Use Taxes	\$ 36,000	\$ 35,109	\$ (891)	-2.5%	\$ 36,000	\$ 891	2.5%
State Sales Taxes	\$ 2,800	\$ 2,835	\$ 35	1.2%	\$ 3,200	\$ 365	12.9%

Source: Cook County FY2010 & FY2011 Revenue Estimate.

Total fee revenue is expected to be only 0.9% below budget in FY2010, but there have been some large variations in individual sources. Patient fees are expected to generate 7.8% less than budgeted in FY2010, which amounts to a \$45.4 million decline. The County has budgeted strong growth in patient fee revenues for FY2011, with an increase of \$58.9 million or 11.0%.

Treasurer's fees have soared and are expected to be \$31.6 million or 50.4% above budget. The FY2011 proposed budget for Treasurer's fees is above the originally adopted FY2010 budget, but 23.9% below what is now estimated for FY2010.

Cook County Fee Revenue: Forecast-to-Budget Basis							
FY2010-FY2011 (in \$ thousands)							
	FY2010 Adopted	FY2010 Estimate	Budget / Est. \$ Change	Budget / Est. % Change	FY2011 Proposed	Est / Prop \$ Change	Est / Prop. % Change
Patient Fees	\$ 579,000	\$ 533,627	\$ (45,373)	-7.8%	\$ 592,536	\$ 58,909	11.0%
Clerk of Circuit Court	\$ 104,185	\$ 104,367	\$ 182	0.2%	\$ 108,945	\$ 4,578	4.4%
Recorder of Deeds Fees	\$ 33,016	\$ 33,572	\$ 556	1.7%	\$ 32,259	\$ (1,313)	-3.9%
Treasurer's Fees	\$ 62,700	\$ 94,284	\$ 31,584	50.4%	\$ 71,760	\$ (22,524)	-23.9%
Other	\$ 122,087	\$ 127,344	\$ 5,257	4.3%	\$ 130,197	\$ 2,853	2.2%
<b>Total Fees</b>	<b>\$ 900,988</b>	<b>\$ 893,194</b>	<b>\$ (7,794)</b>	<b>-0.9%</b>	<b>\$ 935,697</b>	<b>\$ 42,503</b>	<b>-10.1%</b>

Source: Cook County FY2010 & FY2011 Revenue Estimate.

<sup>44</sup> Cook County FY2011 Citizen Summary p. 21.

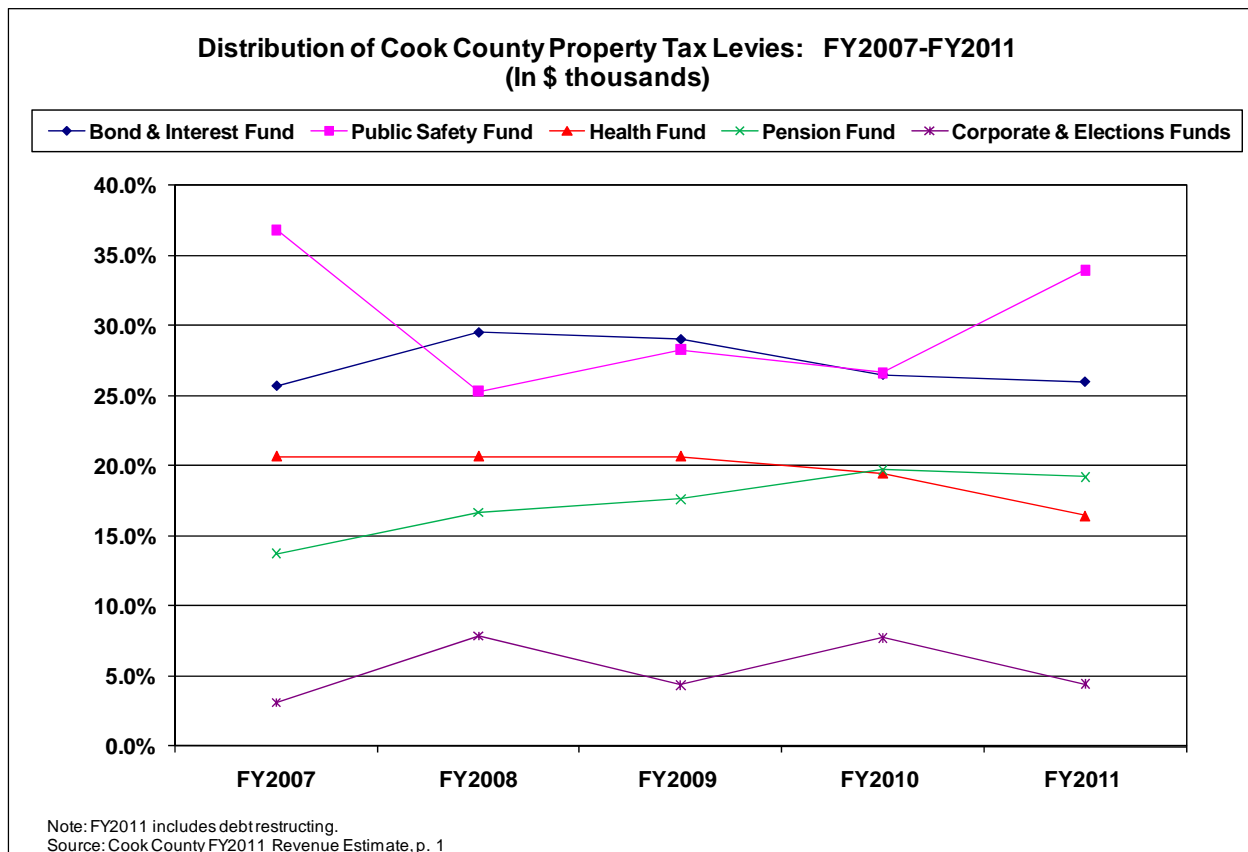
<sup>45</sup> Cook County FY2011 Citizen Summary p. 21.

<sup>46</sup> The County gets a distribution of the 1% of the 6.25% for sales made in the unincorporated areas of the County. Email communication between the Civic Federation Jerilynn Gorden, Deputy General Counsel for Sales & Excise Tax Division Illinois Department of Revenue, October 1, 2010.

## Property Tax Levy

The Cook County property tax levy has been held constant at \$720.5 million since FY2001. The impact of holding the property tax levy constant while the property tax base has increased has been a 44.1% decrease in the direct property tax rate over ten years. The County's property tax rate has gone from 0.823% in FY2001 to 0.394% in FY2009.<sup>47</sup> Property tax revenues are distributed to six major funds: Corporate, Elections, Public Safety, Health, Bond and Interest and Pension (also known as Annuity and Benefit). Changes in distribution of the levy between FY2007 and FY2011 are shown below. For purposes of our analysis, the relatively small Corporate and Election Funds have been combined. In FY2011, the portion of the levy dedicated to these funds will be 4.4%. This is a decrease from the 7.7% in FY2010 when national and state primary and general elections were held.

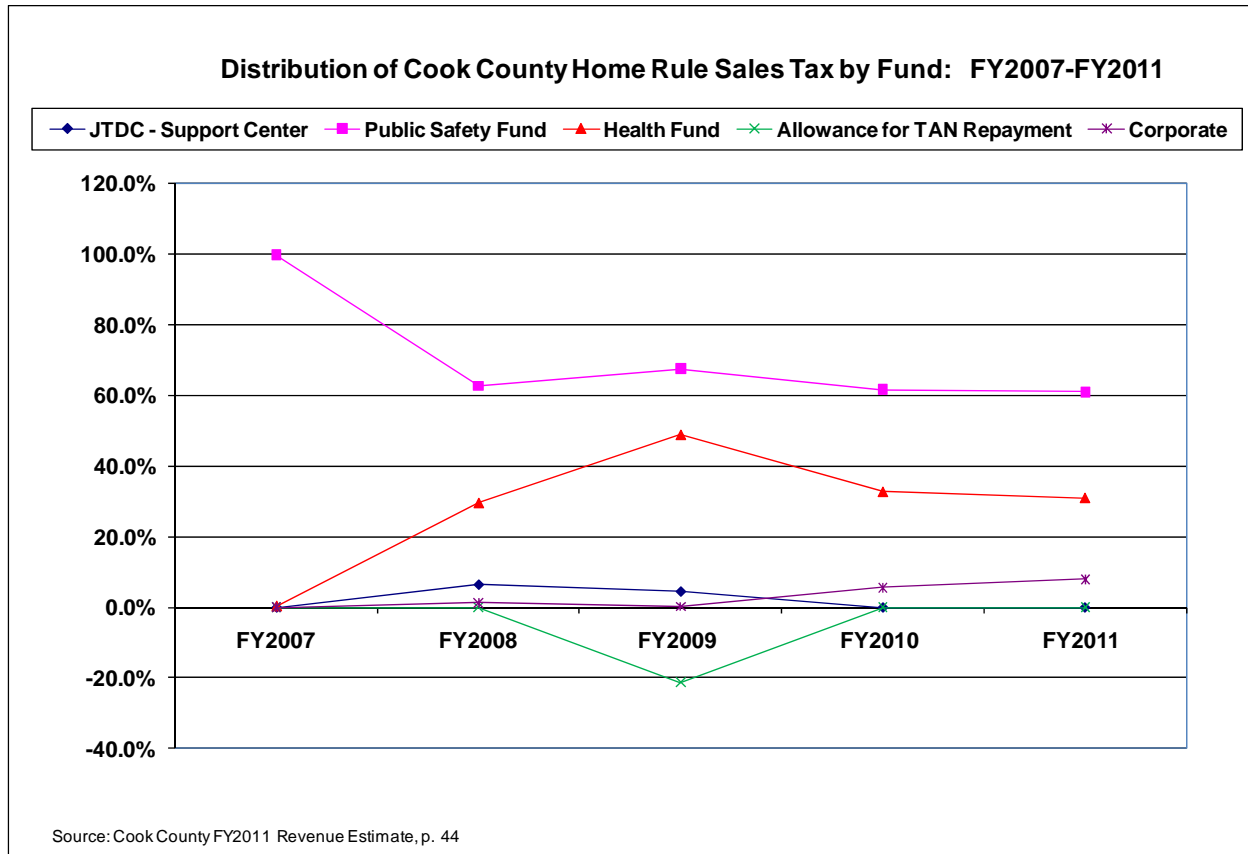
The Public Safety Fund will consume the largest amount of the levy at \$244.6 million or 33.9% of the total in FY2011. This is an increase from public safety's 26.6% share in FY2010. Debt restructuring will increase the amount of property tax available.<sup>48</sup> Every other fund's share of the total levy decreased from FY2010 to FY2011. The Bond and Interest Fund, funds earmarked to pay for debt service, will consume the second largest portion of the levy: \$187.1 million or 26.0% of the total. The County's Pension Fund will consume the third highest amount at \$138.5 million, or 19.2% of the total. Approximately 16.4% of the levy, or \$118.4 million, is earmarked for the Health Fund.



<sup>47</sup> Cook County FY2009 CAFR p. 214 and Cook County Clerk, "2009 Cook County Tax Rates Report," p.iv.

<sup>48</sup> Budget briefing document "Committee on Finance Budget Hearing Fiscal Year 2011, February 4, 2011" provided by Tariq Malhance, Chief Financial Officer.

The following graph outlines the distribution of the other major revenue source over which Cook County has discretion: the home rule sales and use tax. The Health Fund's share of the sales tax total increased from 0.3% in FY2007 to 49.9% in FY2009, but will decline to 31.0% in FY2011. Public Safety has the next largest share at 61.0% for FY2011. The Corporate Fund's share of the total has been trending up, but remains at less than 10% of the total.



## PERSONNEL TRENDS

The following section addresses trends for budgeted personnel by control officer and trends in personal services appropriations for all funds. A full analysis of budgeted personnel is not included due to discrepancies in figures for FY2010 full time equivalent (FTE) positions provided in the FY2011 Executive Recommendation.<sup>49</sup> These discrepancies make it difficult to accurately compare the change in staffing levels for the upcoming fiscal year.

The FY2011 Executive Recommendation presents the original FY2010 budgeted FTEs of 23,891.8 positions, which include approximately 900 unspecified FTE reductions in the Cook County Health System. Using this total, the County-wide reduction in staffing for FY2011 is 852.8 FTEs. The Executive Recommendation also presented a revised FY2010 budgeted count of 24,834 FTEs which do not include the Health and Hospitals System (the Health System) reductions. Using this figure, the County will reduce its staffing by 1,795.1 FTEs in FY2011.

<sup>49</sup> Two figures are given for FY2010 total full-time equivalent positions in Cook County's FY2011 Executive Recommendations Citizen's Summary. In Q-4 Summary of Positions by Fund (p. 100), the total FTEs for FY2010 is 23,891.8 and in Q-4A Summary of Positions by Control Officer (p. 103), the total FTEs for FY2010 is 24,834.1.

Media reports have indicated a 1,300 reduction in FTEs for Cook County.<sup>50</sup> This appears to reflect a revised estimate of FY2010 FTEs which is not included in the FY2011 Executive Budget Recommendation. For the purpose of this analysis, the Civic Federation has used the total FTEs that do not include the staffing reductions in the Cook County Health System.

### Full-Time Equivalent Positions by Control Officer

The FY2011 Cook County budget proposes a decrease of 1,795.1 full-time equivalent (FTE) positions. This is a 7.2% decrease from the adopted FY2010 budget, from 24,834.1 FTEs to 23,039.0 FTEs. Over the coming months there will likely be further adjustments to the proposed figures presented in the Executive Budget Recommendation as offices implement staff reductions. The Health System has the largest decline in employees over FY2010 adopted figures with a reduction of 1,004.5 FTEs or 13.1%. Other significant reductions occurred in the Offices Under the President, which decreased by 340.8 FTEs or 15.1%, and the Sheriff's offices which decreased by 201.8 FTEs or 2.9%. The County proposes a reduction of 15.9 FTEs for the Clerk of the Circuit Court, though the Circuit Court is planning for additional staff reductions in FY2011.<sup>51</sup>

<b>Cook County FTEs by Control Officer: FY2010-FY2011</b>				
<b>Control Officer</b>	<b>FY2010</b>	<b>FY2011</b>	<b>Change</b>	<b>% Change</b>
Offices Under the President	2,251.9	1,911.1	(340.8)	-15.1%
Health and Hospital System*	7,680.7	6,676.2	(1,004.5)	-13.1%
Board of Commissioners	86.7	84.6	(2.1)	-2.4%
County Clerk	301.0	284.9	(16.1)	-5.3%
Recorder of Deeds	221.0	206.0	(15.0)	-6.8%
Treasurer	120.0	114.2	(5.8)	-4.8%
Sheriff	6,899.2	6,697.4	(201.8)	-2.9%
State's Attorney	1,361.6	1,332.9	(28.7)	-2.1%
Chief Judge	3,309.0	3,209.5	(99.5)	-3.0%
Clerk of the Circuit Court	2,036.0	2,020.1	(15.9)	-0.8%
Other Elected Officials**	567.0	502.1	(64.9)	-11.4%
<b>Total</b>	<b>24,834.1</b>	<b>23,039.0</b>	<b>(1,795.1)</b>	<b>-7.2%</b>

Note: Two figures are given for FY2010 total full-time equivalent positions in Cook County's FY2011 Executive Recommendation Citizen's Summary. In Q-4 Summary of Positions by Fund (p. 100), the total FTEs for FY2010 is 23,891.8 and in Q-4A Summary of Positions by Control Officer (p. 103), the total FTEs for FY2010 is 24,834.1.

\*FTEs for the Health System may not match the presentation in the Health System section because Special Purpose Funds are included in the chart above for all departments.

\*\*Other Elected Officials include the County Assessor, Public Administrator, Office of the Independent Inspector General, Board of Review and the Board of Election Commissioners. Some of these control officers are appointed, however they are presented as Other Elected Officials in the Executive Budget Recommendation.

Source: Cook County FY2011 Executive Budget Recommendation, Citizens' Summary p.101-103.

<sup>50</sup> Hal Dardick, "Preckwinkle proposes 1,300 layoffs," *Chicago Tribune*, February 1, 2011.

<sup>51</sup> Cook County 2011 Budget Summary, p. 35.

The five-year trend of FTE distribution by control officer resembles the two-year trend, with a total reduction of 668.0 FTEs. The most significant reductions occur in the Health System, Sheriff and Offices Under the President. Over the same period of time, the FTE positions for the Chief Judge will increase by 147.4 FTEs or 4.8% from 3,062.1 in FY2007 to 3,209.5 FTEs in FY2011.

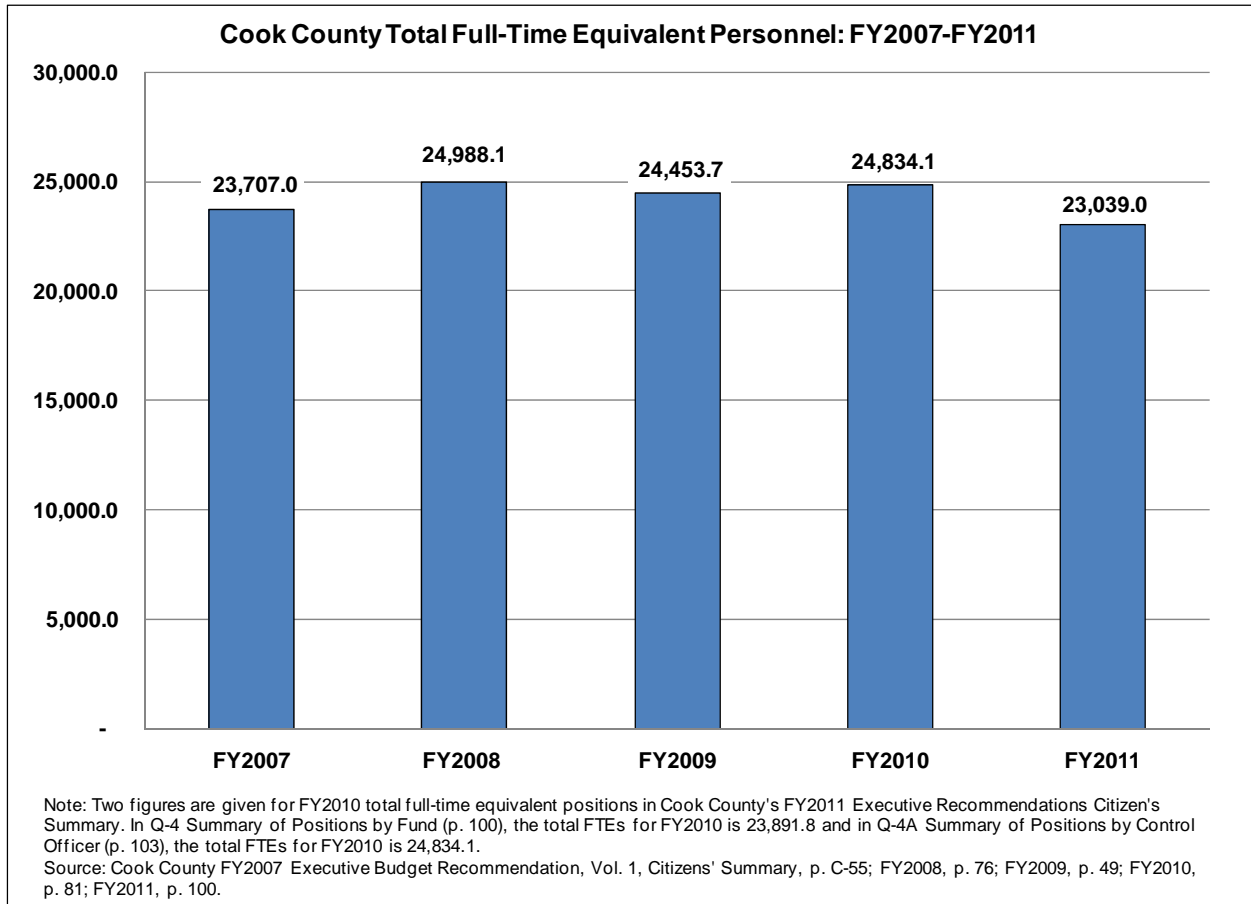
<b>Cook County FTEs by Control Officer: FY2007-FY2011</b>				
<b>Control Officer</b>	<b>FY2007</b>	<b>FY2011</b>	<b>Change</b>	<b>% Change</b>
Offices Under the President	2,181.4	1,911.1	(270.3)	-12.4%
Health and Hospital System*	6,970.9	6,676.2	(294.7)	-4.2%
Board of Commissioners	81.1	84.6	3.5	4.3%
County Clerk	300.1	284.9	(15.2)	-5.1%
Recorder of Deeds	227.0	206.0	(21.0)	-9.3%
Treasurer	142.4	114.2	(28.2)	-19.8%
Sheriff	6,874.3	6,697.4	(176.9)	-2.6%
State's Attorney	1,363.3	1,332.9	(30.4)	-2.2%
Chief Judge	3,062.1	3,209.5	147.4	4.8%
Clerk of the Circuit Court	1,966.7	2,020.1	53.4	2.7%
Other Elected Officials**	537.7	502.1	(35.6)	-6.6%
<b>Total</b>	<b>23,707.0</b>	<b>23,039.0</b>	<b>(668.0)</b>	<b>-2.8%</b>

\*FTEs for the Health System may not match the presentation in the Health System section because Special Purpose Funds are included in the chart above for all departments.

\*\*Other Elected Officials include the County Assessor, Public Administrator, Office of the Independent Inspector General, Board of Review and the Board of Election Commissioners. Some of these control officers are appointed, however they are presented as Other Elected Officials in the Executive Recommendations.

Source: Cook County FY2011 Executive Budget Recommendation, Citizens' Summary p.101-103.

The next exhibit shows total full-time equivalent positions for the five years between FY2007 and FY2011. Since its peak in FY2008 the number of FTEs has fallen from 24,988.1 FTEs to 23,039.0 FTEs, a decline of 7.8%, or 1,949.1 FTEs.



## Personal Service Appropriations

The following chart compares personal service appropriations to the total County operating budget. In FY2011 personal service appropriations will constitute 70.7% of the total budget, down 0.7 percentage points from 71.4% in FY2010. Over the past five years personnel costs have fluctuated as a percentage of the total operating budget between 67.7% in FY2008 to 71.4% in FY2010.

<b>Ratio of Personal Service to Total Appropriations: FY2007-FY2011</b>			
	<b>Personal Services Appropriation</b>	<b>Total Operating Budget</b>	<b>Personal Services as % of Total Operating Budget</b>
<b>FY2007</b>	\$ 1,999,505,543	\$ 2,866,119,149	69.8%
<b>FY2008</b>	\$ 1,996,937,500	\$ 2,948,384,880	67.7%
<b>FY2009</b>	\$ 2,074,024,675	\$ 2,915,499,743	71.1%
<b>FY2010</b>	\$ 2,182,801,997	\$ 3,056,586,488	71.4%
<b>FY2011</b>	\$ 2,126,600,636	\$ 3,006,995,734	70.7%

Note: Adopted appropriations are used because actual expenditure is not available.

Source: Cook County FY2007 Annual Appropriation p. C-30; FY2008, p. 39; FY2009, p. 62; FY2010, p. 73; FY2011, p. 72.

In FY2011 the County appropriated nearly \$1.5 billion for salary expenditures; a decline of 5.6% over FY2010 adopted figures. Salary appropriations for all control officers decreased except for the Clerk of the Circuit Court, which stayed flat at \$93.1 million. The Circuit Court is planning for additional staff reductions in FY2011 not reflected in the budget and recently announced 170 layoffs.<sup>52</sup> The largest percentage decrease in salary expenditures occurred in the Office Under the President which decreased by \$19.2 million or 11.6% from \$165.5 million in FY2010 to \$146.3 million in FY2011. The Offices Under the President include the Bureaus of Administration, Human Resources, Finance, Economic Development and others. The largest dollar amount decline occurred in the Health System which decreased by \$50.0 million or 9.2% from \$544.2 million in FY2010 to \$494.2 million in FY2011.

<b>Cook County Salary Expenditures by Control Officer: FY2010 Adopted - FY2011 Recommended</b>				
<b>Control Officer</b>	<b>FY2010 Adopted</b>	<b>FY2011 Recommended</b>	<b>\$ Change</b>	<b>% Change</b>
Offices Under the President	\$ 165,489,425	\$ 146,329,569	\$ (19,159,856)	-11.6%
Health and Hospital System	\$ 544,224,349	\$ 494,247,431	\$ (49,976,918)	-9.2%
Board of Commissioners	\$ 6,406,984	\$ 6,252,974	\$ (154,010)	-2.4%
County Clerk	\$ 15,987,034	\$ 15,366,751	\$ (620,283)	-3.9%
Recorder of Deeds	\$ 10,811,312	\$ 10,360,374	\$ (450,938)	-4.2%
Treasurer	\$ 8,428,239	\$ 8,143,900	\$ (284,339)	-3.4%
Sheriff	\$ 409,842,050	\$ 402,829,571	\$ (7,012,479)	-1.7%
State's Attorney	\$ 100,010,903	\$ 97,269,516	\$ (2,741,387)	-2.7%
Chief Judge	\$ 169,068,574	\$ 165,636,917	\$ (3,431,657)	-2.0%
Clerk of the Circuit Court	\$ 93,127,600	\$ 93,138,425	\$ 10,825	0.0%
Other Elected Officials*	\$ 34,248,849	\$ 31,128,790	\$ (3,120,059)	-9.1%
<b>Total</b>	<b>\$ 1,557,645,319</b>	<b>\$ 1,470,704,218</b>	<b>\$ (86,941,101)</b>	<b>-5.6%</b>

\*Other Elected Officials include the County Assessor, Public Administrator, Office of the Independent Inspector General, Board of Review and the Board of Election Commissioners. Some of these control officers are appointed, however they are presented as Other Elected Officials in the Executive Recommendations.

Source: Cook County FY2011 Executive Budget Recommendation, Citizen's Summary, p. 107-111.

## **COOK COUNTY HEALTH AND HOSPITALS SYSTEM**

This section examines the budget of the Cook County Health and Hospitals System (Health System). The analysis focuses on the Health Fund, a component of the County's General Fund, rather than all Health System funds. Nearly all of the Health System's operations are conducted through the Health Fund, and it receives general tax revenue.<sup>53</sup>

<sup>52</sup> Cook County 2011 Budget Summary, p. 35 and Lisa Donovan, "Court clerk lays off 170 county workers," *Chicago Sun-Times*, February 14, 2011.

<sup>53</sup> The FY2011 total recommended budget for the Health System is \$922.1 million, of which \$912.8 million is for the Health Fund. The budget also includes two Special Purpose Funds: the Lead Poisoning Prevention Fund and the Suburban Cook County Tuberculosis Sanitarium District.



## Overview of the Health System

The Cook County Health and Hospitals System is one of the nation's largest public health systems. In FY2010, the Health System handled 643,982 clinic visits, 195,158 Emergency Room visits and 31,494 hospital inpatient admissions.<sup>54</sup>

The Health System operates John H. Stroger Jr., Provident and Oak Forest Hospitals. It provides additional services through the Ambulatory and Community Health Network (ACHN), which operates 16 clinics across the County and specialty outpatient clinics at the Health System's hospitals. The Health System's operations also include the CORE Center, an outpatient facility for patients with HIV/AIDS and related diseases; Cermak Health Services, the infirmary for the Cook County Jail; the Juvenile Temporary Detention Center Health Services (JTDC), which serves children detained by the County; and the Cook County Department of Public Health.

More than half of the Health System's charges are incurred by patients without health insurance of any kind, who generally do not pay for their medical expenses.<sup>55</sup> The Health System is by far the largest provider of healthcare to the uninsured in Illinois, delivering \$521 million of charity care in FY2007.<sup>56</sup> Most of the Health System's operating or patient-related revenues come from Medicaid, the joint federal-state program for certain categories of low-income people.<sup>57</sup> Its non-operating revenues come from a County subsidy, which is funded from property, cigarette and sales taxes.

Since mid-2008, the Health System has been governed by its own Board of Directors. The Board has authority over day-to-day decision making but must get approval from the Cook County Board of Commissioners for annual budgets and major policy matters, such as hospital closings and strategic plans.<sup>58</sup> On July 13, 2010 the Cook County Board approved a five-year strategic and financial plan developed by the Health System.

The goal of the strategic plan is to shift resources away from inpatient care and towards outpatient care in order to serve more patients and deliver care more efficiently.<sup>59</sup> In FY2011, the Health System plans to end emergency room and inpatient services at Oak Forest Hospital and to end most inpatient service at Provident Hospital and stop accepting ambulance patients at Provident's ER. Regional outpatient centers are scheduled to be developed at those hospital sites. The financial plan aims to streamline operations and to improve the Health System's ability to collect revenues from non-charity patients.

In mid-FY2010, the Health System Board hired the consulting firm of PricewaterhouseCoopers (PwC) to implement sweeping revenue enhancements and expense reductions.<sup>60</sup> PwC proposed

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<sup>54</sup> Cook County Health and Hospitals System, *Preliminary 2011 Budget*, Presentation of CCHHS Finance Committee, October 22, 2010, p. 25.

<sup>55</sup> *Ibid.*, p. 26.

<sup>56</sup> Email communication between the Civic Federation and the Illinois Department of Healthcare and Family Services, August 6, 2010.

<sup>57</sup> Cook County Health and Hospitals System, *Preliminary 2011 Budget*, Presentation of CCHHS Finance Committee, October 22, 2010, p. 27.

<sup>58</sup> Cook County Code of Ordinances, Chapter 38, Article V.

<sup>59</sup> Cook County Health and Hospitals System, *Vision 2015: Strategic Direction + Financial Plan Board Presentation*, June 25, 2010.

<sup>60</sup> Cook County Health and Hospitals System, Minutes of the Finance Committee Meeting, June 18, 2010, Attachment #2, p. 16.

that it could generate \$313.8 million in benefits for the Health System over two years. Of the total \$313.8 million, \$218.7 million was projected to be achieved through revenue enhancements and \$95.1 million through expense reductions. The main source of revenue enhancement is improvement in the revenue cycle process, which involves patient registration, billing and collections. Expense reductions are expected to come from staffing cuts and decreases in the cost of purchased supplies and services.

The Health System's five-year financial plan is based on an assumption that PwC will not actually be able to deliver the total projected benefits; instead, the plan assumes that PwC will generate 33% of the projected financial benefit in FY2011 and 50% thereafter.<sup>61</sup> PwC's compensation is based on realized cash improvement.<sup>62</sup> Fees were scheduled to be paid after the first \$10 million of benefit was realized and maximum fees are set at \$50 million.

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<sup>61</sup> Cook County Health and Hospitals System, *Vision 2015: Strategic Direction + Financial Plan Board Presentation*, June 25, 2010, Appendix B, p. 3.

<sup>62</sup> Cook County Health and Hospitals System, Minutes of the Finance Committee Meeting, June 18, 2010, Attachment #1, p.11.

## Health System Appropriations

The Health System's proposed appropriations for FY2011 total \$912.8 million, or 39.9% of the County's total General Fund budget of \$2.3 billion. As shown in the chart below, the Health System's FY2011 appropriations decline 6.3% from FY2010 adjusted adopted appropriations of \$973.9 million.

<b>Cook County Health Fund Appropriations: FY2010-FY2011 (in \$ millions)</b>				
	<b>FY2010 Adjusted Adopted</b>	<b>FY2011 Proposed</b>	<b>2 Year \$ Change</b>	<b>2 Year % Change</b>
Departmental Appropriations	\$ 865.7	\$ 815.2	\$ (50.5)	-5.8%
Fixed Charges and Special Purpose Appropriations	\$ 108.2	\$ 97.6	\$ (10.6)	-9.8%
<b>Total Appropriations</b>	<b>\$ 973.9</b>	<b>\$ 912.8</b>	<b>\$ (61.1)</b>	<b>-6.3%</b>

Source: Cook County FY2011 Executive Budget Recommendation, p. D-1.

The 6.3% reduction from the FY2010 adopted budget does not appear to be in line with the 16% cut requested by Board President Preckwinkle because the Health System's budgetary reduction is based on its County subsidy rather than its appropriations. Changes in the County subsidy are discussed later in this section.

Health System appropriations include departmental appropriations as well as fixed charges and special purpose appropriations (fixed charges). Departmental appropriations decline by \$50.5 million, or 5.8%, from \$865.7 million in the FY2010 adjusted adopted budget to \$815.2 million in the FY2011 budget. The decline is mainly due to planned operational reductions at Oak Forest and Provident, lower supply prices and labor cost savings.<sup>63</sup> Besides staffing cuts, potential labor cost savings include reduced payments for overtime work and decreased use of nurses hired at a premium from outside employment agencies.<sup>64</sup>

The other component of Health System appropriations is fixed charges. Fixed charges include costs related to employee health and life insurance, workers' compensation and medical malpractice and other insurance claims.<sup>65</sup> Fixed charges also include an appropriations adjustment, which is a deduction to account for such items as unspent appropriations and employee turnover. Fixed charges appropriations decline 9.8% from \$108.2 million in the adjusted adopted FY2010 budget to \$97.6 million in FY2011. The decline is due to a reduction in the reserve for insurance claims, which is partially offset by increases in workers compensation and health insurance costs and a reduced appropriations adjustment.<sup>66</sup>

<sup>63</sup> Cook County Health and Hospitals System, *Preliminary 2011 Budget*, Presentation to CCHHS Finance Committee, October 13, 2010, p. 15.

<sup>64</sup> Email communication between Civic Federation and Health System officials, February 10, 2011.

<sup>65</sup> Fixed charges do not include pension costs, which are not allocated to the component funds in the General Fund.

<sup>66</sup> Cook County FY2011 Executive Budget Recommendation, p. D-144.

The next chart shows that FY2010 estimated expenditures decline 2.2% from FY2010 adjusted adopted appropriations, meaning that the Health System spent less than the amount that was budgeted. A \$41.9 million decline in FY2010 estimated departmental expenditures is partially offset by \$10.5 million increase in costs for fixed charges.

<b>Cook County Health Fund Appropriations: FY2010 Adjusted Adopted-FY2010 Estimated (in \$ millions)</b>				
	<b>FY2010 Adjusted Adopted</b>	<b>FY2010 Estimated</b>	<b>2 Year \$ Change</b>	<b>2 Year % Change</b>
Departmental Appropriations	\$ 865.7	\$ 823.8	\$ (41.9)	-4.8%
Fixed Charges and Special Purpose Appropriations	\$ 108.2	\$ 128.7	\$ 20.5	18.9%
<b>Total</b>	<b>\$ 973.9</b>	<b>\$ 952.5</b>	<b>\$ (21.4)</b>	<b>-2.2%</b>

Source: Cook County FY2011 Executive Budget Recommendation, p. D-1.

Despite the FY2010 expenditure reductions, the Health System was not able to realize an important part of its cost savings plan for the year.<sup>67</sup> The Health System had assumed substantial savings in FY2010 due to the elimination of vacant and filled full-time equivalent positions (FTEs). However, fewer employees were laid off than expected, partly because of the need to comply with the terms of collective bargaining agreements.<sup>68</sup> Personnel trends in the Health System are discussed in detail later in this section.

To offset the impact of lower than expected staffing reductions, the Health System found one-time sources of savings. For example, the FY2010 budget assumed \$30 million in expenses related to implementation of the strategic plan. Because of delays in implementing the strategic plan, the actual cost in FY2010 was estimated at only \$10 million, resulting in a savings of \$20 million.<sup>69</sup>

<sup>67</sup> Cook County Health and Hospitals System, *CCHHS Fiscal Year 2011 Preliminary Budget Draft*, October 19, 2010, p. 6.

<sup>68</sup> Cook County Health and Hospitals System, Memorandum from Michael Ayres to the Finance Committee, April 16, 2010, pp. 14-16.

<sup>69</sup> *Ibid.*, p. 16.

The chart below shows appropriations by department from FY2007 to proposed FY2011. Appropriations for Oak Forest and Provident decline 31.6% and 23.5%, respectively, from the adjusted adopted FY2010 budget to the FY2011 budget, reflecting the planned elimination of services. The FY2011 budget includes a 9.8% increase in appropriations for ACHN from adjusted adopted FY2010; additional support staff is expected to be hired by the Health System's clinics so that doctors can work more efficiently.<sup>70</sup>

Appropriations for the Office of the Chief Health Administrator decline by 19% from the adjusted adopted FY2010 budget to FY2011, mainly due to a \$38.9 million reduction related to professional and managerial services.<sup>71</sup> Since FY2008 administrative functions for the Health System, including contracts for pharmaceutical supplies, have been centralized in this office.

<b>Cook County Health Fund Appropriations by Department: FY2007-FY2011 (in \$ millions)</b>								
<b>Department</b>	<b>FY2007 Actual</b>	<b>FY2008 Actual</b>	<b>FY2009 Actual</b>	<b>FY2010 Adjusted Adopted</b>	<b>FY2010 Estimated</b>	<b>FY2011 Proposed</b>	<b>2 Year \$ Change</b>	<b>2 Year % Change</b>
Office of the Chief Health Administrator	\$ 17.0	\$ 139.5	\$ 145.7	\$ 183.6	\$ 177.3	\$ 148.8	\$ (34.8)	-19.0%
Cermak Health Services	\$ 38.2	\$ 28.4	\$ 30.8	\$ 37.1	\$ 32.1	\$ 41.2	\$ 4.1	11.1%
JTDC Health Services	\$ -	\$ 4.8	\$ 5.9	\$ 3.5	\$ 2.7	\$ 3.5	\$ -	0.0%
Provident Hospital	\$ 87.7	\$ 73.4	\$ 81.9	\$ 87.6	\$ 72.3	\$ 67.0	\$ (20.6)	-23.5%
Ambulatory and Community Health Network	\$ 42.7	\$ 38.5	\$ 43.5	\$ 45.8	\$ 44.7	\$ 50.3	\$ 4.5	9.8%
CORE Center	\$ 10.7	\$ 10.6	\$ 10.9	\$ 11.2	\$ 11.1	\$ 11.9	\$ 0.7	6.3%
Department of Public Health	\$ 15.7	\$ 14.5	\$ 14.8	\$ 16.7	\$ 15.5	\$ 17.7	\$ 1.0	6.0%
Stroger Hospital	\$ 432.4	\$ 369.3	\$ 402.9	\$ 404.2	\$ 398.2	\$ 422.8	\$ 18.6	4.6%
Oak Forest Hospital	\$ 115.0	\$ 72.1	\$ 79.8	\$ 76.0	\$ 69.9	\$ 52.0	\$ (24.0)	-31.6%
<b>Subtotal Departmental Appropriations</b>	<b>\$ 759.4</b>	<b>\$ 751.1</b>	<b>\$ 816.2</b>	<b>\$ 865.7</b>	<b>\$ 823.8</b>	<b>\$ 815.2</b>	<b>\$ (50.5)</b>	<b>-5.8%</b>
Fixed Charges and Special Purpose Appropriations*	\$ 77.1	\$ 71.0	\$ 114.6	\$ 108.2	\$ 128.7	\$ 97.6	\$ (10.6)	-9.8%
<b>Total</b>	<b>\$ 836.5</b>	<b>\$ 822.1</b>	<b>\$ 930.8</b>	<b>\$973.9</b>	<b>\$952.5</b>	<b>\$912.8</b>	<b>(\$61.1)</b>	<b>-6.3%</b>

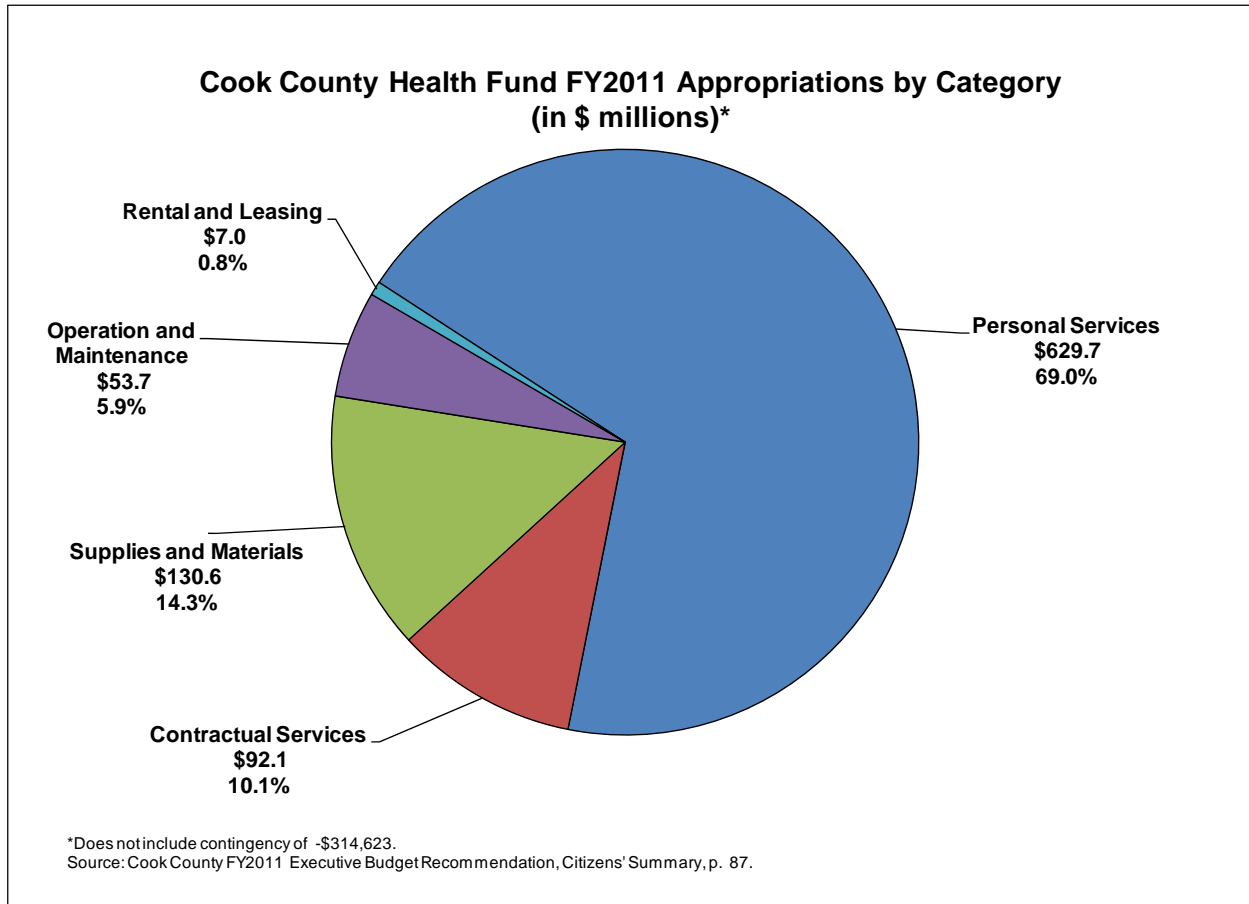
\*Prior to FY2008, the reserve for insurance claims was not part of fixed charges and special appropriations.

Source: Cook County FY2011 Executive Budget Recommendation, p. D-1; Cook County FY2011 Executive Budget Recommendation, Citizens' Summary, p. 77.

<sup>70</sup> Cook County FY2011 Executive Budget Recommendation, p. D-57.

<sup>71</sup> Cook County FY2011 Executive Budget Recommendation, p. D-11.

The next chart shows FY2011 Health Fund appropriations by category. Staffing accounts for 69.0% of total appropriations, followed by supplies and material at 14.3% and contractual services at 10.1%.



## Health System Resources

Health System resources consist of operating revenues and the County's subsidy. Most of the Health System's operating or patient-related revenues come from Medicaid, the joint federal-state program for certain low-income people.<sup>72</sup> Its non-operating revenues come from a County subsidy, which is funded from property, cigarette and sales taxes.

### *Health System Operating Revenues*

Most of the Health System's services are provided to patients who lack insurance of any kind. In FY2010, 54.3% of the Health System's patients had no insurance, while 29.3% were covered by Medicaid, 10.8% by Medicare and 5.6% by private insurance.<sup>73</sup>

Uninsured patients generally cannot afford to pay for much, if any, of their care. Most of the Health System's payments for patient services come from the federal Medicaid program. Under

<sup>72</sup> Cook County Health and Hospitals System, *Preliminary 2011 Budget*, Presentation of CCHHS Finance Committee, October 22, 2010, p. 27.

<sup>73</sup> Cook County Health and Hospitals System, *Preliminary 2011 Budget*, Presentation to CCHHS Finance Committee, October 13, 2010, p. 3.

the Medicaid program, states typically pay healthcare providers for covered medical services received by eligible beneficiaries and then seek reimbursement for the federal share of those payments. The reimbursement rate to states is called the Federal Medical Assistance Percentage (FMAP).<sup>74</sup>

In the case of Cook County, however, the State of Illinois' portion of the expenditures is paid by the County rather than by the State through an Intergovernmental Transfer (IGT) agreement. Because of the IGT, the State incurs no net cost for Medicaid patients treated by the Health System. The Health System, in turn, benefits by the amount of the federal reimbursement.

The Health System also receives supplemental Medicaid payments designed for hospitals that serve large numbers of uninsured patients. These supplemental revenues consist of Disproportionate Share Hospital (DSH) payments and payments under a provision of the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA).<sup>75</sup>

The Health System began receiving DSH payments under an agreement completed in mid-2009 that was retroactive to July 1, 2008. In FY2009, the Health System's DSH payments were increased by roughly \$100 million to \$258.3 million due to one-time retroactive payments. DSH payments to the Health System are expected to decline in FY2011 with the expiration of federal stimulus funds.

Patient fee revenues were budgeted at \$298.0 million in FY2010.<sup>76</sup> However, actual patient fee revenues in FY2010 are estimated at \$252.4 million, mainly reflecting lower than expected Medicaid revenues. The decline in Medicaid revenues stemmed from a drop in the number of Medicaid-covered patients at each of the Health System's three hospitals and State delays in processing applications for Medicaid enrollment.<sup>77</sup> The Health System partially offset the decline in Medicaid revenues from other sources, including one-time sources such as retroactive DSH payments and federal reimbursement for prior-year medical malpractice costs.<sup>78</sup>

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<sup>74</sup>The Federal Medical Assistance Percentage has been due to stimulus funds provided under the American Recovery and Reinvestment Act of 2009. Illinois' FMAP was 50.32% before the federal stimulus program began on October 1, 2008; rose to 61.88% during the program; and is expected to be at 57.16% when the program ends on June 30, 2011. Illinois' FMAP without ARRA would have been 50.2% in 2011.

<sup>75</sup> Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000, 701(d)(2).

<sup>76</sup> Cook County FY2010 Annual Appropriation Bill, Revenue Estimate, p. 40.

<sup>77</sup> Cook County Health and Hospitals System, CCHHS Fiscal Year 2011 Preliminary Budget Draft, October 19, 2010, p. 6.

<sup>78</sup> Cook County Health and Hospitals System, Minutes of the Finance Committee meeting, July 16, 2010, Attachment #3, pp. 1-5.

The next table shows Health System operating revenues from FY2007 to FY2011. Patient fee revenues have declined since FY2007 but are expected to increase 27.3.0% in FY2011 from preliminary FY2010. The budgeted increase includes 33.5% growth in Medicaid fees and 74.2% growth in revenues from privately insured patients.

<b>Cook County Health Fund Operating Revenues: FY2007-FY2011 (in \$ millions)</b>								
	<b>FY2007 Actual</b>	<b>FY2008 Actual</b>	<b>FY2009 Actual</b>	<b>FY2010 Budgeted</b>	<b>FY2010 Preliminary</b>	<b>FY2011 Budgeted</b>	<b>2 Year \$ Change</b>	<b>2 Year % Change</b>
Patient Fee Revenue								
Medicaid	\$ 233.3	\$ 208.7	\$ 166.3	\$ 188.5	\$ 164.8	\$ 224.3	\$ 59.5	36.1%
FMAP*	\$ -	\$ -	\$ 35.8	\$ 39.0	\$ 12.7	na	na	na
<b>Total Medicaid</b>	<b>\$ 233.3</b>	<b>\$ 208.7</b>	<b>\$ 202.1</b>	<b>\$ 227.5</b>	<b>\$ 177.5</b>	<b>\$ 224.3</b>	<b>\$ 59.5</b>	<b>33.5%</b>
Medicare	\$ 61.0	\$ 56.9	\$ 53.8	\$ 53.5	\$ 58.6	\$ 68.5	\$ 9.9	16.9%
Uninsured and Private Insurance	\$ 16.5	\$ 13.5	\$ 17.8	\$ 17.0	\$ 16.3	\$ 28.4	\$ 12.1	74.2%
<b>Total Patient Fee Revenue</b>	<b>\$ 310.8</b>	<b>\$ 279.1</b>	<b>\$ 273.7</b>	<b>\$ 298.0</b>	<b>\$ 252.4</b>	<b>\$ 321.2</b>	<b>\$ 68.8</b>	<b>27.3%</b>
BIPA and DSH	\$ 148.3	\$ 127.3	\$ 389.6	\$ 281.1	\$ 281.3	\$ 271.3	\$ (10.0)	-3.6%
<b>Total Patient-Related Revenue</b>	<b>\$ 459.1</b>	<b>\$ 406.4</b>	<b>\$ 663.3</b>	<b>\$ 579.1</b>	<b>\$ 533.7</b>	<b>\$ 592.5</b>	<b>\$ 58.8</b>	<b>23.7%</b>
Miscellaneous**	\$ 6.5	\$ 7.6	\$ 6.5	\$ 5.7	\$ 7.3	\$ 4.1	\$ (3.2)	-43.8%
<b>Total</b>	<b>\$ 465.6</b>	<b>\$ 414.0</b>	<b>\$ 669.8</b>	<b>\$ 584.8</b>	<b>\$ 541.0</b>	<b>\$ 596.6</b>	<b>\$ 55.6</b>	<b>10.3%</b>

\*FY2011 Medicaid includes FMAP.

\*\*Includes revenue from cafeteria, medical records, parking income, physicians fees and pharmacy service charge.

Source: Cook County FY2011 Executive Budget Recommendation, Revenue Estimate, pp. 33, 48, 54; Cook County FY2010 Appropriation Bill, Revenue Estimate, p. 40;



## County Subsidy

The Health System's subsidy from the County is budgeted to decline 23.2% in FY2011 to \$316.1 million from an estimated \$411.5 million in FY2010. The County's estimated subsidy in FY2010 is projected to be \$22.4 million above the budgeted subsidy of \$389.1 million due to the shortfall in FY2010 Health System revenues. The subsidy calculations shown in the table below do not include the Health System's costs for pensions and debt service because these costs are not allocated in the budget.

Cook County Health and Hospitals System County Subsidy (in \$ millions)*								
	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Budgeted	FY2010 Preliminary	FY2011 Budgeted	2 Year \$ Change	2 Year % Change
Budgeted Revenues from County								
Sales Tax	\$ 1.043	\$ 127.631	\$ 280.466	\$ 228.150	\$ 225.810	\$ 170.878	\$ (54.932)	-24.3%
Cigarette Tax	\$ 134.263	\$ 135.931	\$ 29.380	\$ 25.000	\$ 23.939	\$ 21.047	\$ (2.892)	-12.1%
Property Tax**	\$ 144.388	\$ 144.388	\$ 144.388	\$ 135.970	\$ 135.965	\$ 80.206	\$ (55.759)	-41.0%
Inter-Governmental Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9.374	\$ 9.374	na
Interest Earnings Transfer Out/Debt	\$ -	\$ -	\$ 17.000	\$ -	\$ -	\$ 34.642	\$ 34.642	na
<b>Total Budgeted Revenues from County</b>	<b>\$ 279.694</b>	<b>\$ 407.950</b>	<b>\$ 471.234</b>	<b>\$ 389.120</b>	<b>\$ 385.714</b>	<b>\$ 316.147</b>	<b>\$ (69.567)</b>	<b>-18.0%</b>
Operating Revenues	\$ 465.557	\$ 413.910	\$ 669.888	\$ 584.737	\$ 540.949	\$ 596.603	\$ 55.654	10.3%
Total Health System Revenues	\$ 745.251	\$ 821.860	\$ 1,141.122	\$ 973.857	\$ 926.663	\$ 912.750	\$ (13.913)	-1.5%
Health System Expenditures	\$ 836.506	\$ 821.988	\$ 930.615	\$ 973.851	\$ 952.427	\$ 912.750	\$ (39.677)	-4.2%
<b>Health System Deficit (Surplus)***</b>	<b>\$ 91.255</b>	<b>\$ 0.128</b>	<b>\$ (210.507)</b>	<b>\$ (0.006)</b>	<b>\$ 25.764</b>	<b>\$ -</b>	<b>\$ (25.764)</b>	<b>na</b>
<b>Total Subsidy</b>	<b>\$ 370.949</b>	<b>\$ 408.078</b>	<b>\$ 260.727</b>	<b>\$ 389.114</b>	<b>\$ 411.478</b>	<b>\$ 316.147</b>	<b>\$ (95.331)</b>	<b>-23.2%</b>

\*Does not include costs paid by County for pension contributions and debt service.

\*\*Property tax levy net of allowance for uncollected taxes.

\*\*\*Expenditures less total revenues. Budgeted FY2010 different than zero due to rounding.

Source: Cook County FY2011 Executive Budget Recommendation, Revenue Estimate, pp. 9, 33, 44 and 54; Cook County FY2010 Appropriation Bill, Revenue Estimate, p. 40; email communication between Civic Federation and Cook County Department of Budget and Management Services, March 17, 2011.

## Health System Personnel<sup>79</sup>

The FY2010 adopted budget reflected the Health System's plan to decrease the number of full-time equivalent positions (FTEs) by 942.3 unspecified positions.<sup>80</sup> The result would have been a net FTE reduction, after staff increases, of 817 to 6,684.4 from 7,501.4 in FY2009.

However, the Health System was not able to implement all of these reductions, partly because of the need to comply with the terms of collective bargaining agreements.<sup>81</sup> During FY2010, 581.0 FTEs were eliminated and 149.5 were added, for a net reduction of 431.5.<sup>82</sup>

Some parts of the County's FY2011 budget use 6,684.4 as the number of Health System FTEs approved for FY2010.<sup>83</sup> In other parts of the budget, the number of FTEs in FY2010 is shown as 7,626.7, which would have been the total without the elimination of 942.3 FTEs.<sup>84</sup>

The difference is significant because it determines how many positions are expected to be eliminated in FY2011. The Health System's own budget documents show 7,195.2 FTEs at the end of FY2010 and an estimated 6,663.9 for FY2011, a reduction of 531.3 FTEs during FY2011.

The chart below uses the County budget's higher FTE number—7,626.7—for FY2010. This number is used for purposes of comparison with prior years and because it is most consistent with the Board President's statements about the total number of personnel reductions across the County in FY2010.

Cook County Health and Hospitals System Personnel FY2007-FY2011							
	FY2007	FY2008	FY2009	FY2010	FY2011	2 Year # Change	2 Year % Change
Office of the Chief Health Administrator	34.0	583.0	505.2	553.5	553.5	0.0	0.0%
Cermak Health Services	423.2	392.0	445.2	486.5	516.0	29.5	6.1%
JTDC Health Services	0.0	40.0	39.0	39.0	36.8	-2.2	-5.6%
Provident Hospital	650.3	693.0	690.0	683.6	461.9	-221.7	-32.4%
Ambulatory and Community Health Network	552.9	658.0	678.6	702.2	710.5	8.3	1.2%
CORE Center	54.0	61.0	61.4	67.7	67.4	-0.3	-0.4%
Department of Public Health	160.6	167.0	160.6	171.6	170.8	-0.8	-0.5%
Stroger Hospital	3,911.5	3,768.0	3,866.4	3,898.3	3,622.6	-275.7	-7.1%
Oak Forest Hospital	1,181.4	1,010.0	1,055.0	1,024.3	496.4	-527.9	-51.5%
<b>Total</b>	<b>6,967.9</b>	<b>7,372.0</b>	<b>7,501.4</b>	<b>7,626.7</b>	<b>6,635.9</b>	<b>-990.8</b>	<b>-13.0%</b>

Source: Cook County FY2011 Executive Budget Recommendation, Citizens' Summary, p. 102.

<sup>79</sup> Like the rest of this section, the discussion of Health System personnel is based only on the Health Fund. The Special Purpose Funds have 40.5 FTEs in FY2011.

<sup>80</sup> Cook County FY2010 Annual Appropriation Bill, Citizens' Summary, p.82.

<sup>81</sup> Cook County Health and Hospitals System, *CCHHS Fiscal Year 2011 Preliminary Budget Draft*, October 19, 2010, p. 6.

<sup>82</sup> Cook County Health and Hospitals System, *CCHHS Fiscal Year 2011 Preliminary Budget Draft*, October 19, 2010, p. 19.

<sup>83</sup> Cook County Executive Budget Recommendation, Citizens' Summary, p. 99.

<sup>84</sup> Cook County Executive Budget Recommendation, Citizens' Summary, p. 102.

The next chart shows the Health System's personnel changes in FY2010 and its estimates for expected FTEs in FY2011. The Health System expects a reduction of approximately 531.3 positions during FY2011. The number of positions will be reduced substantially at Oak Forest and Provident Hospitals and increased at ACHN.

Cook County Health and Hospital Systems Personnel FY2010-FY2011							
	FY2010 Approved	FY2010 Deleted	FY2010 Additions	FY2010 Total	FY2011 Preliminary	2 Year # Change	2 year % Change
Office of the Chief Health Administrator	553.5	33.0	58.0	578.5	566.4	-12.1	-2.1%
Cermak Health Services	486.5	0.0	36.0	522.5	517.8	-4.7	-0.9%
JTDC Health Services	39.0	0.0	1.0	40.0	36.8	-3.2	-8.0%
Provident Hospital	683.6	70.0	17.0	630.6	463.9	-166.7	-26.4%
Ambulatory and Community Health Network	702.2	62.0	0.0	640.2	714.5	74.3	11.6%
CORE Center	67.7	0.0	0.0	67.7	67.4	-0.3	-0.4%
Department of Public Health	171.6	0.0	0.0	171.6	168.3	-3.3	-1.9%
Stroger Hospital	3,898.3	204.0	23.5	3,717.8	3,630.9	-86.9	-2.3%
Oak Forest Hospital	1,024.3	212.0	14.0	826.3	497.9	-328.4	-39.7%
<b>Total</b>	<b>7,626.7</b>	<b>581.0</b>	<b>149.5</b>	<b>7,195.2</b>	<b>6,663.9</b>	<b>-531.3</b>	<b>-7.4%</b>

Source: Cook County Health and Hospitals System, *Preliminary 2011 Budget*, Presentation to CCHHS Finance Committee, October 22, 2010, p. 19.

## FUND BALANCE

All governments should set aside funds to provide for emergencies and contingencies. These funds should be “unreserved,” that is they should not have any external legal restrictions or constraints. Unreserved fund balance is often referred to as a “rainy day” fund.

### Fund Balance Policy

The Government Finance Officers Association (GFOA) recommends “at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.”<sup>85</sup> Two months of operating expenditures is approximately 17%. GFOA notes that a smaller size reserve may be appropriate for the largest governments. GFOA also recommends that governments adopt a formal, publicly available fund balance policy.<sup>86</sup> The County's discussion of its financial policies does not include an explicit General Fund reserve target.

### General Fund Balance Ratio

Cook County's General Fund consists of three operating accounts: the Corporate Account, Public Safety Account and Self Insurance Account. The following chart outlines the General Fund fund balance as a ratio of General Fund unreserved fund balance to operating expenditures.

From FY2001 to FY2006 Cook County's General Fund maintained an unreserved fund balance ranging from 17.1% to 22.9% of expenditures, reflecting a level of reserves that exceeded the

<sup>85</sup> Government Finance Officers Association, *Appropriate Level of Unrestricted Fund Balance in the General Fund* (Adopted October 2009).

<sup>86</sup> Government Finance Officers Association, *Appropriate Level of Unrestricted Fund Balance in the General Fund* (Adopted October 2009).

GFOA's minimum standard. However, from FY2007 to FY2009 the fund balance ratio declined below that standard. From FY2006 to FY2008 the unreserved fund balance declined from \$259.5 million to \$103.6 million, a 60.1% decrease. At FY2009 year-end the Cook County Corporate Fund increased to \$142.5 million or 11.2% of operating expenditures in reserves.

In FY2011 the County has proposed to withdraw \$30.4 million from the Special Funds fund balance, but no funds are planned to be drawn from General Fund fund balance. The overall downward trend in fund balance ratios should be closely monitored to ensure that the County maintains sufficient reserves for contingency situations in future years.

<b>General Fund* Unreserved Fund Balance</b>			
<b>FY2001-FY2009</b>			
	<b>General Fund Balance</b>	<b>Actual Expenditures</b>	<b>Ratio</b>
FY2001	\$ 244,018,559	\$ 1,063,488,488	22.9%
FY2002	\$ 206,447,041	\$ 1,101,908,206	18.7%
FY2003	\$ 188,564,680	\$ 1,104,266,689	17.1%
FY2004	\$ 226,636,823	\$ 1,157,661,049	19.6%
FY2005	\$ 221,838,393	\$ 1,194,257,547	18.6%
FY2006	\$ 259,516,065	\$ 1,316,014,115	19.7%
FY2007	\$ 203,554,454	\$ 1,309,985,163	15.5%
FY2008	\$ 103,565,761	\$ 1,279,065,307	8.1%
FY2009	\$ 142,455,063	\$ 1,266,752,817	11.2%

\*Includes Corporate Account, Public Safety Account and Self Insurance Account  
Source: 2009 CAFR p. 112-113; 2008 CAFR p. 108, 191; 2007 CAFR p. 103; 2006 CAFR p. 93; 2005 CAFR p. 88; 2004 CAFR p. 83; 2003 CAFR p. 84; 2002 CAFR p. 84; 2001 CAFR p. 57.

## **COOK COUNTY PENSION FUND**

The Civic Federation analyzed four indicators of the fiscal health of the Cook County's pension fund: funded ratios, unfunded actuarial accrued liabilities, investment rate of return and annual required employer contributions. This section presents multi-year data for those indicators and describes the Cook County pension benefits. Additional analysis of the County's pension system can be found in the Cook County Modernization Report<sup>87</sup> including details of membership, revenue and expenditure data, asset allocations, contributions, average salaries and benefits and comparisons with the Illinois Municipal Retirement Fund (IMRF).

### **Plan Description**

The County Employees' and Officers' Annuity and Benefit Fund of Cook County is a single employer defined benefit pension plan for employees and officers of Cook County. It was created in 1926 by Illinois State statute to provide retirement, death and disability benefits to

<sup>87</sup> See the Civic Federation, *Cook County Modernization Report: A Roadmap for Cook County Government*, October 2010, <http://civicfed.org/sites/default/files/CookCountyModernizationReport.pdf> (last visited on January 3, 2011). See also Civic Federation, *Status of Local Pension Funding FY2009*, February 10, 2011, <http://www.civicfed.org/civic-federation/publications/status-local-pension-funding-fiscal-year-2009-evaluation-ten-local-gov> (last visited on February 10, 2011).

employees and their dependents.<sup>88</sup> Plan benefits and contribution amounts can only be amended through state legislation.<sup>89</sup> The fiscal year of the Cook County pension fund is January 1 to December 31.<sup>90</sup>

The Cook County pension fund is governed by a nine-member Board of Trustees.<sup>91</sup> As prescribed in state statute, four members are elected by the employees, three are elected by the annuitants and the remaining two are the County Comptroller and Treasurer or their delegates.

## **Benefits**

Public Act 96-0889, enacted in April 2010, created a new tier of benefits for many public employees hired on or after January 1, 2011 including new members of the Cook County pension fund.<sup>92</sup> This report will refer to “current employees” as those persons hired before the effective date of Public Act 96-0889 and “new hires” as those persons hired on or after January 1, 2011.

Current employees are eligible for full retirement benefits once they reach age 60 and have at least ten years of employment at the County. The amount of retirement annuity is 2.4% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last 10 years of service. The maximum annuity amount is 80% of final average salary. For example, a 60 year-old employee with 30 years of service and a \$65,000 final average salary could retire with a \$46,800 annuity:  $30 \times \$65,000 \times 2.4\% = \$46,800$ .<sup>93</sup> The annuity increases every year by an automatic compounded 3.0% cost of living adjustment (COLA).

Employees with ten years of service may retire as young as age 50 but their benefit is reduced by 0.5% for each month they are under age 60. This reduction is waived for employees with 30 or more years of service, such that a 50 year-old with 30 years of service may retire with an unreduced benefit.

The following table compares current employee benefits to new hire benefits enacted in Public Act 96-0889. The major changes are the increase in full retirement age from 60 to 67 and early retirement age from 50 to 62 for Cook County; the reduction of final average salary from the highest 4 year average to the highest 8 year average; the \$106,800 cap on pensionable salary; and the reduction of the automatic COLA from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.

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<sup>88</sup> County Employees’ Annuity and Benefit Fund of Cook County, Financial Statements as of December 31, 2009, p. 8.

<sup>89</sup> The Cook County pension article is 40 ILCS 5/9, but the fund is also governed by other parts of the pension code, such as 40 ILCS 5/1-160 which defines the changes to benefits for new employees enacted in Public Act 96-0889.

<sup>90</sup> This is one month different from the fiscal year of Cook County, which is December 1 to November 30.

<sup>91</sup> The Board and staff of the Cook County pension fund also oversee and manage the pension fund of the Forest Preserve District of Cook County. The Forest Preserve fund has separate financial statements, however and is not included in this analysis. For more information see the Civic Federation’s annual Status of Local Pension Funding report, <http://www.civiced.org/civic-federation/publications/fy2008statuslocalpensions>.

<sup>92</sup> A “trailer bill” to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.

<sup>93</sup> The average FY2009 salary of Cook County employees 60-64 years old with 30-34 years of service was \$71,860, so \$65,000 is used as an approximate final average salary. County Employees’ Annuity and Benefit Fund of Cook County Actuarial Valuation as of December 31, 2009, p. 4.

<b>Major Cook County Benefit Provisions for Regular Employees</b>		
	<b>Cook County Current Employees (hired before 1/1/2011)</b>	<b>New Hires (hired on or after 1/1/2011)</b>
<b>Full Retirement Eligibility: Age &amp; Service</b>	age 60 with 10 years of service, or age 50 with 30 years of service	age 67 with 10 years of service
<b>Early Retirement Eligibility: Age &amp; Service</b>	age 50 with 10 years of service	age 62 with 10 years of service
<b>Final Average Salary</b>	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at \$106,800*
<b>Annuity Formula</b>	2.4% of final average salary for each year of service	same as current employees
<b>Early Retirement Formula Reduction</b>	0.5% per month under age 60	0.5% per month under age 67
<b>Maximum Annuity</b>	80% of final average salary	same as current employees
<b>Annuity Automatic COLA on Retiree or Surviving Spouse Annuity</b>	3% compounded; begins at year after age 60 is reached, or year of first retirement anniversary if have 30 years of service	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

Note: This table does not show benefits for Cook County Sheriff's Police or elected officials.

\*The \$106,800 maximum pensionable salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U.

Note: New Hires are prohibited from simultaneously receiving a salary and a pension from any public employers covered by the State Pension Code ("double-dipping").

Sources: County Employees' Annuity and Benefit Fund of Cook County Actuarial Valuation as of December 31, 2009; 40 ILCS 5/9; Public Act 96-0889; and Public Act 96-1490.

Members of the Cook County pension fund do not participate in the federal Social Security program so they are not eligible for Social Security benefits related to their County employment when they retire.

### ***Alternate Annuity for County Officers***

Cook County officials who were elected to office on or before January 1, 2008 may choose an alternate annuity. The official may contribute an additional 3% of salary annually and receive in exchange an annuity equal to 3% of final salary at time of termination (not final average salary) for the first eight years of service, 4% for the next four years and 5% thereafter subject to a maximum of 80% of final salary. Public Act 95-0654 eliminated this benefit for officials hired after January 1, 2008.

### ***Optional Pension Plan***

An additional optional Cook County pension fund benefit existed between 1985 and 2005. The Optional Pension Plan was created in 1985 by the General Assembly and renewed several times before it was allowed to sunset on July 1, 2005.<sup>94</sup> It permitted employees to make additional contributions equal to 3% of salary in exchange for an additional 1% of final average salary benefit for each year for which the additional contribution was paid.

Numerous employees elected to make Optional Plan contributions prior to the expiration of the plan, causing a one-time increase in FY2005 employee contributions. This created a one-time

<sup>94</sup> 40 ILCS 5/9-179.3. See also the legislative history provided in County Employees' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2009, pp. 32-40.

matching employer contribution increase of \$104 million two years later.<sup>95</sup> The County did not raise its property tax levy to accommodate the one-time increase in employer contribution, however. The FY2007 and FY2009 Recommended Cook County Budgets proposed issuing \$104.1 million in bonds to pay for the obligation.<sup>96</sup> The Civic Federation opposed this borrowing. The Cook County Board of Commissioners debated and declined to issue the bonds several times before approving the issuance of \$78.0 million in February 2010.<sup>97</sup> As obligations payable to retirees exercising the Optional Plan came due after July 1, 2005, the County provided funds for its matching share, which reduced the obligation from \$104.1 million to \$78.0 million in 2010.<sup>98</sup> In June 2010 Cook County sold \$80.0 million in short-term taxable general obligation bonds maturing by 2013 in order to pay the \$78.0 million owed to the Cook County pension fund.<sup>99</sup> The deposit was to be made to the pension fund by July 30, 2010.

### ***Other Post Employment Benefits***

State statute permits the Cook County pension fund to pay all or a portion of the health insurance premium for retirees who choose to participate in one of the County's employee health insurance plans.<sup>100</sup> The Cook County pension fund currently subsidizes roughly 55% of retiree premiums (including dependent coverage) and 70% of surviving spouse premiums (including dependent coverage). The remaining premium amount is paid by the participant.<sup>101</sup> The subsidy is funded on a pay-as-you-go basis from the same asset pool used to pay pension benefits; a separate irrevocable trust or a 401(h) trust has not been established to pre-fund the retiree health insurance subsidy.

Cook County government does not directly contribute to the retirees' premium costs. As the employer sponsor of the pension plan, however, the County is required to report other post employment benefit (OPEB) liabilities in its financial statements. The OPEB plan is treated as another pension benefit and does not have a separate contribution rate or asset pool associated with it. The employer contribution for OPEB reported in the County's financial statements is roughly equal to the cost of the premium subsidy.<sup>102</sup>

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<sup>95</sup> Cook County, Illinois Official Statement for \$357,950,000 in Series 2010A and Series 2010C Bonds Dated June 11, 2010, p. 14 ; Cook County Board of Commissioners Meeting of February 9, 2010 New Items Agenda; and Cook County Ordinance 10-O-20 passed April 6, 2010.

<sup>96</sup> See Civic Federation, Cook County FY2007 Proposed Budget Analysis and Recommendations, January 29, 2007 and Civic Federation, Cook County FY2009 Proposed Budget Analysis and Recommendations, December 18, 2009.

<sup>97</sup> Cook County Board of Commissioners Meeting of February 9, 2010 New Items Agenda and Cook County Ordinance 10-O-20 passed April 6, 2010.

<sup>98</sup> Cook County, Illinois Official Statement for \$357,950,000 in Series 2010A and Series 2010C Bonds Dated June 11, 2010, pp. 14-15.

<sup>99</sup> Cook County, Illinois Official Statement for \$357,950,000 in Series 2010A and Series 2010C Bonds Dated June 11, 2010.

<sup>100</sup> 40 ILCS 5/9-239. The statute also specifies that this group health benefit shall not be considered a pension benefit as defined by the Illinois Constitution, Section 5 Article XIII.

<sup>101</sup> County Employees' Annuity and Benefit Fund of Cook County, Financial Statements as of December 31, 2009, p. 20 and Cook County Comprehensive Annual Financial Report for the Year Ended November 30, 2008, p. 97.

<sup>102</sup> County Employees' Annuity and Benefit Fund of Cook County, Financial Statements as of December 31, 2009, p. 20.

In 2009 there were 7,367 retiree and surviving spouse participants whose health plan costs were subsidized by the pension fund.<sup>103</sup> This is an increase of 67 participants over the prior year, but a decline of 92 from the peak in FY2007. Retiree health plan data was first disclosed in Cook County's FY2007 financial statements.

<b>Cook County Pension Fund Retiree Health Plan Participants: FY2006-FY2009</b>				
	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>
<b>Retiree and Surviving Spouse Participants</b>	7,132	7,459	7,300	7,367

Source: County Employees' Annuity and Benefit Fund of Cook County, Financial Statements FY2007, p. 18 and FY2009, p. 20.

### **Funded Ratios**

This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations.

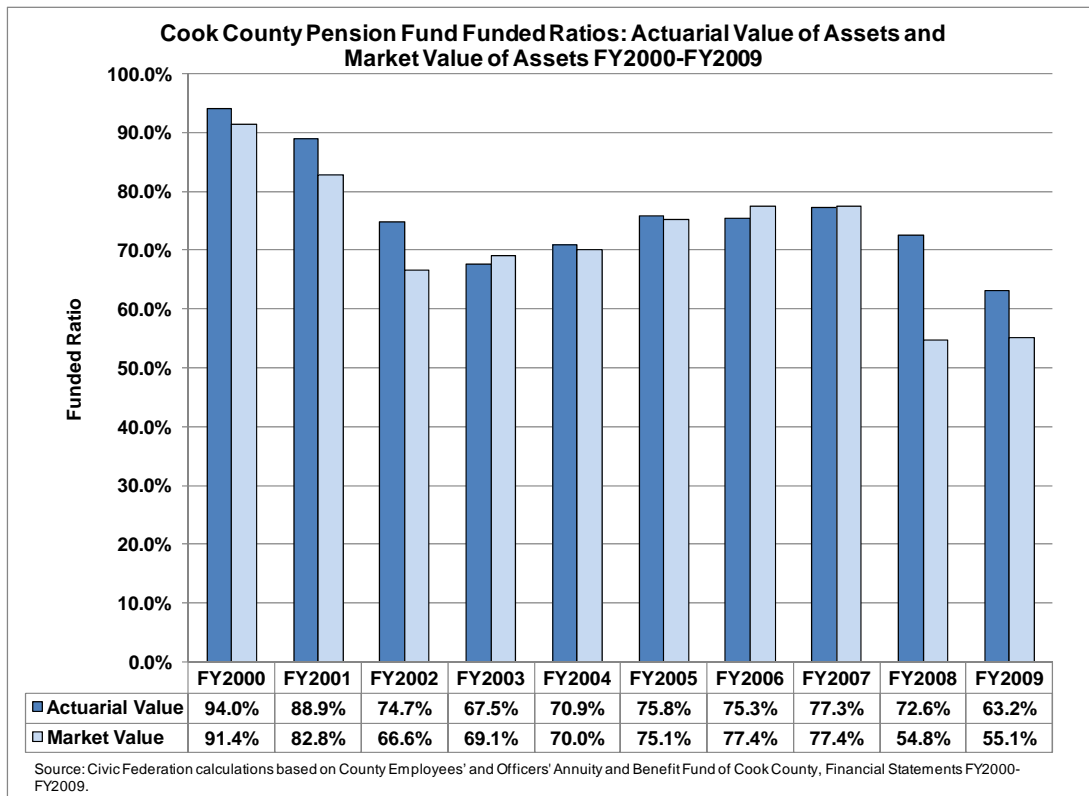
The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.<sup>104</sup> The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available today to cover actuarial accrued liabilities.

<sup>103</sup> These figures do not include the retired pension fund employees who also participate in the plan. There were 13 such retired participants in FY2009. County Employees' Annuity and Benefit Fund of Cook County, Financial Statements as of December 31, 2009, p. 20.

<sup>104</sup> For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2009*, February 10, 2011, <http://www.civiced.org/civic-federation/publications/status-local-pension-funding-fiscal-year-2009-evaluation-ten-local-gov> (last visited on February 10, 2011).



The following exhibit shows the actuarial and market value funded ratios for Cook County's pension fund over the last ten years. The actuarial value funded ratio fell from a high of 94.0% in FY2000 to 63.2% in FY2009. The market value funded ratio fell from a high of 91.4% in FY2000 to 55.1% in FY2009, with the lowest ratio at 54.8% in FY2008. The sizeable difference between FY2008 actuarial and market value funded ratios is due to the fact that FY2008 investment returns were much lower than the smoothed returns over five years.



Several changes in actuarial assumptions affected the funded ratios over this ten-year period. In FY2004 the Cook County pension plan changed actuaries. The new actuary used a different method for smoothing asset values than the previous actuary.<sup>105</sup> The new actuary also analyzed the fund experience from 2000-2003 and subsequently made two significant assumption changes: 1) the discount rate assumption was changed from 8.0% to 7.5% per year; and 2) the salary increase assumption was changed from 5.5% to 5.0% per year.<sup>106</sup> The fund actuary estimated that using the old methods and assumptions, the Cook County FY2004 actuarial value funded ratio would have been 69.5% rather than 70.9%.<sup>107</sup>

In FY2005 the actuary changed the methods used to calculate actuarial liabilities in order to more accurately model the liabilities of the Cook County pension fund. These changes resulted

<sup>105</sup> The previous actuary used a 5-year smoothed average ratio of market to book value while the new actuary used a 5-year smoothing of unexpected investment gains or losses (market value only), a more common method. County Employees' and Officers' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2003, p. 69 and County Employees' and Officers' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2004, pp. 7-8.

<sup>106</sup> County Employees' and Officers' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2004, p. 10.

<sup>107</sup> Estimates provided by Sandor Goldstein via e-mail to the Civic Federation, January 24, 2008.

in a decrease of \$729.6 million in unfunded liabilities for Cook County.<sup>108</sup> Without these changes, the FY2005 Cook County actuarial value funded ratio would have been 70.3% rather than 75.8%.

In FY2009 the actuary changed some actuarial assumptions based on the experience of the fund between 2005 and 2008. The mortality table was changed from the 1983 table to the 1994 table, termination rates were increased and retirement rates were revised.<sup>109</sup> The result was an increase in actuarial liability of \$810.8 million.<sup>110</sup> Without these changes, the FY2009 Cook County actuarial value funded ratio would have been 67.5% rather than 63.2%.

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<sup>108</sup> County Employees' and Officers' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2005, pp. 13-14. The change was a correction to the actuary's computer model. Information provided by Sandor Goldstein, March 20, 2009.

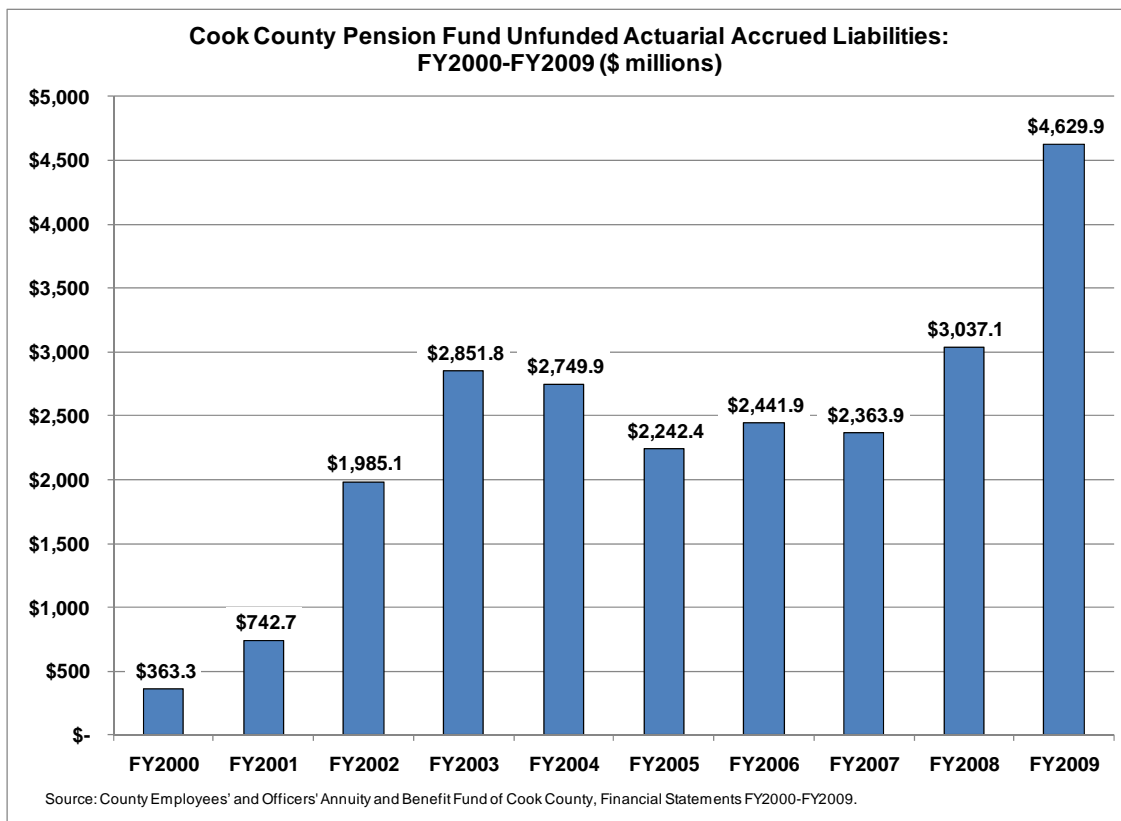
<sup>109</sup> For details see page 11 and Appendix 1 of the County Employees' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2009.

<sup>110</sup> County Employees' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2009, p.13.

## Unfunded Actuarial Accrued Liability

Unfunded actuarial accrued liability (UAAL) is the dollar value of accrued liabilities not covered by the actuarial value of assets. As shown in the exhibit below, unfunded liability for Cook County's pension fund totaled \$4.6 billion in FY2009, up from \$3.0 billion in FY2008. That was an increase of \$1.6 billion, or 52.4% in one year.

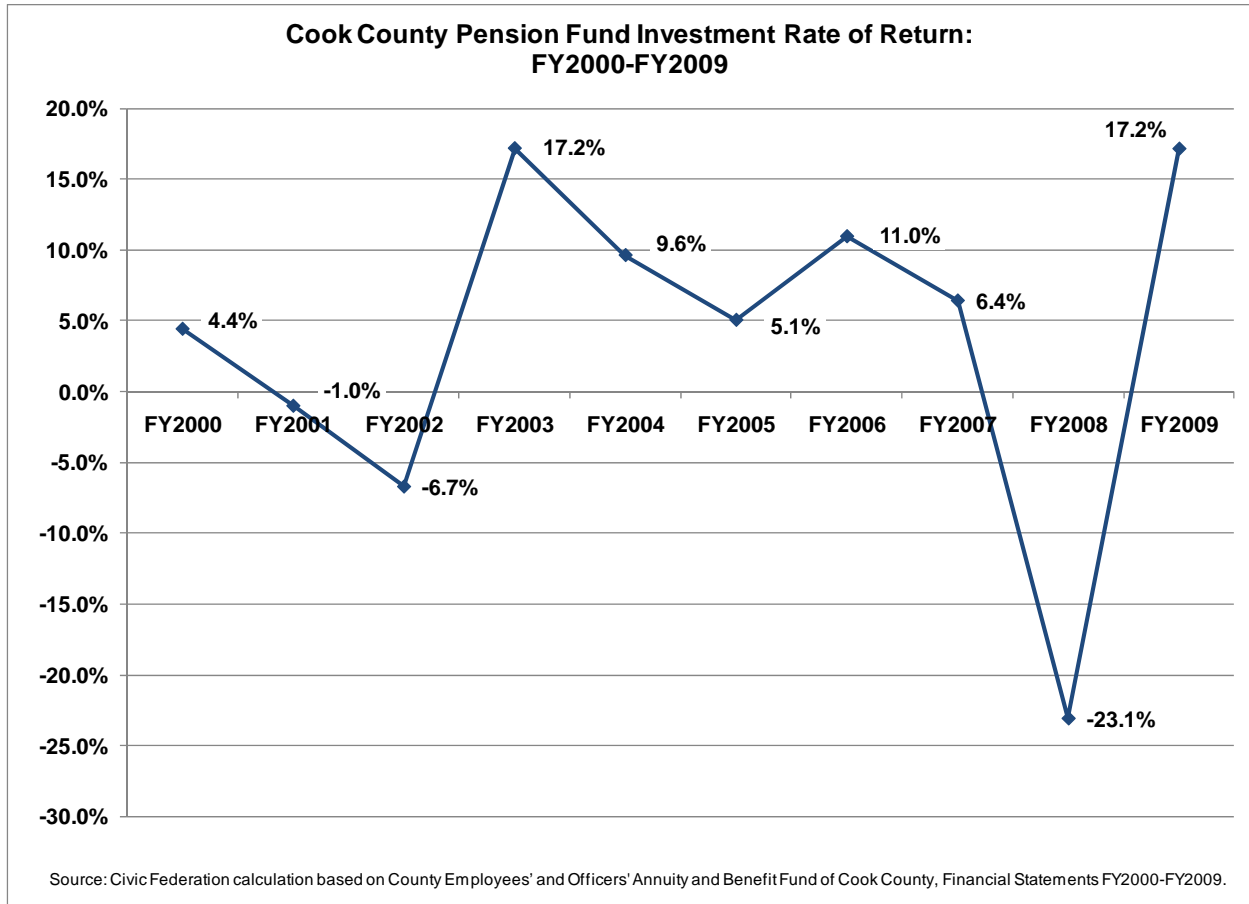
The largest contributor to the \$1.9 billion growth in unfunded liabilities between the beginning of FY2005 and the end of FY2009 was investment returns failing to meet the 7.5% expected rate of return.<sup>111</sup> The second largest contributor was the shortfall in employer contributions as compared to the ARC, which added \$926.3 million to the unfunded actuarial accrued liability over five years.



<sup>111</sup> The UAAL reflects investment gains and losses smoothed over a five-year period, so it does not match the annual investment results shown later in this report. For more information on asset smoothing see Civic Federation, Status of Local Pension Funding Fiscal Year 2008, March 8, 2010. <http://www.civicfed.org/civic-federation/publications/fy2008statuslocalpensions>

## Investment Rate of Return

Investment income typically provides a significant portion of the funding for pension funds. Thus, declines over a period of time can have a negative impact on pension assets. Between FY2000 and FY2009 the Cook County pension fund's average annual rate of return was 4.0%.<sup>112</sup> Returns ranged from a high of 17.2% in FY2003 and again in FY2009 to a low of -23.1% in FY2008.



<sup>112</sup> The Civic Federation calculates investment rate of return using the following formula: Current Year Rate of Return = Current Year Gross Investment Income / (0.5\*(Previous Year Market Value of Assets + Current Year Market Value of Assets - Current Year Gross Investment Income)). This is not necessarily the formula used by the pension fund's actuary and investment managers, thus investment rates of return reported here may differ from those reported in a fund's actuarial statements. However, it is a standard actuarial formula. Gross investment income includes income from securities lending activities, net of borrower rebates. It does not subtract out related investment and securities lending fees, which are treated as expenses.

## **Employer Annual Required Contribution**

The financial reporting requirements for public pension funds and their associated governments are set by the Governmental Accounting Standards Board (GASB). The standards require disclosure of an Annual Required Contribution (ARC), which is an amount equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year and (2) the amount needed to amortize any existing unfunded accrued liability over a period of not more than 30 years. Normal cost is that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year and is calculated using one of six standard actuarial cost methods. Each of these methods provides a way to calculate the present value of future benefit payments owed to active employees. The methods also specify procedures for systematically allocating the present value of benefits to time periods, usually in the form of the normal cost for the valuation year and the actuarial accrued liability (AAL). The actuarial accrued liability is that portion of the present value of benefits which is not covered by future normal costs.

ARC is a financial reporting requirement but not a funding requirement. The statutorily required Cook County contribution to its pension fund is set in the state pension code. However, because paying the normal cost and amortizing the unfunded liability over a period of 30 years does represent a reasonably sound funding policy, the ARC can be used as an indicator how well a public entity is actually funding its pension plan. Cook County is required to make an annual employer contribution equivalent to 1.54 times the total employee contribution made two years earlier.<sup>113</sup> The County levies a property tax for this purpose and the pension amount appears as a separate line on tax bills.

Before examining the ARC and actual employer contributions to the Cook County pension fund, it is important to note some reporting changes. GASB Statement 43 required the retirement systems of large governments—those with over \$100 million in annual revenue—to begin reporting any OPEB liability information separately for the fiscal year beginning after December 15, 2005. It also required that for those governments that fund retiree health care on a pay-as-you-go basis rather than through a designated trust fund, OPEB liabilities be valued using a discount rate assumption that reflects the rate of return earned on the actual assets used to pay the benefits. If OPEB is not prefunded in a designated trust, that discount rate is expected to reflect the interest rate earned on the plan sponsor's assets—often a long-term money market rate of roughly 4.5%.

In order to comply with these accounting standards, the Cook County pension fund produces three separate actuarial valuations: one valuation of pension liabilities using a 7.5% discount rate, another valuation of OPEB liabilities using a 4.5% discount rate and a "combined" valuation using a 7.5% discount rate for both pension and OPEB liabilities. The Cook County pension fund considers the "combined" valuation to be the best reflection of its assets and liabilities because the pension and OPEB benefits are paid from the same asset pool.<sup>114</sup> However, the separate pension and OPEB valuations done for GASB purposes are the ones used

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<sup>113</sup> 40 ILCS 5/9-169.

<sup>114</sup> Information provided by Daniel Degnan, Executive Director, Cook County Employees' and Officers' Annuity and Benefit Fund of Cook County, February 14, 2011.

to compute the net pension and OPEB obligations of Cook County government that appear on the government's balance sheet.

The three valuations are reflected in the three tables that follow, which compare the ARC to the actual Cook County contribution over the last ten years.<sup>115</sup> The employer contribution did not equal 100% of the ARC in any of the years FY2000 through FY2009. In FY2000 the \$158.5 million employer contribution represented 83.2% of the ARC, meaning that \$32.1 million more would need to have been contributed to meet the ARC that year. In FY2009, the \$188.3 million employer contribution represented only 40.2% of the ARC for the "combined" valuation of pension and OPEB, for a shortfall of \$279.9 million that year. The cumulative ten-year difference between ARC and actual employer contribution for "combined" pension and OPEB is a \$1.6 billion shortfall. In 2009, the combined ARC for pension and OPEB was \$468.2 million, or two and a half times the actual employer contribution of only \$188.3 million.

Expressing ARC as a percent of payroll provides a sense of scale and affordability. In FY2000 the ARC was 15.1% of payroll while the actual employer contribution was 12.6% of payroll. In FY2009 the "combined" pension and OPEB ARC was 31.3% of payroll, while the actual employer contribution was 12.6% of payroll.

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<sup>115</sup> The employer contribution shown in these tables is higher than the employer contribution shown elsewhere the fund's financial statements because these GASB required tables include federal contributions for federally subsidized programs while the pension fund financial statements show only the tax levy contribution for locally-supported employees.

Cook County Pension Fund Schedule of Employer Contributions--Pension Plan as Computed for GASB Statement 25							
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll
2000	\$ 190,557,579	\$ 158,474,997	\$ 32,082,582	83.2%	\$1,261,050,576	15.1%	12.6%
2001	\$ 211,188,715	\$ 161,141,138	\$ 50,047,577	76.3%	\$1,274,942,064	16.6%	12.6%
2002	\$ 253,942,375	\$ 178,410,973	\$ 75,531,402	70.3%	\$1,330,456,896	19.1%	13.4%
2003	\$ 364,658,305	\$ 185,608,032	\$ 179,050,273	50.9%	\$1,307,079,312	27.9%	14.2%
2004	\$ 457,427,014	\$ 201,957,937	\$ 255,469,077	44.2%	\$1,371,540,481	33.4%	14.7%
2005*	\$ 321,669,394	\$ 190,596,330	\$ 131,073,064	59.3%	\$1,387,459,142	23.2%	13.7%
2006	\$ 282,223,686	\$ 198,619,984	\$ 83,603,702	70.4%	\$1,412,878,627	20.0%	14.1%
2007	\$ 287,061,532	\$ 230,114,335	\$ 56,947,197	80.2%	\$1,370,844,734	20.9%	16.8%
2008	\$ 283,892,734	\$ 150,227,360	\$ 133,665,374	52.9%	\$1,463,372,408	19.4%	10.3%
2009	\$ 352,850,988	\$ 152,506,089	\$ 200,344,899	43.2%	\$1,498,161,713	23.6%	10.2%

\*Beginning in 2005, the ARC excludes other post employment benefits (OPEB). The OPEB ARC is calculated separately.

Sources: Cook County Employees' Annuity and Benefit Fund Financial Statements as of December 31, 2005, pp. 22 and 23; and Financial Statements as of December 31, 2009, pp. 23 and 24.

Cook County Pension Fund Schedule of Employer Contributions--OPEB as Computed for GASB Statement 43							
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll
2005	\$ 107,301,732	\$ 27,696,148	\$ 79,605,584	25.8%	\$1,387,459,142	7.7%	2.0%
2006	\$ 166,070,688	\$ 26,818,379	\$ 139,252,309	16.1%	\$1,412,878,627	11.8%	1.9%
2007	\$ 169,154,664	\$ 31,420,216	\$ 137,734,448	18.6%	\$1,370,844,734	12.3%	2.3%
2008	\$ 169,823,905	\$ 37,781,310	\$ 132,042,595	22.2%	\$1,463,372,408	11.6%	2.6%
2009	\$ 157,964,519	\$ 35,779,227	\$ 122,185,292	22.7%	\$1,498,161,713	10.5%	2.4%

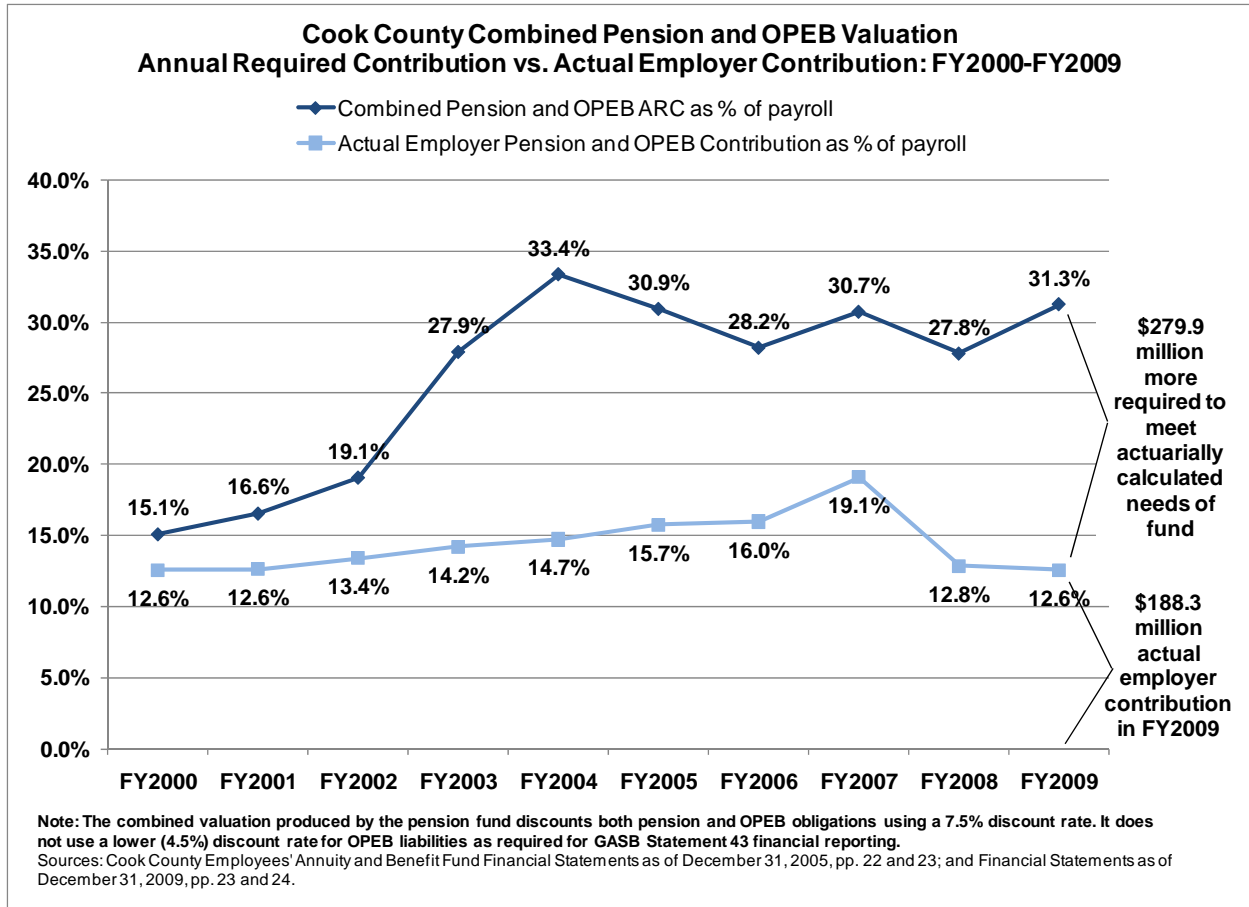
Source: Cook County Employees' Annuity and Benefit Fund Financial Statements as of December 31, 2007, pp. 20 and 21; and Financial Statements as of December 31, 2009, pp. 23 and 24.

Cook County Pension Fund Schedule of Employer Contributions--COMBINED Pension and OPEB Valuation							
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll
2000	\$ 190,557,579	\$ 158,474,997	\$ 32,082,582	83.2%	\$1,261,050,576	15.1%	12.6%
2001	\$ 211,188,715	\$ 161,141,138	\$ 50,047,577	76.3%	\$1,274,942,064	16.6%	12.6%
2002	\$ 253,942,375	\$ 178,410,973	\$ 75,531,402	70.3%	\$1,330,456,896	19.1%	13.4%
2003	\$ 364,658,305	\$ 185,608,032	\$ 179,050,273	50.9%	\$1,307,079,312	27.9%	14.2%
2004	\$ 457,427,014	\$ 201,957,937	\$ 255,469,077	44.2%	\$1,371,540,481	33.4%	14.7%
2005	\$ 428,971,126	\$ 218,292,478	\$ 210,678,648	50.9%	\$1,387,459,142	30.9%	15.7%
2006	\$ 398,340,979	\$ 225,438,363	\$ 172,902,616	56.6%	\$1,412,878,627	28.2%	16.0%
2007	\$ 421,092,345	\$ 261,534,551	\$ 159,557,794	62.1%	\$1,370,844,734	30.7%	19.1%
2008	\$ 406,625,773	\$ 188,008,670	\$ 218,617,103	46.2%	\$1,463,372,408	27.8%	12.8%
2009	\$ 468,181,943	\$ 188,285,316	\$ 279,896,627	40.2%	\$1,498,161,713	31.3%	12.6%

Note: This combined valuation produced by the pension fund discounts both pension and OPEB obligations using a 7.5% discount rate. It does not use a lower (4.5%) discount rate for OPEB liabilities as required for GASB Statement 43 financial reporting.

Sources: Cook County Employees' Annuity and Benefit Fund Financial Statements as of December 31, 2005, pp. 22 and 23; and Financial Statements as of December 31, 2009, pp. 23 and 24.

The graph below illustrates the growing gap between the “combined” pension and OPEB ARC as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts has grown from 2.5% of payroll, or \$32.1 million, in FY2000 to 18.7% of payroll in FY2009. In other words, to fund the pension and retiree health care plans at a level that would both cover normal cost and amortize the unfunded liability over 30 years Cook County would have needed to contribute an additional 18.7% of payroll, or \$279.9 million, in FY2009.



Cook County has consistently contributed its statutorily required tax levy amount of 1.54 times the employee contribution made two years prior. However, that amount has been less than the ARC for each of the last ten years. The pension fund actuary estimates that in order to contribute an amount sufficient to meet the ARC in FY2010, Cook County would need a tax multiple of 4.73 rather than 1.54.<sup>116</sup>

### SHORT-TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. These include short-term notes, accounts payable, accrued payroll and other current liabilities. Cook County reports a variety of short-term obligations due for the next fiscal year in the statement of

<sup>116</sup> County Employees' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2009, p. 17.



net assets included in its annual Comprehensive Annual Financial Report (CAFR), which include:

- Accounts payable: monies owed to vendors for goods and services carried over into the new fiscal year;
- Notes payable: short-term loans due within the next fiscal year;
- Accrued salaries: employee pay carried over from the previous year;
- Deferred property tax: property taxes not collected or held for short-term loan repayment or appeals from the previous year;
- Other deferred revenue: revenues collected by the government but not available for spending due to encumbrances from the previous fiscal year;
- Other liabilities: include self insurance funds, unclaimed property and other unspecified liabilities; and
- Accrued interest: includes interest due on deposits payable by the County in the next fiscal year.

The following short-term liabilities analysis includes data from FY2005 through FY2009. In FY2009, short-term liabilities totaled \$348.0 million, a decrease of 18.4%, or \$78.4 million from the prior fiscal year. The County borrowed \$147.8 million in short-term notes in FY2008 against future anticipated sales tax revenues, of which \$29.6 million was repaid before the end of the fiscal year.<sup>117</sup> However, the County had to pay the remaining \$118.3 million in short-term notes from FY2009 revenues. The County did not issue additional short-term notes payable in FY2009, which accounts for a large portion of the year-to-year decline in short-term liabilities. Since 2005, short-term liabilities have increased by \$61.2 million or 21.3%. The two largest increases in the County's short-term liabilities over the past five years were in the accounts payable, deferred property tax and the other liabilities categories.

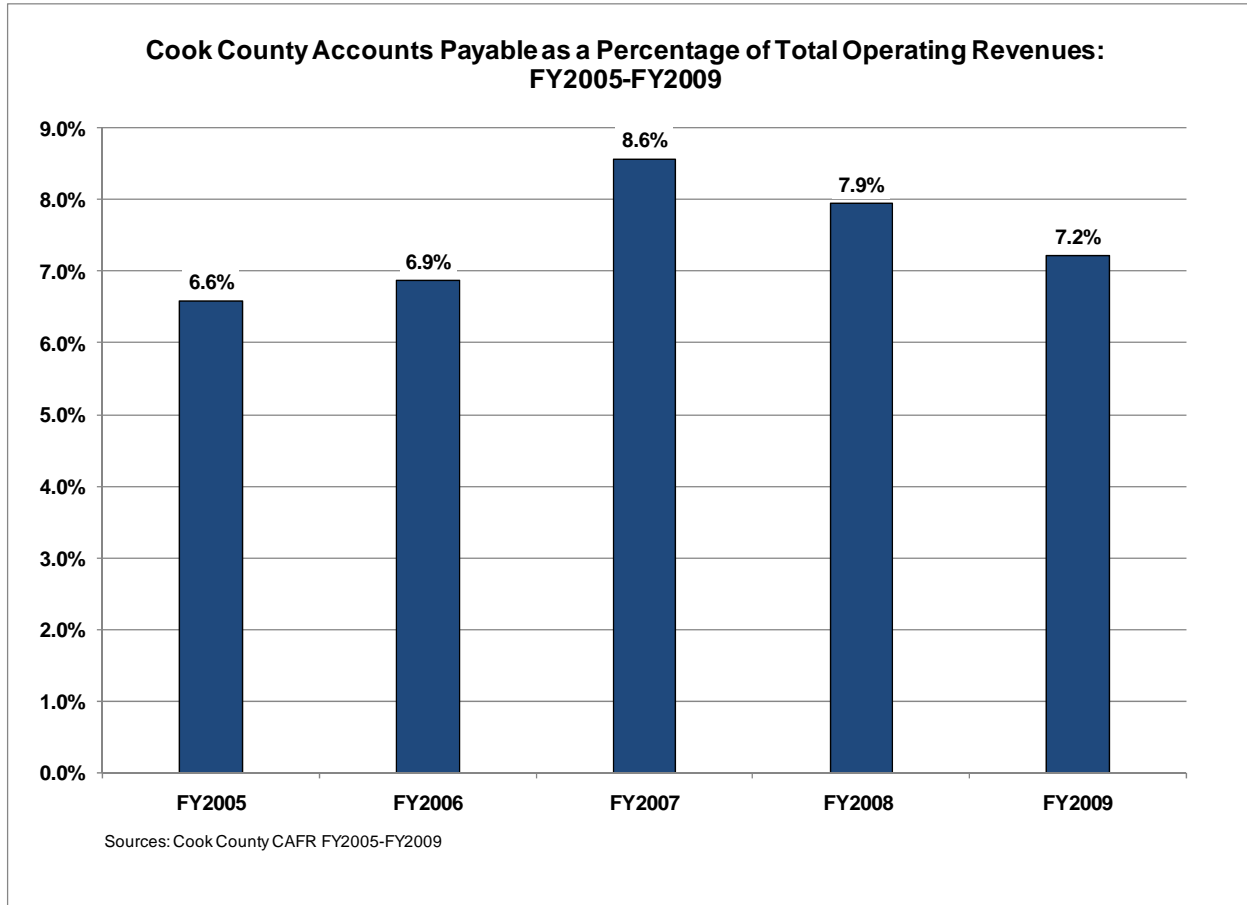
<b>Cook County Governmental Activities Short-Term Liabilities : FY2005-FY2009</b>							
<b>(in \$ thousands)</b>							
<b>Type</b>	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>5-Year Change</b>	<b>5-Year % Change</b>
Accounts Payable	\$ 126,832	\$ 141,388	\$ 172,707	\$ 159,078	\$ 149,816	\$ 22,984	18.1%
Accrued Salaries Payable	\$ 47,236	\$ 68,014	\$ 18,829	\$ 25,125	\$ 27,078	\$ (20,158)	-42.7%
Deferred Property Tax	\$ 46,182	\$ 55,274	\$ 62,063	\$ 65,711	\$ 64,533	\$ 18,351	39.7%
Other Deferred Revenue	\$ 24,781	\$ 24,161	\$ 19,924	\$ 9,872	\$ 21,262	\$ (3,519)	-14.2%
Other Liabilities	\$ 33,762	\$ 32,457	\$ 76,441	\$ 39,290	\$ 76,961	\$ 43,199	128.0%
Notes Payable	\$ -	\$ -	\$ -	\$ 118,268	\$ -	\$ -	-
Arbitrage Liability	\$ -	\$ -	\$ -	\$ 336	\$ -	\$ -	-
Accrued Interest	\$ 8,026	\$ 8,296	\$ 8,087	\$ 8,756	\$ 8,357	\$ 330	4.1%
<b>Total</b>	<b>\$ 286,820</b>	<b>\$ 329,590</b>	<b>\$ 358,050</b>	<b>\$ 426,435</b>	<b>\$ 348,007</b>	<b>\$ 61,187</b>	<b>21.3%</b>

Source: Cook County CAFR, FY2005-FY2009.

<sup>117</sup> Cook County CAFR 2008, p. 82.

## Accounts Payable

Over time, rising amounts of accounts payable may indicate a government's difficulty in controlling spending or keeping up with spending pressures. Cook County's ratio of accounts payable to operating revenues increased slightly from 6.6% in FY2005 to 8.6% in FY2007, it then decreased slightly for two years to 7.2% in FY2009.



## LONG-TERM LIABILITIES

This section of the analysis examines trends in Cook County's long-term liabilities. This includes a review of long-term debt trends, long-term debt per capita trends and total long-term liability trends.

The Forest Preserve District is a legally separate unit of government. However, the District and the County share the same governing board. Under the provisions of Governmental Accounting Standards Board (GASB) statement number 14, a government is considered financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is either able to impose its will on that organization or to impose financial benefits or burdens.<sup>118</sup> Therefore, the District is reported in the governmental

<sup>118</sup> Governmental Accounting Standards Board, "Summary of Statement No. 14 *The Financial Reporting Entity* (Issued 6/91)," <http://www.gasb.org/st/summary/gstsm14.html> (Last Visited January 11, 2010).

activities of Cook County as a blended component unit<sup>119</sup> and is included in the long-term liabilities of the County.

Long-term liabilities are all of the liabilities owed by a government. Increases in long-term obligations over time could be a sign of fiscal stress. They include long-term debt as well as:

- Estimated pollution related liabilities: Reflect reporting for remediation obligations of existing pollution in accordance with GASB 49.<sup>120</sup>
- Self-Insurance claims: Incurred but not yet reported (IBNR) losses. The County reports liabilities it feels are adequate to provide for potential losses resulting from medical malpractice, worker's compensation and general liability claims.<sup>121</sup>
- Property tax adjustments: Estimated probable amounts payable related to property tax suits as well as for specific property tax objections and errors for which refunds are expected to be paid.<sup>122</sup>
- Compensated absences: Liabilities owed for employee's time off with pay for vacations, holidays and sick days.
- Net pension obligations (NPO): The cumulative difference, since the effective date of GASB Statement 27, between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt.<sup>123</sup>
- Net Other Post Employment Benefit (OPEB) obligations: The cumulative difference, since the effective date of GASB Statement 45, between the annual OPEB (employee health insurance) cost and the employer's contributions to its OPEB plan.

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<sup>119</sup> Cook County, FY2009 CAFR p.6.

<sup>120</sup> Governmental Accounting Standards Boards, "Summary of Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* (Issued 11/06)," <http://www.gasb.org/st/summary/gstsm49.html> (Last Visited on January 11, 2011).

<sup>121</sup> Cook County, FY2009 CAFR p.90.

<sup>122</sup> Cook County, FY2009 CAFR p.88.

<sup>123</sup> Governmental Accounting Standards Boards, "Summary of Statement No. 27 *Accounting for Pensions by State and Local Governmental Employers* (Issued 11/94)," <http://www.gasb.org/st/summary/gstsm27.html> (Last Visited on December 17, 2010).

Between FY2008 and FY2009, total County long-term obligations rose by 12.4%, increasing from \$4.7 billion to \$5.3 billion. Over the five-year period, liabilities increased 23.6% or \$1.0 billion. The increases were primarily due to OPEB obligations, pension obligations and long-term debt.

<b>Cook County Long-Term Liabilities Governmental Activities:* FY2005-FY2009</b>							
<b>(in \$ thousands)</b>							
	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>5-Year \$ Change</b>	<b>5-Year % Change</b>
Total General Obligation Bonds	\$3,199,185	\$3,149,690	\$3,074,880	\$3,013,080	\$3,293,495	\$ 94,310	2.9%
Net Discount	\$ 66,273	\$ 73,261	\$ 85,617	\$ 80,206	\$ 102,664	\$ 36,391	54.9%
Refunding	\$ (40,476)	\$ (55,141)	\$ (58,810)	\$ (54,722)	\$ (59,493)	\$ (19,017)	47.0%
<b>Subtotal Long-Term Debt</b>	<b>\$3,224,982</b>	<b>\$3,167,810</b>	<b>\$3,101,686</b>	<b>\$3,038,564</b>	<b>\$3,336,666</b>	<b>\$ 111,684</b>	<b>3.5%</b>
Capital Lease	\$ 7,588	\$ 3,640	\$ 1,969	\$ 1,434	\$ 4,674	\$ (2,914)	-38.4%
Pollution Remediation Liability	\$ -	\$ -	\$ -	\$ -	\$ 575	\$ 575	-
Self Insurance Claims	\$ 391,769	\$ 424,510	\$ 467,983	\$ 429,108	\$ 377,073	\$ (14,696)	-3.8%
Property Tax Objections	\$ 36,058	\$ 35,238	\$ 42,584	\$ 35,592	\$ 27,435	\$ (8,623)	-23.9%
Compensated Absences	\$ 52,564	\$ 54,727	\$ 55,876	\$ 41,103	\$ 63,005	\$ 10,442	19.9%
Net Pension Obligation	\$ 564,405	\$ 736,351	\$ 893,836	\$1,024,586	\$1,221,587	\$ 657,182	116.4%
Net OPEB Obligations	\$ -	\$ -	\$ -	\$ 134,329	\$ 256,736	\$ 256,736	-
<b>Total</b>	<b>\$4,277,365</b>	<b>\$4,422,276</b>	<b>\$4,563,934</b>	<b>\$4,704,715</b>	<b>\$5,287,751</b>	<b>\$1,010,386</b>	<b>23.6%</b>

Sources: Cook County CAFRs, FY2005-FY2009.

\*Does not include liabilities related to business-type activities which totaled \$7.2 million for FY2009.

## Long-Term Debt

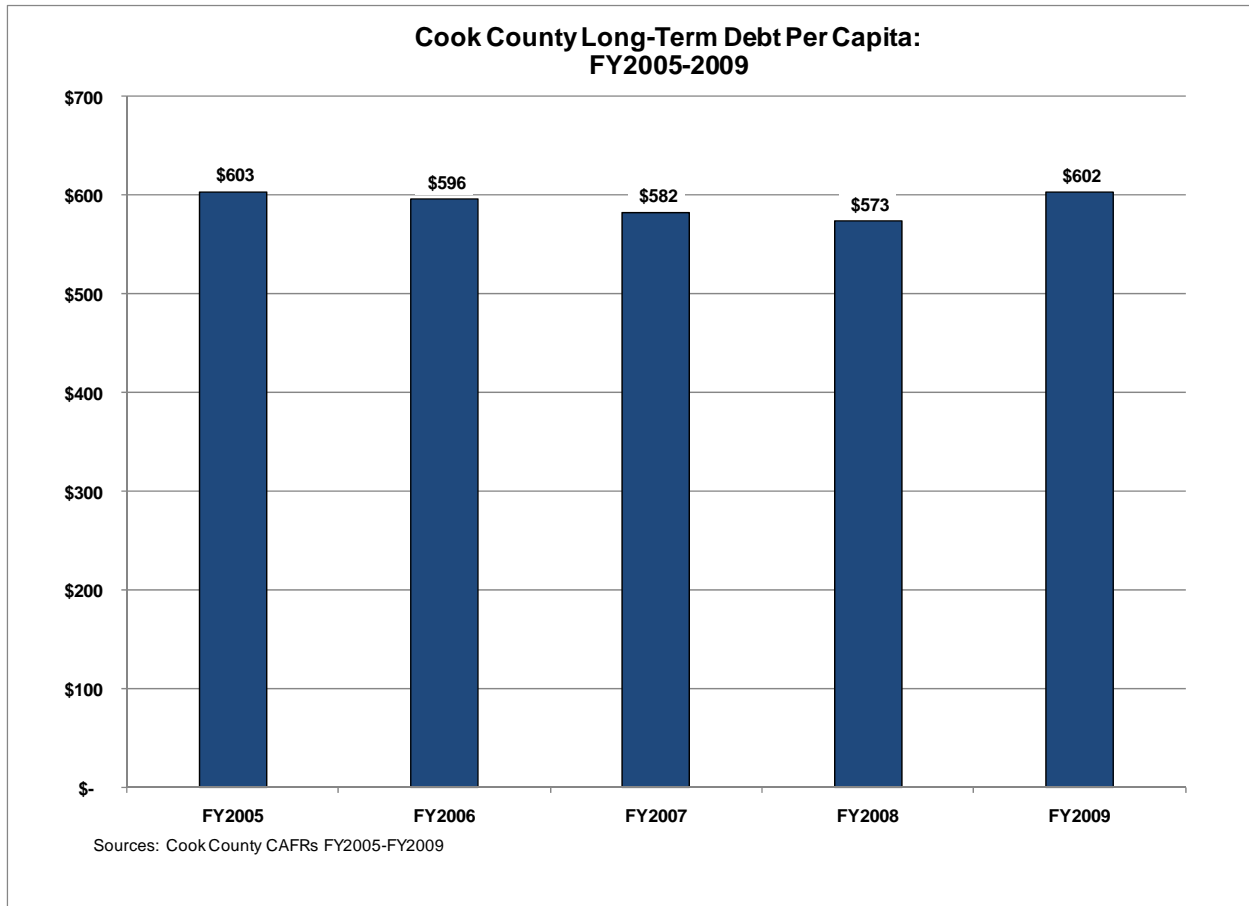
Long-term debt includes tax-supported debt issues as well as bond premium and issuance costs. All Cook County long-term debt is general obligation debt. Between FY2005 and FY2009, long-term general obligation debt for Cook County increased slightly by 3.9% or \$118.5 million, while the Forest Preserve District debt decreased by 18.2% or \$24.2 million.

<b>Cook County Long-Term Debt: FY2005-FY2009</b>							
<b>(in \$ thousands)</b>							
	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>5-Year \$ Change</b>	<b>5-Year % Change</b>
Total County General Obligation Bonds	\$3,066,330	\$3,022,505	\$2,953,610	\$2,897,975	\$3,184,830	\$ 118,500	3.9%
Total Forest Preserve General Obligation Bonds	\$ 132,855	\$ 127,185	\$ 121,270	\$ 115,105	\$ 108,665	\$ (24,190)	-18.2%
<b>Total</b>	<b>\$3,199,185</b>	<b>\$3,149,690</b>	<b>\$3,074,880</b>	<b>\$3,013,080</b>	<b>\$3,293,495</b>	<b>\$ 94,310</b>	<b>2.9%</b>

Sources: Cook County CAFRs, FY2005-FY2009.

## Long-Term Debt Per Capita

Long-term debt per capita is a measure of a government's ability to maintain its current financial policies. This long-term debt analysis takes the total long-term debt amount reported in Note F of the County's financial statements and divides them by population. The County's long-term debt includes general obligation bonds payable and bond premium and issuance costs. Increases in this indicator should be monitored as a potential sign of growing financial risk. The County's long-term debt burden has remained relatively stable, decreasing slightly from \$603 in FY2005 to \$573 in FY2008, before returning to \$602 in FY2009.



### Debt Service Appropriations as a Percentage of Total Appropriations

The ratio of debt service expenditures as a percentage of total Governmental Fund expenditures is frequently used by rating agencies to assess debt burden. Debt service payments at or exceeding 15-20% of all appropriations are considered high.

The County has not exceeded the 15% threshold in the five years examined. However, there has been a steady trend upward in the ratio since FY2005. Debt expenditures rose from \$185.0 million in FY2005 to \$235.4 million in FY2009, as a percentage of total expenditures debt service increased from 9.2% to 11.0%.

<b>Cook County Debt Service Expenditures as a Percentage of Total Expenditures</b>					
<b>(in \$ thousands)</b>					
	<b>FY2005</b>	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>
Debt Service Expenditures	\$ 185,086	\$ 211,435	\$ 219,419	\$ 212,399	\$ 235,354
Total Expenditures	\$ 2,010,737	\$ 2,187,779	\$ 2,217,813	\$ 2,131,059	\$ 2,145,910
<b>Debt Service as a % of Total Expenditures</b>	<b>9.2%</b>	<b>9.7%</b>	<b>9.9%</b>	<b>10.0%</b>	<b>11.0%</b>

Sources: Cook County CAFRs, FY2005-FY2009.