



The Civic Federation

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COOK COUNTY FY2014 EXECUTIVE BUDGET RECOMMENDATION:

Analysis and Recommendations

October 28, 2013

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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** the Cook County FY2014 Executive Budget Recommendation, totaling \$3.2 billion in operating appropriations. The budget closes a \$152.1 million shortfall with \$49.1 million in expenditure reductions and \$103.0 million in revenue increases, primarily from CountyCare, the Cook County Health and Hospitals System's Medicaid expansion plan.

The Civic Federation commends Cook County Board President Preckwinkle and her administration for continuing to identify expenditure reductions and operational efficiencies, holding the property tax levy relatively flat and moving toward the goal of eliminating unincorporated areas of Cook County. The Federation is also encouraged by the Health System's aggressive pursuit of new revenue under the federal Affordable Care Act and its efforts to shift its focus to preventive care from hospital-based services. Finally, the Civic Federation supports the addition of several proposed financial policies to the FY2014 budget document and improvements made to the County's capital planning process.

However, the Civic Federation remains concerned about the County's increasing pension obligations and growing projected budget deficits. The County projects that even when taking into account this year's structural changes, deficits will grow from \$122 million in FY2015 to \$523 million in FY2018.¹ Addressing these deficits and growing pension liabilities will require additional operational reforms, which may include staffing reductions, and comprehensive pension reform. To drive this process in a rational and transparent way, the County needs to develop a formal long-term financial plan that addresses the County's cost drivers, stabilizes increasing pension obligations and increases the efficiency of service delivery.

The Civic Federation is also concerned about the uncertainties surrounding revenue projections for CountyCare, particularly in light of the plan's importance to the overall FY2014 budget balance, and about the County's lack of transparency in addressing CountyCare's results in FY2013.

The Civic Federation offers the following **key findings** on the Cook County FY2014 proposed budget:

- The County's operating budget, which includes the General, Health and Special Purpose Funds, will increase by 8.8%, or \$259.0 million, to \$3.2 billion from FY2013 adopted appropriations of \$2.9 billion.
- General and Health Fund resources will increase by \$205.6 million, or 9.0%, from \$2.3 billion in FY2013 to \$2.5 billion in FY2014, primarily due to an increase in revenues from CountyCare.
- Due to the projected increase in CountyCare revenues, the Health System's subsidy from the County declines by \$76.6 million, or 30.4%, from \$251.6 million in FY2013 to \$175.0 million in FY2014.
- The FY2014 Cook County budget proposes an increase of 551.2 full-time equivalent (FTE) positions in the General, Health and Special Purpose Funds. This is a 2.4% increase from the adopted FY2013 budget of 22,578.9 FTEs to 23,130.1.
- Personal service appropriations will constitute 62.3% of the total budget, down 3.9 percentage points from 66.2% in FY2013. FY2014 marks the lowest ratio of personnel appropriations to operating budget in the past five years.
- The property tax levy will increase slightly to \$727.8 million in FY2014 as Cook County captures roughly \$5.4 million from new property and \$1.9 million from expiring property tax incentives and

¹ Cook County FY2014 Executive Budget Recommendation, Resident's Guide, p. 9. Cook County is required by law to pass a balanced budget so it does not have a budget "deficit" in the same sense that the U.S. federal government has a deficit. The "budget deficit" is a commonly used synonym for the projected budget gap calculated by the County before its budget is developed. It refers to the gap between projected revenues and expenditures for the next fiscal year, which must be addressed in the proposed budget ordinance.

expiring and eliminated TIF districts. The Cook County property tax levy was held constant at \$720.5 million from FY2001 to FY2011.

- Cook County's ratio of General Fund unrestricted fund balance to operating expenditures was 14.6% in FY2012. This is a slight increase from a ratio of 14.2% in FY2011.
- The unfunded actuarial accrued liabilities for the County's pension fund have grown from approximately \$2.9 billion in FY2003 to \$6.8 billion in FY2012. The market value funded ratio for the County's pension fund has fallen from 69.1% to 55.1% over the same time period.
- Long-term liabilities for governmental activities have grown from \$4.7 billion in FY2008 to \$7.1 billion in FY2012. This is an increase of \$2.4 billion, or 50.3%, over the five-year period.

The Civic Federation **supports** the following elements of the Cook County FY2014 proposed budget:

- Aggressively pursuing Medicaid revenues through CountyCare, the County's Medicaid expansion plan;
- Implementing cost savings and operational efficiencies;
- Holding property tax revenue nearly flat;
- Continuing progress toward the goal of eliminating unincorporated areas of Cook County;
- Highlighting and establishing financial policies in the budget document; and
- Improving the capital planning process.

The Civic Federation has **concerns** about the following fiscal issues:

- The declining fiscal health of the County's pension fund;
- The growing projected budget deficits;
- Uncertainty regarding revenue projections for CountyCare and lack of transparency in addressing the results of CountyCare for FY2013; and
- Insufficient time for public review of the proposed budget.

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

- Implement comprehensive pension reforms;
- Develop and implement a formal long-term financial plan;
- Add more information to the capital improvement plan;
- Increase the time allowed for public review and comment of the proposed budget; and
- Improve the budget document and provide more transparency for budgetary processes.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Cook County FY2014 Executive Budget Recommendation, totaling \$3.2 billion in operating appropriations. The budget closes a \$152.1 million shortfall with \$49.1 million in expenditure reductions and \$103.0 million in revenue increases, primarily from CountyCare, the Cook County Health and Hospitals System's Medicaid expansion plan.

The Civic Federation commends Cook County Board President Preckwinkle and her administration for continuing to identify expenditure reductions and operational efficiencies, holding the property tax levy relatively flat and moving toward the goal of eliminating unincorporated areas of Cook County. The Federation is also encouraged by the Health System's aggressive pursuit of new revenue under the federal Affordable Care Act and its efforts to shift its focus to preventive care from hospital-based services. Finally, the Civic Federation supports the addition of several proposed financial policies to the FY2014 budget document and improvements made to the County's capital planning process.

However, the Civic Federation remains concerned about the County's increasing pension obligations and growing projected budget deficits. The County projects that even when taking into account this year's structural changes, deficits will grow from \$122 million in FY2015 to \$523 million in FY2018.² Addressing these deficits and growing pension liabilities will require additional operational reforms, which may include staffing reductions, as well as comprehensive pension reform in cooperation with the Illinois General Assembly. To drive this process in a rational and transparent way, the County needs to develop a formal long-term financial plan that addresses the County's cost drivers, stabilizes increasing pension obligations and increases the efficiency of service delivery.

The Civic Federation is also concerned about the uncertainties surrounding revenue projections for CountyCare, particularly in light of the plan's importance to the overall FY2014 budget balance, and about the County's lack of transparency in addressing CountyCare's results in FY2013.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of Cook County's FY2014 Executive Budget Recommendation.

Aggressively Pursuing Medicaid Revenues Through CountyCare

In October 2012 the Cook County Health and Hospitals System received approval from the federal government to sign up individuals for Medicaid before Medicaid expansion begins in January 2014 under the Affordable Care Act. The federal Centers for Medicare and Medicaid Services set December 31, 2013 as the ending date for the demonstration project, based on the

² Cook County FY2014 Executive Budget Recommendation, Resident's Guide, p. 9. Cook County is required by law to pass a balanced budget so it does not have a budget "deficit" in the same sense that the U.S. federal government has a deficit. The "budget deficit" is a commonly used synonym for the projected budget gap calculated by the County before its budget is developed. It refers to the gap between projected revenues and expenditures for the next fiscal year, which must be addressed in the proposed budget ordinance.

assumption that patients would subsequently be eligible for Medicaid under the Affordable Care Act. The goal was to enroll 115,000 members in the Medicaid expansion plan, known as CountyCare, by the end of calendar year 2013.

CountyCare gives the Health System the opportunity to generate revenue from existing patients who lack insurance and do not pay for their medical services. The Medicaid expansion plan also allows the Health System to focus on managed care, which is intended to improve patient care and reduce costs by emphasizing preventive care and avoiding unnecessary emergency room visits and hospitalizations. State law requires that 50% of Medicaid patients be enrolled in managed care plans (also known as care coordination programs) by January 2015.

CountyCare is designed to be a managed care program in which a patient is assigned to a “medical home” team built around primary care providers who coordinate a patient’s care. After the demonstration project ends at the end of 2013, the Health System plans to convert CountyCare into a Medicaid managed care plan known as Managed Care Community Network (MCCN). MCCNs are non-profit, provider-based healthcare networks that operate like health maintenance organizations.

Through 2013 the federal government pays for 50% of the costs of CountyCare and the County pays its regular share of 50%. In 2014 under the ACA, all of the costs for the newly-eligible are covered by the federal government.

Instituting CountyCare has proven to be a challenging endeavor, but through aggressive implementation and thoughtful planning, the Health System has made great strides. The Civic Federation continues to support the Health System’s efforts to prepare for and adapt to changes in healthcare by successfully gaining access to the expanded Medicaid population and moving toward the provision of managed care. CountyCare complements State actions on Medicaid and takes advantage of opportunities made available by the Affordable Care Act. If the Health System is able to meet revenue targets established for FY2014, the plan could help stabilize the County’s finances and improve the quality of healthcare for County residents.

Implementing Cost Savings and Operational Efficiencies

The Civic Federation supports the County’s efforts to make its operations more efficient and cost-effective. The proposed FY2014 budget deficit-closing measures include \$49.1 million in cost reductions. These reductions are the result of the following cost saving measures: Health System efficiencies; from the elimination of healthcare coverage for approximately 400 part-time County employees; energy efficiencies; improvements to contracts for legal services, communications and information technology; and centralization of the County’s fleet management. Expenditure reductions and operational efficiencies represent 32.3% of all measures being proposed to eliminate the \$152.1 million deficit.

In 2011 Cook County Board President Preckwinkle and City of Chicago Mayor Rahm Emanuel formed the Joint Committee on City-County Collaboration with the goal of identifying savings and areas of improvement for services provided by the County and City. In October 2013 the Joint Committee announced that it had identified \$70.9 million in savings or new revenue over

two years. The Civic Federation maintains its support of the Joint Committee and encourages the County and the City to continue to work together to find cost savings and implement efficiencies.

Holding Property Tax Revenue Nearly Flat

The Federation supports the County's decision to limit the pressure placed on property taxes by holding its levy relatively flat from the previous year. The FY2014 budget proposes to raise the County property tax levy by \$2.8 million from FY2013 to \$727.8 million. The increase reflects the County's intention to capture \$1.9 million in property tax revenues from expiring and eliminated Chicago Tax Increment Financing (TIF) districts and \$5.4 million from new property.³ However, the levy increase related to TIF districts is not an increase in the amount of money existing taxpayers will owe in property taxes. This is because taxpayers were previously paying the \$1.9 million for TIF district expenses to the City of Chicago. Now, they will pay the \$1.9 million instead as part of the Cook County levy.

Continued Progress Toward Goal of Eliminating Unincorporated Areas of Cook County

At the beginning of the 2012 fiscal year, Board President Preckwinkle created the Unincorporated Cook County Task Force to examine the issue of the subsidy provided to residents of unincorporated areas of Cook County.⁴ The Task Force presented its initial findings to the Board President on April 30, 2012 with the recommendation to eventually eliminate unincorporated areas of the County. The Task Force remains in place and has been divided into two working groups, focusing on infrastructure and policing.

In her FY2013 budget address, Board President Preckwinkle announced the creation of the Unincorporated Cook Infrastructure Improvement Fund (UCIIF) with an initial investment of \$5.0 million. The UCIIF provides funding for municipalities in the form of matching grants for improvement of infrastructure in unincorporated areas of Cook County, conditional upon annexation of the unincorporated areas.⁵ Board President Preckwinkle's FY2014 budget proposes to continue to fund the UCIIF with \$5.0 million for participating municipalities.⁶

The Civic Federation maintains its endorsement of the Task Force and the County's recommendations and long-term goal to eliminate unincorporated areas of the County. The Federation believes that as a matter of fundamental fairness, all taxpayers should pay their share of the cost of County services. In addition, these services should be delivered in a manner that is efficient and cost-effective. This was a key recommendation in the Federation's Cook County Modernization Report released in October 2010.⁷ We support the administration's continued efforts in implementing this critical reform.

³ Cook County FY2014 Executive Budget Recommendation, Revenue Estimates, p. 37.

⁴ Civic Federation President Laurence Msall serves as a member on the Task Force.

⁵ Office of the Cook County Board President, "Cook County Board President Toni Preckwinkle's remarks as prepared on the Cook County," Press Release, October 18, 2012 and information provided by the Unincorporated Cook County Task Force, October 18, 2012.

⁶ Cook County FY2014 Executive Budget Recommendation, Capital Improvement Programs, p. 217.

⁷ Civic Federation, *Cook County Modernization Report. A Roadmap for Cook County Government*, October 25, 2010, pp. 136-139.

Highlighting and Establishing Financial Policies

Historically the Civic Federation has urged the County to develop financial policies as recommended by the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting (NACSLB) and add a section on financial policies to its budget document. 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 major policy initiatives and provide benchmarks for future financial performance. Financial policies can also be an important building block for long-term financial planning.

In FY2013, for the first time, several financial policies were proposed in and adopted with the budget, including policies on adoption of a timely balanced budget, balanced budget, revenue policies, capital and debt management, investment management, financial reserve (fund balance), financial reporting and performance management. In its analysis of the FY2013 proposed budget, the Civic Federation encouraged the County to add the following remaining financial policies, as recommended by the GFOA:

- **Operating/Capital Expenditure Accountability:** Compares actual expenditures to budgeted expenditures periodically to decide what actions are necessary to bring the budget into balance.
- **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 that are considered unpredictable.⁸

The FY2014 proposed budget includes each of these additional financial policies. Furthermore, the County created a new section specifically for financial policies in Volume 1 of the budget documents. The Civic Federation applauds Cook County for including and highlighting these financial policies in its budget to be adopted by the County Board of Commissioners as it shows commitment to being transparent in its financial planning process. By sharing these policies, the County is opening itself up to be held accountable by the public.

The County also includes a new policy in its FY2014 proposed budget titled “long-range financial planning.” However, the policy addresses long-term forecasting rather than the long-range planning, which can only be accomplished through the development of a formal long-term financial plan. While the Civic Federation supports long-range forecasting as a crucial part of the budget process, we encourage the County to go further and develop a long-term financial plan.⁹

Improving the Capital Planning Process

Until the FY2014 budget cycle, Cook County did not have a formalized Capital Improvement Plan (CIP) process outside of the proposed appropriations and limited information included in its

⁸ Government Finance Officers Association, “Adoption of Financial Policies,” (2001).

⁹ See page 14 for more information on elements of a long-term financial plan.

annual budget documents. In previous years the Civic Federation has recommended that the County undertake a formal CIP process with a needs assessment and prioritization of projects.

As part of the FY2014 proposed budget, the County published the results of a capital asset condition assessment, which includes a needs-based prioritization process used to develop a new FY2014-FY2023 ten-year CIP. The Civic Federation commends the County for making improvements to its capital planning process and for taking steps to ensure that taxpayer money is spent in a thoughtful manner that prioritizes the County's expansive capital needs.

Civic Federation Concerns

The Civic Federation has the following concerns related to Cook County's FY2014 Executive Budget Recommendation and financial health.

Declining Fiscal Health of Pension Fund

In the ten years since FY2003, the unfunded actuarial accrued liabilities of the Cook County Annuity and Benefit Fund have grown from approximately \$2.9 billion to \$6.8 billion in FY2012, the most recent year for which data is available. The fund's unfunded actuarial accrued liabilities increased by \$969.5 million between FY2011 and FY2012. Similarly, the market value funded ratio for the County's pension fund has fallen from 69.1% to 55.1% over the same time period. It is projected that the fund will become insolvent in 2034.¹⁰ A funded ratio below 80% is a cause for concern as it raises questions about the ability of the government to adequately fund its retirement system over time. The County's pension problems have been caused largely by inadequate investment rates of return and consecutive years of contributions that were insufficient for the level of benefits promised. Without immediate action for pension reform, it will become exceedingly difficult to make the pension fund fiscally sustainable without creating even greater projected deficits.

Growing Projected Budget Deficits

Cook County projects that it will continue to have budget deficits in future years even with the actions taken over the last several years to reduce these deficits. The FY2014 Executive Budget Recommendation presents a General and Health Funds forecast projecting that the FY2015 gap between revenues and expenditures will be \$122 million. By FY2018 the deficit is projected to grow to \$523 million if current trends continue.¹¹ The factors driving future budget gaps include:

- *Healthcare costs:* The County has significant exposure to healthcare costs, which affect both employee health insurance expenses and the cost of operating the Health System. The deficit forecast in the FY2014 budget document assumes that health costs will grow at the industry rate of 7.45%.
- *Downward trend in revenues for operations:* The proposed FY2014 budget reports that the County expects cigarette and fuel tax revenues to decline due to falling sales in the next few years. Property tax revenue available for operating funds is also projected to fall

¹⁰ Cook County Employees' and Officers' Annuity and Benefit Fund of Cook County, *Actuarial Valuation Report as of December 31, 2012*, p. 1.

¹¹ Cook County FY2014 Executive Budget Recommendation, Resident's Guide, p. 9.

as bond and interest payments increase in future years. Revenue from property taxes first goes toward bond and interest payments before being allocated for operations.

- *Decline and uncertainty at the Health System:* The County estimates that revenue from non-Medicaid patient insurance will decline in coming years. There is also uncertainty regarding revenues received through CountyCare, the County's Medicaid expansion plan. As the rollout of the Affordable Care Act continues, more information will be available that will aid the Health System in making more accurate revenue projections.

The FY2015-FY2018 budget gap estimates presented in the FY2014 proposed budget do not include projections of increases to pension payments. However, the declining financial health of the pension fund plays a significant role in the County's fiscal stability. The County's pension funded ratio continues to decline, falling to 55.1% funded on a market basis in FY2012. The unfunded actuarial accrued liabilities have grown from \$2.7 billion in FY2003 to \$6.6 billion in FY2012. This situation will require increased funding and/or a reduction in pension benefits for current employees and retirees. It will certainly put additional pressure on the rest of the budget as the pension fund requires increased resources.

It is also important to note that the County had to close an FY2013 year-end budget deficit estimated at \$6.5 million.¹² The County's FY2014 Preliminary Budget Estimates report, released in June 2013, states that the deficit materialized primarily as a result of lower than expected revenues from CountyCare, the County's Medicaid expansion plan. Revenues from the plan in FY2013 were projected at \$122.3 million, or \$74.7 million below the budgeted amount of \$197.0 million. The shortfall would have been larger if the Health System had not been able to negotiate an advance payment of \$30 million from the State.¹³

While great strides have been made, the County must address its future enormous fiscal problems by continuing to evaluate its operations, reduce costs and improve efficiencies. This is a multi-year process that will require the development of a publicly-shared, long-term financial plan.

CountyCare Concerns

The Civic Federation is concerned about the difficulties in projecting CountyCare revenues, given the key role that CountyCare plays in the overall FY2014 budget balance. Due to previously unmet revenue targets and the shortfall in CountyCare revenues in FY2013, the County's Inspector General recently recommended that revenue projections for the plan receive close scrutiny.¹⁴ The Civic Federation is also concerned about a lack of transparency in addressing CountyCare's results in FY2013.

¹² Cook County FY2014 Executive Budget Recommendation, Resident's Guide, p. 10.

¹³ For more information about the Health System, see page 44.

¹⁴ Cook County Office of the Independent Inspector General, Letter to Cook County Board President Toni Preckwinkle, Cook County Health and Hospitals System Chairman David Carvalho and Chief Executive Officer Ram Raju, Re: \$50 million revenue enhancement contract (OIG11-0035), September 20, 2013.

Revenue Projections

The FY2014 proposed budget projects CountyCare revenues of \$468.2 million, up from a budgeted level of \$197.0 million in FY2013. Due to projected results from CountyCare, the Health System's subsidy from the County is budgeted to decline by \$76.6 million to \$175.0 million in FY2014 from \$251.6 million in FY2013.

CountyCare revenues in FY2014 depend on program enrollment and the monthly fee for each member. The FY2014 proposed budget assumes average membership during FY2014 of 56,131, about the same level projected at the end of FY2013. The FY2014 proposed budget also assumes that the County will receive a fee of \$629 per member per month (PMPM). The fee is the same as under the existing plan, but the federal government pays 50% now and will pay 100% beginning on January 1, 2014.

Health System officials believe that the enrollment projection of 56,131 members is conservative, given the number of pending applications. As of the end of September, 76,000 applications had been submitted to the State and the approval rate was running at 85%. As of October 22, 2013, approximately 115,000 applications had been received by the System and enrollment stood at roughly 48,000 members. Members will not be required to remain in CountyCare after December 31, but the State is not expected to make other managed care alternatives for newly eligible Medicaid recipients available until July 2014 at the earliest.

Whether newly eligible Medicaid patients will remain in CountyCare is probably the major uncertainty related to the program. Health System officials have stated that their greatest challenge involves improving patient satisfaction, particularly with respect to the outpatient services that are central to managed care. The extent of the challenge became evident in May 2013, when a survey found that patients believe it is not easy to get access to care; that wait times are poor; that they cannot reach doctors by phone; and that patients are not treated well by staff. Dr. Ram Raju, who became the Health System's Chief Executive Officer in October 2011, has said that a cultural change is required at the System in order to retain Medicaid patients.¹⁵

A related concern involves CountyCare costs. It is critical that the PMPM amount, which must be negotiated with the State and approved by the federal government, is sufficient to cover costs. Costs are more difficult to determine for newly covered services, such as mental health and substance abuse, and for clinics outside of the System that are part of the CountyCare network.

Lack of Transparency

The Health System has achieved a significant feat by creating a new healthcare plan that has attracted 115,000 applications and nearly 50,000 members, but it is not expected to meet its original aggressive goal of enrolling 115,000 members by the end of 2013. The System receives revenue from CountyCare after members are enrolled. Once members are enrolled, the System receives PMPM payments as of the date of application and retroactive fees based on services received in System facilities in the three months prior to application. In order to ultimately

¹⁵ Statement by Dr. Ram Raju, Chief Executive Office of the Cook County Health and Hospitals System, Board of Directors meeting, May 31, 2013.

generate the CountyCare revenue expected in FY2013, the System must have received 115,000 applications by December 31 that are eventually approved by the State.

In public discussions of CountyCare, County officials have begun referring to a goal of 115,000 applications in 2013, rather than a goal of 115,000 members. For example, the press release issued by the Office of the Board President in connection with the FY2014 budget states that the County “is on track to exceed the President’s and (Health System CEO’s) goal of 115,000 applications by the end of 2013.”¹⁶ System officials provide monthly updates on CountyCare at meetings of the Finance Committee of the System Board, but enrollment figures are not presented.

The System had originally projected CountyCare revenues of \$197.0 million in FY2013, based on enrollment of 115,000. The current projection is \$122.3 million. However, the \$122.3 million includes an advance payment of \$30 million from the State related to a different source of Medicaid funding: a provision of the Medicare, Medicaid and SCHIP Benefit Improvement and Protection Act of 2000 (BIPA). This advance must be paid back to the State in FY2014.

The FY2014 proposed budget does not mention the \$30 million advance in FY2013 or the repayment in FY2014. While the advance is included in the budget line for projected actual CountyCare revenues in FY2013, the repayment is included in another budget line for FY2014—the line for patient fees. In the Health System’s preliminary FY2014 budget released on August 16, 2013, the BIPA repayment was clearly shown as a deduction from BIPA payments in FY2014.

Insufficient Time for Public Review of Budget

The County’s proposed FY2014 budget was released on Thursday, October 10, 2013, and the first public hearing on the budget was held on Monday, October 21, 2013. While this is more time than was available last year, this is still an inadequate amount of time for the public to comprehend a complex two-volume budget document. All governments have a duty to allow for public input related to their proposed budgets. The County and Board Finance Committee’s failure to allow for sufficient time for public input on the proposed budget is a missed opportunity to help educate, inform and build support for their proposed \$3.5 billion expenditure of tax dollars.

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 Civic Federation’s Cook County Modernization Report.

Implement Comprehensive Pension Reforms

The Cook County pension fund market value funded ratio has fallen from 69.1% to 55.1% over the ten-year period between FY2003 and FY2012. The unfunded accrued liabilities on a market

¹⁶ Office of the Cook County Board President, “President Preckwinkle Introduces 2014 Executive Budget Recommendation; \$3.2 billion budget includes no new taxes, fines or fees,” *news release*, October 10, 2013.

value basis reached \$6.6 billion in FY2012. The County's pension fund is not yet in as dire straits as some other State and local pension funds, but it will be soon if no action is taken. Major reforms to contributions and benefits will keep the pension fund solvent and distribute taxpayers' 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 is encouraged by Board President Preckwinkle's continued commitment to working with labor unions toward a pension reform agreement. The Federation calls on the Cook County Board of Commissioners and the Illinois General Assembly to work together to develop and implement comprehensive pension reform tailored to the County fund. We further recommend that the following two reforms be included as part of any larger agreement, as stated in the Cook County Modernization Report.

Implement Governance Reforms

The County should reform pension board governance to be more balanced between management and current and former employees rather than be employee/retiree-dominated. Citizen participation on the Board should also be explored.

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.

Develop and Implement a Formal Long-Term Financial Plan

The Cook County FY2014 proposed budget includes a forecast of revenues and expenditures through FY2018.¹⁷ The forecast projects significant and growing budget deficits in future years. It is important for governments to disclose forecasts to help stakeholders understand what their future financial situation will be and set a framework for future budgets and plans. However, we also encourage the County to take the next step and develop a formal long-term financial plan that is shared with and reviewed by key policymakers and stakeholders. This plan must include concrete action steps to address the County's long-term fiscal balance.

The NACSLB and the GFOA both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.¹⁸ A long-term financial plan typically includes a review of historical financial and programmatic trends; multi-year projections of revenues, expenditures and debt; an analysis of those trends and projections; and the modeling of options to address problems and opportunities. The plan helps governments address fiscal challenges before they become fiscal crises.

A key component of financial planning is engaging all stakeholders in the process of developing the plan. The GFOA describes long-term financial planning as "not just a staff-driven process. It

¹⁷ Cook County FY2014 Executive Budget Recommendation, Resident's Guide, pp. 7-9.

¹⁸ See National Advisory Council on State and Local Budgeting and Government Finance Officers Association.

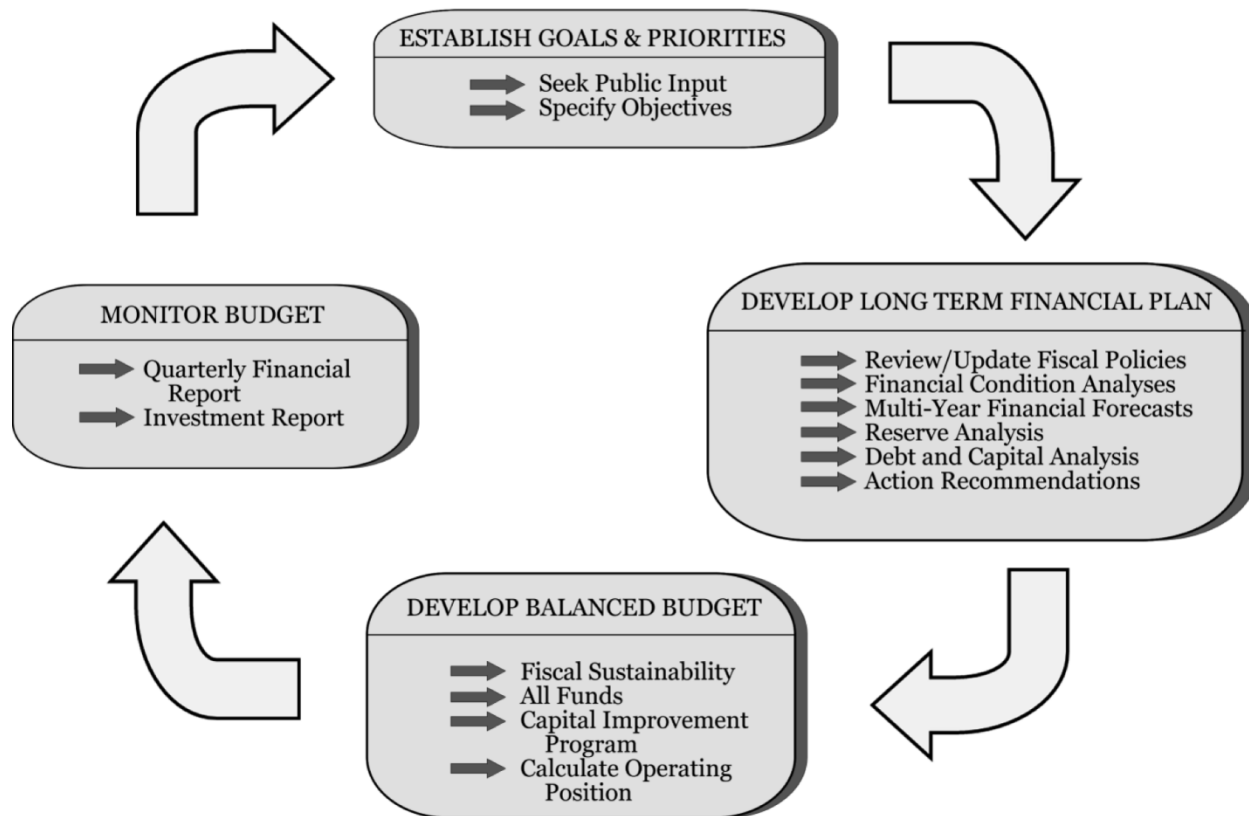
is consensus-driven and inclusive, involving elected officials, staff and the public.”¹⁹ Among other benefits, involving all stakeholders can help staff refine forecasts, institutionalize planning processes and promote strategic decision-making. The County should immediately begin mobilizing for a comprehensive long-term financial planning process.

Therefore, we recommend that in the new fiscal year the County undertake a long-term financial planning process that would proceed in four stages.²⁰ First, the Board President and her administration would articulate fiscal and programmatic goals and priorities informed by public input. The Long-Term Financial Plan would evaluate financial and service data in order to determine how to accomplish the goals and priorities. It would include a review of the County’s financial policies, a financial condition analysis that presents ten years of historical trend information, multi-year financial forecasts, a reserve analysis, evaluation of debt and capital obligations and a series of action recommendations. The insights derived from the Long-Term Financial Plan would directly inform the development of a balanced Cook County budget that is fiscally sustainable each year. The plan would then be regularly monitored to ensure its viability by means of regular financial reports.

¹⁹ Government Finance Officers Association, “[An Introduction to Financial Planning](http://www.gfoa.org/downloads/LTFPbrochure.pdf),” <http://www.gfoa.org/downloads/LTFPbrochure.pdf> (last visited on January 10, 2011).

²⁰ The graphic illustration of the long-term financial planning process is based on the City of San Clemente, California’s Long-Term Financial Plan and is reproduced in the Government Finance Officers Association document “Long-Term Financial Planning for Governments” available at <http://www.gfoa.org/downloads/LTFPbrochure.pdf>.

Long-Term Financial Planning Process



If the County chooses not to undertake a full long-term financial planning process, then, at a minimum, an annual document should be developed and published that would include:

1. A description of financial policies, service level targets and financial goals. Each policy should be reviewed using relevant forecasting data to determine if the policy is being followed, if the policy should be amended and if new policies should be added.
2. A scorecard or rating of the financial indicators as part of the financial analysis that assesses whether the trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable.
3. Possible strategies, actions and scenarios needed to address financial imbalances and other long-term issues. For example, a discussion of the long-term implications of continuing or ending existing programs or adding new ones. These actions should include information on fiscal impact and ease of implementation.
4. Sufficient stakeholder input including holding a public hearing for decision makers and the public to provide meaningful input on a long-term financial strategy to address the County's financial challenges.

Improve the New Capital Improvement Plan with Additional Information

Although the County's additional planning, prioritization and long-term cost estimates for its capital program are a significant improvement from its previous capital proposals, other elements

of a comprehensive Capital Improvement Plan still appear to be lacking. The budget document explains in detail how projects were ranked, but it does not provide the actual rankings of the proposed expenditures. The budget does not identify how the investments, outside of the transportation plan, will be funded. In the past the Civic Federation has been concerned with the use of long-term bond proceeds by the County to purchase short-term assets similar to the recommended equipment purchases included in the budget.

In order to ensure the effectiveness of capital spending, Cook County should develop a more comprehensive capital improvement plan (CIP) that includes a prioritized list of all proposed capital projects and funding sources, separate from the proposed budget document. Goals and guidelines in a CIP document help manage capital spending effectively to meet specific targets. The goals should include maintaining current assets while improving those assets through upgrades and monitoring any increase in operational costs that often accompany new capital projects. The prioritization method used should be disclosed and discussed as well.

The County's capital program should 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.

Increase Time Allowed for Public Review and Comment

More time should be allowed for the public to review and understand Cook County's annual budget. At a minimum, **ten working days** should be allowed for the public review period before the first public testimony is heard. Only in this way can citizens offer fully informed commentary on a prominent government such as Cook County.

Improve Budget Document and Transparency

The Civic Federation offers the following recommendations to improve the transparency and usefulness of the County's budget documents.

Financial Policies

The Civic Federation is encouraged that the County added several important financial policies to its FY2014 budget document and recommends that the following policy regarding long-term financial planning be revised in future budgets to move beyond financial projections to a full long-term financial planning process.

- **Long-Range Planning:** Supports a financial planning process that assesses the long-term financial implications of budgets, policies, programs and assumptions.

Additional Appropriations Data

Additional data on appropriations is needed in order to show past and proposed spending in meaningful formats, including:

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

Additional Revenue Data

The FY2014 Executive Budget Recommendation omits important revenue data that was available in prior year budget documents. The budget document should present a comprehensive overview of all resources by fund, as shown in the FY2011 Executive Budget Recommendation in the Revenue Estimates section on page two. In this one chart, the reader can see all revenue and resources available for each fund, including each Special Purpose Fund, and the sources of revenue, such as property taxes, home rule taxes and fees. The Civic Federation recommends that a chart presenting an overview of all resources by fund be incorporated into future budget documents.

In addition, the Federation recommends that the County provide historical actual data for General and Health Funds revenues and Special Purpose Funds. It is important to provide readers access to actual data to allow for more thorough examinations of revenue trends over time.

With respect to Health System revenues, the budget should include a detailed breakdown of operating revenues. Such a breakdown, showing revenues from various sources of patients fees separately (Medicaid, Medicare, and private insurance), was provided in the FY2010 and FY2011 budgets. The budget should also provide a breakdown of the County tax revenues included in the historical subsidy table.

Personnel Data

The FY2014 Executive Budget Recommendation's Proposed Expenditures section includes charts with personal service appropriations, full-time equivalent position count and salary appropriations. However, the proposed budget lacks narrative and detail on personnel changes. Personnel count details such as these would be helpful in understanding the Board President's proposal to reduce the County's workforce.

Additional Explanatory Information

The budget would benefit from additional narrative and summary charts with more thorough explanations of current budgetary issues, such as detailed lists and descriptions of the factors specifically contributing to budget deficits with associated dollar amounts and whether budget gap-closing measures are one-time or long-term, structural solutions. The summary chart shown on page two of the Resident's Guide is useful in illustrating how the County closed the \$152.1 million FY2014 budget deficit. However, it would be additionally beneficial to organize the

related narrative descriptions of the gap-closing measures in a manner that corresponds directly to the summary chart. The Civic Federation recommends that the County clearly describe the “walk-up” and “walk-down” for budget deficits with specific data and corresponding descriptions in its budget documents.

Transparency

The County deserves praise for investing in CountyCare and making significant progress in launching the plan. This achievement is diminished and public confidence is impaired by actions that disguise the true results of the program. Program goals should not be altered to fit results, and the loan from the State in FY2013 and repayment in FY2014 should be shown in the County budget as additions to or deductions from BIPA payments.²¹

ACKNOWLEDGMENTS

The Civic Federation would like to express its appreciation to Cook County Budget Director Andrea Gibson, Deputy Budget Director Shellie Riedle, Chief Financial Officer Ivan Samstein, Chief of Staff to Board President Preckwinkle G.A. Finch, Cook County Health and Hospitals System Chief Executive Officer Ram Raju, and their staffs for their efforts in preparing this budget. We appreciate their willingness to answer many of our budget questions.

FY2014 BUDGET DEFICIT & GAP-CLOSING MEASURES

In the Cook County 2014 Preliminary Budget Estimates report, released on June 27, 2013, the Department of Budget and Management Services projected a \$152.1 million budget deficit in the General and Health Funds²² for FY2014.²³

Preliminary budget estimates for FY2014 showed revenues of \$2.4 billion and expenditures of \$2.5 billion, resulting in an initial General and Health Funds deficit of \$152.1 million. This is slightly larger than the \$132.9 million budget gap for FY2014 projected by the County in October 2012. However, it continued the decline in deficits under the Preckwinkle administration from \$487.0 million in FY2011.

The FY2014 deficit estimate of \$152.1 million primarily reflected increased personnel and employee health benefit costs (\$69.2 million), increased Cook County Health and Hospitals System vendor and supply expenses (\$45.5 million) and costs associated with “Raise the Age” legislation, which will require 17 year-olds charged with felony offenses to be tried in the

²¹ See page 12 for more details on the Civic Federation’s concerns regarding the loan and repayment.

²² For the first time, the FY2014 budget separates the Health Fund out from the General Fund as a separate fund. This change is in line with the County’s efforts to make the Cook County Health and Hospitals System more self-sufficient in terms of its revenues and expenditures. It should be noted that this change was not in effect as of the FY2014 Preliminary Budget Estimates report; however, the Civic Federation refers to the Health Fund as separate from the General Fund throughout this analysis for consistency. Cook County FY2014 Executive Budget Recommendation, Resident’s Guide, p. 4.

²³ Cook County is required by law to pass a balanced budget so it does not have a budget “deficit” in the same sense that the U.S. federal government has a deficit. The “budget deficit” is a commonly used synonym for the projected budget gap calculated by the County before its budget is developed. It refers to the gap between projected revenues and expenditures for the next fiscal year, which must be addressed in the proposed budget ordinance.

juvenile court system rather than in the adult court system. These 17-year olds will also be housed at the County's Juvenile Temporary Detention Center rather than at the County jail (\$12.0 million).²⁴ The estimated FY2014 deficit also reflected reduced revenues due to the repeal of the 2008 sales tax increase (\$28.0 million) and the diversion of property tax revenue to pay for election-year expenses (\$21.0 million).

General and Health Funds revenues for FY2014 were projected to be \$132.4 million, or 5.9%, less than the FY2013 year-end estimates. General and Health Funds expenditures for FY2014 were projected to be \$266.5 million, or 11.7%, more than FY2013 year-end estimates.

Cook County FY2014 Projected Budget Deficit					
	FY2013 Adopted Budget	FY2013 Year-End Estimate	FY2014 Projected Budget	\$ Change from Year-End	% Change from Year-End
General & Health Fund Revenues	\$ 2,295,698,759	\$ 2,262,737,194	\$ 2,395,157,856	\$ 132,420,662	5.9%
General & Health Fund Expenditures	\$ 2,295,698,759	\$ 2,280,847,329	\$ 2,547,300,373	\$ 266,453,044	11.7%
Budget Surplus (Deficit)	\$ -	\$ (18,110,135)	\$ (152,142,517)	-	-

Source: Cook County FY2014 Preliminary Budget, p. 1.

Gap-Closing Measures

The County's FY2014 Executive Budget Recommendation includes a summary chart in the Resident's Guide section illustrating the measures taken to close the FY2014 budget deficit. The following table and narrative describe these revenue increases and expenditure reductions.

Budget Deficit-Closing Measures: FY2014 (in \$ millions)	
Revenue Increases	
Health System Net Revenue	\$ 86.5
Countywide Net Revenue Growth	\$ 16.5
Subtotal Revenue Increases	\$ 103.0
Expenditure Reductions	
Health System Expenditure Reductions	\$ 10.5
Employee Healthcare Savings	\$ 14.4
Other Expenditure Reductions	\$ 24.2
Subtotal Expenditure Reductions	\$ 49.1
Total	\$ 152.1

Source: Cook County FY2014 Executive Budget Briefing PowerPoint Presentation, October 8, 2013 and FY2014 Executive Budget Recommendation, Volume 1, p. 2.

Revenue Increases - Cook County anticipates \$103.0 million in revenue increases in FY2014.

Net revenue increase for the CountyCare Medicaid expansion plan (\$86.5 million in revenue) - Net operating revenues for the Health System will increase by \$84.9 million to \$950.7 million in the FY2014 proposed budget from \$865.9 million in the FY2014 preliminary budget.²⁵ The

²⁴ See Public Act 098-0061.

²⁵ The Civic Federation calculated a difference of \$84.9 million rather than \$86.5 million by including \$1.7 million of miscellaneous revenue from the Health System that was shown in the preliminary budget but apparently not included in the County's calculation. The preliminary budget did not include \$2.0 million of revenue related to the Department of Public Health, which would have further reduced the difference to \$82.9 million.

increase over the preliminary budget is almost totally due to higher revenue projections for CountyCare, which rise to \$468.2 million in FY2014 from \$356.2 million.

The FY2014 preliminary budget assumed that costs of CountyCare members would be reimbursed by the federal government at \$500 per member per month (PMPM).²⁶ When the projection was made, membership was low and System officials had received few claims from healthcare providers outside of the System.²⁷ The PMPM was raised to \$629 in the Board President's recommended FY2014 budget, resulting in an increase in CountyCare revenue of \$112.0 million, or 31.4%, from \$356.2 million to \$468.2 million.²⁸ Health System officials said the PMPM projection was increased because the higher fee reflected program costs as more claims were received.

The increase in CountyCare revenues from the FY2014 preliminary budget to the FY2014 recommended budget is offset by a net decline of \$27.1 million in other Health System revenues. This decline is due to different ways of accounting for the repayment in FY2014 of a \$30 million advance from the State of Illinois in FY2013 to cover a shortfall in CountyCare revenue. In the preliminary budget, the repayment was deducted from CountyCare revenues, while the repayment was deducted from other revenues, specifically patient fees, in the recommended budget.²⁹

Countywide Net Revenue Growth (\$16.5 million in revenue) - The County expects natural revenue growth above mid-year projections in FY2014 from the following sources:

- Real estate transfer taxes;
- Personal Property Replacement Taxes; and
- Sales taxes.

The County expects additional revenue from the following sources:

- Property taxes through the capture of expiring tax increment financing (TIF) districts, incentives and new property;
- Cigarette taxes, due to more aggressive enforcement; and
- A portion from the City of Chicago's declared TIF surplus.

Expenditure Reductions - The County proposes to implement \$49.1 million in expenditure reductions in FY2014.

Health System Expenditure Reductions (\$10.5 million in savings) - In order to reduce spending in the Health System, vacant positions will only be partially funded in FY2014, contingent on the timing of anticipated hiring.³⁰

²⁶ Communication between the Civic Federation and the Cook County Health and Hospitals System, September 3, 2013.

²⁷ Communication between the Civic Federation and the Cook County Health and Hospitals System, September 3, 2013.

²⁸ Cook County FY2014 Executive Budget Recommendation, Revenue Estimate, p. 29.

²⁹ Communication between the Civic Federation and the Cook County Department of Budget and Management Services, October 24, 2013.

³⁰ Information provided by the Cook County Department of Budget and Management, October 19, 2013.

Employee Healthcare Savings (\$14.4 million in savings) - Prior to the FY2014 proposed budget release, Board President Preckwinkle announced a plan to require County employees who are not considered full-time to pay for the entire cost of their healthcare benefits, effective July 1, 2014. It is estimated that this change would affect approximately 400 employees, including Circuit Court judges, commissioners serving on the Chicago Board of Elections and part-time crossing guards. Under the current plan, Circuit Court judges contribute less than \$1 per month toward their healthcare while full-time County employee pay higher percentages of their salary for healthcare premiums. If approved, the change is projected to save approximately \$2.2 million in FY2014 and \$4 million annually beginning in FY2015.³¹

To find additional savings, the County also negotiated lower premiums for FY2014 employee healthcare benefits and is working with a pharmacy advisor to assist with better coordination of employee prescription drug needs and costs.³²

Other Expenditure Reductions (\$24.2 million in savings) - In the coming fiscal year the County budgeted for savings in the following areas:

- Energy costs at Stroger Hospital and the County jail;
- Information technology contracts;
- Legal services;
- Communications contracts with AT&T; and
- Centralization of the County's fleet management.³³

³¹ Office of the Cook County Board President Toni Preckwinkle, "President Preckwinkle Moves to Reform County Health Benefits," press release, October 7, 2013.

³² Cook County FY2014 Executive Budget Briefing PowerPoint Presentation, October 8, 2013.

³³ Cook County FY2014 Executive Budget Recommendation, p. 2 and FY2014 Executive Budget Briefing PowerPoint Presentation, October 8, 2013.

Projected FY2015-FY2018 Budget Deficits

The County's FY2014 Executive Budget Recommendation provides a graph showing FY2012 through FY2018 projected General Fund budget deficits.³⁴ This was a requirement of Board President Preckwinkle's Executive Order 2011-1 issued on June 29, 2011. The exhibit below shows projected budget deficits for FY2015-FY2018.

Regarding expenditures, the projection assumes that General Fund healthcare-related expenditures will grow at the industry rate of 7.45% annually, while most non-health-related expenditures will increase at 2.39%, the average annual increase in the Consumer Price Index over the last ten years. The projections below do not include any increases to pension payments due to past underfunding and possible reforms.

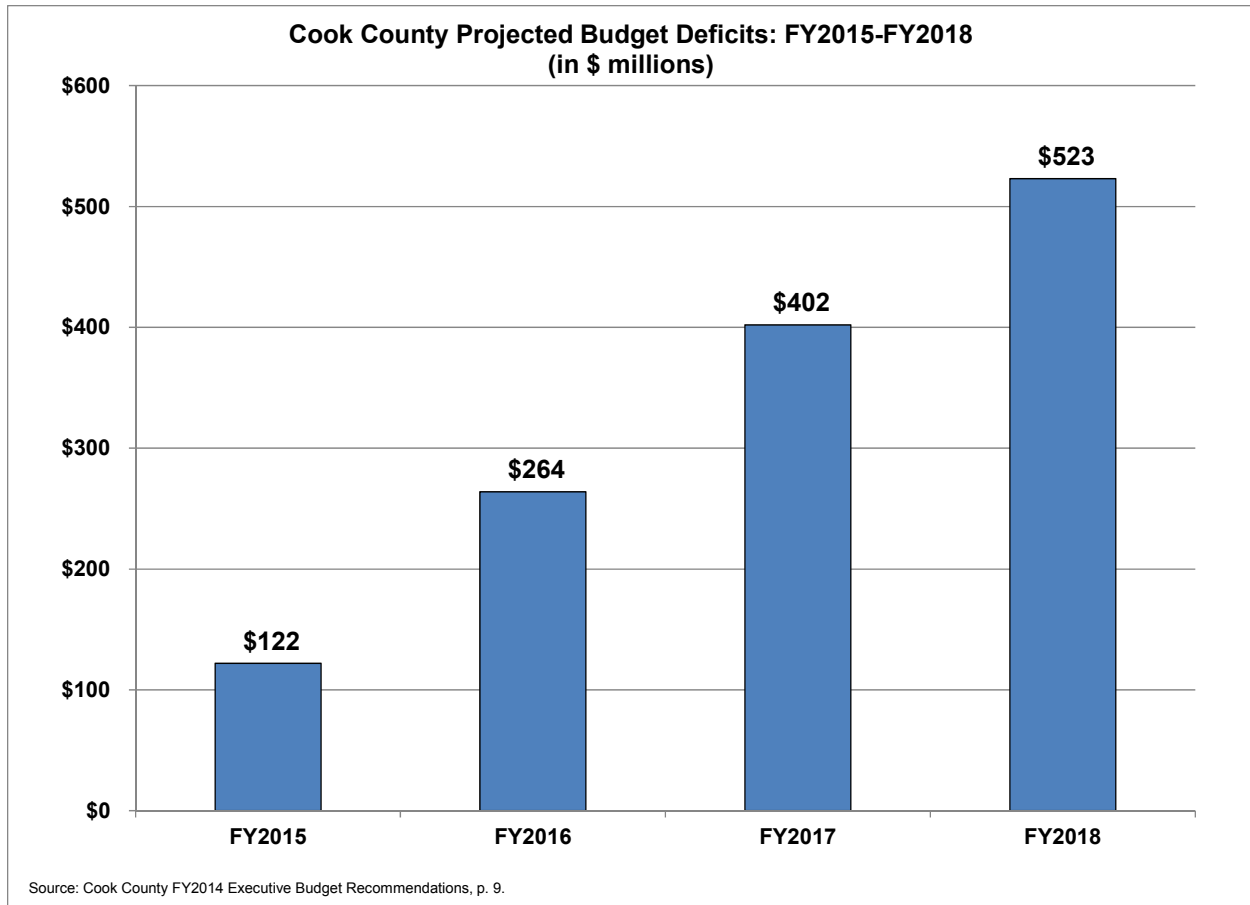
Revenue for the County is expected to decline over the coming years, specifically for the following areas:

- Declining revenue from cigarette and fuel taxes due to falling sales;
- Declining revenue from non-Medicaid patient insurance at the Health System;
- Less net property tax revenue available for operations as more net property tax revenue will have to be allocated to growing bond and interest payments; and
- Uncertainty regarding CountyCare, the County's Medicaid expansion plan. As the Affordable Care Act goes into effect, the County will obtain more information that will aid them in making more exact revenue projections.³⁵

These projections demonstrate that even with the structural changes proposed in the FY2014 and previous years' budgets, the County will continue to face growing budget deficits in the future.

³⁴ Cook County FY2014 Executive Budget Recommendation, p. 9.

³⁵ Cook County FY2014 Executive Budget Recommendation, pp. 7-9.



APPROPRIATIONS

The following section presents trends for FY2014 appropriations for all funds by fund and by control officer. FY2014 appropriations are compared to actual expenditures for FY2010-FY2012 and FY2013 adopted appropriations.

All Funds Appropriations by Fund

Cook County total FY2014 appropriations, including the operating budget and capital improvement funds, will amount to \$3.5 billion. This is an increase of \$216.4 million, or 6.5%, from the FY2013 adopted budget of \$3.3 billion.

The operating budget will also grow to \$3.2 billion in FY2014 from \$2.9 billion in FY2013. This is an increase of \$259.0 million, or 8.8%. The operating budget is comprised of the General Fund, which includes the Corporate and Public Safety Funds, used for general County expenses; the Health Fund; Special Purpose Funds, which include revenues restricted for particular uses only; and Restricted Funds, or grants. For the first time, the FY2014 budget separates the Health Fund out from the General Fund as a separate fund. This change is in line with the County's efforts to make the Cook County Health and Hospitals System more self-sufficient in terms of its

revenues and expenditures.³⁶ The charts below compare the organization of the County’s operating funds in FY2013 and FY2014.

FY2013 Total Operating Funds				
General Fund			Special Purpose Funds	Restricted Funds (Grants)
Corporate Fund	Public Safety Fund	Health Fund		

FY2014 Total Operating Funds				
General Fund		Health (Enterprise) Fund	Special Purpose Funds	Restricted Funds (Grants)
Corporate Fund	Public Safety Fund			

General Fund appropriations will increase by \$43.6 million, or 3.3%. Appropriations for the Corporate Fund will increase by \$16.0 million, or 11.0%. Spending in the Public Safety Fund will also rise, by \$27.6 million, or 2.3%.

Appropriations for the Health Fund will increase by \$162.1 million, or 16.8%, in FY2014, growing to \$1.1 billion from \$963.7 million in FY2013.

Special Purpose Funds appropriations are projected to increase by \$25.8 million, or 5.0%, between FY2013 and FY2014. Special Purpose Funds are used to account for proceeds from earmarked revenue sources and expenditures for specified or restricted purposes. Under Special Purpose Funds, appropriations for Annuity and Benefits, or pensions, and Agency Special Purpose funds will increase while spending for Bond and Interest will remain level from FY2013.

Unlike the County’s operating funds, appropriations for Capital Improvements will decrease by \$42.6 million, or 11.4%, to \$329.4 million in FY2014.

In a five-year trend analysis, the County’s total budget will rise by \$323.0 million, or 10.1%, from \$3.2 billion in FY2010 to \$3.5 billion in FY2014. Over the same period, Corporate Fund spending will fall by 15.3% while the Health and Public Safety Funds grow by 18.2% and 4.2%, respectively. This will result in an overall increase to the General and Health Funds of \$192.7 million, or 8.3%, in the five-year period.

Special Purpose Funds appropriations will increase to \$543.5 million from \$515.9 million between FY2010 and FY2014. The main driver of the increase is attributable to spending growth in the Agency Special Purpose Funds, which are special purpose funds allocated to agencies across the County. They will increase over the five-year period by \$22.9 million, or 16.5%. Annuity and Benefits appropriations will rise by \$8.1 million, or 4.3%, while Bond and Interest spending will decrease slightly, by \$3.4 million, or 1.8%.

³⁶ Cook County FY2014 Executive Budget Recommendation, Resident’s Guide, p. 4.

While Capital Improvements appropriations will fall between FY2013 and FY2014, they will rise significantly in a five-year trend analysis, to \$329.4 million from \$216.3 million. This is an increase of \$113.1 million, or 52.3%. However, given the nature of capital spending, much more is appropriated each year for capital expenditures than is actually spent.

Cook County Appropriations All Funds by Fund: FY2010-FY2014 (in \$ millions)									
Fund	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Adopted	FY2014 Proposed	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Corporate	\$ 190.1	\$ 136.2	\$ 157.6	\$ 145.1	\$ 161.1	\$ 16.0	11.0%	\$ (29.1)	-15.3%
Public Safety	\$ 1,165.9	\$ 1,195.0	\$ 1,152.5	\$ 1,187.0	\$ 1,214.6	\$ 27.6	2.3%	\$ 48.6	4.2%
Subtotal General Fund	\$ 1,356.0	\$ 1,331.2	\$ 1,310.1	\$ 1,332.0	\$ 1,375.6	\$ 43.6	3.3%	\$ 19.6	1.4%
Health	\$ 952.6	\$ 864.4	\$ 865.0	\$ 963.7	\$ 1,125.7	\$ 162.1	16.8%	\$ 173.1	18.2%
Subtotal Health Fund	\$ 952.6	\$ 864.4	\$ 865.0	\$ 963.7	\$ 1,125.7	\$ 162.1	16.8%	\$ 173.1	18.2%
Subtotal General & Health Funds	\$ 2,308.6	\$ 2,195.6	\$ 2,175.1	\$ 2,295.7	\$ 2,501.3	\$ 205.6	9.0%	\$ 192.7	8.3%
Annuity & Benefits	\$ 186.6	\$ 192.2	\$ 196.1	\$ 193.0	\$ 194.7	\$ 1.7	0.9%	\$ 8.1	4.3%
Bond & Interest	\$ 190.8	\$ 272.1	\$ 193.5	\$ 187.4	\$ 187.4	\$ -	0.0%	\$ (3.4)	-1.8%
Agency Special Purpose Funds	\$ 138.5	\$ 52.5	\$ 158.5	\$ 137.3	\$ 161.5	\$ 24.1	17.6%	\$ 22.9	16.5%
Subtotal Special Purpose Funds	\$ 515.9	\$ 516.8	\$ 548.2	\$ 517.7	\$ 543.5	\$ 25.8	5.0%	\$ 27.6	5.4%
Allowance for Uncollected Taxes	\$ 11.6	\$ 8.7	\$ 8.7	\$ -	\$ -	\$ -	-	\$ (11.6)	-100.0%
Restricted Funds (Grants)	\$ 160.8	\$ 185.0	\$ 148.9	\$ 134.4	\$ 161.9	\$ 27.5	20.5%	\$ 1.1	0.7%
Subtotal Operating Funds	\$ 2,996.9	\$ 2,906.2	\$ 2,880.9	\$ 2,947.8	\$ 3,206.8	\$ 259.0	8.8%	\$ 209.8	7.0%
Capital Improvements	\$ 216.3	\$ 188.7	\$ 46.3	\$ 372.0	\$ 329.4	\$ (42.6)	-11.4%	\$ 113.1	52.3%
Total	\$ 3,213.3	\$ 3,094.9	\$ 2,927.2	\$ 3,319.8	\$ 3,536.2	\$ 216.4	6.5%	\$ 323.0	10.1%

Note: In the FY2013 and FY2014 budgets, the Allowance For Uncollected Taxes is treated as an offset to property tax revenue instead of as an expense to more accurately reflect actual collections. The amount for FY2013 was \$11,007,841 and \$10,826,477 for FY2014. Cook County FY2013 Annual Appropriation Bill, p. 22 and FY2014 Executive Budget Recommendation, Revenue Estimate, p. 37.

Source: Cook County FY2014 Executive Budget Recommendation, Proposed Expenditures, pp. 48 and 53.

All Funds Appropriations by Control Officer

The operating budget is comprised of the General Fund, which includes the Corporate and Public Safety Funds, used for general County expenses; the Health Fund; Special Purpose Funds, which include revenues restricted for particular uses only; and Restricted Funds, or grants. Cook County also has a number of independently elected officials who play important roles in the budget process; therefore, the Civic Federation examines expenditures by control officer. The following section describes two-year and five-year trends for appropriations for all funds by control officer.

General and Health Funds

The General and Health Funds budget will increase by \$205.6 million, or 9.0%, to \$2.5 billion in FY2014 from FY2013 appropriations of \$2.3 billion. The budget for Offices Under the President will grow minimally by \$3.3 million, or 2.3%. Appropriations for the Chief Administrative Officer will increase by the greatest dollar amount for Offices Under the President, rising by \$1.6 million. This increase is primarily attributable to a \$2.0 million increase in the Medical Examiner's Office as the Office works to obtain National Association of Medical Examiner accreditation. At the same time, offsetting the increased spending in the Medical Examiner's Office is a reduction in the Department of Transportation and Highways budget of \$569,000 as the department undergoes reorganization.³⁷

Spending under the Chief of Economic Development will also increase significantly in FY2014, by approximately \$905,900 due to increases in the Departments of Planning and Development and Capital Planning. The Department of Planning and Development's budget is growing by

³⁷ Information provided by the Cook County Department of Budget and Management Services, October 19, 2013.

\$555,000 as a result of the expiration of some federal grants which were partially funding several staff positions and due to an increased investment in HOME partnerships with suburban municipalities by the County.³⁸ Appropriations for the Department of Capital Planning are increasing by \$316,000 to fund additional positions, including an Energy Manager and a person to ensure compliance with federal ADA (Americans with Disabilities Act) laws.³⁹

The budget for the Cook County Health and Hospitals System is projected to increase to \$1.1 billion from \$963.7 million between FY2013 and FY2014. This is an increase of \$162.1 million, or 16.8%. For more information on the Health System, see page 44.

For the second year in a row, the most significant appropriation reductions in the General Fund will occur in the Treasurer's Office as spending will fall by nearly \$2.0 million, or 50.2%, to approximately \$2.0 million from \$3.9 million. As with the reduction between FY2012 and FY2013, the majority of the decrease in FY2014 budget is attributable to reductions in headcount and personnel costs.⁴⁰

Appropriations for the Offices of the Assessor, Chief Judge, Sheriff and State's Attorney will increase in FY2014 as a result of new legislation and mandates.

- The budget for the Assessor will increase by \$1.9 million, or 8.3%, in FY2014 in order to provide more resources to enforce new legislation designed to recoup funds from property owners who file erroneous property tax exemptions. The legislation also charges interest and fines to the property owners.⁴¹
- Appropriations for the Chief Judge and Sheriff will increase by \$14.2 million, or 8.0%, and \$18.9 million, or 4.3%, respectively, to fund costs associated with the implementation of the "Raise the Age" legislation. The legislation will require 17 year-olds charged with felony offenses to be tried in the juvenile court system rather than in the adult court system. These 17-year olds will also be housed at the County's Juvenile Temporary Detention Center rather than at the County jail.⁴²

The Sheriff's budget will also increase to treat detainees at the County jail who have been diagnosed with mental illness, as mandated by the Consent Decree from the federal Department of Justice.⁴³ In addition, over time the Sheriff's Office has been required to increase the number of positions at the Department of Corrections to fully staff the facilities. In FY2014 64 additional positions will be added, for a cost of \$2.1 million. Program costs will also increase by \$1.6 million at the Department of Corrections in part

³⁸ HOME is a federally funded affordable housing program. Information provided by the Cook County Department of Budget and Management Services, October 19, 2013.

³⁹ Information provided by the Cook County Department of Budget and Management Services, October 19, 2013.

⁴⁰ Full-time equivalent (FTE) positions in the Treasurer's Office will fall by 12.5% between FY2013 and FY2014, from 105.2 to 92.0 FTEs. Information provided by the Cook County Department of Budget and Management Services, October 23, 2012. Cook County FY2014 Executive Budget Recommendation, County Treasurer, T-4.

⁴¹ See Public Act 98-0093 for more information. The County projects that the enforcement will bring in \$1.5 million in penalty fees in FY2014. Cook County FY2014 Executive Budget Recommendation, p. 29.

⁴² See Public Act 98-0061. Also see Civic Federation blog, "Impact of 'Raise the Age' Legislation on Cook County's Juvenile Temporary Detention Center," July 29, 2013.

⁴³ Cook County FY2014 Executive Budget Recommendation, Resident's Guide, pp. 6-7.

to fund programs for homeless persons who have been ordered by judges for electronic monitoring.⁴⁴

- The State's Attorney will increase spending in FY2014 by \$2.6 million to support improvements to case management through staffing and technology.⁴⁵

Appropriations for the Clerk of the Circuit Court will grow by \$1.8 million in the two-year period. A majority of the increase, \$1.1 million, will provide one-time funding for the relocation of the Circuit Court's document warehouse.⁴⁶

Fixed Charges and Special Purpose expenditures will increase by \$2.1 million, or 0.6%, between FY2013 and FY2014.⁴⁷ The net increase is the result of multiple increases and decreases, including cost increases in Excess Liability Insurance, technology maintenance, operating needs at the George W. Dunne Cook County building and health benefits attributable to changes from the Affordable Care Act.⁴⁸

In a five-year trend analysis, spending in the Offices Under the President will fall by \$9.7 million, or 6.0%, over the five-year period while expenditures for Elected Officials will decrease by \$1.1 million, or 0.1%. Appropriations for control officers under each of these categories will decrease between FY2010 and FY2014 with the exception of the Chief of Human Resources, Chief of Economic Development, the Department of Human Rights and Ethics, the Cook County Board of Commissioners, the Board of Review, Sheriff and the Inspector General. Fixed Charges and Special Purpose appropriations will increase by 9.7%, or \$30.4 million, in FY2014 over FY2010 actual expenditures.

Appropriations for the State's Attorney will fall by the most significant dollar amount in the General and Health Funds between FY2010 and FY2014, by \$5.7 million, or 5.8%. Appropriations for the Chief Judge and Clerk of the Circuit Court will decline by \$3.5 million, or 1.8%, and \$2.3 million, or 3.0%, respectively. Health System appropriations will increase by \$173.1 million, or 18.2%, from \$952.6 in FY2010. Appropriations for the Office of the Inspector General will rise by approximately \$883,700, or 99.4%, over the five-year period, due in part to planned staffing growth to assist in increased investigations efforts and the Inspector General's fulfillment of the role of Compliance Administrator to the County's Employment Plan to ensure fairness in hiring of personnel.⁴⁹

It is important to note that some of the budget trends cited above are partially offset by trends in Special Purpose Funds described below. For example, in the five-year trend analyses, the decline

⁴⁴ Information provided by the Cook County Department of Budget and Management Services, October 19, 2013.

⁴⁵ Cook County FY2014 Executive Budget Recommendation, Resident's Guide, p. 7.

⁴⁶ Cook County FY2014 Executive Budget Recommendation, Resident's Guide, p. 6.

⁴⁷ Fixed Charges and Special Purpose appropriations include items or costs that cannot be readily distributed to any one department within the respective funds as the items or costs contribute to operations of some or all departments of these funds. This line item was moved from Offices Under the President to the General Fund in the FY2013 budget, which differs from previous budgets. Cook County FY2013 Executive Budget Recommendation, Proposed Expenditures, p. 4.

⁴⁸ Information provided by the Cook County Department of Budget and Management Services, October 23, 2013.

⁴⁹ Cook County FY2014 Executive Budget Recommendation, Independent Inspector General, K-3 and information provided by the Cook County Department of Budget and Management Services, October 23, 2013.

in appropriations for the Treasurer of \$3.3 million in the General Funds is offset by an increase of \$2.8 million in Special Purpose Funds. This means that the overall decline in the Treasurer's budget between FY2010 and FY2014 will be approximately \$487,500, or 4.0%.

Special Purpose Funds

Special Purpose Funds are used to account for proceeds from earmarked revenue sources and expenditures for specified or restricted purposes. Appropriations for Special Purpose Funds will increase by \$25.8 million, or 5.0%, to \$543.5 million in FY2014 from \$517.7 million in FY2013. Leading drivers to the overall increase include the rise in appropriations for the Board of Election Commissioners and County Clerk, which will grow significantly, by \$15.3 million and \$5.4 million, respectively, due to the additional funding needed for the 2014 election. The greatest decreases, in terms of dollar amount, will occur in the Offices of the Chief Judge and Sheriff where expenditures will fall by \$2.3 million and \$2.2 million, respectively.

Appropriations for the Chief Information Officer will increase by \$2.2 million in part to fund several multi-year Geographic Information Systems projects that will digitize records for the Recorder of Deeds and automated vehicle location technology.⁵⁰ The Recorder of Deeds budget will increase by \$2.7 million primarily for the purposes of funding two capital projects that will improve processes in the Recorder's office, including digitizing historical land records and updating their system for recording, cashiering, indexing and accounting services for land record transactions.⁵¹

In FY2013 Special Purpose Funds appropriations for the Public Defender included \$100,000 compared to an absence of Special Purpose Funds appropriations in previous years. This estimated amount reflected the signing of Public Act 97-673 into Illinois law on February 6, 2012, allowing the Public Defender to collect a \$2 fee at the disposition of certain cases for the purposes of funding data automation.⁵² The Special Purpose Funds appropriation for the Public Defender is budgeted to increase again in FY2014, by approximately \$58,000, as a result of anticipated higher revenues in FY2014, which will support the department's technology needs.⁵³

In a comparison of FY2010 actual expenditures and FY2014 proposed appropriations, Special Purpose Funds will increase by \$27.6 million, or 5.4%. Most control officers will increase their Special Purpose Funds budgets over the five-year period; however, a large portion of the overall increase can be attributed to the \$11.6 million, or 56.4%, rise in Chief Administrative Officer appropriations. This increase is attributable to the transfer of more than 80 highway positions from the General Funds to the Motor Fuel Tax 1st (MFT 1st) Special Purpose Fund since FY2009.⁵⁴ Other large increases will occur under the control officers for the Chief Judge (\$5.0 million), Annuity and Benefits, or pensions, (\$8.1 million) and the Chief Information Officer (\$6.3 million).

⁵⁰ Information provided by the Cook County Department of Budget and Management Services, October 19, 2013.

⁵¹ Information provided by the Cook County Department of Budget and Management Services, October 19, 2013.

⁵² 55 ILCS 5/4-2002 and information provided by the Cook County Department of Budget and Management Services, October 23, 2012.

⁵³ Information provided by the Cook County Department of Budget and Management Services, October 19, 2013.

⁵⁴ Information provided by the Cook County Department of Budget and Management Services, October 23, 2012.

Cook County Appropriations All Funds by Control Officer: FY2010-FY2014 (in \$ thousands)									
Control Officers	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Adopted	FY2014 Proposed	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
General & Health Funds									
Offices Under President									
President	\$ 3,540.3	\$ 2,322.3	\$ 2,769.0	\$ 2,972.2	\$ 3,352.3	\$ 380.1	12.8%	\$ (188.0)	-5.3%
Chief Administrative Officer	\$ 26,946.3	\$ 19,449.6	\$ 18,464.5	\$ 19,655.2	\$ 21,269.1	\$ 1,614.0	8.2%	\$ (5,677.2)	-21.1%
Chief Financial Officer	\$ 11,963.0	\$ 10,901.5	\$ 10,587.8	\$ 11,196.8	\$ 11,921.4	\$ 724.6	6.5%	\$ (41.5)	-0.3%
Chief of Human Resources	\$ 3,625.1	\$ 3,096.1	\$ 3,106.9	\$ 3,713.6	\$ 3,966.3	\$ 252.7	6.8%	\$ 341.2	9.4%
Chief Information Officer	\$ 12,903.2	\$ 12,068.8	\$ 13,698.2	\$ 11,477.4	\$ 10,909.3	\$ (568.1)	-4.9%	\$ (1,993.9)	-15.5%
Chief of Economic Development	\$ 6,675.8	\$ 5,840.4	\$ 5,991.2	\$ 5,951.0	\$ 6,856.9	\$ 905.9	15.2%	\$ 181.1	2.7%
Facilities Management	\$ 36,471.4	\$ 33,913.8	\$ 36,757.8	\$ 34,782.2	\$ 35,198.2	\$ 415.9	1.2%	\$ (1,273.3)	-3.5%
Department of Human Rights and Ethics	\$ 563.2	\$ 663.1	\$ 769.4	\$ 843.2	\$ 776.6	\$ (66.6)	-7.9%	\$ 213.4	37.9%
Other Agency*	\$ 58,657.6	\$ 58,380.2	\$ 57,601.0	\$ 57,715.0	\$ 57,394.9	\$ (320.1)	-0.6%	\$ (1,262.7)	-2.2%
Subtotal Offices Under President	\$ 161,346.0	\$ 146,635.8	\$ 149,801.8	\$ 148,306.6	\$ 151,645.0	\$ 3,338.4	2.3%	\$ (9,700.9)	-6.0%
Elected Officials									
Cook County Board of Commissioners	\$ 7,307.4	\$ 6,474.0	\$ 6,713.1	\$ 7,274.7	\$ 7,338.1	\$ 63.4	0.9%	\$ 30.7	0.4%
Assessor	\$ 25,391.0	\$ 22,850.9	\$ 21,667.5	\$ 22,737.2	\$ 24,624.8	\$ 1,887.6	8.3%	\$ (766.2)	-3.0%
Board of Review	\$ 8,091.9	\$ 6,957.5	\$ 7,824.8	\$ 8,227.0	\$ 8,233.1	\$ 6.2	0.1%	\$ 141.3	1.7%
Clerk of the Circuit Court	\$ 77,211.0	\$ 74,377.5	\$ 74,587.3	\$ 73,176.2	\$ 74,929.1	\$ 1,752.9	2.4%	\$ (2,281.9)	-3.0%
Chief Judge	\$ 194,976.0	\$ 173,096.2	\$ 184,093.8	\$ 177,285.9	\$ 191,451.9	\$ 14,166.0	8.0%	\$ (3,524.2)	-1.8%
County Clerk	\$ 8,222.3	\$ 7,358.8	\$ 7,530.8	\$ 7,371.5	\$ 7,628.3	\$ 256.8	3.5%	\$ (594.0)	-7.2%
Recorder of Deeds	\$ 6,884.8	\$ 5,835.7	\$ 5,614.1	\$ 5,555.6	\$ 5,686.1	\$ 130.6	2.4%	\$ (1,198.7)	-17.4%
Sheriff	\$ 447,129.9	\$ 435,996.4	\$ 444,346.9	\$ 443,515.3	\$ 462,455.8	\$ 18,940.5	4.3%	\$ 15,325.9	3.4%
State's Attorney	\$ 98,973.5	\$ 93,173.0	\$ 92,532.8	\$ 90,678.2	\$ 93,229.6	\$ 2,551.4	2.8%	\$ (5,743.9)	-5.8%
Treasurer	\$ 5,248.7	\$ 4,871.9	\$ 4,745.4	\$ 3,917.5	\$ 1,952.8	\$ (1,964.7)	-50.2%	\$ (3,295.9)	-62.8%
Inspector General	\$ 889.1	\$ 1,063.7	\$ 1,261.8	\$ 1,713.5	\$ 1,772.8	\$ 59.3	3.5%	\$ 883.7	99.4%
Public Administrator	\$ 1,121.5	\$ 1,113.1	\$ 1,145.4	\$ 1,143.8	\$ 1,097.1	\$ (46.8)	-4.1%	\$ (24.5)	-2.2%
Veterans Assistance Commission	\$ 366.4	\$ 404.7	\$ 370.2	\$ -	\$ 300.0	\$ 300.0	100.0%	\$ (66.4)	-18.1%
Subtotal Elected Officials	\$ 881,813.5	\$ 833,573.3	\$ 852,434.0	\$ 842,596.4	\$ 880,699.6	\$ 38,103.3	4.5%	\$ (1,113.8)	-0.1%
Cook County Health and Hospitals System	\$ 952,593.3	\$ 864,428.7	\$ 865,022.8	\$ 963,658.5	\$ 1,125,717.2	\$ 162,058.7	16.8%	\$ 173,123.9	18.2%
Fixed Charges and Special Purpose**	\$ 312,883.4	\$ 350,997.9	\$ 307,822.0	\$ 341,137.3	\$ 343,264.6	\$ 2,127.3	0.6%	\$ 30,381.2	9.7%
Subtotal General & Health Funds	\$ 2,308,636.1	\$ 2,195,635.7	\$ 2,175,080.6	\$ 2,295,698.8	\$ 2,501,326.4	\$ 205,627.7	9.0%	\$ 192,690.3	8.3%
Special Purpose Fund									
President	\$ 1,478.9	\$ 854.0	\$ 12.9	\$ -	\$ -	\$ -	-	\$ (1,478.9)	-100.0%
Chief Administrative Officer	\$ 20,598.2	\$ 29,661.1	\$ 30,465.9	\$ 32,218.7	\$ 32,205.7	\$ (13.0)	0.0%	\$ 11,607.5	56.4%
Chief Financial Officer	\$ 93.4	\$ 1,415.0	\$ 500.7	\$ -	\$ -	\$ -	-	\$ (93.4)	-100.0%
Chief Information Officer	\$ 9,143.3	\$ 5,504.9	\$ 11,557.8	\$ 13,272.6	\$ 15,461.9	\$ 2,189.2	16.5%	\$ 6,318.5	69.1%
Public Defender	\$ -	\$ -	\$ -	\$ 100.0	\$ 158.0	\$ 58.0	58.0%	\$ 158.0	100.0%
Cook County Land Bank Authority	\$ -	\$ -	\$ -	\$ -	\$ 1,000.0	\$ 1,000.0	100.0%	\$ 1,000.0	100.0%
Cook County Health and Hospitals System	\$ 4,952.1	\$ 6,478.9	\$ 5,554.4	\$ 7,539.1	\$ 7,773.9	\$ 234.8	3.1%	\$ 2,821.8	57.0%
Assessor	\$ -	\$ -	\$ 989.9	\$ 750.0	\$ 750.0	\$ -	0.0%	\$ 750.0	100.0%
Board of Election Commissioners	\$ 17,341.0	\$ 478.6	\$ 16,887.6	\$ 908.1	\$ 16,189.4	\$ 15,281.3	1682.8%	\$ (1,151.5)	-6.6%
Clerk of the Circuit Court	\$ 32,151.9	\$ 31,293.1	\$ 28,965.0	\$ 19,827.7	\$ 21,640.7	\$ 1,813.0	9.1%	\$ (10,511.1)	-32.7%
Chief Judge	\$ 11,431.9	\$ 27,962.3	\$ 17,351.6	\$ 18,731.2	\$ 16,460.0	\$ (2,271.2)	-12.1%	\$ 5,028.0	44.0%
County Clerk	\$ 22,987.2	\$ 17,770.6	\$ 24,415.1	\$ 20,202.4	\$ 25,611.3	\$ 5,408.9	26.8%	\$ 2,624.2	11.4%
Recorder of Deeds	\$ 4,714.6	\$ 5,755.5	\$ 5,474.0	\$ 6,216.7	\$ 8,947.6	\$ 2,730.9	43.9%	\$ 4,233.0	89.8%
Sheriff	\$ 1,472.0	\$ 1,847.5	\$ 4,248.4	\$ 3,398.4	\$ 1,208.7	\$ (2,189.7)	-64.4%	\$ (263.2)	-17.9%
State's Attorney	\$ 5,377.9	\$ 2,751.2	\$ 3,969.6	\$ 4,417.2	\$ 4,452.0	\$ 34.8	0.8%	\$ (925.9)	-17.2%
Treasurer	\$ 6,797.2	\$ 7,145.7	\$ 8,129.1	\$ 9,750.0	\$ 9,605.5	\$ (144.4)	-1.5%	\$ 2,808.4	41.3%
Annuity and Benefits	\$ 186,600.0	\$ 192,234.2	\$ 196,139.5	\$ 192,969.5	\$ 194,668.2	\$ 1,698.7	0.9%	\$ 8,068.2	4.3%
Bond and Interest	\$ 190,760.4	\$ 272,080.7	\$ 193,532.4	\$ 187,384.8	\$ 187,384.8	\$ -	0.0%	\$ (3,375.7)	-1.8%
Less Debt Restructuring	\$ -	\$ (85,000.0)	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
Subtotal Special Purpose Funds	\$ 515,899.9	\$ 518,233.4	\$ 548,193.9	\$ 517,686.4	\$ 543,517.7	\$ 25,831.3	5.0%	\$ 27,617.8	5.4%
Allowance for Uncollected Taxes	\$ 11,598.0	\$ 8,727.2	\$ 8,727.2	\$ -	\$ -	\$ -	-	\$ (11,598.0)	-100.0%
Other Restricted Funds (Grants)	\$ 160,810.1	\$ 185,029.7	\$ 148,928.4	\$ 134,433.1	\$ 161,945.8	\$ 27,512.7	20.5%	\$ 1,135.7	0.7%
Total Operating Funds	\$ 2,996,944.2	\$ 2,907,626.0	\$ 2,880,930.0	\$ 2,947,818.3	\$ 3,206,790.0	\$ 258,971.6	8.8%	\$ 209,845.8	7.0%
Capital Improvements	\$ 216,318.3	\$ 188,739.8	\$ 46,315.9	\$ 372,020.8	\$ 329,438.9	\$ (42,581.9)	-11.4%	\$ 113,120.6	52.3%
Total Budget	\$ 3,213,262.4	\$ 3,096,365.8	\$ 2,927,245.9	\$ 3,319,839.2	\$ 3,536,228.9	\$ 216,389.7	6.5%	\$ 322,966.4	10.1%

*Includes Department of Administrative Hearings, County Auditor and Public Defender.

** This line item was moved from Offices Under the President to the General Fund in the FY2013 budget to more accurately reflect actual operations, which differs from previous budgets.

Note: In the FY2013 and FY2014 budgets, the Allowance for Uncollected Taxes is treated as an offset to property tax revenue instead of as an expense to more accurately reflect actual collections. The amount for FY2013 was \$11,007,841 and \$10,826,477 for FY2014. Cook County FY2013 Annual Appropriation Bill, p. 22 and FY2014 Executive Budget Recommendation, p. 37.

Sources: Cook County FY2014 Executive Budget Recommendation, Proposed Expenditures, pp. 54-62 and information provided by the Cook County Office of Budget and Management Services, October 23, 2012.

Grant Funds as a Percentage of Total Appropriations

In FY2014 grant funds will amount to 4.6% of the total budget for Cook County. In other words, grant funds will account for \$161.9 million of the County's \$3.5 billion total budget. In FY2014 the County's grant funding will increase by \$27.5 million, or 20.5%, from the FY2013 amount of \$134.4 million. A portion of the increase, \$4.5 million, is attributable to the County's new Land Bank Authority, which was created to restore vacant and abandoned properties through acquisition and management of foreclosed properties in the County.⁵⁵

The Offices Under the President will receive 35.7%, or \$111.5 million, of its \$311.9 million total all funds budget in grant funds. The amount allocated for the President's Office represents 77.2%, of total grant funds for Offices Under the President. Of the total appropriations for Elected Officials, \$40.4 million, or 4.0%, will come from grants. A large portion, 50.5%, of Elected Officials' grants funds will go toward the State's Attorney. Of the control officers in the Other category, only the Cook County Health and Hospitals System will receive grant funds. The Health System is expected to receive \$10.1 million, or 0.9%, of its \$1.1 billion budget in grant funding.

⁵⁵ Cook County FY2014 Executive Budget Recommendation, Resident's Guide, p. 2.

Cook County FY2014 Grant Funds as a % of Total Appropriations			
Control Officers	Grant Funds	Total Appropriations	Grants as % of Total Appropriations
Offices Under President			
President	\$ 86,032,307	\$ 89,384,605	96.2%
Chief Administrative Officer	\$ 3,105,260	\$ 56,580,092	5.5%
Chief Financial Officer	\$ -	\$ 11,921,427	0.0%
Chief of Human Resources	\$ -	\$ 3,966,311	0.0%
Chief Information Officer	\$ -	\$ 26,371,156	0.0%
Chief of Economic Development	\$ 17,665,884	\$ 24,522,753	72.0%
Facilities	\$ -	\$ 35,198,174	0.0%
Department of Human Rights and Ethics	\$ -	\$ 776,602	0.0%
Cook County Land Bank Authority	\$ 4,500,000	\$ 5,500,000	81.8%
Other Agency*	\$ 175,782	\$ 57,728,681	0.3%
Subtotal Offices Under President	\$ 111,479,233	\$ 311,949,801	35.7%
Elected Officials			
Cook County Board of Commissioners	\$ -	\$ 7,338,091	0.0%
Assessor	\$ -	\$ 25,374,799	0.0%
Board of Review	\$ -	\$ 8,233,141	0.0%
Chief Judge	\$ 4,370,696	\$ 212,282,551	2.1%
Clerk of the Circuit Court	\$ 4,085,080	\$ 100,654,903	4.1%
County Clerk	\$ 3,784,602	\$ 37,024,261	10.2%
Recorder of Deeds	\$ -	\$ 14,633,670	0.0%
Sheriff	\$ 7,751,245	\$ 471,415,817	1.6%
State's Attorney	\$ 20,361,729	\$ 118,043,320	17.2%
Treasurer	\$ -	\$ 11,558,347	0.0%
Inspector General	\$ -	\$ 1,772,838	0.0%
Public Administrator	\$ -	\$ 1,097,074	0.0%
Veterans Assistance Commission	\$ -	\$ 300,000	0.0%
Subtotal Elected Officials	\$ 40,353,352	\$ 1,009,728,812	4.0%
Other			
Cook County Health and Hospitals System	\$ 10,113,231	\$ 1,143,604,337	0.9%
Board of Election Commissioners	\$ -	\$ 16,189,445	0.0%
Annuity and Benefits	\$ -	\$ 194,668,229	0.0%
Bond and Interest	\$ -	\$ 187,384,752	0.0%
Capital Improvements	\$ -	\$ 329,438,894	0.0%
Subtotal Other	\$ 10,113,231	\$ 1,871,285,657	0.5%
Fixed Charges and Special Purpose	\$ -	\$ 343,264,600	0.0%
Total Budget	\$ 161,945,816	\$ 3,536,228,870	4.6%

*Includes Department of Administrative Hearings, County Auditor, Public Defender, which refer to operational expenses that do not have dedicated revenue sources.

Source: Cook County, FY2014 Executive Budget Recommendation, Proposed Expenditures, pp. 60, 62 and 79 and Grants, pp. 93-201 and information provided by the Department of Budget and Management, October 11, 2013.

RESOURCES

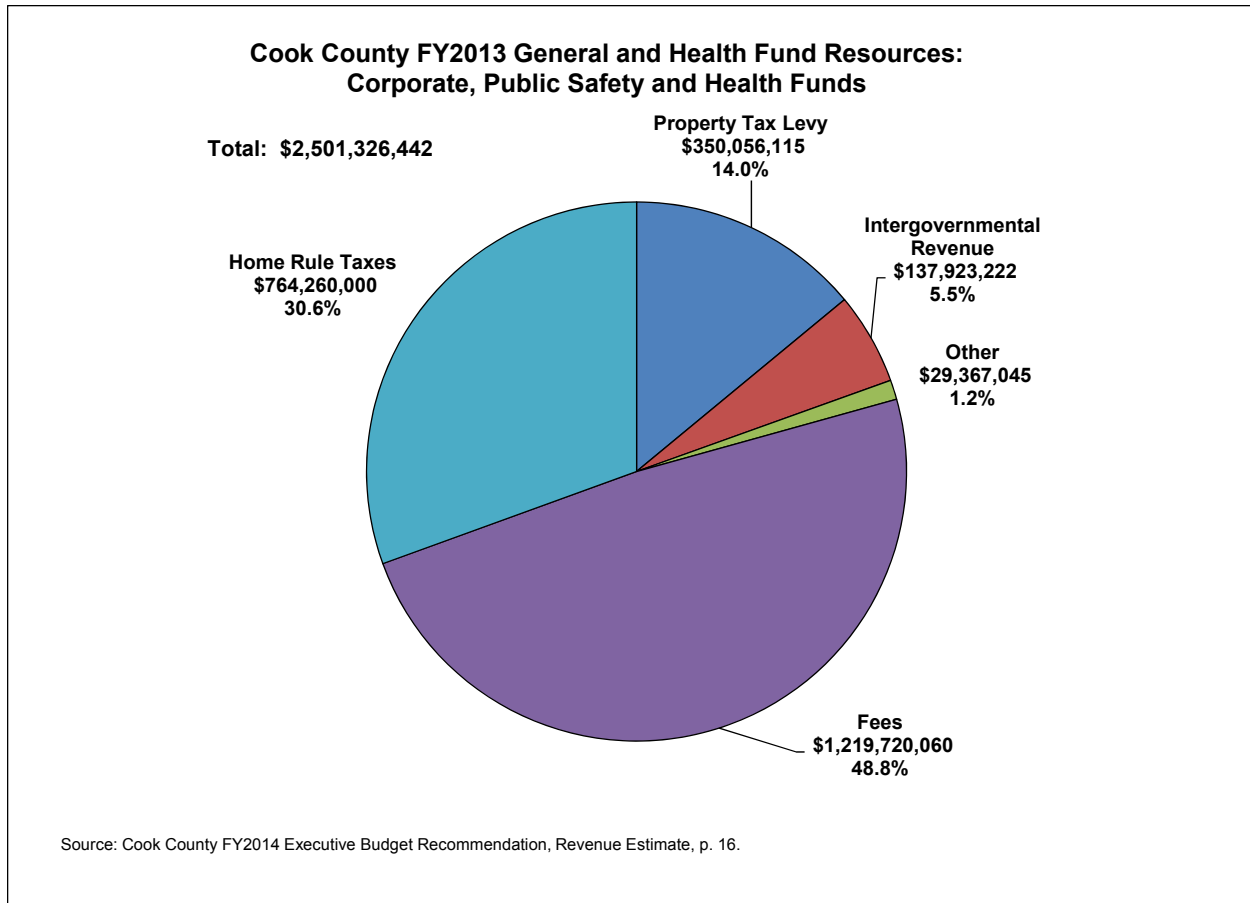
This section describes General and Health Fund resources for Cook County and the property tax levy, which is used for all fund purposes.

Proposed FY2014 General and Health Fund Resources

In FY2014 the County expects to generate over \$2.5 billion from General and Health Fund revenue sources. The General Fund includes the Corporate and Public Safety funds. The Corporate Fund is the County's general operating fund and accounts for approximately 6.4%, or nearly \$161.1 million, of the County's revenues in FY2014. The Public Safety Fund accounts for the County's criminal justice system, including its jails, courts and related programs. The Public Safety Fund makes up roughly 48.6% of the FY2014 resources at \$1.2 billion. The Health Fund accounts for the County's public healthcare system and makes up 45.0%, or \$1.1 billion, of the County's resources.⁵⁶ For a more detailed discussion of the Cook County Health and Hospitals System and Health Fund resources, see page 44 of this report.

⁵⁶ Cook County FY2014 Executive Recommendation, Revenue Estimates, p. 32.

Of the \$2.5 billion in General and Health Fund revenues, fees represent the largest resource at \$1.2 billion or 48.8% of the total. Home rule taxes are the second largest source of resources at 30.6%, bringing in \$764.3 million in FY2014. Property taxes will make up 14.0% of resources with \$350.1 million. Intergovernmental revenues, which make up 5.5% of resources, include revenues distributed by the State of Illinois like the Motor Fuel tax and Retailer's Occupation tax, as well as resources from the City of Chicago, including tax increment financing (TIF) surplus. Other resources refer to miscellaneous revenues, such as property rental income from County buildings, commissions on public telephones, sale of excess real estate and energy efficient rebates.⁵⁷



General and Health Fund Resource Trends

Cook County operating and enterprise resources are projected to increase by \$205.6 million, or 9.0% between the FY2013 adopted budget and FY2014 proposed budget. For two-year trends between FY2013 year-end estimates and the proposed FY2014 budget, see the Appendix on page 91 of this report. In the five-year period between actual FY2010 resources and those proposed for FY2014, Cook County operating and enterprise resources will increase by \$218.2 million, or 9.6%.

⁵⁷ Cook County FY2014 Executive Budget Recommendation, p. 27.

The proposed budget reflects a full fiscal year of the rollback of the 1% sales tax increase implemented in 2008. It also reflects increased federal revenues to fund the full-year membership of approximately 56,000 patients enrolled in CountyCare, Cook County's Medicaid Expansion project. In FY2014 the federal government will cover 100% of the monthly fees for CountyCare, up from 50% in FY2013.⁵⁸

The operating budget does not include any general tax or fee increases for FY2014.

Sales and Use Taxes

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.

Effective July 1, 2010, the County Board reduced the sales tax to 1.25%. At the February 25, 2011 Cook County Board meeting, an ordinance amendment proposed by Board President Preckwinkle was passed (12 to 5) by the County Board to lower the County's home rule sales tax to 1.0% beginning in January 2012 and to 0.75% beginning on January 1, 2013. The proposed budget for FY2014, which runs from December 1, 2013 to November 30, 2014, will be the first full fiscal year reflecting the full rollback of the sales tax increase.

The FY2013 budget expanded the County home rule use tax to non-titled property in order to encourage the purchase of personal property by businesses within Cook County.⁵⁹ Previously, only titled property purchased outside Cook County was subject to a 1.00% use tax. The policy change expanded the use tax to all personal property purchased outside of Cook County for use within the County valued above \$3,500. The rate for the non-titled property use tax was originally proposed to be 1.25%, but was reduced to 0.75% effective June 1, 2013.⁶⁰ The rate reduction made the use tax equal to the FY2013 home rule sales tax rate. Titled property continued to be taxed at the 1.00% rate.

According to the County's website, as of October 8, 2013, the County will not be accepting registration, tax return filings and payments for the non-titled property use tax pending current litigation. The Cook County Circuit court made a preliminary injunction against the tax permanent, however the County plans to appeal.⁶¹ The FY2014 proposed budget does not include revenues from the tax for FY2014. Projected FY2013 revenues were approximately \$4.2 million, significantly lower than the budgeted \$13.8 million. For additional two-year trends between FY2013 year-end estimates and the proposed FY2014 budget, see the Appendix on page 91 of this report.

⁵⁸ Cook County, FY2014 Executive Budget Recommendation, Revenue Estimate, p. 16. For more about CountyCare, see the Health System section of this analysis on page 44.

⁵⁹ Cook County FY2013 Executive Budget Recommendation, Revenue Estimates p. 2.

⁶⁰ "Non-Titled Personal Property Use Tax," last visited October 11, 2013, http://www.cookcountygov.com/portal/server.pt/community/revenue,_department_of/313/non-titled_personal_property_use_tax.

⁶¹ John Byrne, "Preckwinkle's use tax takes a hit," *Chicago Tribune*, October 8, 2013.

Combined receipts of both the home rule sales and use taxes are expected to be \$405.7 million in FY2014, down \$30.1 million or 6.9%, from the FY2013 adopted figures. Since FY2010 sales tax revenues will decrease by \$316.8 million, or 48.4%, largely as a result of the sales tax roll back.

Other Taxes and Fees

In FY2014 the gross Cook County property tax levy will total \$727.8 million. The levy remained at \$720.4 million from 2001 to 2011 and then increased slightly over the subsequent years to capture expiring City of Chicago tax increment financing (TIF) districts and new property. In FY2014 the levy will increase again as Cook County captures roughly \$7.3 million from new property, expiring property tax incentives and expiring TIF districts.⁶² The portion of the levy used for operating purposes in FY2014 will be nearly \$350.1 million, a slight decrease from \$355.9 million the previous year because of elections that will occur in 2014. Since FY2010, the portion of the levy used for operating purposes will increase by 4.9%, or \$16.4 million.

A major source of home rule tax revenue is tobacco taxes, which include the cigarette tax and a tax on other tobacco products. On March 1, 2013, the County increased the home rule cigarette tax by \$1 per pack to a total of \$3 per pack. This increased the composite cigarette tax rate in Chicago to \$6.67 per pack, one of the highest in the nation. Overall, tobacco taxes are projected to increase by 0.6%, or \$870,000, in FY2014, rising from a budgeted level of \$141.3 million to \$142.2 million. Since FY2010 tobacco tax revenues will have increased by 8.5%, or \$11.2 million.

As noted above, fees represent the largest source of all General and Health Fund revenues, at \$1.2 billion or 48.8%. These include patient fees from the Cook County Health and Hospitals System, court fees collected by the Clerk of the Circuit Court, Recorder of Deeds fees and Treasurer's Office fees. The County is projecting an increase in revenue from fees, from \$979.9 million in FY2013 to \$1.2 billion in FY2014, a \$239.8 million, or 24.5% increase. Over the last five years, fee revenues are expected to rise by 47.7%, from \$825.9 million to \$1.2 billion. This is an increase of \$393.8 million.

The largest source of fee revenue is patient fees, which are projected to increase by 33.2%, or \$235.5 million, from \$710.1 million in FY2013 to \$945.6 million in FY2014. The revenue in the patient fees category is comprised of Medicaid revenues from the federal government based on patient fees and supplemental Medicaid payments designed for hospitals serving large numbers of uninsured patients. These revenues include: 1) Disproportionate Share Hospital (DSH) payments and 2) payments provided under a provision of the Medicare, Medicaid and SCHIP Benefits Improvement Protection Act (BIPA) of 2000. In 2012 the Health System submitted a proposal to the federal government to gain early access to expanded Medicaid funding under the provisions of the Affordable Care Act.

The 33.2% increase in patient fees is largely due to the full-year implementation of Medicaid Expansion and increased reimbursement from the federal government. Revenues for Medicaid Expansion are projected to be \$468.2 million in FY2014, up from \$197.0 million budgeted for FY2013. However, the County has estimated that actual revenues will be closer to \$122.3

⁶² Cook County FY2014 Executive Recommendation, Revenue Estimates p. 37.

million for FY2013. The \$74.7 million decline from budget estimates in FY2013 is partially due to the State's inability to process applications for CountyCare at a fast enough pace, though staffing has since increased to accommodate the high volume of applications received.⁶³ For additional two-year trends between FY2013 year-end estimates and the proposed FY2014 budget, see the Appendix on page 91 of this report.

For more detail on Health System operating revenues, please see page 44 of this analysis.

Miscellaneous revenue includes commissions on public telephones, construction and hauling permits, real estate rental income, sale of excess real estate, medical examiner office revenue, interest income and some health revenues.⁶⁴ Miscellaneous revenue is expected to decrease in FY2014 by 14.5%, or \$5.0 million, from FY2013.

Intergovernmental revenues include state sales and income tax distributions, gaming revenues, motor fuel tax grants and reimbursements from other governments. These revenues are expected to increase by 0.7%, or \$1.0 million, in FY2014. This will be an increase from \$136.9 million to \$137.9 million. From FY2010 to FY2014, intergovernmental revenues are expected to increase by \$49.2 million, or 55.4%. The five-year increase is driven by a \$30.0 million, or 67.4% increase in Motor Fuel Tax revenues, as well as new revenues from gaming at the Des Plaines Casino, \$8.3 million, and the City's distribution of tax increment financing (TIF) surplus, \$3.0 million.⁶⁵

⁶³ Cook County FY2014 Executive Recommendation, Revenue Estimates, p. 21.

⁶⁴ Cook County FY2014 Executive Recommendation, Revenue Estimates, pp. 27-28.

⁶⁵ Cook County FY2014 Executive Recommendation, Revenue Estimates, p. 27.

Cook County General and Health Fund Resources									
FY2010-FY2014 (in \$ thousands)									
	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Adopted	FY2014 Proposed	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Property Taxes	\$ 333,613	\$ 392,365	\$ 335,209	\$ 355,920	\$ 350,056	\$ (5,864)	-1.6%	\$ 16,443	4.9%
Home Rule Taxes									
Sales	\$ 654,239	\$ 503,606	\$ 458,191	\$ 362,507	\$ 337,400	\$ (25,107)	-6.9%	\$(316,839)	-48.4%
Use	\$ 35,109	\$ 39,561	\$ 57,366	\$ 59,450	\$ 68,300	\$ 8,850	14.9%	\$ 33,191	94.5%
Non Titled Use Tax	\$ -	\$ -	\$ -	\$ 13,800	\$ -	\$ -	-	\$ -	-
Subtotal Sales & Use Taxes	\$ 689,348	\$ 543,167	\$ 515,558	\$ 435,757	\$ 405,700	\$ (30,057)	-6.9%	\$(283,648)	-41.1%
Alcoholic Beverage	\$ 24,878	\$ 25,550	\$ 33,969	\$ 39,100	\$ 36,500	\$ (2,600)	-6.6%	\$ 11,622	46.7%
Non-Retailer Transactions	\$ -	\$ -	\$ 878	\$ 7,800	\$ 11,460	\$ 3,660	46.9%	\$ 11,460	-
Cigarette and Other Tobacco	\$ 131,018	\$ 123,250	\$ 130,015	\$ 141,310	\$ 142,180	\$ 870	0.6%	\$ 11,162	8.5%
Gas	\$ 93,857	\$ 86,836	\$ 89,743	\$ 87,130	\$ 87,050	\$ (80)	-0.1%	\$ (6,807)	-7.3%
Retail Sale/Motor Vehicles	\$ 2,057	\$ 2,351	\$ 2,656	\$ 2,900	\$ 3,095	\$ 100	2.5%	\$ 2,043	99.3%
Wheel	\$ 1,950	\$ 2,034	\$ 4,207	\$ 4,000	\$ 4,100	\$ 3,225	12.3%	\$ 27,525	1411.8%
Amusement	\$ 22,000	\$ 22,654	\$ 32,660	\$ 26,250	\$ 29,475	\$ 3,225	12.3%	\$ 7,475	34.0%
Parking Lot	\$ 36,070	\$ 35,299	\$ 39,618	\$ 42,560	\$ 42,600	\$ 40	0.1%	\$ 6,530	18.1%
Gaming Amusement Machine Tax	\$ -	\$ -	\$ -	\$ 1,200	\$ 1,350	\$ 150	-	\$ 1,350	-
Firearms and Ammunition Tax	\$ -	\$ -	\$ -	\$ 600	\$ 750	\$ 150	-	\$ 750	-
Home Rule Projects	\$ -	\$ 7,711	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
Subtotal Home Rule Taxes	\$1,001,178	\$ 848,851	\$ 849,304	\$ 788,607	\$ 764,260	\$ (24,347)	-3.1%	\$(236,918)	-23.7%
Fee Revenue									
Patient Fees*	\$ 533,627	\$ 474,660	\$ 577,957	\$ 710,120	\$ 945,604	\$ 235,484	33.2%	\$ 411,977	77.2%
Clerk of Circuit Court	\$ 104,367	\$ 94,405	\$ 94,199	\$ 95,000	\$ 96,750	\$ 1,750	1.8%	\$ (7,617)	-7.3%
Recorder of Deeds Fees**	\$ 33,572	\$ 32,410	\$ 35,820	\$ 33,364	\$ 42,500	\$ 9,136	27.4%	\$ 8,928	26.6%
Treasurer's Fees	\$ 94,284	\$ 75,067	\$ 90,244	\$ 76,000	\$ 70,000	\$ (6,000)	-7.9%	\$ (24,284)	-25.8%
Other	\$ 60,043	\$ 58,524	\$ 60,093	\$ 65,446	\$ 64,866	\$ (579)	-0.9%	\$ 4,823	8.0%
Subtotal Fee Revenue	\$ 825,894	\$ 735,065	\$ 858,312	\$ 979,930	\$1,219,720	\$ 239,790	24.5%	\$ 393,826	47.7%
Misc. Revenues									
Misc. Revenues	\$ 33,675	\$ 68,985	\$ 27,813	\$ 34,328	\$ 29,367	\$ (4,961)	-14.5%	\$ (4,308)	-12.8%
Subtotal Misc. Revenues	\$ 33,675	\$ 68,985	\$ 27,813	\$ 34,328	\$ 29,367	\$ (4,961)	-14.5%	\$ (4,308)	-12.8%
Intergovernmental Revenues									
Motor Fuel Tax	\$ 44,500	\$ 44,500	\$ 74,500	\$ 74,500	\$ 74,500	\$ -	0.0%	\$ 30,000	67.4%
OTB Commissions	\$ 2,079	\$ 2,683	\$ 1,649	\$ 2,550	\$ 2,423	\$ (128)	-5.0%	\$ 343	16.5%
State Sales Tax (Retailer's Occupation)	\$ 2,835	\$ 2,868	\$ 2,948	\$ 3,200	\$ 3,290	\$ 90	2.8%	\$ 455	16.1%
State Income Tax	\$ 9,027	\$ 9,756	\$ 10,751	\$ 12,400	\$ 12,351	\$ (49)	-0.4%	\$ 3,324	36.8%
Gaming	\$ -	\$ -	\$ 8,345	\$ 8,000	\$ 8,300	\$ 300	3.8%	\$ 8,300	-
Chicago TIF Distribution	\$ -	\$ 19,046	\$ 4,441	\$ 1,428	\$ 3,000	\$ 1,572	110.1%	\$ 3,000	-
Reimbursements Other Governments***	\$ 30,328	\$ 38,128	\$ 38,452	\$ 34,836	\$ 34,060	\$ (776)	-2.2%	\$ 3,732	12.3%
Subtotal Intergovernmental Revenues	\$ 88,769	\$ 116,981	\$ 141,086	\$ 136,914	\$ 137,923	\$ 1,010	0.7%	\$ 49,154	55.4%
Total	\$2,283,130	\$2,162,248	\$2,211,725	\$2,295,699	\$2,501,326	\$ 205,628	9.0%	\$ 218,197	9.6%

Note: In some cases the data was not consistent in the appropriations bills from year-to-year. Most recent actual data was used. State Sales Tax is referred to as Retailer's Occupation Tax in budget books.

**Patient Fees include revenues from patient fees and supplemental payments for care provided at County hospitals (including from Medicare, Medicaid, private payers and carriers) and the Cook County Managed Care Community Network, or CountyCare). Supplemental payments include Benefits Improvement and Protection Act (BIPA) and Disproportionate Share Hospital (DSH) payments and incentives from the Federal government. FY2013 and FY2014 Patient Fees include federal reimbursement for Medicaid Expansion under the Affordable Care Act.

**Recorder of Deeds Fees include Recorder Audit Revenues.

***Reimbursements include State Criminal Alien Assistance Program (SCAAP), Probation Officer, Juvenile Court, JTDC and indirect costs.

Sources: Cook County FY2012 Appropriation Bill, Citizen's Summary, p. 43; FY2014 Executive Recommendation, Revenue Estimate, p. 29.

Property Tax Levy for All Funds

In FY2014 the Cook County property tax levy will total \$727.8 million. The levy remained at \$720.5 million from 2001 to 2011 and then increased each subsequent year to capture revenue from new property and expiring City of Chicago tax increment financing (TIF) districts. In FY2014 the levy will increase as Cook County captures roughly \$5.4 million from new property and \$1.9 million from expiring and eliminated TIF districts.⁶⁶ The \$1.9 million levy related to TIF districts is not an increase in the amount of money taxpayers will owe in property taxes. This is because taxpayers were previously paying the \$1.9 million for Chicago TIF district expenses. Now, they will pay the \$1.9 million instead as part of the Cook County levy. The levy on new property only affects those taxpayers whose property has been improved.

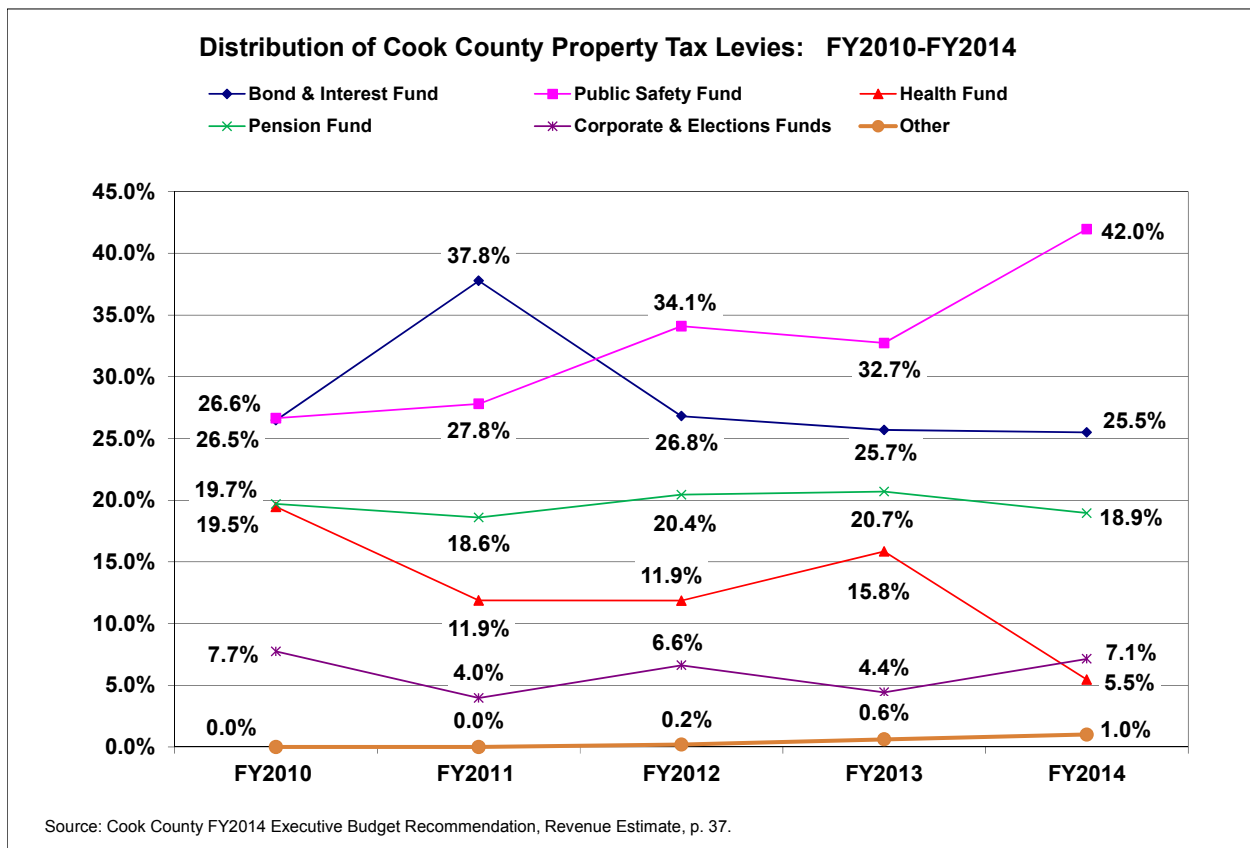
⁶⁶ Cook County FY2014 Executive Recommendation, Revenue Estimate, p. 37.

Property tax revenues are distributed to six major funds: Corporate, Elections, Public Safety, Health, Bond and Interest and Pension (also known as the Annuity and Benefit Fund). Changes in distribution of the levy between FY2010 and FY2014 are shown below.

Three of the funds, Public Safety, Pension and Bond and Interest Funds, will consume 86.4%, or \$628.8 million, of the levy in FY2014. The Public Safety Fund will consume the largest amount of the levy at \$305.4 million, or 42.0% of the total. This is an increase from Public Safety's 32.7% share in FY2013 and an increase of 15.3 percentage points from Public Safety's 26.6% share in FY2010. The Bond and Interest Fund will spend 25.5%, or \$185.5 million, in FY2013. Finally, the Pension Fund will be the third largest expenditure for levy resources at 18.9%, or \$137.9 million, of the total levy in FY2014.

For purposes of our analysis, the relatively small Corporate and Election Funds have been combined. In FY2014 the portion of the levy dedicated to these funds will be 7.1%. The year-to-year fluctuation of this portion of the levy coincided with federal and State election years.

The Health Fund will consume 5.5%, or \$39.7 million, of property tax revenue for FY2014. Over the past five years, portion of property tax levy revenues distributed to the Health Fund has declined by 14.0 percentage points. The County attributes a 10.4 percentage point decline from FY2013 to the need to fund federal, State and County elections that will occur in 2014.⁶⁷



⁶⁷ Cook County FY2014 Executive Recommendation, Revenue Estimate, p. 17.

PERSONNEL TRENDS

The following section addresses trends for budgeted personnel by fund and by control officer and trends in personal service appropriations for all funds. Although personnel data for the Cook County Health and Hospitals System is included, details on the Health System are discussed on page 44 of this report.

The County proposes an increase of 551.2 full-time equivalent (FTE) positions in the General Fund, Special Purpose Funds and Health Fund for a total of 23,130.1 FTEs in FY2014.⁶⁸ When grant funds are included, the total workforce is 23,673.1 FTEs, an increase of 504.2 FTEs, or 2.2%, from FY2013.⁶⁹ The proposed increase in FTEs is primarily in response to mandated public safety hiring, the implementation of “Raise the Age” legislation enacted by the State of Illinois, tax fraud enforcement and the expansion of County Care.⁷⁰

Full-Time Equivalent Positions by Fund

The County’s FY2014 budget proposes to increase FTE positions in the Corporate Fund, Public Safety Fund and Health Fund.⁷¹ The Corporate Fund’s FTEs will increase by 7.5, or 0.5%, from the FY2013 approved FTEs. The Public Safety Fund will increase by 487.1 FTEs, or by 3.7%, due to mandated public safety hiring and an anticipated increase in population at the Juvenile Temporary Detention Center as a result of legislation enacted by the State.⁷² The Health Fund will increase by 77.0 FTEs, or by 1.2%. Designated FTEs in Other Special Purpose Funds are declining by 20.4 FTEs, or 2.2%, from the FY2013 approved budget. Over the five-year period beginning FY2010, the Corporate Fund workforce has been reduced by 242.3 FTEs, or 13.6%, and the Public Safety workforce has been reduced by 595.2 FTEs, or by 4.1%. The majority of these declines occurred in FY2011, when Cook County Board President Toni Preckwinkle reduced FTEs in the Offices Under the President by approximately 340.8 FTEs and in the Sheriff’s office by 201.8 FTEs, in addition to other significant reductions as an effort to more closely align operating expenditures with recurring revenues.⁷³

Cook County Budgeted FTEs by Fund: FY2010-FY2014									
Fund	FY2010 Adopted	FY2011 Adopted	FY2012 Adopted	FY2013 Adopted	FY2014 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Corporate Fund	1,781.3	1,481.9	1,569.8	1,531.5	1,539.0	7.5	0.5%	(242.3)	-13.6%
Public Safety Fund	14,411.7	14,023.2	13,287.3	13,329.4	13,816.5	487.1	3.7%	(595.2)	-4.1%
Election Fund	125.0	129.6	133.0	133.0	133.0	0.0	0.0%	8.0	6.4%
Other Special Purpose Funds	889.4	987.5	946.9	916.9	896.5	(20.4)	-2.2%	7.1	0.8%
Subtotal without Health Fund	17,207.4	16,622.2	15,937.0	15,910.8	16,385.0	474.2	3.0%	(822.4)	-4.8%
Health Fund	7,626.7	6,638.1	7,057.8	6,668.1	6,745.1	77.0	1.2%	(881.6)	-11.6%
Total	24,834.1	23,260.3	22,994.8	22,578.9	23,130.1	551.2	2.4%	(1,704.0)	-6.9%

Note: Some differences in totals may appear due to rounding. Figures do not include grant-funded positions.

Source: Cook County FY2014 Executive Budget Recommendation, Proposed Expenditures, pp. 81-84.

⁶⁸ This number does not include grant-funded positions.

⁶⁹ Cook County FY2014 Executive Budget Recommendation, Proposed Expenditures, p. 84.

⁷⁰ Cook County FY2014 Executive Budget Recommendation, Resident’s Guide, p. 2.

⁷¹ Full-time equivalent positions account for full-time, part-time, seasonal and hourly wage earners.

⁷² Cook County FY2014 Executive Budget Recommendation, Resident’s Guide, p. 2.

⁷³ Cook County FY2011 Executive Budget Recommendation, Citizens’ Summary pp. 101-103.

Full-Time Equivalent Positions by Control Officer

The General Fund, Special Purpose Funds and Health Fund will increase by 551.2 FTEs for a total of 23,130.1 FTEs in FY2014. This is a 2.4% increase from the adopted FY2013 budget. The most significant growth in FTEs occurs with the Offices Under the President and the Sheriff's Office, which will increase by 207.0 FTEs and 186.8 FTEs, respectively. The majority of this growth is due to mandated public safety hiring, which will occur in Facilities Management under the President and various departments under the Sheriff.⁷⁴ The Chief Judge's departments will grow by 75.4 FTEs, most of which will be at the Juvenile Temporary Detention Center.⁷⁵

Over the past five years, the County has reduced its workforce by 1,704.0 FTEs, or 6.9%.⁷⁶ The most significant decline, aside from the Health System, has occurred with the Clerk of the Circuit Court, which has declined by 273.6 FTEs, or 13.4%, from FY2010. The Treasurer's department has decreased by the largest percentage, with a decline of 28.0 FTEs, or 23.3%. The only area that has experienced growth over the past five years is the Offices Under the President, which has increased by 120 FTEs, or by 5.3%.

Cook County FTEs by Control Officer for All Funds: FY2009-FY2013									
Control Officer	FY2010 Adopted	FY2011 Adopted	FY2012 Adopted	FY2013 Adopted	FY2014 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Offices Under the President	2,248.9	2,114.5	2,120.1	2,162.2	2,369.2	207.0	9.6%	120.3	5.3%
Board of Commissioners	86.7	87.3	87.6	85.6	85.9	0.3	0.4%	(0.8)	-0.9%
County Clerk	301.0	285.4	286.0	280.0	278.0	(2.0)	-0.7%	(23.0)	-7.6%
Recorder of Deeds	221.0	206.0	193.0	196.5	190.0	(6.5)	-3.3%	(31.0)	-14.0%
Treasurer	120.0	114.2	109.0	105.2	92.0	(13.2)	-12.5%	(28.0)	-23.3%
Sheriff	6,899.2	6,698.4	6,425.6	6,582.8	6,769.6	186.8	2.8%	(129.6)	-1.9%
State's Attorney	1,361.6	1,332.9	1,179.7	1,176.8	1,193.3	16.5	1.4%	(168.3)	-12.4%
Chief Judge	3,309.0	3,209.5	3,131.5	3,000.2	3,075.6	75.4	2.5%	(233.4)	-7.1%
Clerk of the Circuit Court	2,036.0	2,020.1	1,814.0	1,765.5	1,762.4	(3.1)	-0.2%	(273.6)	-13.4%
Other Elected Officials*	570.0	505.9	542.5	515.0	527.0	12.0	2.3%	(43.0)	-7.5%
Health and Hospitals System	7,680.7	6,686.1	7,105.8	6,709.1	6,787.1	78.0	1.2%	(893.6)	-11.6%
Total	24,834.1	23,260.3	22,994.8	22,578.9	23,130.1	551.2	2.4%	(1,704.0)	-6.9%

Note: The figures above do not include grant-funded FTEs. Some differences in totals may appear due to rounding.

*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 FY2014 Executive Budget Recommendation, Proposed Expenditures, pp. 85-86.

Personal Service Appropriations

The following chart compares personal services appropriations to the total County operating budget, excluding grant funds. Personal services appropriations include expenditures for salaries and wages, hospitalization, dental, vision and life insurance, the employer match of employee's Medicare contributions and pensions.⁷⁷ Also included are employee expenses such as training programs or professional seminars.⁷⁸

In FY2014 personal service appropriations will constitute 62.3% of the total budget, down 3.9 percentage points from 66.2% in FY2013. FY2014 marks the lowest ratio of personal services appropriations to operating budget in the past five years. Since FY2010 the ratio has decreased

⁷⁴ Cook County FY2014 Executive Budget Recommendation, Volume 1, Proposed Expenditures, p. 85.

⁷⁵ Cook County FY2014 Executive Budget Recommendation, Volume 2, p. U-54.

⁷⁶ This does not include grant-funded positions.

⁷⁷ Cook County FY2014 Executive Budget Recommendation, Appendices, pp. 404 and 405.

⁷⁸ Cook County FY2014 Executive Budget Recommendation, Appendices, p. 403.

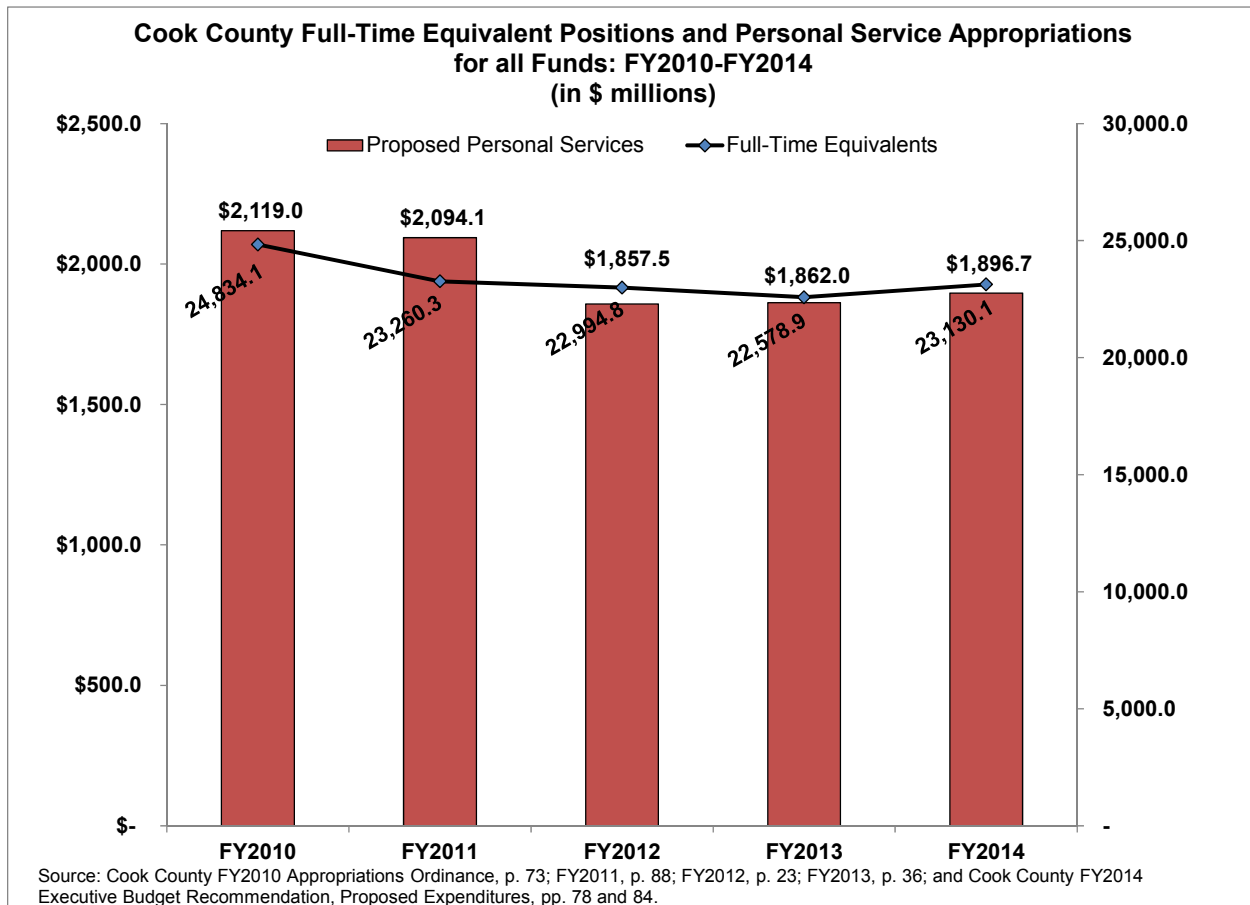
by 10.9 percentage points. The ratio has decreased by 17.2 percentage points from a peak of 79.5% in FY2011.

Ratio of Personal Services Appropriations to Total General, Special Purpose and Health Funds Appropriations: FY2010-FY2014			
	Personal Services Appropriation	Total Operating Funds Expenditures	Personal Services as % of Total Operating Funds
FY2010	\$ 2,118,977,234	\$ 2,895,776,376	73.2%
FY2011	\$ 2,094,085,995	\$ 2,633,536,728	79.5%
FY2012	\$ 1,857,532,114	\$ 2,806,470,367	66.2%
FY2013	\$ 1,862,016,811	\$ 2,813,385,201	66.2%
FY2014 Proposed	\$ 1,896,684,073	\$ 3,044,844,160	62.3%

Note: Adopted appropriations are used because actual expenditures are not available. Figures do not include grant funds.

Sources: Cook County FY2010 Appropriations Ordinance, p. 73; FY2011, p. 88; FY2012, p. 23; FY2013, p. 36; and Cook County FY2014 Executive Budget Recommendation, Proposed Expenditures, p. 78.

The next exhibit shows total full-time equivalent positions and personal services appropriations for the five years between FY2010 and FY2014 for all funds, excluding grants. Since the peak in FY2010, the proposed number of FTEs has fallen from 24,834.1 FTEs to 23,130.1 FTEs proposed in FY2014, a decline of 6.9%, or 1,704.0 FTEs. Similarly, personal services appropriations have decreased from \$2.1 billion in FY2010 to \$1.9 billion in FY2014, a decline of 10.5%, or \$222.3 million. Over the past five years, personal services appropriations have generally reflected change in FTE count.



Salaries by Control Officer

In FY2014 the County will appropriate nearly \$1.5 billion for salary expenditures, an increase of 2.6%, or \$37.7 million, from FY2013 adopted figures. Salary appropriations for all control officers will increase except for the Treasurer, which will decrease by 7.7%, or \$571,000. The largest two-year dollar and percentage increase will be for the Offices Under the President, with an \$11.4 million, or 7.1%, increase over FY2013 approved appropriations. The most significant increases in these offices occur with Facilities Management, the Medical Examiner, the Enterprise Resource Planning department and Economic Development planning.⁷⁹ The Sheriff's department will experience a \$10.8 million, or 2.7%, increase in salaries from FY2013. The increases in salary expenditures with the Sheriff's department are due to mandated public safety

⁷⁹ Cook County FY2014 Executive Budget Recommendation, Proposed Expenditures, pp. 87-92.

hiring.⁸⁰ Salary appropriations for the Chief Judge will increase by \$8.7 million, or 5.7%, to accommodate the increase in FTEs at the Juvenile Temporary Detention Center.

Though the majority of salary appropriations will increase over the two-year period, they have declined over the five-year period beginning FY2010. The two exceptions are the Offices Under the President and the Sheriff's departments. The largest five-year dollar decline, aside from the Health System, is for the Clerk of the Circuit Court, whose salary appropriations will decline by \$8.7 million, or 9.5%. Since FY2010, salary appropriations will increase for the Sheriff (by \$3.7 million, or 0.9%) and the President's offices (by \$9.8 million, or 6.0%).

Cook County Salaries by Control Officer for All Funds: FY2010-FY2014 (in \$ thousands)									
Control Officer	FY2010 Adopted	FY2011 Adopted	FY2012 Adopted	FY2013 Adopted	FY2014 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Offices Under the President	\$ 162,192	\$ 153,972	\$ 153,468	\$ 160,541	\$ 171,953	\$ 11,412	7.1%	\$ 9,761	6.0%
Board of Commissioners	\$ 6,700	\$ 6,260	\$ 6,270	\$ 6,269	\$ 6,378	\$ 109	1.7%	\$ (322)	-4.8%
County Clerk	\$ 15,854	\$ 15,351	\$ 14,797	\$ 14,916	\$ 15,411	\$ 496	3.3%	\$ (443)	-2.8%
Recorder of Deeds	\$ 10,671	\$ 9,815	\$ 9,136	\$ 9,750	\$ 9,865	\$ 115	1.2%	\$ (805)	-7.5%
Treasurer	\$ 8,382	\$ 8,132	\$ 7,425	\$ 7,385	\$ 6,813	\$ (571)	-7.7%	\$ (1,569)	-18.7%
Sheriff	\$ 401,211	\$ 368,947	\$ 362,491	\$ 394,095	\$ 404,864	\$ 10,768	2.7%	\$ 3,653	0.9%
State's Attorney	\$ 98,584	\$ 94,269	\$ 86,518	\$ 90,002	\$ 92,864	\$ 2,861	3.2%	\$ (5,721)	-5.8%
Chief Judge	\$ 165,231	\$ 153,015	\$ 146,395	\$ 152,116	\$ 160,769	\$ 8,653	5.7%	\$ (4,462)	-2.7%
Clerk of the Circuit Court	\$ 91,958	\$ 85,361	\$ 79,067	\$ 80,339	\$ 83,236	\$ 2,897	3.6%	\$ (8,722)	-9.5%
Other Elected Officials*	\$ 33,944	\$ 29,647	\$ 30,518	\$ 31,269	\$ 32,197	\$ 927	3.0%	\$ (1,747)	-5.1%
Health and Hospitals System	\$ 530,058	\$ 492,367	\$ 518,081	\$ 485,438	\$ 485,496	\$ 57	0.0%	\$ (44,563)	-8.4%
Total	\$ 1,524,785	\$ 1,417,136	\$ 1,414,166	\$ 1,432,121	\$ 1,469,846	\$ 37,725	2.6%	\$ (54,939)	-3.6%

Note: Some differences in totals may appear due to rounding.

*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 FY2014 Executive Budget Recommendation, Proposed Expenditures, pp. 87-92.

COOK COUNTY HEALTH AND HOSPITALS SYSTEM

This section examines the budget of the Cook County Health and Hospitals System. The analysis focuses on the Health Fund, which accounts for nearly all of the Health System's activities.⁸¹

The section includes a detailed examination of CountyCare, the Health System's managed care plan for newly eligible Medicaid recipients under the federal Affordable Care Act.

Overview of the Health System

The Cook County Health and Hospitals System is one of the largest public hospital systems in the U.S. operated by a unit of local government and the largest provider of medical care to the uninsured in the State of Illinois.⁸² The Health System provided \$547.2 million in uncompensated care in the fiscal year that ended on November 30, 2012.⁸³

The Health System operates John H. Stroger Jr. and Provident Hospitals. It provides additional services through the Oak Forest Health Center, which was formerly Oak Forest Hospital, and the

⁸⁰ Information provided by the Cook County Department of Budget and Management Services, October 23, 2012.

⁸¹ The FY2014 recommended budget for the Health System includes \$1.1 billion in Health Fund appropriations and \$7.8 million in appropriations to two Special Purpose Funds, the Lead Poisoning Prevention Fund and the Suburban Cook County Tuberculosis Sanitarium District. The Health System also administers \$10.1 million in grants.

⁸² Cook County FY2012 CAFR, p. 18.

⁸³ Cook County Health and Hospitals System, Minutes of the Meeting of the Finance Committee, March 22, 2013, Attachment #8, *Transformation*, p. 7. This number is based on cost rather than charges.

Ambulatory and Community Health Network (ACHN), which operates clinics across the County and specialty outpatient clinics at the 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 services. Most of the System's operating revenues come from Medicaid, the joint federal-state program that finances medical services for certain categories of low-income people. The County bridges the gap between the Health System's expenditures and operating revenues through a subsidy that has consisted mainly of property, cigarette and sales tax revenues.

In the recommended FY2014 budget, the Health System for the first time is shown as an enterprise fund rather than a component of the County's General Fund. This new designation mirrors the accounting classification used in the County's Comprehensive Annual Financial Report (CAFR) and is intended to emphasize the growing financial independence of the Health System.⁸⁴ Enterprise funds are used to account for government activities that are run on a business-like basis, charging fees to the public for the services consumed.⁸⁵ Activities accounted for through enterprise funds are typically expected to be self-supporting or nearly so.⁸⁶ Even though the Health System is not self-supporting, maintaining such activities as enterprise funds provides useful information on the amount of subsidy required to support them.

Since mid-2008, the Health System has been governed by its own Board of Directors. The System 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.⁸⁷

The annual budget process for the Health System is different from that of other components of County government. The budgets of other county offices are only reviewed by the County Board as part of the Board President's recommended budget, but the Health System submits a preliminary budget to the County Board.⁸⁸ After receiving approval from the County Board, the Health System's preliminary budget is incorporated into the Board President's recommended budget. The Health System's preliminary budget for FY2014 was approved by the County Board on September 11, 2013.

On July 13, 2010 the County Board approved the Health System's five-year strategic plan, which aims to shift resources away from inpatient care and toward outpatient care in order to serve

⁸⁴ Cook County FY2014 Executive Budget Recommendation, Resident's Guide, p. 4.

⁸⁵ Steven A. Finkler, Robert M. Purtell, Thad D. Calabrese and Daniel L. Smith, *Financial Management for Public, Health, and Not-for-Profit Organizations* (Upper Saddle River, N.J.: Pearson Education Inc., 2013), p. 448.

⁸⁶ Robert L. Bland, *A Revenue Guide for Local Government* (Washington, D.C.: International City/County Management Association, 2010), p. 205.

⁸⁷ Cook County Code of Ordinances, Chapter 38, Article V, Sections 38-82 and 38-83.

⁸⁸ Cook County Code of Ordinances, Chapter 38, Article V, Section 38-83.

more patients and deliver care more efficiently.⁸⁹ In FY2011 the Health System ended emergency room and inpatient services at Oak Forest Hospital. The System also scaled back inpatient service at Provident Hospital and stopped accepting ambulance patients at Provident's emergency room. A regional outpatient center with a 24-hour immediate care facility has been developed at the Oak Forest site.⁹⁰ The System has created a work group of its Board to update the strategic plan and intends to present the updated plan to the County Board in approximately one year.⁹¹

Over the next two years, changes to Medicaid by the State of Illinois and the federal government are expected to have a significant impact on the Health System's operations. The State enacted Medicaid reform legislation in January 2011 that requires 50% of Medicaid patients to be enrolled in care coordination programs (also known as managed care) by January 2015.⁹² Managed care is intended to improve patient care and reduce costs by emphasizing preventive care and avoiding unnecessary emergency room visits and hospitalizations and eliminating duplicative prescriptions. Meanwhile, beginning in January 2014 for states that choose to participate, the federal Affordable Care Act (ACA) expands the Medicaid-eligible population to low-income, childless adults who are neither elderly nor disabled.⁹³ In May 2013 the Illinois General Assembly passed legislation authorizing the State to participate in the Medicaid expansion.⁹⁴

CountyCare

To prepare for these changes and improve its financial condition, the Health System in January 2012 applied to the federal government for permission to sign up individuals for Medicaid before Medicaid expansion began under the ACA in January 2014.⁹⁵ The federal Centers for Medicare and Medicaid Services (CMS) approved the demonstration project in October 2012 and set December 31, 2013 as the ending date for the project, based on the assumption that patients would subsequently be eligible for Medicaid under the ACA.⁹⁶

⁸⁹ Cook County Health and Hospitals System, *Vision 2015: Strategic Direction + Financial Plan Board Presentation*, June 25, 2010.

⁹⁰ Cook County Health and Hospitals System, "CCHHS Announces Improvements at Oak Forest Health Center: New Outpatient Diagnostic Services; Return of 24 Hour Immediate Care Center," *news release*, September 26, 2013.

⁹¹ Statement by David Carvalho, Chairman of the Board of the Cook County Health and Hospitals System, at the October 22, 2013 meeting of the Cook County Finance Committee.

⁹² Public Act 96-1501. The legislation defines coordinated care as integrated healthcare delivery systems in which healthcare providers are at financial risk for the cost of patients' care.

⁹³ Patient Protection and Affordable Care Act, Public Law 111-148, Title II, Subtitle A, Section 2001.

⁹⁴ 98th Illinois General Assembly, Senate Bill 26 (Public Act 98-0104, enacted on July 22, 2013).

⁹⁵ Illinois Department of Healthcare and Family Services and Cook County Health and Hospitals System, *Cook County Health and Hospitals System's Care Coordination Enhancements and Bridge to ACA: Medicaid 1115 Waiver Proposal*, January 6, 2012,

<http://www2.illinois.gov/hfs/PublicInvolvement/PublicNotices/Documents/030712pna1.pdf> (last visited on October 21, 2013).

⁹⁶ Centers for Medicare and Medicaid Services, Waivers, Section 1115 Research and Demonstration Projects, Illinois County Care, Approval Document, Special Terms and Conditions, p. 1, <http://www.medicare.gov/Medicaid-CHIP-Program-Information/By-Topics/Waivers/Waivers.html?filterBy=1115#wavers> (last visited on October 15, 2013). CountyCare is a demonstration project under Section 1115 of the Social Security Act, which gives the federal government authority to waive provisions of the Medicaid program and to allow states to use federal

The goal was to enroll 115,000 members in the Medicaid expansion plan, known as CountyCare, by the end of calendar year 2013.⁹⁷ Dr. Ram Raju, who became the System's Chief Executive Officer in October 2011, acknowledged that the target was aggressive but considered the success of CountyCare to be critical to the System's survival.⁹⁸

CountyCare gave the Health System the opportunity to generate revenue from existing patients who lacked insurance and were not paying for their medical services. Approximately 60% of CountyCare members were expected to be existing System patients.⁹⁹ Additional members were expected to be patients of Federally Qualified Health Centers (FQHCs), primary care clinics that receive federal subsidies for treating low-income patients, and from inmates who were being released from the Cook County jail.

The Medicaid expansion plan also allowed the Health System to focus on managed care. County Care is designed to be a managed care program in which a patient is assigned to a "medical home" team built around primary care providers who coordinate a patient's care.¹⁰⁰ This kind of care represents a transformation for the System, where patients are accustomed to lining up before clinics open to make sure they can see a doctor and to going to the emergency room for primary care.¹⁰¹ As explained on the System's website, "the CountyCare transformation is changing the way that patients enter (the System), as they will be assigned intelligently (based on risk complexity and need) to patient-centered medical homes instead of relying on the emergency department for basic services while waiting for new appointment availability."¹⁰²

CountyCare patients were given access to a new regional network of healthcare providers consisting of Health System hospitals and clinics as well as subcontracted community partners such as FQHCs. Certain services that were previously not available to System patients—notably mental health and substance abuse services—are covered by CountyCare. Except for emergencies, patients are required to receive their care within the network through December 31, 2013. During that time, patients are not able to seek care elsewhere after enrolling in Medicaid through the Health System.

Medicaid funds in ways not otherwise allowed under federal rules. These kinds of demonstration projects are known as Section 1115 Waivers.

⁹⁷ Cook County Health and Hospitals System, Minutes of the Meeting of the Finance Committee, April 19, 2013, p. 7. The Health System's application to the federal government stated the goal as 125,000 members.

⁹⁸ Statements by Dr. Ram Raju, Chief Executive Officer of the Cook County Health and Hospitals System, at the August 24, 2012 meeting of the Finance Committee and the September 4, 2012 meeting of the Board of Directors.

⁹⁹ Cook County Health and Hospitals System, Minutes of the Meeting of the Board of Directors, September 5, 2012, p. 4.

¹⁰⁰ Cook County Health and Hospitals System, <http://www.cookcountyhhs.org/patient-services/county-care/> (last visited on October 15, 2013).

¹⁰¹ Communication between the Civic Federation and the Cook County Health and Hospitals System, September 18, 2012.

¹⁰² Cook County Health and Hospitals System, <http://www.cookcountyhhs.org/patient-services/county-care/> (last visited on October 15, 2013).

Payments for CountyCare members are based on a fee of \$629 per member per month (PMPM) that was negotiated with CMS.¹⁰³ After the demonstration project ends, the PMPM payments will be reconciled with actual costs. Once members are enrolled, the Health System receives PMPM payments as of the date of application and retroactive fees based on services received in System facilities in the three months prior to application.

Although the federal government is scheduled to cover 100% of the costs for newly eligible Medicaid recipients in 2014, regular reimbursement rates apply before that time.¹⁰⁴ States typically pay for Medicaid expenses and are then reimbursed by the federal government; the reimbursement rate for Illinois is 50%. But under a special financing arrangement known as an intergovernmental transfer, the non-federal share of Medicaid spending for the Health System is contributed by Cook County, rather than the State. The net reimbursement to the System for CountyCare members before 2014 is half of the negotiated PMPM fee, or \$314.50.

CountyCare began receiving applications in November 2012.¹⁰⁵ As of October 22, 2013, 115,000 applications had been initiated.¹⁰⁶ After applications are initiated, applicants must supply documentation to verify their eligibility; applications that are not completed in 75 days are discarded.¹⁰⁷ By the end of September, the System had submitted 76,000 applications to the Illinois Department of Human Services (DHS), which is responsible for approving Medicaid applications in Illinois.¹⁰⁸ The System is paying for approximately 100 DHS caseworkers to handle CountyCare applications.¹⁰⁹ The approval rate was running at 85% as of the end of September, with a backlog of 27,000 applications waiting to be processed by DHS.¹¹⁰ Enrollment stood at 48,000 as of October 22¹¹¹ and was projected to reach at least 56,131 by the end of FY2013.¹¹²

¹⁰³ Centers for Medicare and Medicaid Services, Waivers, Section 1115 Research and Demonstration Projects, Illinois County Care, Approval Document, Special Terms and Conditions, p. 21, <http://www.medicare.gov/Medicare-CHIP-Program-Information/By-Topics/Waivers/Waivers.html?filterBy=1115#wavers> (last visited on October 15, 2013). Once members are enrolled, PMPM payments begin as of the application date.

¹⁰⁴ The federal government is scheduled to pay 100% of the cost for newly eligible recipients in 2014 to 2016; 95% in 2017; 94% in 2018; 93% in 2019; and 90% in 2020 and thereafter.

¹⁰⁵ Cook County Health and Hospitals System, Minutes of the Meeting of Finance Committee, February 15, 2013, Attachment #3, *1115 Waiver Update*.

¹⁰⁶ Statement by Dr. Ram Raju, Chief Executive Officer of the Cook County Health and Hospitals System, at the October 22, 2013 meeting of the Cook County Finance Committee.

¹⁰⁷ Cook County Health and Hospitals System, Minutes of the Meeting of the Finance Committee, April 19, 2013, p. 4.

¹⁰⁸ Statement by Steven Glass, Executive Director of Managed Care of the Cook County Health and Hospitals System, at the October 11, 2013 meeting of the System Finance Committee.

¹⁰⁹ Cook County Health and Hospitals System, Minutes of the Meeting of the Finance Committee, April 19, 2013, p. 4.

¹¹⁰ Statement by Steven Glass, Executive Director of Managed Care of the Cook County Health and Hospitals System, at the October 11, 2013 meeting of the System Finance Committee.

¹¹¹ Statement by Dr. Ram Raju, Chief Executive Officer of the Cook County Health and Hospitals System, at the October 22, 2013 meeting of the Cook County Finance Committee.

¹¹² Cook County Health and Hospitals System, *Proposed FY2014 Preliminary Budget*, August 16, 2013, p. 6.

The System receives revenue from CountyCare after members are enrolled, and the first payments were received in April 2013.¹¹³ The System had originally projected CountyCare revenues of \$197.0 million in FY2013, based on enrollment of 115,000.¹¹⁴ The current projection is \$122.3 million.¹¹⁵ However, the \$122.3 million includes an advance payment of \$30 million from the State related to a different source of Medicaid funding: a provision of the Medicare, Medicaid and SCHIP Benefit Improvement and Protection Act of 2000 (BIPA). This advance must be paid back to the State in FY2014.

The County's recommended FY2014 budget does not mention the \$30 million advance in FY2013 or the repayment in FY2014. While the advance in FY2013 is included in the budget line for projected actual CountyCare revenues, the repayment is included in another budget line for FY2014—the line for patient fees.¹¹⁶ In the Health System's preliminary FY2014 budget, the BIPA repayment is shown as deduction from BIPA payments in FY2014.¹¹⁷

In public discussions of CountyCare, County officials have begun referring to a goal of 115,000 applications in 2013, rather than a goal of 115,000 members. For example, the press release issued by the Office of the Board President in connection with the FY2014 budget states that the County "is on track to exceed the President's and (Health System CEO's) goal of 115,000 applications by the end of 2013."¹¹⁸ The recommended FY2014 budget appears to mix the two categories, stating that "approximately 107,000 patients applied to CountyCare by October 7, 2013, with the goal to enroll 115,000 by year end."¹¹⁹ Health System officials provide monthly updates on CountyCare at System Finance Committee meetings, but enrollment figures are not presented.

After the demonstration project ends in 2013, the Health System plans to convert CountyCare into a Medicaid managed care plan known as a Managed Care Community Network (MCCN). MCCNs are non-profit, provider-based healthcare networks certified by the Illinois Department of Healthcare and Family Services (HFS) that operate like health maintenance organizations (HMOs). Although negotiations with HFS are ongoing, the System expects to receive 100% of federal payments relating to CountyCare beginning in FY2014. The System also plans to form a licensed HMO to cover participants in the new ACA insurance exchange, as well as additional Medicaid recipients.¹²⁰

In preparing the FY2014 budget, Health System officials assumed that an average of 56,131 members would remain in CountyCare during the year, the same as projected enrollment at the end of FY2013. This is regarded as a conservative estimate by System officials, given the

¹¹³ Cook County Health and Hospitals System, Minutes of the Meeting of the Finance Committee, May 24, 2013, *Report of the Chief Financial Officer*, p. 11.

¹¹⁴ Cook County FY2014 Executive Budget Recommendation, Revenue Estimate, p. 29.

¹¹⁵ Cook County FY2014 Executive Budget Recommendation, Revenue Estimate, p. 29.

¹¹⁶ Communication between the Civic Federation and the Cook County Department of Budget and Management Services, October 11, 2013.

¹¹⁷ Cook County Health and Hospitals System, Proposed FY2014 Preliminary Budget, August 16, 2013, p. 5.

¹¹⁸ Office of the Cook County Board President, "President Preckwinkle Introduces 2014 Executive Budget Recommendation; \$3.2 billion budget includes no new taxes, fines or fees," *news release*, October 10, 2013.

¹¹⁹ Cook County Executive Budget Recommendation, Resident's Guide, p. 6.

¹²⁰ Cook County Executive Budget Recommendation, Health Care, p. O-78.

number of applications pending and the high approval rate by the State.¹²¹ Members will not be required to remain in CountyCare, but the State is not expected to make other managed care alternatives for newly eligible Medicaid recipients available until July 2014 at the earliest.¹²²

The Health System's early budget projections for FY2014, incorporated into the Board President's FY2014 preliminary budget, assumed a PMPM of \$500 for CountyCare.¹²³ That assumption resulted in projected FY2014 CountyCare revenue of \$356.2 million.¹²⁴ When the projection was made, membership was low and System officials had received few claims from healthcare providers outside of the System.¹²⁵ The PMPM was raised to \$629 in the Board President's recommended FY2014 budget, resulting in an increase in CountyCare revenue of \$112.0 million, or 31.4%, to \$468.2 million.¹²⁶ Health System officials said the PMPM projection was increased because the higher fee reflected actual program costs as more claims were received.

Forecasting CountyCare revenues is particularly difficult because of uncertainties related to members' decisions to stay in the plan.¹²⁷ Health System officials have stated that their greatest challenge involves improving patient satisfaction, particularly with respect to the outpatient services that are central to managed care.¹²⁸ The extent of the challenge became evident in May 2013, when the results of a patient survey were presented to System Board members. The survey, conducted in the last half of 2012 by the leading national provider of patient satisfaction surveys, included nine of the System's clinics. According to System officials, the survey found that patients believe it is not easy to get access to care; that wait times are poor; that they cannot reach doctors by phone; and that patients are not treated well by staff.¹²⁹ The unfavorable results have been attributed to staff shortages and flaws in the appointment scheduling system, but Dr. Raju has said that a cultural change is required to improve the way patients are treated.¹³⁰ The

¹²¹ Cook County Health and Hospitals System, Proposed FY2014 Preliminary Budget, August 16, 2013, p. 4.

¹²² Illinois Department of Healthcare and Family Services, Public Involvement, Care Coordination, Care Coordination Roll-Out by Health Plans, <http://www2.illinois.gov/hfs/PublicInvolvement/cc/Pages/default.aspx> (last visited on October 16, 2013).

¹²³ Communication between the Civic Federation and the Cook County Health and Hospitals System, September 3, 2013.

¹²⁴ Office of the President, Cook County Board of Commissioners, Preliminary Budget Estimates FY2014, June 27, 2013, p. 5. The \$356.2 million revenue projection in the FY2014 preliminary budget was also net of a \$30 million reduction to reflect the repayment of the advance from the State in FY2013. In the FY2014 recommended budget, this repayment was deducted from a different category of revenues, patient fees.

¹²⁵ Communication between the Civic Federation and the Cook County Health and Hospitals System, September 3, 2013.

¹²⁶ Cook County FY2014 Executive Budget Recommendation, Revenue Estimate, p. 29.

¹²⁷ Cook County FY2014 Executive Budget Recommendation, Resident's Guide, p.8.

¹²⁸ Statement by Dr. Ram Raju, Chief Executive Office of the Cook County Health and Hospitals System, Board of Directors meeting, May 31, 2013.

¹²⁹ Statement by Dr. John Jay Shannon, Cook County Health and Hospitals System Chief of Clinical Integration, Board of Directors meeting, May 31, 2013. A written presentation on the survey can be found at <http://www.cookcountyhhs.org/wp-content/uploads/2012/12/05-22-13-QPS-scan-minutes.pdf> (last visited on October 16, 2013).

¹³⁰ Statement by Dr. Ram Raju, Chief Executive Office of the Cook County Health and Hospitals System, Board of Directors meeting, May 31, 2013

former Interim Director of Managed Care has said that the System will not be able to retain patients after they are covered by Medicaid unless it makes sweeping reforms at the clinics.¹³¹

Health System Appropriations

The Health System's proposed appropriations for FY2014 total \$1.1 billion, an increase of \$162.1 million, or 16.8%, from \$963.7 million in FY2013.¹³² Appropriations for CountyCare more than double to \$190.8 million in FY2014 from \$93.6 million in FY2013.

The increase in CountyCare appropriations in FY2014 largely reflects full-year costs of payments to healthcare providers outside of the System.¹³³ Internal medical expenses related to CountyCare patients are shown throughout the System's budget. The CountyCare budget for FY2014 includes \$89 million in payments to outside providers and \$56.1 million for professional and managerial services. Appropriations for pharmaceutical supplies for CountyCare members provided outside the System increase by \$19.6 million to \$31.2 million. Health System officials have attributed the increase to previously unmet needs of uninsured patients.¹³⁴ CountyCare salaries and wages rise by \$3.1 million to \$13.5 million, reflecting an increase of 19.3 full-time equivalent positions (FTEs) to 266.3 positions.¹³⁵ The new FTEs relate mainly to CountyCare administration.

Appropriations for Health System administration increase by \$23.7 million to \$189.5 million in FY2014 from \$165.8 million in FY2013. The major increases involve pharmaceutical supplies provided by the System and information technology.¹³⁶ Information technology expenses for the Public Health Department are consolidated with the rest of the System. The System's overall FY2014 budget includes an increase of \$13.1 million for information technology improvements relating to electronic medical records, a new federally mandated medical coding system and business intelligence software.¹³⁷

Appropriations for Cermak Health Services increase by \$5.9 million to \$46.6 million in FY2014 from \$40.7 million in FY2013. Staffing at the jail facility increases by 77 FTEs to 502.1 positions in FY2014 due to the opening of a new residential treatment unit in June 2013. The new unit provides treatment for substance abuse and mental illness, as well as general health screenings and evaluations.¹³⁸

¹³¹ Statement of Susan Greene, Interim Director of Managed Care of the Cook County Health and Hospitals System, Finance Committee meeting, May 24, 2013.

¹³² This section used adjusted FY2013 appropriations rather than adopted FY2013 appropriations. Adjusted appropriations reflect the adopted budget and any holdbacks, transfers or results of any finalized collective bargaining agreements.

¹³³ Cook County FY2014 Executive Budget Recommendation, Health Care, p. O-79.

¹³⁴ Communication between the Civic Federation and the Cook County Health and Hospitals System, October 21, 2013.

¹³⁵ Cook County FY2014 Executive Budget Recommendation, Health Care, pp. O-80 to O-82.

¹³⁶ Cook County FY2014 Executive Budget Recommendation, Health Care, p. O-11.

¹³⁷ Cook County Health and Hospitals System, *Proposed FY2014 Preliminary Budget*, August 16, 2013, p. 8.

¹³⁸ Office of the Cook County Board President, "President Preckwinkle Opens Medical Facility at the Cook County Department of Corrections," *news release*, June 13, 2013.

Appropriations for Stroger Hospital increase by \$25.0 million to \$445.2 million in FY2014 from \$420.2 million in FY2013. Additional expenses relate mainly to medical consultation services, laboratory-related services and supplies and surgical supplies.¹³⁹ Medical consultation services increase because Stroger is replacing its linear accelerators, requiring patients to get radiation treatment for cancer outside the System.¹⁴⁰ The System has experienced a significant increase in lab testing since mid-2013, which has been attributed to new CountyCare patients.¹⁴¹ The increase in surgical supply expenses relates to higher prices and a shift of System-related expenses for County Care members to the Stroger budget from the CountyCare budget.¹⁴²

The following table shows actual expenditures for FY2010 to FY2012, adjusted appropriations for FY2013 and proposed appropriations for FY2014.¹⁴³ Total appropriations increase by \$173.1 million from \$952.6 million in FY2010, due mainly to CountyCare. The major reductions over the five-year period reflect the conversion of Oak Forest Hospital to an outpatient facility and the scaling back of operations at Provident Hospital, as discussed above.

Cook County Health and Hospitals System Appropriations by Department: FY2010-FY2014 (in \$ thousands)									
Department	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Adjusted**	FY2014 Proposed	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Health System Administration	\$177,294.3	\$ 139,877.0	\$ 154,760.0	\$ 165,762.0	\$ 189,471.4	\$ 23,709.4	14.3%	\$ 12,177.1	6.9%
Cermak Health Services	\$ 32,053.1	\$ 33,983.5	\$ 38,517.6	\$ 40,724.3	\$ 46,630.8	\$ 5,906.5	14.5%	\$ 14,577.7	45.5%
JTDC Health Services	\$ 2,692.1	\$ 2,819.5	\$ 3,098.5	\$ 3,852.3	\$ 3,910.4	\$ 58.1	1.5%	\$ 1,218.3	45.3%
Provident Hospital	\$ 72,294.1	\$ 56,626.3	\$ 47,915.7	\$ 48,344.9	\$ 48,357.8	\$ 12.9	0.0%	\$ (23,936.3)	-33.1%
Ambulatory and Community Health Network	\$ 44,653.3	\$ 42,886.1	\$ 44,183.1	\$ 51,623.6	\$ 51,465.5	\$ (158.1)	-0.3%	\$ 6,812.2	15.3%
CORE Center	\$ 11,141.5	\$ 10,907.0	\$ 11,087.3	\$ 11,510.3	\$ 11,753.1	\$ 242.8	2.1%	\$ 611.6	5.5%
Department of Public Health	\$ 15,533.7	\$ 15,836.0	\$ 15,469.7	\$ 16,067.8	\$ 14,450.3	\$ (1,617.5)	-10.1%	\$ (1,083.4)	-7.0%
Medicaid Expansion Plan	\$ -	\$ -	\$ -	\$ 93,598.4	\$ 190,804.3	\$ 97,205.9	103.9%	\$ 190,804.3	na
Stroger Hospital	\$398,237.8	\$ 400,649.1	\$ 416,121.5	\$ 420,217.1	\$ 445,202.5	\$ 24,985.4	5.9%	\$ 46,964.7	11.8%
Oak Forest Health Center*	\$ 70,041.0	\$ 50,776.0	\$ 26,471.8	\$ 11,251.4	\$ 11,216.1	\$ (35.3)	-0.3%	\$ (58,824.9)	-84.0%
Subtotal Departmental Appropriations	\$823,940.9	\$ 754,360.5	\$ 757,625.2	\$ 862,952.1	\$ 1,013,262.2	\$ 150,310.1	17.4%	\$ 189,321.3	23.0%
Fixed Charges and Special Purpose Appropriations	\$128,651.8	\$ 110,068.2	\$ 107,397.7	\$ 100,706.3	\$ 112,455.1	\$ 11,748.8	11.7%	\$ (16,196.7)	-12.6%
Total	\$952,592.7	\$864,428.7	\$865,022.9	\$963,658.4	\$1,125,717.3	\$ 162,058.9	16.8%	\$ 173,124.6	18.2%

*Oak Forest Hospital was renamed Oak Forest Health Center in FY2011. Healthcare expenses at Oak Forest Health Center were moved to the budgets of Stroger Hospital and ACHN in FY2013, with revenue credited accordingly. Remaining costs at Oak Forest reflect costs of operating the campus.

**Adjusted appropriations reflect the adopted budget and any holdbacks, transfers or results of any finalized collective bargaining agreements.

Source: Cook County FY2014 Executive Budget Recommendation, Proposed Expenditures, pp. 51-52, and Health Care, p. O-1.

¹³⁹ Cook County FY2014 Executive Budget Recommendation, Health Care, pp. O-85 to O-86.

¹⁴⁰ Communication between the Civic Federation and the Cook County Health and Hospitals System, August 20, 2013.

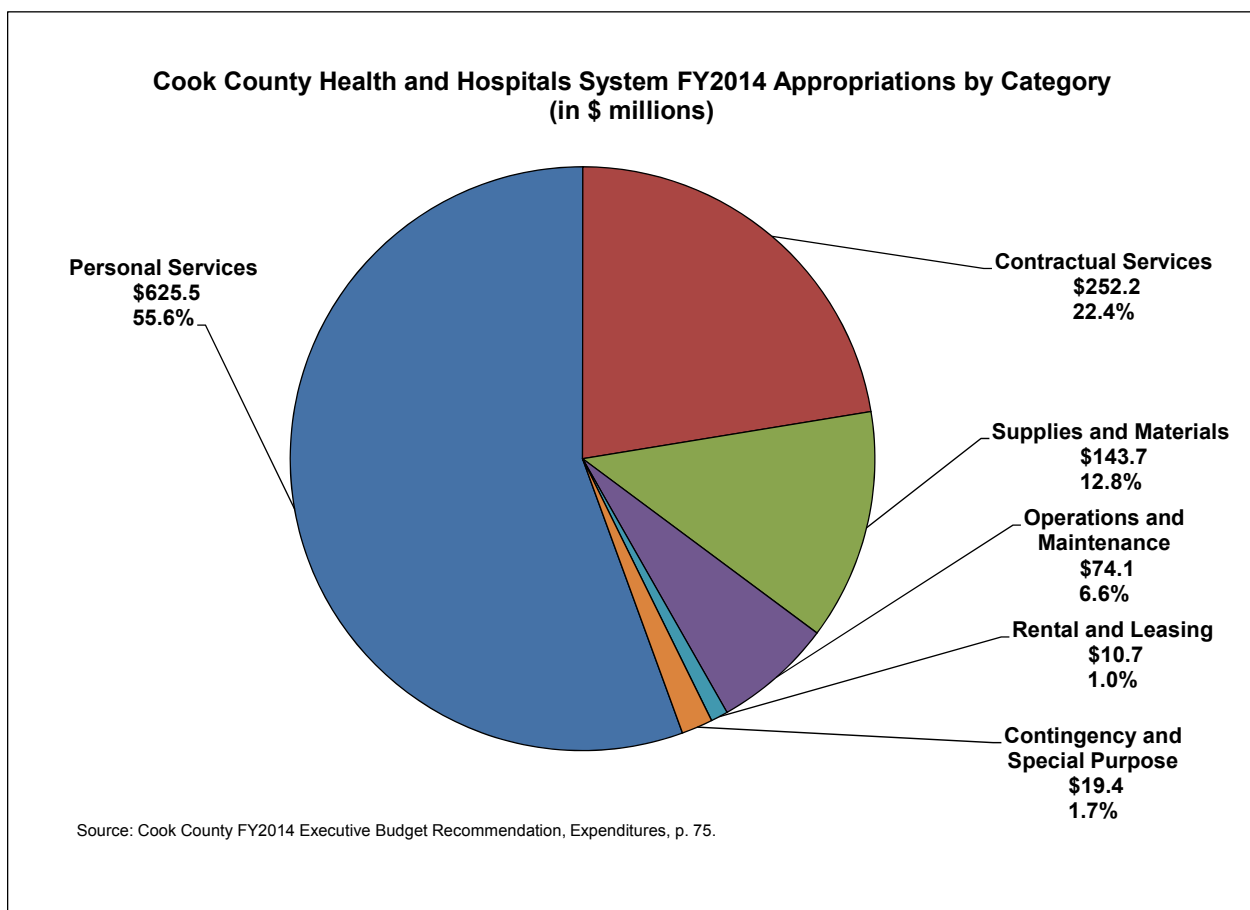
¹⁴¹ Statement by Dr. Ram Raju, Chief Executive Office of the Cook County Health and Hospitals System, Finance Committee meeting, September 13, 2013.

¹⁴² Communication between the Civic Federation and the Cook County Health and Hospitals System, October 21, 2013.

¹⁴³ Adjusted appropriations reflect the adopted budget and any holdbacks, transfers or results of any finalized collective bargaining agreements.

Health System appropriations cover departmental appropriations as well as fixed charges and special purpose appropriations. Fixed charges include costs related to employee health and life insurance, workers' compensation and medical malpractice and other insurance claims. Payments for Health System-related pension and debt service costs are not allocated to the Health System in the budget. However, the budget provides estimates of these payments, which are discussed below.

The next chart shows FY2013 Health System appropriations by category. Personnel accounts for 55.6% of total appropriations, followed by contractual services at 22.4% and supplies and materials at 12.8%. A larger share of the budget is devoted to contractual services in FY2014 than in FY2013, while a smaller share is spent on personal services. Personnel represented 64.8% of the budget in FY2013 and contractual services accounted for 15.9%.¹⁴⁴ The change is mainly due to increased payments to outside healthcare providers associated with CountyCare.



Health System Resources

Health System resources consist of operating revenues and the County subsidy. Most of the Health System's operating revenues come from Medicaid, while the County subsidy is funded mainly from property, cigarette and sales taxes. In recent years, the System has been required to

¹⁴⁴ Cook County FY2013 Appropriation Bill, Proposed Expenditures, pp. 29-30.

use its reserves to cover budget deficits caused by an inability to meet targets for operating revenue.

Health System Operating Revenues

Health System operating revenues are projected to increase to \$950.7 million in FY2014. That represents an increase of \$238.6 million, or 33.5%, from a budgeted level of \$712.1 million in FY2013. An additional \$271.2 million in projected revenue from the Medicaid expansion plan and a \$3.1 million increase in miscellaneous revenue is partially offset by a projected decline of \$35.7 million in revenue from other sources. It should be noted that this decline includes the repayment of the \$30 million advance from the State to make up for the shortfall in CountyCare revenue in FY2013, as discussed above. This repayment is netted out of the patient fee revenue number included in the budget.

The following table shows actual operating revenues from FY2010 to FY2012, adopted revenues for FY2013 and proposed operating revenues for FY2014.

Cook County Health and Hospitals System Operating Revenues: FY2010-FY2014 (in \$ millions)									
	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Adopted	FY2014 Proposed	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Patient Fee Revenue	\$ 239,626.8	\$ 190,347.7	\$ 276,117.0	\$ 231,105.5	\$ 200,699.7	\$ (30,405.8)	-13.2%	\$ (38,927.1)	-16.2%
BIPA*	\$ 131,300.0	\$ 131,250.0	\$ 131,250.0	\$ 131,250.0	\$ 131,250.0	\$ -	0.0%	\$ (50.0)	0.0%
DSH**	\$ 162,750.5	\$ 153,062.4	\$ 170,589.8	\$ 150,800.0	\$ 145,500.0	\$ (5,300.0)	-3.5%	\$ (17,250.5)	-10.6%
Medicaid Expansion Plan	\$ -	\$ -	\$ -	\$ 196,964.9	\$ 468,154.3	\$ 271,189.4	137.7%	\$ 468,154.3	na
Miscellaneous***	\$ 5,170.0	\$ 4,785.0	\$ 4,694.0	\$ 1,994.0	\$ 5,113.1	\$ 3,119.1	156.4%	\$ (56.9)	-1.1%
Total	\$ 538,847.3	\$ 479,445.1	\$ 582,650.8	\$ 712,114.4	\$ 950,717.1	\$ 238,602.7	33.5%	\$ 411,869.8	76.4%

*Payments under the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA).

**Disproportionate Share Hospital payments.

***Includes revenue from cafeteria, medical records, parking income, physicians fees and pharmacy service charge. Public Health Department fees relating to inspections and grant reimbursement are included in FY2014.

Source: Cook County FY2014 Executive Budget Recommendation, Revenue Estimate, p. 29; Cook County FY2013 Executive Budget Recommendation, Resident's Guide, p. 9; Cook County FY2012 Appropriation Bill, Revenue Estimate, p. 25; Communication between Civic Federation and Cook County Department of Budget and Management Services, October 22, 2012 and October 24, 2013.

Most of the Health System's services are provided to patients who lack insurance of any kind. In the thirteen months ended August 2013, an estimated 57.5% of the System's charges related to patients without insurance.¹⁴⁵ Uninsured patients generally do not pay for their care. Uninsured patients accounted for \$4.7 million, or 3.1%, of net patient fee cash receipts for the nine months ended in August 2013.¹⁴⁶

Most of the Health System's operating revenues come from Medicaid. The System receives Medicaid revenues based on patient visits and supplemental Medicaid payments designed for hospitals that serve large numbers of uninsured and Medicaid patients. 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).¹⁴⁷

¹⁴⁵ Cook County Health and Hospitals System, *Financial Operations and Statistical Reports (Non GAAP) For the Month Ended August 31, 2013*, September 11, 2013, p. 9.

¹⁴⁶ Cook County Health and Hospitals System, *Financial Operations and Statistical Reports (Non GAAP) For the Month Ended August 31, 2013*, September 11, 2013, p. 4.

¹⁴⁷ Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000, 701(d) (2).

The Health System began receiving DSH payments under an agreement completed in mid-2009 that was retroactive to July 1, 2008. BIPA payments are provided under legislation that earmarks \$375 million annually to “a certain public hospital” meeting criteria satisfied only by the Health System.¹⁴⁸ Of that total, 65% is provided to the State for its Medicaid program and 35% is kept by the Health System. In FY2009 the Health System’s DSH payments were \$242.6 million due to one-time retroactive payments.¹⁴⁹ Projected Medicaid DSH payments decline by \$5.3 million in FY2014 due to nationwide reductions required under the ACA.¹⁵⁰

In FY2013 actual operating revenues are expected to total \$673.5 million, down \$38.6 million, or 5.4%, from budgeted operating revenues of \$712.1 million. The shortfall in FY2013 is related to optimistic projections for enrollment in CountyCare, as discussed above. The FY2013 estimated CountyCare revenue number of \$122.3 million that appears in the FY2014 budget includes the previously described \$30 million advance payment of BIPA funds from the State. Operating revenues in FY2013 also include one-time additional DSH payments from the State of approximately \$20 million.

The next table compares adopted and estimated FY2013 operating revenues with proposed FY2014 operating revenues.

Cook County Health and Hospitals System Operating Revenues: FY2013-FY2014 (in \$ millions)			
	FY2013 Adopted	FY2013 Estimated	FY2014 Proposed
Patient Fee Revenue	\$ 231,105.5	\$ 248,872.8	\$ 200,699.7
BIPA*	\$ 131,250.0	\$ 131,400.0	\$ 131,250.0
DSH**	\$ 150,800.0	\$ 169,144.7	\$ 145,500.0
Medicaid Expansion Plan	\$ 196,964.9	\$ 122,283.5	\$ 468,154.3
Miscellaneous***	\$ 1,994.0	\$ 1,831.3	\$ 5,113.1
Total	\$ 712,114.4	\$ 673,532.3	\$ 950,717.1

*Payments under the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA).

**Disproportionate Share Hospital payments.

***Includes revenue from cafeteria, medical records, parking income, physicians fees and pharmacy service charge. Public Health Department fees relating to inspections and grant reimbursement are included in FY2014.

Source: Cook County FY2014 Executive Budget Recommendation, Revenue Estimate, p. 29.

Despite efforts to improve patient billing and collection and enroll patients in Medicaid, actual revenues from patient fees have come in below budgeted levels for several years.¹⁵¹ This

¹⁴⁸ Cook County Health and Hospitals System, *An Overview of System Medicaid Payment Arrangements*, October 19, 2012, p. 13.

¹⁴⁹ Cook County FY2011 Appropriation Bill, Revenue Estimates, p. 13.

¹⁵⁰ Phil Galewitz, “CMS Won’t Penalize Hospitals In States Slow To Expand Medicaid,” *Kaiser Health News*, May 14, 2013.

¹⁵¹ See the Civic Federation, *Cook County FY2012 Executive Budget Recommendation: Analysis and Recommendation*, November 3, 2011, pp. 48-49, <http://www.civicfed.org/civic-federation/publications/cook-county-fy2012-executive-budget-recommendation-analysis-and-recomm> and *Cook County FY2013 Executive Budget Recommendation: Analysis and Recommendation*, October 26, 2012, pp. 54-55, http://www.civicfed.org/civic-federation/publications/CookCounty_FY2013BudgetAnalysis.

problem was pointed out by the County’s Inspector General in a public statement in September 2013.¹⁵² The Inspector General found that the Health System missed budgeted revenue targets in FY2011 because it failed to recognize that a contractor’s projections were unattainable. Due to past problems and the shortfall in CountyCare revenues in FY2013, the Inspector General recommended that projections for the plan receive close scrutiny.

County Subsidy

The Health System’s subsidy from the County is intended to bridge the gap between the System’s expenditures and operating revenues. Due to projected CountyCare revenues, the FY2014 subsidy is projected to decline by \$76.6 million from \$251.6 million in FY2013 to \$175.0 million in FY2014.

The next table shows the subsidy from FY2009 to FY2014. It should be noted that the budgeted subsidy numbers below do not include pension and debt service payments because the County does not allocate those payments to the Health System.

Cook County Health and Hospitals System Subsidy: FY2009-FY2014 (in millions)*						
	FY2009 Budget	FY2010 Budget	FY2011 Budget	FY2012 Budget	FY2013 Budget	FY2014 Budget
Budgeted Operating Revenues	\$ 493,276.2	\$ 584,737.4	\$ 635,602.8	\$ 640,362.1	\$ 712,114.5	\$ 950,717.1
Budgeted Expenditures	\$ (974,696.1)	\$ (973,850.7)	\$ (911,860.2)	\$ (894,133.0)	\$ (963,678.5)	\$ (1,125,717.2)
Subsidy	\$ (481,419.9)	\$ (389,113.3)	\$ (276,257.4)	\$ (253,770.9)	\$ (251,564.0)	\$ (175,000.1)

*Does not include pension or debt service payments.

Source: County County FY2014 Executive Budget Recommendation, Revenue Estimate, p. 40.

The County subsidy in FY2014 is composed mainly of cigarette taxes and property taxes. Beginning in FY2012, cigarette taxes have replaced sales taxes as the Health System’s main tax source. No sales taxes are allocated to the Health System in FY2014.

¹⁵² Cook County Office of the Independent Inspector General, Letter to Cook County Board President Toni Preckwinkle, Cook County Health and Hospitals System Chairman David Carvalho and Chief Executive Officer Ram Raju, Re: \$50 million revenue enhancement contract (OIG11-0035), September 20, 2013.

The next table shows the components of the Health System's subsidy from FY2009 to FY2014.

Components of Cook County Health and Hospitals System Subsidy: FY2009-FY2014 (in thousands)						
	FY2009 Budget	FY2010 Budget	FY2011 Budget	FY2012 Budget	FY2013 Budget	FY2014 Budget
Property Taxes*	\$144,388	\$ 135,965	\$ 82,008	\$ 62,962	\$ 80,162	\$ 38,925
Chicago TIF Distribution**	\$ -	\$ -	\$ 7,572	\$ 5,762	\$ 514	
Sales Tax	\$195,200	\$ 229,150	\$131,692	\$ 72,383	\$ 32,596	\$ -
Cigarette Tax	\$135,000	\$ 23,939	\$ 20,539	\$112,664	\$ 130,000	\$ 129,809
Other Tobacco Products	\$ -	\$ -	\$ -	\$ -	\$ 8,000	\$ 5,892
Firearms Tax	\$ -	\$ -	\$ -	\$ -	\$ 500	\$ 375
Other	\$ 17,000	\$ -	\$ 34,642		\$ -	\$ -
Total***	\$491,588	\$ 389,054	\$276,453	\$253,771	\$ 251,772	\$ 175,000

*Property tax revenues are net of allowance for uncollected taxes.

**Property taxes recovered from expiring or eliminated tax increment financing districts or declared TIF surplus.

***Totals for FY2009 and FY2013 do not match total subsidy amounts in Cook County FY2014 Executive Budget Recommendation, Revenue Estimate, p. 40, for reasons that were not explained.

Source: Cook County FY2014 Executive Budget Recommendation, Revenue Estimate, pp. 31 and 37; Cook County FY2013 Executive Budget Recommendation, Revenue Estimate, pp. 20 and 22; Cook County FY2009 Executive Budget Recommendation, Revenue Estimates, pp. 6 and 40; Communication between Civic Federation and Cook County Department of Budget and Management Services, October 22, 2012.

Although the County does not allocate payments for pension contributions and debt service to the Health System in the budget, estimated amounts for these payments are presented in the budget in order to provide a fuller picture of the Health System's use of County resources. The total County subsidy for FY2014, including the budgeted subsidy of \$175.0 million and pension and debt service payments of \$141.4 million, is \$316.4 million.

Estimated Pension and Debt Service Payments Paid by Cook County on Behalf of Cook County Health and Hospitals System: FY2009-FY2013 (in \$ thousands)						
	FY2009 Budget	FY2010 Budget	FY2011 Budget	FY2012 Budget	FY2013 Budget	FY2014 Budget
Pension Payments	\$ 58,214.1	\$ 57,207.0	\$ 60,522.7	\$ 60,858.6	\$ 57,622.6	\$ 57,037.0
Debt Service Payments	\$ 54,549.4	\$ 37,081.0	\$ -	\$ 88,596.2	\$ 78,781.7	\$ 84,332.2
Total	\$ 112,763.5	\$ 94,288.0	\$ 60,522.7	\$ 149,454.8	\$ 136,404.3	\$ 141,369.2

Source: Cook County FY2014 Executive Budget Recommendation, Revenue Estimate, p. 40.

The actual amount of County resources devoted to the Health System can differ from the subsidy if actual expenditures and revenues differ from the budgeted amounts. The financial adjustment for the difference between the budgeted and actual subsidy is the Health System's surplus or deficit.

In FY2013 the Health System is expected to show a deficit of approximately \$41.2 million. As discussed previously, operating revenues for the year are expected to be \$38.6 million below budget. Expenditures are expected to be \$2.6 million above budget.¹⁵³

¹⁵³ Communication between the Civic Federation and the Cook County Department of Budget and Management Services, October 11, 2013.

The following table shows the System's deficit or surplus from FY2009 to FY2014. The large surplus in FY2009 was related to the receipt of retroactive DSH payments, as discussed above.

Cook County Health and Hospitals System's Surplus or Deficit						
FY2009-FY2014 (in \$ millions)						
	FY2009	FY2010	FY2011	FY2012	FY2013¹	FY2014²
Budgeted Operating Revenues	\$ 493.3	\$ 584.7	\$ 635.6	\$ 640.4	\$ 712.1	\$ 950.7
Budgeted Expenditures	\$ 974.7	\$ 973.9	\$ 911.9	\$ 894.1	\$ 963.7	\$ 1,125.7
Budgeted Subsidy³	\$ (481.4)	\$ (389.2)	\$ (276.3)	\$ (253.7)	\$ (251.6)	\$ (175.0)
Surplus (Deficit)⁴	\$ 237.7	\$ (22.1)	\$ (105.5)	\$ (33.0)	\$ (41.2)	n/a

¹FY2013 projected deficit is a Civic Federation calculation based on estimated actual revenues and expenditures.

²Proposed.

³Budgeted subsidy represents tax revenues allocated to Health System, excluding pension and debt service payments.

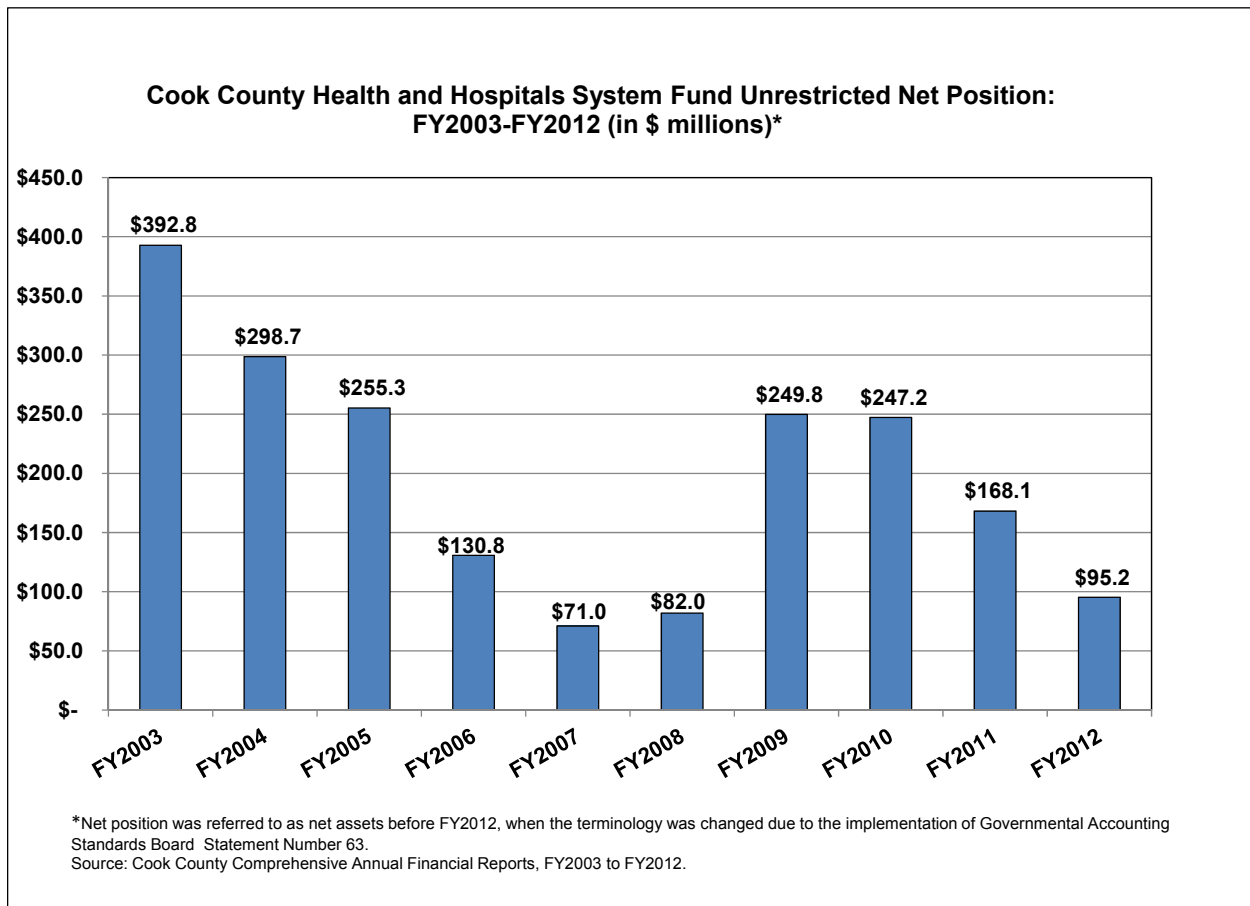
⁴Surplus or deficit represents adjustment of Health System unrestricted net position to account for increase or decrease in resources used by Health System in comparison to budgeted subsidy.

Source: Cook County FY2014 Executive Budget Recommendation, Revenue Estimate, pp. 29 and 40; Communications between Civic Federation and Cook County Department of Budget and Management Services, July 17, 2013 and October 11, 2013.

The Health System is accounted for as an enterprise fund in the County's Comprehensive Annual Financial Reports (CAFRs). Deficits and surpluses are subtracted from or added to the Health System's unrestricted net position. As of November 30, 2012, the Health System had an unrestricted net position of \$95.2 million.¹⁵⁴

¹⁵⁴ Cook County FY2012 Comprehensive Annual Financial Report, p. 9.

The next table shows the Health System’s unrestricted net position from the end of FY2003 to the end of FY2012. It should be noted that budgetary accounting and CAFR accounting are not comparable; the table below is intended to show general trends in the Health System’s reserves.



County budget resolutions typically specify that annual revenues in excess of budgeted amounts collected by the Health System will be deposited to the Health Fund. The proposed resolution for FY2014 states that if the System receives additional revenues associated with higher than anticipated enrollment in CountyCare, the resources can be used in that fiscal year to support additional expenses associated with the increased membership.¹⁵⁵

¹⁵⁵ Cook County FY2014 Executive Budget Recommendation, Resolution and Annual Appropriation Bill for FY2014, p. 262.

Health System Personnel

The FY2014 budget includes 6,745.1 full-time equivalent positions (FTEs) for the Health System, up 77.0 FTEs from 6,668.1 in FY2013.¹⁵⁶ The following table shows Health System personnel numbers from FY2010 to FY2014.

Cook County Health and Hospitals System FTEs: FY2010-FY2014									
	FY2010 Adopted	FY2011 Adopted	FY2012 Adopted*	FY2013 Adopted	FY2014 Proposed	Two-Year # Change	Two-Year % Change	Five-Year # Change	Five-Year % Change
Health System Administration	553.5	554.3	581.0	608.0	647.0	39.0	6.4%	93.5	16.9%
Cermak Health Services	486.5	516.0	527.0	502.1	579.1	77.0	15.3%	92.6	19.0%
JTDC Health Services	39.0	36.8	37.0	36.0	37.0	1.0	2.8%	-2.0	-5.1%
Provident Hospital	683.6	462.9	468.0	383.0	357.5	-25.5	-6.7%	-326.1	-47.7%
Ambulatory and Community Health Network	702.2	705.1	677.3	652.0	620.0	-32.0	-4.9%	-82.2	-11.7%
CORE Center	67.7	67.4	70.0	66.0	69.6	3.6	5.5%	1.9	2.8%
Department of Public Health	171.6	170.8	176.0	155.0	148.0	-7.0	-4.5%	-23.6	-13.8%
Medicaid Expansion Plan	0.0	0.0	0.0	247.0	266.3	19.3	7.8%	266.3	na
Stroger Hospital	3,898.3	3,614.9	4,184.0	3,903.0	3,905.6	2.6	0.1%	7.3	0.2%
Oak Forest Health Center**	1,024.3	509.9	337.5	116.0	115.0	-1.0	-0.9%	-909.3	-88.8%
Total	7,626.7	6,638.1	7,057.8	6,668.1	6,745.1	77.0	1.2%	-881.6	-11.6%

*In FY2012 most vacant and new positions were funded at 0.2 FTEs. The fully funded FTE number would have been 6,240.9.

**Oak Forest Hospital was renamed Oak Forest Health Center in FY2011. Healthcare positions at Oak Forest Health Center were moved to the budgets of Stroger Hospital and ACHN in FY2013. Remaining positions at Oak Forest are connected with operating the campus.

Source: Cook County FY2014 Executive Budget Recommendation, Proposed Expenditures, p.83.

Cermak Health Services sees the largest increase in FY2014, with the recommended addition of 77.0 FTEs to staff the new residential treatment unit at the County jail.¹⁵⁷ An increase of 39.0 FTEs in System administration is partly related to an effort to improve the System's recruitment efforts by expanding human resources operations.¹⁵⁸ CountyCare has an additional 19.3 positions, reflecting expanding enrollment in the plan.¹⁵⁹

It is important to note that it is not possible to compare FTEs in FY2012 with those in other years. The Health System's FY2012 budget included 1,182.1 vacant and new FTEs, most of which were funded at only 20% of the required amount. The FY2012 personnel number for fully funded positions was 6,240.9.¹⁶⁰ The vacant and new positions were funded at a fraction of the full amount because of inadequate resources and the System's expected inability to fill positions quickly. Health System officials did not eliminate vacant positions from the budget due to concern about obtaining authorization for new positions.¹⁶¹

The FY2013 budget eliminated 390.7 vacant positions, keeping approximately 938 vacant positions that were expected to be filled.¹⁶² In FY2013 as of September 27, the System had filled

¹⁵⁶ Cook County FY2013 Executive Budget Recommendation, Proposed Expenditures, p. 38. Like the rest of this section, the discussion of Health System personnel is based only on the Health Fund. The Special Purpose Funds associated with the Health System have 42.0 FTEs in FY2014.

¹⁵⁷ Cook County FY2014 Executive Budget Recommendation, Health Care, pp. O-28 to O-33.

¹⁵⁸ Cook County FY2014 Executive Budget Recommendation, Health Care, pp. O-16 to O-17.

¹⁵⁹ Cook County FY2014 Executive Budget Recommendation, Health Care, pp. O-80 to O-81.

¹⁶⁰ Communication between the Civic Federation and the Cook County Health and Hospitals System, October 21, 2011.

¹⁶¹ Cook County Health and Hospitals System, Special Board of Directors meeting, September 16, 2011.

¹⁶² Cook County Health and Hospitals System, Minutes of the Meeting of the Human Resources Committee, December 7, 2012, p. 2.

575 vacancies.¹⁶³ The System is still expected to end FY2013 with 1,201.3 vacant positions and FY2014 with 1,005.0 vacant positions.¹⁶⁴ The System loses approximately 30 employees a month, with an increasing number of departures related to retirements.¹⁶⁵

Salaries and wages of regular employees in FY2014 are unchanged from FY2013 at \$481.9 million, after deducting \$900,000 in savings due to a recommended furlough day.¹⁶⁶ Despite increasing personnel costs, funding remains flat by accounting for the timing of filling vacant positions.¹⁶⁷ Overtime pay increases by \$3.7 million, or 16.9%, to \$25.9 million from \$22.2 million.

FUND BALANCE

Fund balance is a term commonly used to describe the net assets of a governmental fund and serves as a measure of financial resources.¹⁶⁸ Fund balance is an important financial indicator for local governments. It represents the difference between the assets and liabilities in a governmental fund. Fund balance in a governmental fund differs from net assets typically included in financial reporting in that it includes only a subset of assets and liabilities. It is more a measure of liquidity than of net worth.¹⁶⁹ It can be thought of as the savings account of the local government.

This section discusses three aspects of fund balance: recent changes to fund balance reporting, fund balance policy and definitions and an analysis of Cook County's fund balance levels.

Recent Changes to Fund Balance Reporting

Beginning in FY2011, Cook County's audited financial statements include a modification in fund balance reporting, as recommended by the Governmental Accounting Standards Board (GASB). GASB Statement No. 54 shifted the focus of fund balance reporting from the availability of fund resources for budgeting purposes to the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."¹⁷⁰

Previous Components of Fund Balance

Previously, the categories for fund balance focused on whether resources were available for appropriation by governments. The *unreserved* fund balance thus referred to resources that did

¹⁶³ Cook County Health and Hospitals System, Minutes of the Meeting of the Human Resources Committee, October 11, 2013, p. 10.

¹⁶⁴ Communication between the Civic Federation and the Cook County Health and Hospitals System, October 23, 2013.

¹⁶⁵ Communication between the Civic Federation and the Cook County Health and Hospitals System, August 20, 2013.

¹⁶⁶ Cook County FY2014 Executive Budget Recommendation, Health Care, p. O-3.

¹⁶⁷ Cook County Health and Hospitals System, Proposed FY2014 Preliminary Budget, August 16, 2013, p. 9.

¹⁶⁸ Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

¹⁶⁹ Stephen J. Gauthier. *The New Fund Balance*. Chicago: GFOA, 2009, p. 34.

¹⁷⁰ Stephen J. Gauthier. "Fund Balance: New and Improved," Government Finance Review, April 2009 and GASB Statement No. 54, paragraph 5.

not have any external legal restrictions or constraints. The unreserved fund balance was able to be further categorized as designated and undesignated. A *designation* was a limitation placed on the use of the fund balance by the government itself for planning purposes or to earmark funds.¹⁷¹

Components of Fund Balance

GASB Statement No. 54 created five components of fund balance, though not every government or governmental fund will report all components. The five components are:

- *Nonspendable fund balance* – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.
- *Restricted fund balance* – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by constitution, creditors or laws and regulations of non-local governments.
- *Committed fund balance* – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- *Assigned fund balance* – the portion of fund balance reflecting the government’s intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
- *Unassigned fund balance* – in the General or Corporate Fund, the remaining surplus of net resources after funds have been identified in the four categories above.¹⁷²

Historically, the focus of the Civic Federation fund balance analysis has been on the unreserved general fund balance. Given the new components of fund balance established by GASB Statement No. 54, the Civic Federation now focuses on a government’s unrestricted fund balance, which includes the *committed*, *assigned* and *unassigned* fund balance levels. The only difference between the two terms (unreserved and unrestricted) is that a portion of what used to be categorized as unreserved fund balance is now reported as restricted fund balance; otherwise, the two terms are nearly synonymous.¹⁷³

In the interest of government transparency, the Civic Federation recommends when possible, all local governments provide ten years of fiscal data in the GASB Statement No. 54 format in the statistical section of their audited financial statements. A multi-year trend analysis of the County’s fund balance levels including the most recent FY2011 and FY2012 numbers is not possible because the data has been classified differently with the implementation of GASB Statement No. 54. For instance, Cook County previously reported the Emergency Management Agency and Capital Litigation Funds as Special Revenue Funds; however, with the implementation of GASB Statement No. 54, these funds are now reported as part of the General

¹⁷¹ Stephen J. Gauthier. “Fund Balance: New and Improved,” Government Finance Review, April 2009.

¹⁷² Stephen J. Gauthier. “Fund Balance: New and Improved,” Government Finance Review, April 2009.

¹⁷³ Stephen J. Gauthier. *The New Fund Balance*. Chicago: GFOA, 2009, p. 34.

Fund. Therefore, a restatement of prior years' fiscal data according to the new categorization of the County's funds is warranted in order to conduct a thorough trend analysis.

Cook County Financial Policy and GFOA Best Practices

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."¹⁷⁴ Two months of operating expenditures is approximately 17%. The GFOA notes that a smaller size reserve may be appropriate for the largest governments. The GFOA also recommends that governments adopt a formal, publicly available fund balance policy.¹⁷⁵

In its Executive Budget Recommendation, the County includes a policy statement regarding fund balance, or financial reserve, in the Financial Policies section. The policy states that the County must maintain "an unassigned fund balance in the General Fund of no less than one month, with a targeted goal of two months, of the prior year audited General Fund operating expenditures." If the unassigned fund balance drops below the level equal to one month of audited General Fund expenditures, the policy also requires the County to develop a plan to replenish the fund balance and incorporate the plan into budget preparation.¹⁷⁶

¹⁷⁴Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

¹⁷⁵ Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

¹⁷⁶ Cook County FY2014 Executive Budget Recommendations, Financial Policies, p. 268.

General Fund Balance Ratio

Cook County's General Fund consists of five accounts: Corporate, Public Safety, Self-Insurance, Capital Litigation and the Emergency Management Agency.¹⁷⁷ The chart below displays the General Fund fund balance as a ratio of General Fund unrestricted fund balance to operating expenditures for FY2011 and FY2012, according to the new reporting standards of GASB No. 54. Over the past two years, Cook County's unrestricted General Fund fund balance ratio has remained slightly below the GFOA's recommended level at 14.2% in FY2011 and 14.6% in FY2012.

The unassigned portion of the FY2012 unrestricted General Fund balance is \$165,330,818, which is greater than the required amount equal to one month of operating expenditures, \$111,181,744, according to the County's new fund balance policy.

Cook County Unrestricted General Fund Fund Balance Ratio: FY2011 & FY2012			
	Unrestricted General Fund Fund Balance	Operating Expenditures	Ratio
FY2011	\$ 197,104,388	\$ 1,386,073,338	14.2%
FY2012	\$ 194,691,967	\$ 1,334,180,931	14.6%

Source: Cook County, Comprehensive Annual Financial Reports, FY2011, pp. 29 and 32 and FY2012, pp. 30 and 33.

¹⁷⁷ Cook County FY2012 Comprehensive Annual Financial Report, p. 8. The General Fund includes the Cook County Health and Hospitals System. For the first time, the FY2014 budget separates the Health Fund out from the General Fund as a separate fund. This change is in line with the County's efforts to make the Cook County Health and Hospitals System more self-sufficient in terms of its revenues and expenditures. It should be noted that this change was not in effect as of FY2012 Comprehensive Annual Financial Report, on which this analysis of fund balance is based. See the Appropriations section on page 24 for more information.

From FY2002 to FY2006, Cook County's General Fund maintained an unreserved fund balance ranging from 17.1% to 19.7% of expenditures, reflecting a level of reserves that exceeded the GFOA's minimum standard. However, from FY2007 to FY2010 the fund balance ratio declined below that standard. Between FY2006 to FY2008, the unreserved fund balance declined from \$259.5 million to \$103.6 million, a 60.1% decrease.

The Cook County FY2009 Comprehensive Annual Financial Report initially reported a fund balance of \$142.5 million, or 11.2% of operating expenditures in reserves. However, after further review, it was discovered in June 2011 that this fund balance was calculated in error.¹⁷⁸ The corrected FY2009 General Fund Balance is reported to be \$51.3 million, or 4.1% of FY2009 operating expenditures.

At FY2010 year-end, the County's fund balance dropped to its lowest amount since 2002 - \$30.8 million, or 2.3% of total operating expenditures.

General Fund* Unreserved Fund Balance			
FY2002-FY2010			
	General Fund Balance	Actual Expenditures	Ratio
FY2002	\$ 206,477,041	\$ 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**	\$ 51,335,834	\$ 1,266,752,817	4.1%
FY2010	\$ 30,798,552	\$ 1,320,303,924	2.3%

*Includes Corporate, Public Safety, Self-Insurance, Capital Litigation and Emergency Management Agency Accounts (except for years FY2002-FY2005 when the Self-Insurance Account was not included in the General Fund).

**FY2009 General Fund Balance reflects the restated figure as reported in the Cook County FY2010 CAFR, Statistical Section, Schedule S-3, p. 225. The previously reported fund balance in the Cook County FY2009 CAFR was found to be in error. The Statistical Section of the FY2010 CAFR was referenced in this analysis because an updated version of the FY2009 CAFR is not available.

Note: FY2001 figure is not included in chart because different accounting standards were used in FY2001 as compared to FY2002 and later years.

Source: Cook County CAFRs, FY2002-FY2010.

COOK COUNTY PENSION FUND

The Civic Federation analyzed four indicators of the fiscal health of Cook County's pension fund: funded ratios, unfunded actuarial accrued liabilities, investment rate of return and annual

¹⁷⁸ Letter from the Cook County Bureau of Finance regarding FY2009 CAFR errors, issued June 10, 2011, http://www.cookcountygov.com/taxonomy2/Finance,%20Bureau%20of/PDF/cc_2009CAFR_Letter.pdf.

required employer contributions. This section presents multi-year data for those indicators up to FY2012, the most recent year for which audited data are available, and describes Cook County pension benefits.

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 employees and their dependents.¹⁷⁹ Plan benefits and contribution amounts can only be amended through State legislation.¹⁸⁰ The fiscal year of the Cook County pension fund is January 1 to December 31.¹⁸¹

The Cook County pension fund is governed by a nine-member Board of Trustees.¹⁸² 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.

In FY2012 the fund had 21,187 active employee members and 16,434 beneficiaries for a ratio of 1.29 active members for every beneficiary. This ratio has fallen from 1.87 in FY2003 as the number of active members has declined and the number of beneficiaries has risen. This trend puts financial stress on the fund as there are fewer employees contributing to the fund and more annuity payments to make.

¹⁷⁹ County Employees' Annuity and Benefit Fund of Cook County, Financial Statements as of December 31, 2012, p. 9.

¹⁸⁰ 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.

¹⁸¹ This is different from the fiscal year of Cook County, which is December 1 to November 30.

¹⁸² 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://civicfed.org/civic-federation/publications/status-local-pension-funding-fy2011>.

Cook County Pension Fund Membership: FY2003-FY2012			
Fiscal Year	Active Employees	Beneficiaries	Ratio of Active to Beneficiary
FY2003	25,513	13,672	1.87
FY2004	25,848	13,782	1.88
FY2005	25,726	13,926	1.85
FY2006	25,555	14,173	1.80
FY2007	23,456	14,469	1.62
FY2008	23,436	14,745	1.59
FY2009	23,570	14,915	1.58
FY2010	23,165	15,333	1.51
FY2011	22,037	15,866	1.39
FY2012	21,187	16,434	1.29
10-Year Change	-4,326	2,762	-0.6
10-Year % Change	-17.0%	20.2%	-30.9%

Note: Fiscal year of pension fund is January 1 to December 31.

Source: County Employees' and Officers' Annuity and Benefit Fund of Cook County, Financial Statements, FY2003-FY2012.

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.¹⁸³ This report will refer to “Tier 1 employees” as those persons hired before the effective date of Public Act 96-0889 and “Tier 2 employees” as those persons hired on or after January 1, 2011.

Tier 1 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 \$70,000 final average salary could retire with a \$50,400 annuity: $30 \times \$70,000 \times 2.4\% = \$50,400$.¹⁸⁴ The annuity increases every year by an automatic compounded 3.0%.

Tier 1 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

¹⁸³ A “trailer bill” to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.

¹⁸⁴ The average FY2012 salary of Cook County employees 60-64 years old with 30-34 years of service was \$74,737 so \$70,000 is used as an approximate final average salary. County Employees' Annuity and Benefit Fund of Cook County Actuarial Valuation as of December 31, 2012, p. 28.

highest four year average to the highest eight year average, the \$106,800 cap on pensionable salary and the reduction of the automatic annuity increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.

Major Cook County Benefit Provisions for Regular Employees		
	Tier 1 Employees (hired before 1/1/2011)	Tier 2 Employees (hired on or after 1/1/2011)
Full Retirement Eligibility: Age & Service	age 60 with 10 years of service, or age 50 with 30 years of service	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 50 with 10 years of service	age 62 with 10 years of service
Final Average Salary	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*
Annuity Formula	2.4% of final average salary for each year of service	same as current employees
Early Retirement Formula Reduction	0.5% per month under age 60	0.5% per month under age 67
Maximum Annuity	80% of final average salary	same as current employees
Annuity Automatic Increase on Retiree or Surviving Spouse Annuity	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: Tier 2 employees 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, 2010; 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) multiplied by each of the first eight years of service, 4% multiplied by each of 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, 2005.¹⁸⁵ It permitted employees to make additional

¹⁸⁵ 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.

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 matching employer contribution increase of \$104 million two years later.¹⁸⁶ However, the County did not raise its property tax levy to accommodate the one-time increase in employer contribution. The FY2007 and FY2009 Cook County Budget Recommendations proposed issuing \$104.1 million in bonds to pay for the obligation.¹⁸⁷ The Civic Federation opposed this borrowing. 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 2010.¹⁸⁸ 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 2010.¹⁸⁹ 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.¹⁹⁰ 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.¹⁹¹ 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.¹⁹² 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. However, as the employer sponsor of the pension plan, 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

¹⁸⁶ 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, which passed April 6, 2010.

¹⁸⁷ 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.

¹⁸⁸ Cook County, Illinois Official Statement for \$357,950,000 in Series 2010A and Series 2010C Bonds Dated June 11, 2010, pp. 14-15.

¹⁸⁹ Cook County Board of Commissioners Meeting of February 9, 2010 New Items Agenda and Cook County Ordinance 10-O-20 passed April 6, 2010.

¹⁹⁰ Cook County, Illinois Official Statement for \$357,950,000 in Series 2010A and Series 2010C Bonds Dated June 11, 2010.

¹⁹¹ 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.

¹⁹² County Employees' Annuity and Benefit Fund of Cook County, Financial Statements as of December 31, 2012, p. 21.

with it. The employer contribution for OPEB reported in the County’s financial statements is roughly equal to the cost of the premium subsidy.¹⁹³

In 2012 there were 8,179 retiree and surviving spouse participants whose health plan costs were subsidized by the pension fund.¹⁹⁴ This is an increase of 254 participants over the prior year. Retiree health plan data was first disclosed in Cook County’s FY2007 financial statements.

Cook County Pension Fund Retiree Health Plan Participants: FY2006-FY2012							
	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Retiree and Surviving Spouse Participants	7,132	7,459	7,300	7,367	7,554	7,925	8,179

Source: County Employees’ Annuity and Benefit Fund of Cook County, Financial Statements, FY2007, p. 18 and FY2012, p. 21.

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.

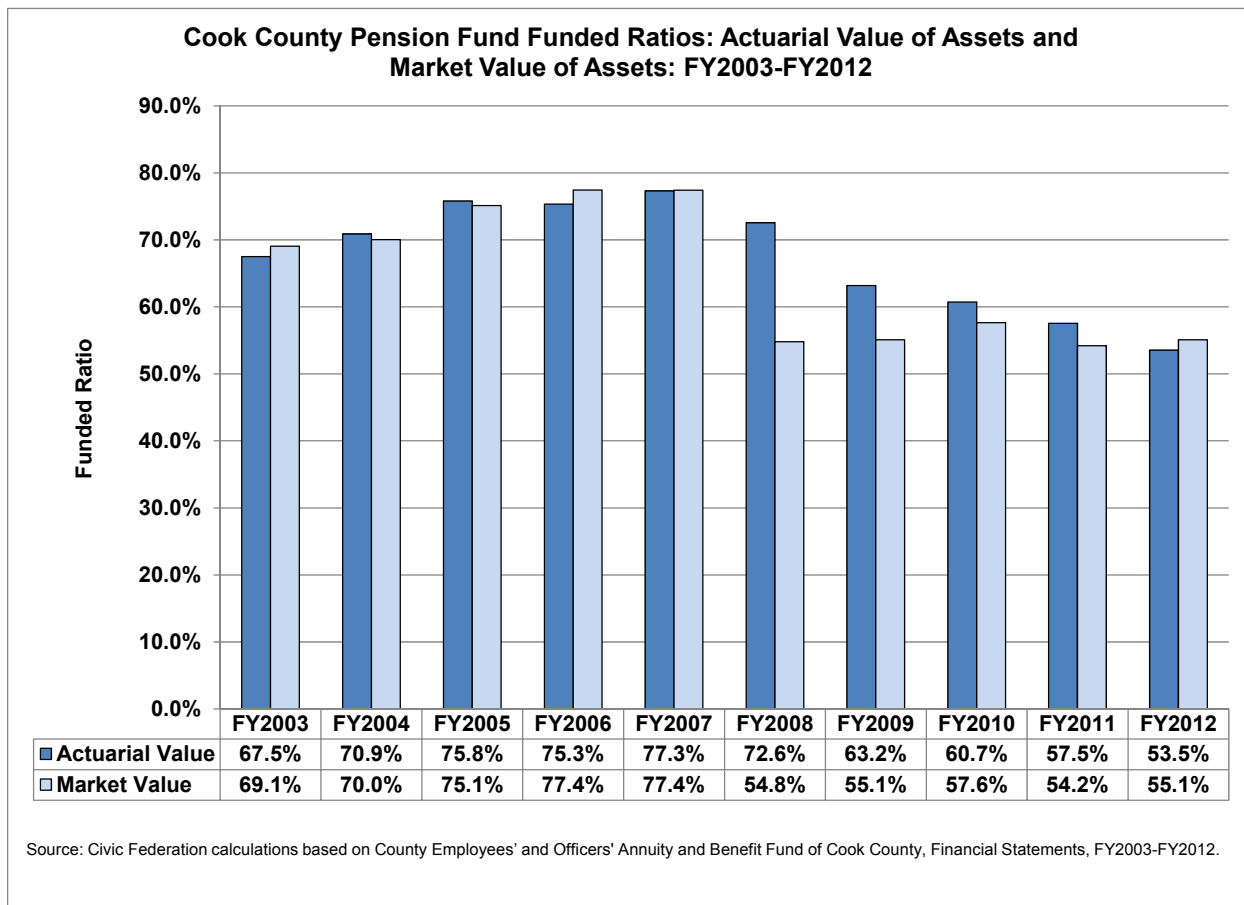
The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.¹⁹⁵ The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments 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 at the time of measurement to cover actuarial accrued liabilities.

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 was 67.5% in FY2003 and reached a high of 77.3% in FY2007 before falling to 53.5% in FY2012. The market value funded ratio rose from 69.1% in FY2003 to a high of 77.4% in fiscal years 2006 and 2007 before falling to 54.8% in FY2008 and staying fairly flat thereafter, reaching 55.1% in FY2012. 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. The smoothing effect of actuarial valuation of assets is also why the FY2012 actuarial value is lower than the market value. The FY2012 actuarial value is still taking into account some of the loss in value from FY2008 and FY2011 and only reflects some of the growth from high investment returns in FY2012.

¹⁹³ County Employees’ Annuity and Benefit Fund of Cook County, Financial Statements as of December 31, 2012, p. 22.

¹⁹⁴ These figures do not include the retired pension fund employees who also participate in the plan. There were eight such retired participants in FY2012. County Employees’ Annuity and Benefit Fund of Cook County, Financial Statements as of December 31, 2012, p. 21.

¹⁹⁵ For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2011*, May 21, 2013.



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.¹⁹⁶ The new actuary also analyzed the fund experience from 2000-2003 and subsequently made two significant assumption changes: 1) the discount rate assumption was lowered from 8.0% to 7.5% per year; and 2) the salary increase assumption was lowered from 5.5% to 5.0% per year.¹⁹⁷ 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%.¹⁹⁸

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

¹⁹⁶ The previous actuary used a five-year smoothed average ratio of market to book value while the new actuary used a five-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.

¹⁹⁷ County Employees' and Officers' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2004, p. 10.

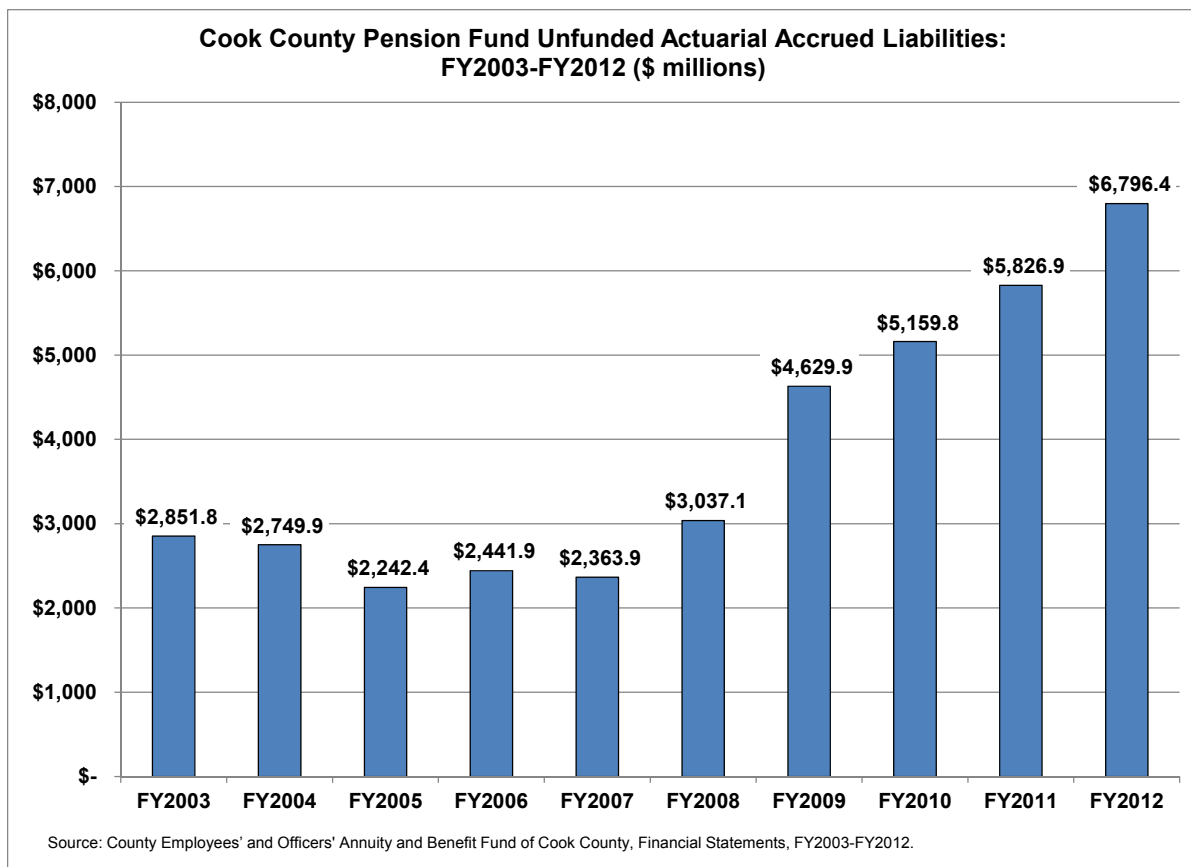
¹⁹⁸ Estimates provided by Sandor Goldstein via e-mail to the Civic Federation, January 24, 2008.

in a decrease of \$729.6 million in unfunded liabilities for Cook County.¹⁹⁹ 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 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.²⁰⁰ The result was an increase in actuarial liability of \$810.8 million.²⁰¹ Without these changes, the FY2009 Cook County actuarial value funded ratio would have been 67.5% rather than 63.2%.

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 \$6.8 billion in FY2012, up from nearly \$2.9 billion in FY2003.



¹⁹⁹ 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.

²⁰⁰ 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.

²⁰¹ County Employees’ Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2009, p.13.

The next exhibit adds together the contributing factors that have increased or decreased the fund's unfunded liability since FY2005. The largest contributor to the \$4.0 billion growth in unfunded liabilities between the beginning of FY2005 and the end of FY2012 was investment returns failing to meet the expected rate of return.²⁰² This added \$2.3 billion to the UAAL. The second largest contributor was the shortfall in employer contributions as compared to the annual required contribution (ARC),²⁰³ which added \$1.9 billion to the unfunded actuarial accrued liability over eight years.

Reasons for Change in Unfunded Actuarial Accrued Liability							
	Employer Contribution Lower/(Higher) than Normal Cost + Interest	Investment Return Lower/(Higher) Than Assumed	Salary Increase (Lower)/Higher Than Assumed	Retiree Health Insurance Premium Lower/(Higher) Than Assumed	Change in Actuarial Assumptions or Methods	Other	Total Net UAAL Change
FY2005	\$ 181,602,475	\$ 196,928,921	\$ (120,058,069)	\$ -	\$ (729,557,335)	\$ (36,418,972)	\$ (507,502,980)
FY2006	\$ 152,221,465	\$ 47,913,709	\$ (43,191,730)	\$ -	\$ -	\$ 42,515,613	\$ 199,459,057
FY2007	\$ 135,979,428	\$ (118,960,238)	\$ 78,765,800	\$ (103,261,032)	\$ -	\$ (70,568,914)	\$ (78,044,956)
FY2008	\$ 198,154,784	\$ 481,086,534	\$ 160,614,779	\$ -	\$ -	\$ (166,599,641)	\$ 673,256,456
FY2009	\$ 258,309,848	\$ 534,155,051	\$ (138,750,205)	\$ -	\$ 810,786,835	\$ 128,340,572	\$ 1,592,842,101
FY2010	\$ 349,354,012	\$ 364,312,504	\$ (185,530,277)	\$ -	\$ -	\$ 1,683,624	\$ 529,819,863
FY2011	\$ 371,793,485	\$ 459,875,129	\$ (138,554,686)	\$ -	\$ -	\$ (25,972,161)	\$ 667,141,767
FY2012	\$ 252,886,106	\$ 376,601,751	\$ 34,073,219	\$ -	\$ -	\$ 305,896,670	\$ 969,457,746
8-Year Total	\$ 1,900,301,603	\$ 2,341,913,361	\$ (352,631,169)	\$ (103,261,032)	\$ 81,229,500	\$ 178,876,791	\$ 4,046,429,054

Source: County Employees' and Officers' Annuity and Benefit Fund of Cook County, Combined Actuarial Valuations FY2005-FY2012.

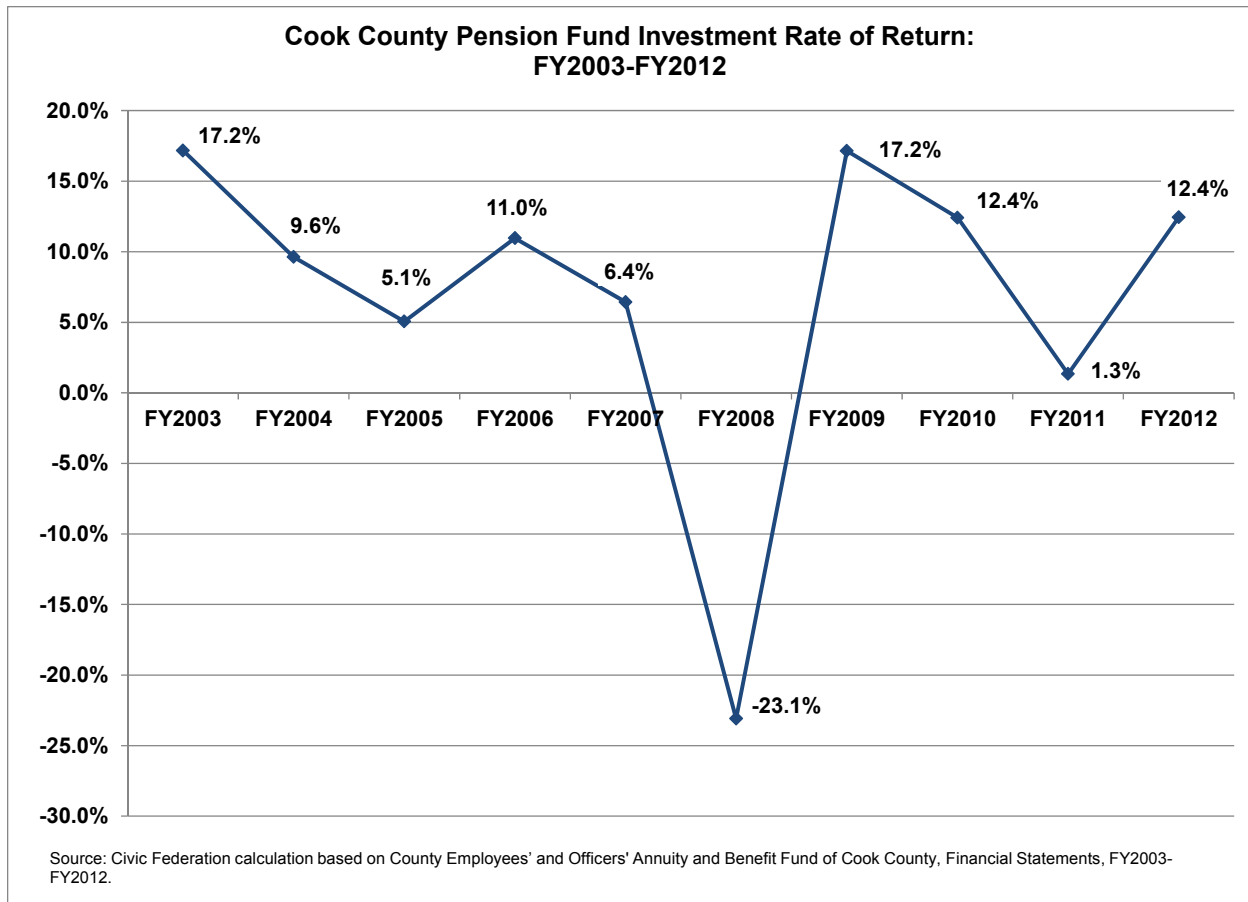
²⁰² The UAAL reflects investment gains and losses smoothed over a five-year period, so it does not match the annual investment results shown later in this report. For more information on asset smoothing see Civic Federation, *Status of Local Pension Funding Fiscal Year 2011*, May 21, 2013.

²⁰³ See page 74 for more information on ARC.

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 FY2003 and FY2012 the Cook County pension fund's average annual rate of return was 7.0%.²⁰⁴

Returns ranged from highs of 17.2% in FY2003 and FY2009 to a low of -23.1% in FY2008 due to the financial market crisis and corresponding sharp decline in equities. Returns rebounded in FY2009 and FY2010 only to decline to 1.3% in FY2011, reflecting national public pension fund trends of low investment returns for 2011.²⁰⁵ Returns again rebounded in FY2012.



²⁰⁴ 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.

²⁰⁵ National Association of State Retirement Administrators, "NASRA Issue Brief: Public Pension Plan Investment Return Assumptions." August 2012. According to this report, the median annualized investment returns for U.S. public pension funds in 2011 was 0.8%.

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.²⁰⁶ Normal cost is the portion of the present value of pension plan benefits and administrative expenses that 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 of 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.²⁰⁷ 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 No. 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

²⁰⁶ The ARC reporting requirement was established by GASB Statements No. 25 and 27. GASB Statements No. 67 and 68 will end the requirement for ARC disclosure for fiscal year 2014 financial statements of the fund and the fiscal year 2015 financial statement of Cook County. No widely accepted substitute measure of a government's annual pension funding adequacy has been proposed.

²⁰⁷ 40 ILCS 5/9-169.

liabilities because the pension and OPEB benefits are paid from the same asset pool.²⁰⁸ However, the separate pension and OPEB valuations done for GASB purposes are the ones used to compute the net pension and OPEB obligations of Cook County government that appear on the government's balance sheet.

The table below shows only the “combined” valuation comparison of the ARC to the actual Cook County contribution over the last ten years.²⁰⁹ The employer contribution did not equal 100% of the ARC in any of the years FY2003 through FY2012. In FY2003 the \$185.6 million employer contribution represented 50.9% of the ARC, meaning that \$179.1 million more would need to have been contributed to meet the ARC that year. In FY2012 the \$194.5 million employer contribution represented only 29.7% of the ARC for the “combined” valuation of pension and OPEB, for a shortfall of \$461.3 million that year. The cumulative ten-year difference between ARC and actual employer contribution for “combined” pension and OPEB is a \$2.7 billion shortfall. In 2012 the combined ARC for pension and OPEB was nearly \$655.8 million, or over three times the actual employer contribution of only \$194.5 million.

Expressing ARC as a percent of payroll provides a sense of scale and affordability. In FY2003 the ARC was 27.9% of payroll while the actual employer contribution was 14.2% of payroll. In FY2012 the “combined” pension and OPEB ARC was 44.4% of payroll, while the actual employer contribution was 13.2% of payroll.

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
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%
2010	\$ 572,318,384	\$ 184,722,634	\$ 387,595,750	32.3%	\$ 1,494,093,569	38.3%	12.4%
2011	\$ 613,952,848	\$ 198,837,424	\$ 415,115,424	32.4%	\$ 1,456,444,123	42.2%	13.7%
2012	\$ 655,800,100	\$ 194,511,586	\$ 461,288,514	29.7%	\$ 1,478,253,368	44.4%	13.2%

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.

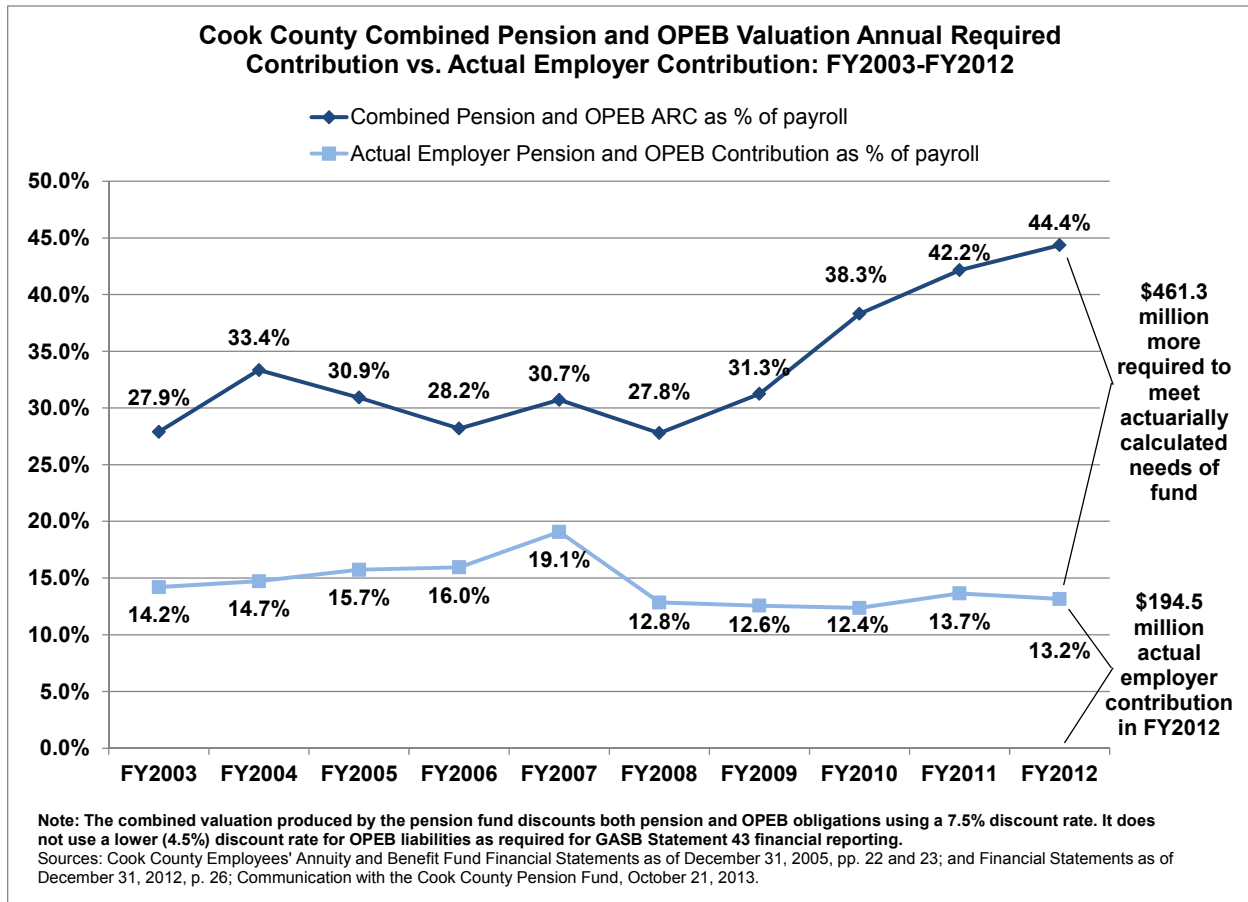
Source: Cook County Employees' Annuity and Benefit Fund Financial Statements as of December 31, 2005, p. 22-23; Financial Statements as of December 31, 2012, p. 26; Communication with the Cook County Pension Fund, October 21, 2013.

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 13.7% of payroll, or \$179.1 million, in FY2003 to 31.2% of payroll in FY2012. 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

²⁰⁸ Information provided by Daniel Degnan, Executive Director, Cook County Employees' and Officers' Annuity and Benefit Fund of Cook County, February 14, 2011.

²⁰⁹ The employer contribution shown in these tables is higher than the employer contribution shown elsewhere in 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.

County would have needed to contribute an additional 31.2% of payroll, or \$461.3 million, in FY2012.



Cook County has consistently levied and contributed its statutorily required 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 FY2013, Cook County would need to levy property taxes equal to a tax multiple of 5.82 rather than 1.54.²¹⁰

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

- *Accounts payable*: monies owed to vendors for goods and services carried over into the new fiscal year;
- *Accrued salaries payable*: employee pay carried over from the previous year;

²¹⁰ County Employees' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2012, p. 7.

- *Amounts held for outstanding warrants:* Cash balance maintained to offset claims made by the State Treasurer pursuant to the Illinois Uniform Disposition of Unclaimed Property Act. The County disputed these claims;²¹¹
- *Due to other funds, others or other governments:* These are monies owed to other funds for services that have been rendered that are outstanding at the end of the fiscal year;
- *Notes payable:* short-term loans due within the next fiscal year;
- *Arbitrage Liability:* The Tax Reform Act of 1986 requires issuers of state and local government bonds to rebate to the federal government arbitrage profits earned on those bonds under certain circumstances. There was no arbitrage rebate liability as of November 30, 2010;²¹² and
- *Other liabilities:* include self insurance funds (the County is self-insured for various types of liabilities, including medical malpractice, workers' compensation, general automobile and other liabilities), unclaimed property and other unspecified liabilities.

In FY2012 short-term liabilities totaled \$194.9 million, a decrease of 8.3%, or \$17.5 million, from the prior fiscal year. Since FY2008 short-term liabilities have decreased by \$176.1 million, or 47.5%. Accounts payable have always been the largest share of short-term liabilities, averaging 53.5%. The decrease in short-term liabilities is a positive sign.

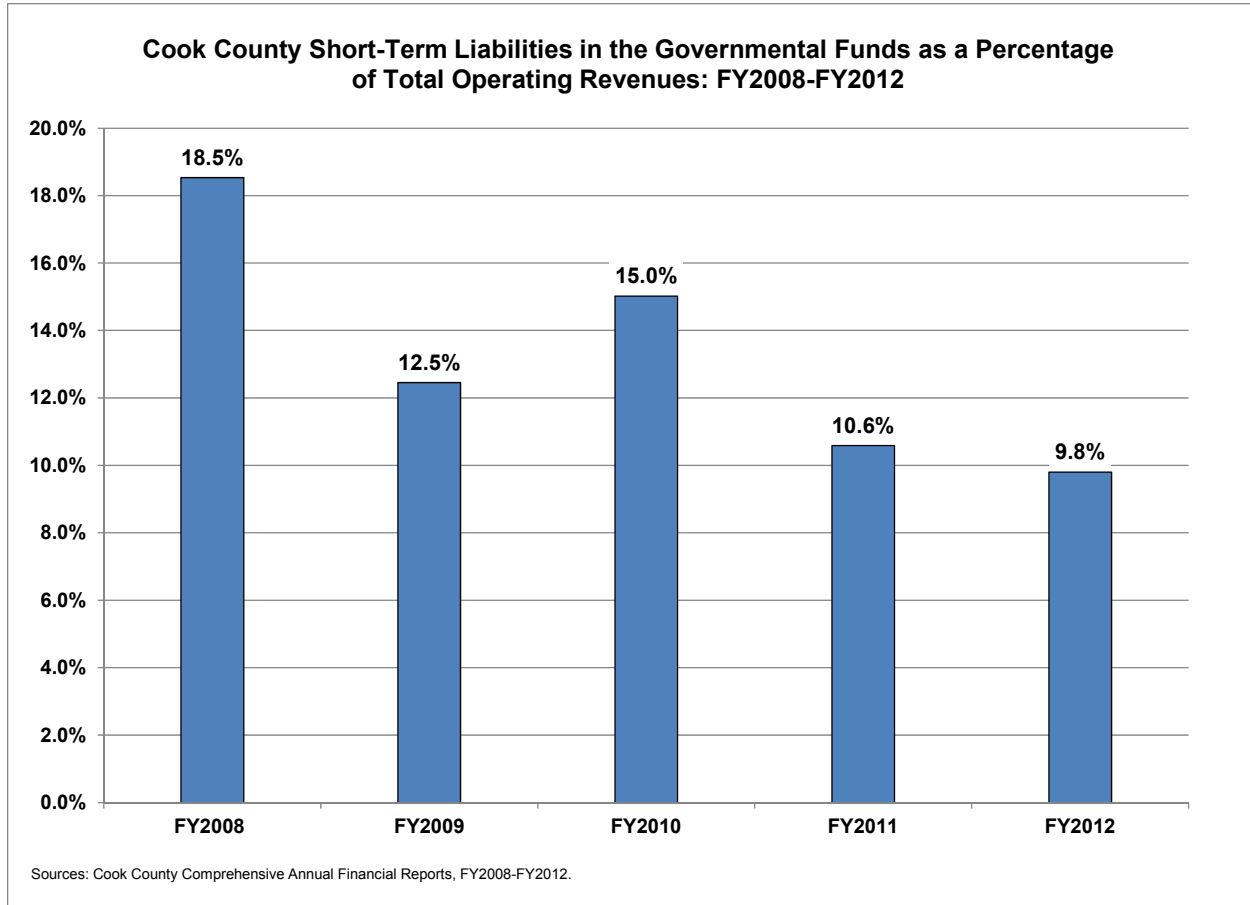
Cook County Short-Term Liabilities in the Governmental Funds : FY2008-FY2012 (in \$ thousands)									
Type	FY2008	FY2009	FY2010	FY2011	FY2012	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Accounts Payable	\$ 159,078	\$ 154,153	\$ 150,008	\$ 130,313	\$ 106,186	\$ (24,127)	-18.5%	\$ (52,892)	-33.2%
Accrued Salaries Payable	\$ 25,125	\$ 27,078	\$ 32,114	\$ 52,400	\$ 20,000	\$ (32,400)	-61.8%	\$ (5,125)	-20.4%
Amounts held for outstanding warrants	\$ 3,625	\$ 4,045	\$ 5,764	\$ 6,425	\$ 45,949	\$ 39,524	615.2%	\$ 42,324	1167.7%
Due to Other Funds	\$ 51,043	\$ 2,998	\$ 46,787	\$ 9,313	\$ 6,580	\$ (2,733)	-29.3%	\$ (44,463)	-87.1%
Due to Others	\$ -	\$ -	\$ -	\$ 12,502	\$ 5,447	\$ (7,055)	-	\$ 5,447	-
Due to Other Governments	\$ 12,015	\$ 7,697	\$ 54,563	\$ 1,467	\$ 10,718	\$ 9,251	630.6%	\$ (1,297)	-10.8%
Arbitrage liability	\$ 336	\$ 118	\$ -	\$ -	\$ -	\$ -	-	\$ (336)	-100.0%
Notes payable	\$ 118,268	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ (118,268)	-100.0%
Other liabilities	\$ 1,507	\$ 62,103	\$ 16,201	\$ -	\$ -	\$ -	0.0%	\$ (1,507)	-100.0%
Total	\$ 370,996	\$ 258,191	\$ 305,436	\$ 212,419	\$ 194,880	\$ (17,539)	-8.3%	\$ (176,116)	-47.5%

Source: Cook County Comprehensive Annual Financial Reports, Governmental Funds Balance Sheets, FY2008-FY2012.

²¹¹ Cook County FY2008 CAFR, p. 103.

²¹² Cook County FY2010 CAFR, p. 94.

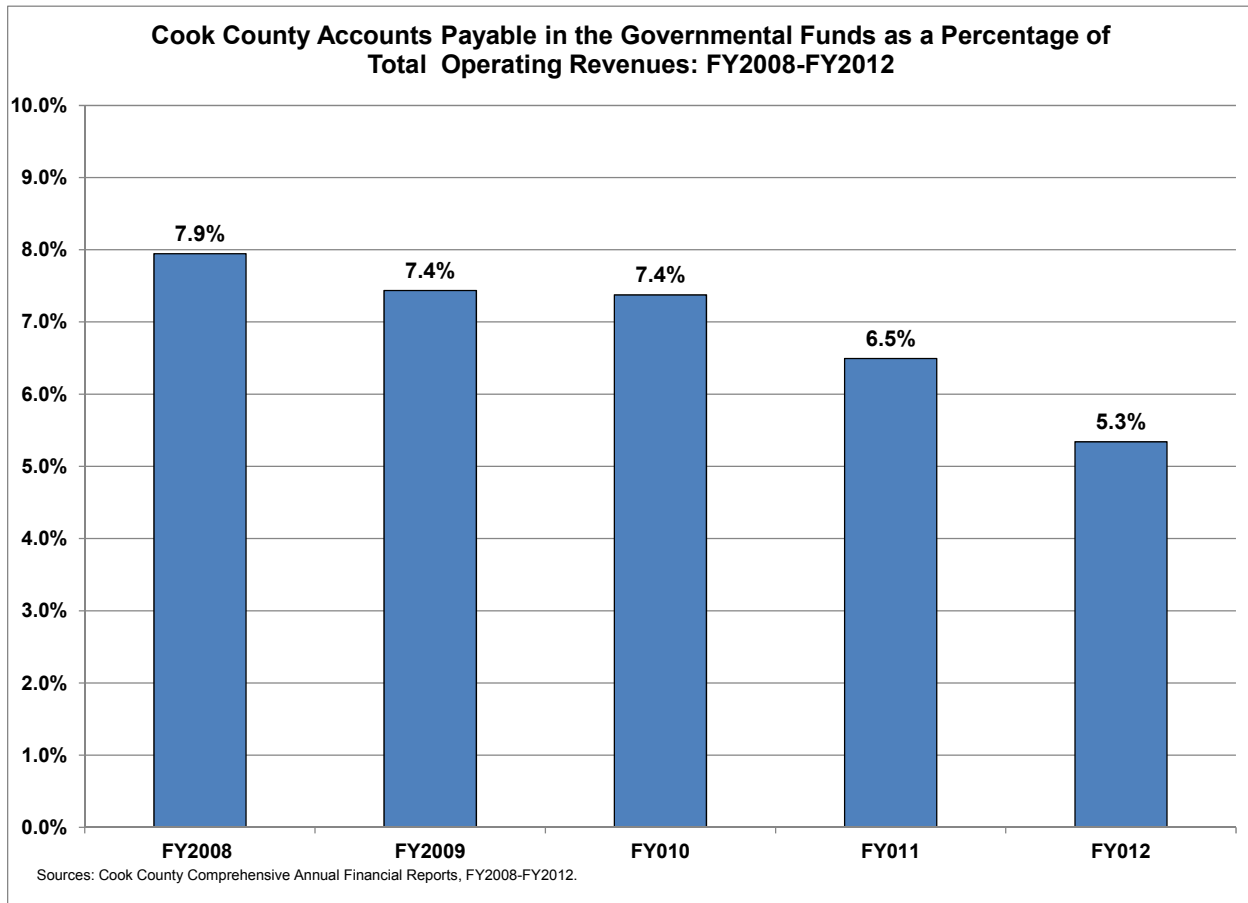
Increasing current liabilities in a government’s operating funds at the end of the year as a percentage of total operating revenues may be a warning sign of a government’s future financial difficulties.²¹³ This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government’s ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. Cook County’s ratio of short-term liabilities to total operating revenue has fluctuated over time. The ratio fell from 18.5% in FY2008 to 12.5% in FY2009 before rising again to 15.0% in FY2010. By FY2012, it had fallen to 9.8%. The ratio averaged 13.3% over the five-year period. The significant decrease in the ratio from FY2008 to FY2012 is a positive trend.



²¹³ Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), pp. 77 and 169.

Accounts Payable as a Percentage of Operating Revenues

Over time, rising amounts of accounts payable compared to operating revenues may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. Cook County's ratio of operating funds accounts payable to operating revenues decreased from 7.9% in FY2008 to 5.3% in FY2012. The ratio has declined significantly during the five-year period reviewed; this is a positive sign.



Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.²¹⁴

In addition to the short-term liabilities listed above, the current ratio formula uses the current assets of a government, including:

²¹⁴ Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations*. (Upper Saddle River, NJ, 2001), p. 476.

- *Cash and cash equivalents*: assets that are cash or can be converted into cash immediately, including petty cash, demand deposits and certificates of deposit;
- *Investments*: any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables*: monetary obligations owed to the government including grants, property taxes and accrued interest;
- *Due from other governments*: Monies due from local property taxes that have been determined or billed but not yet collected and/or monies due but not yet disbursed from the State of Illinois or the federal government; and
- *Due from other funds or others* are receivables from those sources that are outstanding at the end of the fiscal year.

Cook County's current ratio was 10.0 in FY2012, the most recent year for which data is available. In the past five years, the ratio rose from 4.7 to 10.0 because current assets increased by 11.4% while current liabilities fell by 47.5%. These are positive trends. In each of the five years reviewed, it was far above 2.0, indicating that the County had more than sufficient liquidity.

	FY2008	FY2009	FY2010	FY2011	FY2012	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Current Assets									
Cash and Investments	\$ 780,428	\$ 468,171	\$ 419,717	\$ 747,344	\$ 588,665	\$(158,679)	-21.2%	\$(191,763)	-24.6%
Cash and Investments with escrow agent	\$ 30,498	\$ -	\$ -	\$ 39,131	\$ 20,614	\$(18,517)	-47.3%	\$(9,884)	-32.4%
Cash and investments with trustees	\$ 72,364	\$ 355,656	\$ 542,511	\$ 461,345	\$ 488,619	\$ 27,274	5.9%	\$ 416,255	575.2%
Taxes receivable net - tax levy current year	\$ 626,955	\$ 626,637	\$ 639,600	\$ 600,172	\$ 630,919	\$ 30,747	5.1%	\$ 3,964	0.6%
Taxes receivable net - tax levy prior year	\$ 57,327	\$ 198,993	\$ 253,995	\$ 26,460	\$ 25,416	\$(1,044)	-3.9%	\$(31,911)	-55.7%
Accrued interest receivable	\$ 557	\$ 61	\$ 647	\$ 621	\$ 1,071	\$ 450	72.4%	\$ 514	92.4%
Accounts receivable - due from others	\$ 29,568	\$ 13,176	\$ 27,709	\$ 25,675	\$ 20,447	\$(5,228)	-20.4%	\$(9,121)	-30.8%
Accounts receivable - due from other governments	\$ 155,062	\$ 289,609	\$ 194,127	\$ 168,493	\$ 173,558	\$ 5,065	3.0%	\$ 18,496	11.9%
Due from other funds	\$ 1,138	\$ 679	\$ 23,043	\$ 3,910	\$ 4,583	\$ 673	17.2%	\$ 3,445	302.7%
Total Current Assets	\$ 1,753,897	\$ 1,952,982	\$ 2,101,349	\$ 2,073,151	\$ 1,953,892	\$(119,259)	-5.8%	\$ 199,995	11.4%
Current Liabilities									
Accounts Payable	\$ 159,078	\$ 154,153	\$ 150,008	\$ 130,313	\$ 106,186	\$(24,127)	-18.5%	\$(52,892)	-33.2%
Accrued Salaries Payable	\$ 25,125	\$ 27,078	\$ 32,114	\$ 52,400	\$ 20,000	\$(32,400)	-61.8%	\$(5,125)	-20.4%
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Due to Others	\$ -	\$ -	\$ -	\$ 12,502	\$ 5,447	\$(7,055)	-56.4%	\$ 5,447	-
Due to Other Governments	\$ 12,015	\$ 7,697	\$ 54,563	\$ 1,467	\$ 10,718	\$ 9,251	630.6%	\$(1,297)	-10.8%
Arbitrage liability	\$ 336	\$ 118	\$ -	\$ -	\$ -	\$ -	-	\$(336)	-
Notes payable	\$ 118,268	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$(118,268)	-
Other liabilities	\$ 1,507	\$ 62,103	\$ 16,201	\$ -	\$ -	\$ -	-	\$(1,507)	-100.0%
Total Current Liabilities	\$ 370,996	\$ 258,191	\$ 305,436	\$ 212,419	\$ 194,880	\$(17,539)	-8.3%	\$(176,116)	-47.5%
Current Ratio	4.7	7.6	6.9	9.8	10.0				

Source: Cook County Comprehensive Annual Financial Reports, Governmental Funds Balance Sheets, FY2008-FY2012.

LONG-TERM LIABILITIES

This section of the analysis examines trends in Cook County's long-term liabilities. It includes information about all long-term obligations, long-term debt, long-term debt per capita and bond ratings. 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 No. 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. Therefore, the District is reported in the governmental

activities of Cook County as a blended component unit and is included in the long-term liabilities of the County.²¹⁵

Total Long-Term Liabilities

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 Statement No. 49;²¹⁶
- *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;²¹⁷
- *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;²¹⁸
- *Compensated absences*: Liabilities owed for employees' time off with pay for vacations, holidays and sick days;
- *Net pension obligations (NPO)*: The cumulative difference, since the effective date of GASB Statement No. 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; and²¹⁹
- *Net Other Post Employment Benefit (OPEB) obligations*: The cumulative difference, since the effective date of GASB Statement No. 45 in 2008, between the annual OPEB (employee health insurance) cost and the employer's contributions to its OPEB plan.

Between FY2011 and FY2012, total County long-term obligations rose by 7.7%, increasing from nearly \$6.6 billion to \$7.1 billion. Over the five-year period, liabilities increased by 50.3%, or nearly \$2.4 billion. The increases were primarily due to increases in net OPEB obligations, net pension obligations and long-term debt. Net pension obligations rose by roughly \$1.2 billion, a 115.8% increase, while long-term debt increased by \$794.3 million, or 26.1%. The large increases in long-term liabilities are a cause for concern.

²¹⁵ 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) and Cook County FY2012 Comprehensive Annual Financial Report, p. 48.

²¹⁶ 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).

²¹⁷ Cook County FY2012 Comprehensive Annual Financial Report, p. 93.

²¹⁸ Cook County, FY2010 Comprehensive Annual Financial Report p. 90.

²¹⁹ 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).

Cook County Long-Term Liabilities Governmental Activities: FY2008-FY2012
(in \$ thousands)

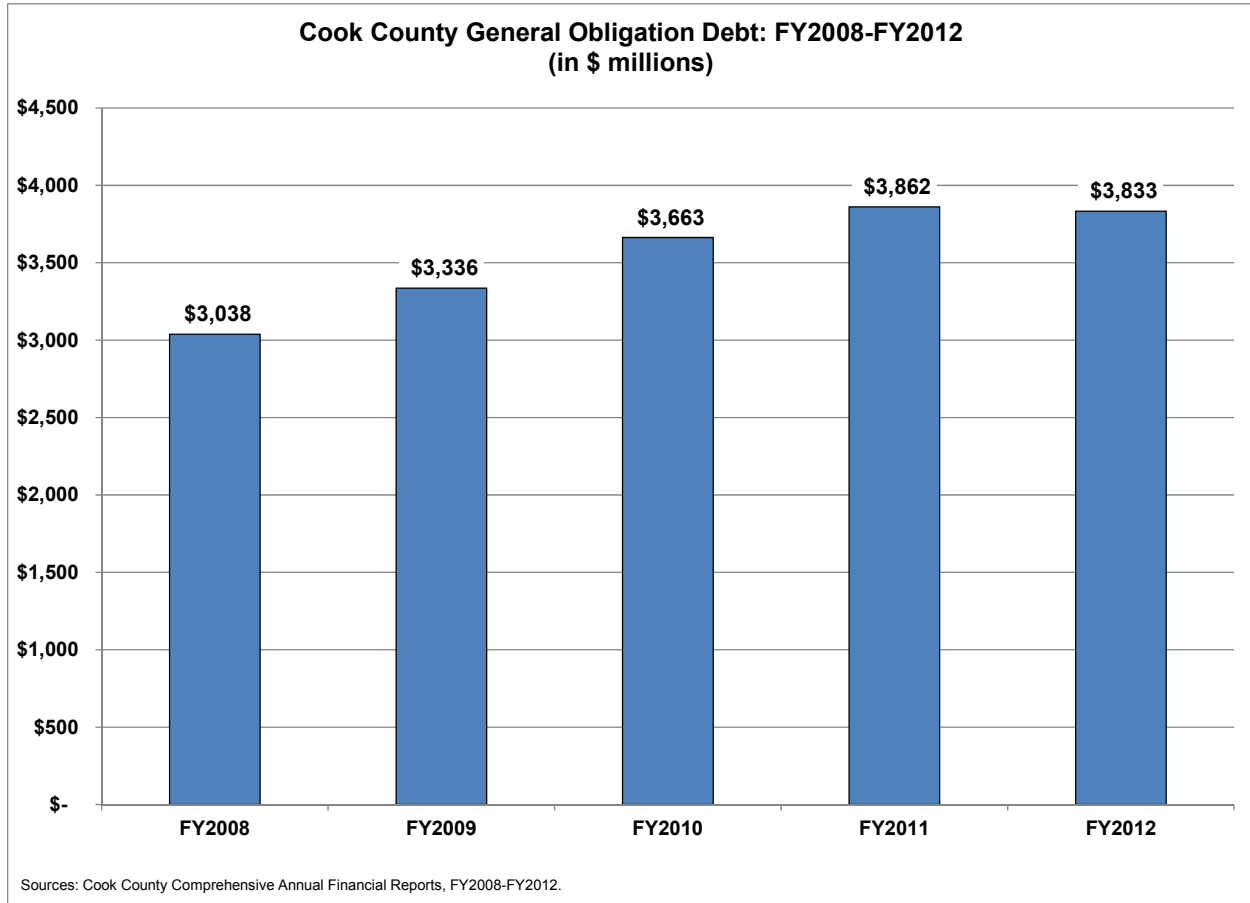
	FY2008	FY2009	FY2010	FY2011	FY2012	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Total General Obligation Bonds	\$3,013,080	\$3,293,495	\$3,601,550	\$3,814,460	\$3,780,315	\$ (34,145)	-0.9%	\$ 767,235	25.5%
Net Discount*	\$ 80,206	\$ 102,664	\$ 122,446	\$ 120,217	\$ 111,062	\$ (9,155)	-7.6%	\$ 30,856	38.5%
Refunding	\$ (54,722)	\$ (59,493)	\$ (60,511)	\$ (73,131)	\$ (58,538)	\$ 14,593	-20.0%	\$ (3,816)	7.0%
Subtotal Long-Term Debt	\$ 3,038,564	\$ 3,336,666	\$ 3,663,485	\$ 3,861,547	\$ 3,832,839	\$ (28,708)	-0.7%	\$ 794,275	26.1%
Capital Lease	\$ 1,434	\$ 4,674	\$ 418	\$ -	\$ -	\$ -	0.0%	\$ (1,434)	-100.0%
Pollution Remediation Liability	\$ -	\$ 575	\$ 3,598	\$ 526	\$ 732	\$ 206	39.1%	\$ 732	-
Self Insurance Claims	\$ 429,108	\$ 377,073	\$ 351,710	\$ 269,930	\$ 294,884	\$ 24,954	9.2%	\$ (134,224)	-31.3%
Property Tax Objections	\$ 35,592	\$ 27,435	\$ 28,969	\$ 40,782	\$ 62,280	\$ 21,498	52.7%	\$ 26,688	75.0%
Compensated Absences	\$ 41,103	\$ 63,005	\$ 64,414	\$ 65,716	\$ 64,901	\$ (815)	-1.2%	\$ 23,798	57.9%
Net Pension Obligation	\$ 1,024,586	\$ 1,221,587	\$ 1,529,849	\$ 1,830,262	\$ 2,210,857	\$ 380,595	20.8%	\$ 1,186,271	115.8%
Net OPEB Obligations	\$ 134,329	\$ 256,736	\$ 379,090	\$ 493,559	\$ 604,201	\$ 110,643	22.4%	\$ 469,872	-
Total Long-Term Liabilities	\$ 4,704,715	\$ 5,287,751	\$ 6,021,533	\$ 6,562,321	\$ 7,070,694	\$ 508,373	7.7%	\$ 2,365,979	50.3%

* A bond discount is an amount below the debt issuance's par value - underwriters may pay a discounted price for debt, with the price paid equal to par less the discount. See Vogt, J. Capital Budgeting and Finance: A Guide for Local Governments (Washington, D.C.: ICMA, 2004), p. 383.

Sources: Cook County Comprehensive Annual Financial Reports, FY2008-FY2012.

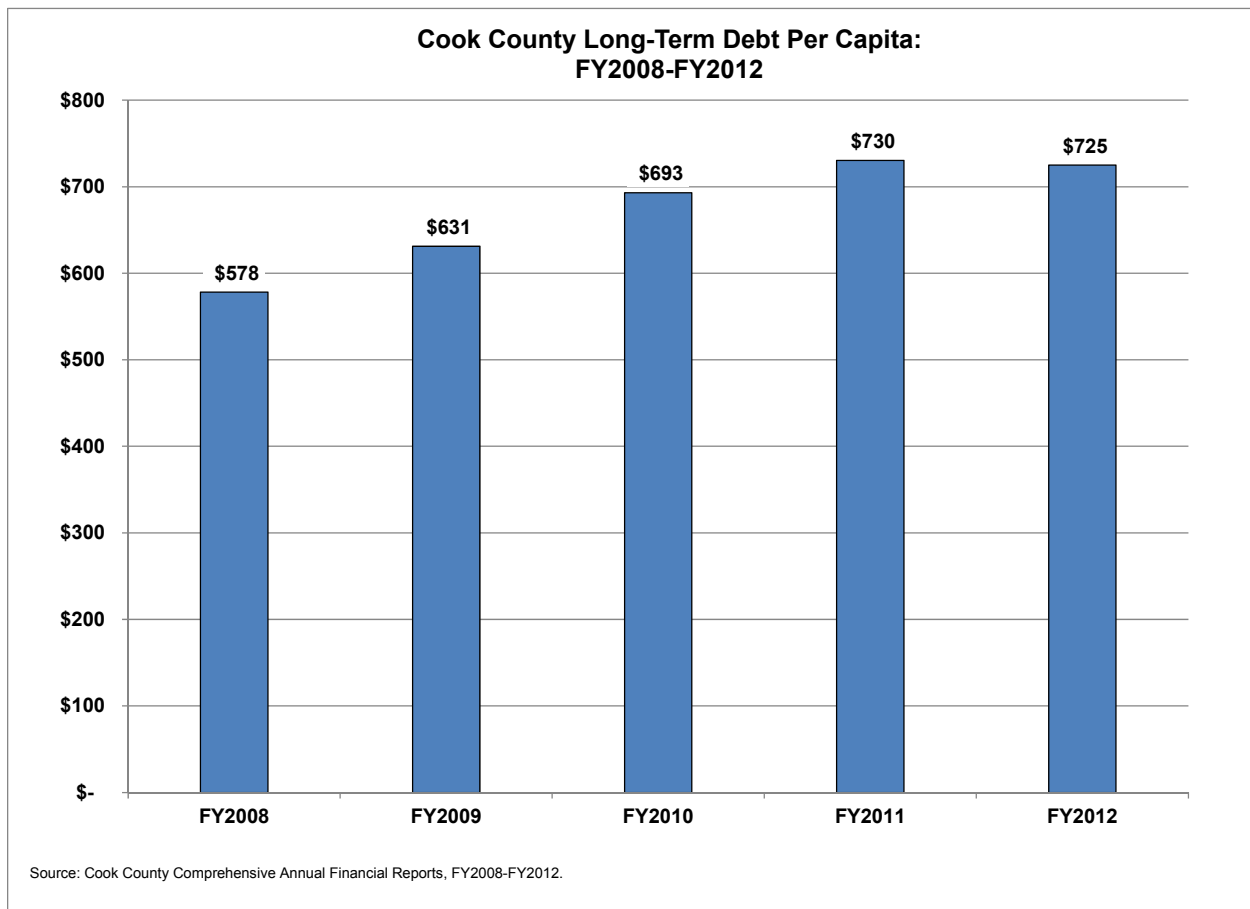
Long-Term Tax-Supported Debt

Increases over time in a government's long-term tax-supported debt, also known as direct debt, bear watching as a potential sign of rising financial risk. Cook County 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. Long-term debt fell slightly between FY2011 to FY2012. However, between FY2008 and FY2012, long-term general obligation debt for Cook County increased by 26.1%, or \$794.3 million, or from \$3.0 billion to \$3.8 billion. The five-year double digit increase between FY2008 and FY2012 bears watching.



Long-Term Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. This long-term debt analysis takes the total long-term debt amount reported in 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 per capita debt burden increased from \$578 to \$725 between FY2008 and FY2012, a 25.4% increase. While there was a slight decrease between FY2011 and FY2012, the overall large increase bears watching.



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.²²⁰ The County has not exceeded the 15% threshold in the five years examined. The debt service ratio has fluctuated over this period, from a high of 8.8% in FY2011 to a low of 5.3% for the proposed FY2014 budget.

Cook County Debt Service Expenditures as a Percentage of Total Expenditures: FY2010-FY2014					
	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Appropriations	FY2014 Proposed
Debt Service Expenditures	\$ 190,760,412	\$ 272,080,716	\$ 193,532,419	\$ 187,384,752	\$ 187,384,752
Total Expenditures	\$ 3,213,262,439	\$ 3,094,949,349	\$ 2,927,245,910	\$ 3,319,839,154	\$ 3,536,228,870
Debt Service as a % of Total Expenditures	5.9%	8.8%	6.6%	5.6%	5.3%

Source: Cook County FY2014 Executive Budget Recommendation, Summary of Appropriations and Expenditures by Department, p. 53.

Cook County Bond Ratings

In FY2011, Cook County's underlying rating on its governmental purpose bonds were downgraded from Aa2 to Aa3 by Moody's Investor's services in June, while Fitch issued a downgrade from AA to AA- in September. At that time, Standard & Poor's reaffirmed its AA underlying rating.²²¹

In FY2012 the underlying ratings for general obligation bonds were Aa3 from Moody's Investor's Services, AA from Standard & Poor's and AA- from Fitch. Both Fitch and Moody's ratings carried a negative outlook. In addition, Cook County sales tax revenue bonds had an AAA rating from Standard & Poor's.²²²

In August 2013, Moody's downgraded its general obligation rating from Aa3 to A1 with a negative outlook. The downgrade was based on concerns for the County's growing unfunded pension liabilities. Fitch affirmed their AA- rating with a negative outlook on July 24, 2013.²²³

²²⁰ Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.

²²¹ Cook County Sales Tax Revenue Bonds, Taxable Series 2013(Qualified Energy Conservation Bonds – Direct Payment) Official Statement, November 15, 2012.

²²² Cook County FY2012 Comprehensive Annual Financial Report, p. x.

²²³ Chicago Tribune. "Moody's cuts Cook County bond rating to A1: Rating service cites pension liabilities, maintains negative outlook," August 16, 2013.

COOK COUNTY CAPITAL PLANNING

According to best practices for capital budgeting, a complete capital improvement plan (CIP) includes the following elements:²²⁴

- A comprehensive inventory of all government-owned assets, with description of useful life and current condition;
- A narrative description of the CIP process including how criteria for projects were determined and whether materials and meetings were made available to the public;
- A five-year summary list of all projects and expenditures per project as well as funding sources per project;
- Criteria for projects to earn funding in the capital budget including a description of an objective and needs-based prioritization process;
- Publicly available list of project rankings based on the criteria and prioritization process;
- Information about the impact of capital spending on the annual operating budget of each project;
- Annual updates on actual costs and changes in scope as projects progress;
- Brief narrative descriptions of individual projects, including the purpose, need, history, and current status of each project; and
- An expected timeframe for completing each project and a plan for fulfilling overall capital priorities.

Once the CIP process is completed, the plan should be formally adopted by the governing body and integrated into its long-term financial plan. There should be opportunities for public input into the process. A well-organized and annually updated CIP helps ensure efficient and predictable execution of capital projects and helps efficiently allocate scarce resources. It is important that a capital budget prioritize and fund the most critical infrastructure needs before funding new facilities or initiatives.

Cook County FY2014–FY2023 Capital Improvement Plan

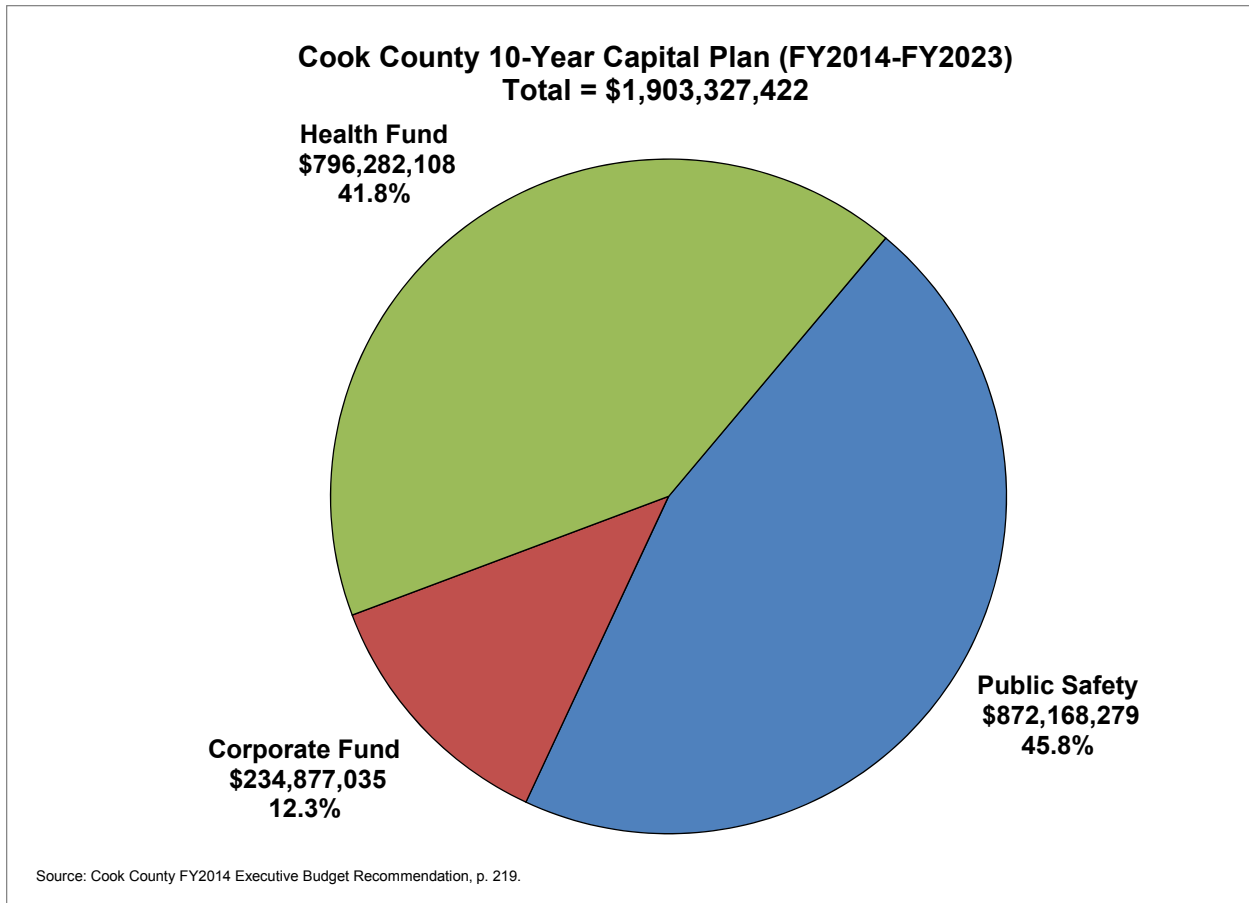
Through the FY2013 budget cycle Cook County did not have a formalized CIP process outside of the proposed appropriations and limited information included in its annual budget documents. The Civic Federation’s analysis of last year’s County budget included a recommendation that the government undertake a formal CIP process with a needs assessment and prioritization of projects.

As part of the recently released FY2014 budget, Cook County has published the results of a capital asset condition assessment, which includes a needs-based prioritization process used to develop the new FY2014-FY2023 ten-year CIP. The proposed capital plan includes \$1.9 billion of infrastructure investment through FY2023, of which \$205 million would be spent in FY2014.²²⁵ These projects are ranked using a five-point facilities condition index and include

²²⁴ National Advisory Council on State and Local Budgeting Recommended Practice 9.10: Develop a Capital Improvement Plan, p. 34; Government Finance Officers Association, Best Practices, Development of Capital Planning Policies, October 2011.

²²⁵ Cook County FY2014 Executive Budget Recommendation, p. 203.

\$13.8 million of projects deemed to be currently critical and \$82.7 million of projects listed as potentially critical.²²⁶ The CIP includes an overview of the total \$1.9 billion proposed infrastructure investment by category of need and area of expense as well as some narrative description of the projects to be undertaken. The document also includes a list of all of the projects included in the CIP and the annual amounts needed for each to complete the plan. The chart below shows that 45.8% or \$872.2 million, of the capital expenditures, between FY2014 and FY2023 will be earmarked for public safety and Department of Corrections facilities and projects, 41.8% or \$796.3 million will be used for public health projects and the remaining 12.3%, or \$234.9 million, will be spent on Corporate Fund projects.



The FY2014 capital budget proposes \$74.7 million in recommended capital equipment purchases based on \$145.0 million in requests from County Departments. These requests range from medical equipment for the hospital system to office furniture and county vehicles. A short description of the process for vetting the requests is included as well as information about the County's Vehicle Steering Committee and mention of a FY2013 condition assessment of the County's fleet. One criterion used in the process of qualifying equipment purchases for the FY2014 budget was a usable life of over five years and the eligibility for tax-exempt bond proceeds to be used to make the purchases.²²⁷

²²⁶ Cook County FY2014 Executive Budget Recommendation, p. 204.

²²⁷ Cook County FY2014 Executive Budget Recommendation, p. 223.

The final section of the FY2014 Cook County capital budget pertains to the five-year transportation plan for FY2013 through FY2017. The County maintains its own transportation and highway system that is 100 years old as of FY2013 and includes 1,469 miles of paved roads, 134 bridges and 351 traffic signals. The transportation plan includes construction costs and maintenance cost of \$187.7 million of which \$47.0 million is proposed for FY2014. However, the total cost of the five-year transportation plan including engineering, bond service fees and other expenditures is estimated at \$330.7 million.²²⁸

Review of CIP

Although the additional planning, prioritization and long-term cost estimates are a significant improvement from previous capital proposals by the County, other elements of a comprehensive CIP still appear to be lacking.

- The budget document explains in detail how projects were ranked, but it does not provide the actual rankings of the proposed expenditures.
- The budget does not identify how the investments, outside of the transportation plan, will be funded. In the past the Civic Federation has been concerned with the use of long-term bond proceeds by the County to purchase short-term assets similar to the recommended equipment purchases included in the budget.
- Information is not provided about the impact of capital spending on operating budgets.
- Some information is provided about certain projects, but narrative descriptions of all individual projects, including the purpose, need, history, and current status of each project, are not provided.
- There are few opportunities for stakeholder participation in the capital planning process other than the public hearings on the entire budget.
- The CIP is not approved by the Board of Commissioners as a stand-alone document.

²²⁸ Cook County FY2014 Executive Budget Recommendation, p. 229.

Cook County Capital Improvement Program Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually
Does the capital improvement plan include: <ul style="list-style-type: none"> • <i>A narrative description of the CIP process?</i> • <i>A five year summary list of projects and expenditures per project as well as funding sources per project?</i> • <i>Information about the impact and amount of capital spending on the annual operating budget for each project?</i> • <i>Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project?</i> • <i>The time frame for fulfilling capital projects?</i> 	<p>Yes</p> <p>Partially – expenditures identified; funding sources not identified</p> <p>No</p> <p>No</p> <p>Yes</p>
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Yes
Is the capital improvement plan made publicly available for review by elected officials and citizens? <ul style="list-style-type: none"> • <i>Is the CIP published in the budget or a separate document?</i> • <i>Is the CIP available on the Web?</i> 	<p>In the Budget Book</p> <p>Yes²²⁹</p>
Are there opportunities for stakeholders to provide input into the CIP? <ul style="list-style-type: none"> • <i>Is there stakeholder participation on a CIP advisory or priority setting committee?</i> • <i>Does the governing body hold a formal public hearing at which stakeholders may testify?</i> • <i>Is the public permitted at least ten working days to review the CIP prior to a public hearing?</i> 	<p>No</p> <p>Yes, but for the entire budget, not just the capital plan</p> <p>Yes</p>
Is the CIP formally approved by the governing body of the government?	No
Is the CIP integrated into a long term financial plan?	Unclear
Sources: National Advisory Council on State and Local Budgeting Recommended Practice 9.6: Develop a Capital Improvement Plan, the Government Finance Officers Association and Civic Federation Budget Analyses – various years.	

²²⁹ The Cook County Capital Improvement Plans is available at <http://home.cookcountyil.gov/budget/wp-content/uploads/sites/2/2013/10/14-Vol-I-Capital-Improvement-Programs-Pres-Rec.pdf>.

APPENDIX

The chart below provides a comparison of FY2013 year-end estimates and FY2014 proposed revenue for the General and Health Fund resources.

Cook County General and Health Fund Resources FY2013 & FY2014 (in \$ thousands)				
	FY2013 Estimate	FY2014 Proposed	Two-Year \$ Change	Two-Year % Change
Property Taxes	\$ 355,920	\$ 350,056	\$ (5,864)	-1.6%
Home Rule Taxes				
Sales	\$ 362,215	\$ 337,400	\$ (24,815)	-6.9%
Use	\$ 65,064	\$ 68,300	\$ 3,236	5.0%
Non Titled Use Tax	\$ 4,189	\$ -	\$ -	-
Subtotal Sales & Use Taxes	\$ 431,468	\$ 405,700	\$ (25,768)	-6.0%
Alcoholic Beverage	\$ 35,014	\$ 36,500	\$ 1,486	4.2%
Non-Retailer Transactions	\$ 14,300	\$ 11,460	\$ (2,840)	-19.9%
Cigarette and Other Tobacco	\$ 152,500	\$ 142,180	\$ (10,320)	-6.8%
Gas	\$ 85,000	\$ 87,050	\$ 2,050	2.4%
Retail Sale/Motor Vehicles	\$ 2,890	\$ 3,095	\$ 69	1.7%
Wheel	\$ 4,031	\$ 4,100	\$ 3,475	13.4%
Amusement	\$ 26,000	\$ 29,475	\$ 3,475	13.4%
Parking Lot	\$ 42,614	\$ 42,600	\$ (14)	0.0%
Gaming Amusement Machine Tax	\$ 1,200	\$ 1,350	\$ 150	-
Firearms and Ammunition Tax	\$ 501	\$ 750	\$ 249	-
Home Rule Projects		\$ -	\$ -	-
Subtotal Home Rule Taxes	\$ 795,519	\$ 764,260	\$ (31,259)	-3.9%
Fee Revenue				
Patient Fees*	\$ 671,701	\$ 945,604	\$ 273,903	40.8%
Clerk of Circuit Court	\$ 97,564	\$ 96,750	\$ (814)	-0.8%
Recorder of Deeds Fees**	\$ 40,515	\$ 42,500	\$ 1,985	4.9%
Treasurer's Fees	\$ 76,000	\$ 70,000	\$ (6,000)	-7.9%
Other	\$ 60,610	\$ 64,866	\$ 4,256	7.0%
Subtotal Fee Revenue	\$ 946,390	\$ 1,219,720	\$ 273,330	28.9%
Misc. Revenues				
Misc. Revenues	\$ 40,488	\$ 29,367	\$ (11,121)	-27.5%
Subtotal Misc. Revenues	\$ 40,488	\$ 29,367	\$ (11,121)	-27.5%
Intergovernmental Revenues				
Motor Fuel Tax	\$ 74,500	\$ 74,500	\$ -	0.0%
OTB Commissions	\$ 2,750	\$ 2,423	\$ (328)	-11.9%
State Sales Tax (Retailer's Occupation Tax)	\$ 3,115	\$ 3,290	\$ 175	5.6%
State Income Tax	\$ 11,792	\$ 12,351	\$ 559	4.7%
Gaming	\$ 8,323	\$ 8,300	\$ (23)	-0.3%
Chicago TIF Distribution	\$ 1,428	\$ 3,000	\$ 1,572	110.1%
Reimbursements Other Governments***	\$ 34,148	\$ 34,060	\$ (88)	-0.3%
Subtotal Intergovernmental Revenues	\$ 136,056	\$ 137,923	\$ 1,867	1.4%
Total	\$ 2,274,374	\$ 2,501,326	\$ 226,952	10.0%

*Patient Fees include revenues from patient fees and supplemental payments for care provided at County hospitals (including from Medicare, Medicaid, private payers and carriers and the Cook County Managed Care Community Network, or CountyCare). Supplemental payments include Benefits Improvement and Protection Act (BIPA) and Disproportionate Share Hospital (DSH) payments and incentives from the Federal government. FY2013 and FY2014 Patient Fees include federal reimbursement for Medicaid Expansion under the Affordable Care Act.

**Recorder of Deeds Fees include Recorder Audit Revenues.

***Reimbursements include State Criminal Alien Assistance Program (SCAAP), Probation Officer, Juvenile Court, JTDC and indirect costs.

Sources: FY2014 Executive Recommendation, Revenue Estimate, p. 29.