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For further information,
contact Laurence Msall at 312.201.9044

CIVIC FEDERATION: COOK COUNTY FACING FINANCIAL COLLAPSE, STROGER'S PROPOSED SPENDING CUTS INESCAPABLE

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CHICAGO – Citing a looming financial disaster, the Civic Federation announced today its **qualified support** for President Todd Stroger's \$3.0 billion spending plan because it faces up to the catastrophic state of the County's finances by making necessary spending cuts. The full text of the Civic Federation's analysis of Cook County's FY2007 budget is available online at www.civicfed.org.

The Civic Federation applauds President Todd Stroger's focus on spending reductions to balance the budget rather than the County's past practice of seeking increased taxes or inflating revenue projections. Although the cuts will be painful, the proposed \$112 million in spending reductions, including the elimination of 2,408.8 positions, is the **only fiscally responsible method** to combat the budget crisis while ensuring that the County will continue to provide its most critical services. Unfortunately, because Cook County has no effective performance evaluation system, the president was limited in his ability to specifically cut lower priority programs, forcing the use of an across-the-board approach. "Across-the-board cuts are not the preferred method to reduce government spending, but the magnitude of the deficit, the lack of any reliable performance data and the fact that the fiscal year has already begun leaves Cook County with no other alternative," said Laurence Msall, President of the Civic Federation.

Although it makes important strides, this budget is far from perfect. The Civic Federation is **very concerned** that the County proposes borrowing \$104.1 million in order to make its annual pension contribution, which is a recurring operating expenditure. We strongly urge the County to reconsider this ill-advised step. "Just as it is unwise to use a credit card to pay for rent or groceries, it is not financially sound to borrow to pay a government's operating costs," said Msall. "We urge the County Board to avoid this pension borrowing by making further spending cuts or implementing additional cost-saving efficiencies."

The Federation also called upon the Stroger Administration and County Commissioners to end the County's overly-generous **optional pension** program that remains open to the County's elected officers. The optional program allows elected officers to contribute an additional 3% of their annual salary in order to qualify for an accelerated annuity. The optional pension sweetener is responsible for more than \$40 million in new expenses this year and the loophole should not be allowed to continue for Cook County Commissioners and other elected officials. "The County's extremely generous pension plan plays a significant role in its annual budget difficulties. It has difficulty funding its regular pension plan, let alone a gold-plated plan for elected officials," said Msall.

In its analysis, the Civic Federation makes additional recommendations on steps the County can take to further reduce spending and increase efficiency:

- Develop and implement an effective performance management system that will allow managers to evaluate programs and prioritize spending so across-the-board cuts will not be necessary next year.
- Implement comprehensive pension benefit reform, including a reduction in benefits for new hires, increased employee contributions, and a cap on annuity increases of 3% or CPI, whichever is less.
- Further reduce personnel costs by increasing employee contributions to health care costs and limiting total annual cost of living increases in employee compensation to 3% or inflation, whichever is less.

The Civic Federation is a 113-year-old nonpartisan government research organization whose members include business leaders from the region's largest corporations, service firms, and institutions.



COOK COUNTY
FY2007 PROPOSED BUDGET
Analysis and Recommendations

Prepared By
The Civic Federation
January 29, 2007

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EXECUTIVE SUMMARY

President Todd Stroger's FY2007 budget of \$3.01 billion begins to rectify the decades of fiscal neglect that have brought Cook County to its current state of fiscal crisis. The painful but necessary cuts in President Stroger's budget demonstrate a recognition that the County's past practices are unsustainable. These expenditure and personnel reductions, however, only begin the long and difficult process that is required if Cook County is to achieve a modern, efficient government and long-term fiscal solvency.

President Stroger's spending plan addresses Cook County's massive \$502 million deficit with spending cuts rather than new or increased taxes or fees. The proposed All Funds budget is \$68.5 million less than the FY2006 appropriation of \$3.07 billion, and staffing will be reduced by nearly 2,500 full time equivalent positions, including approximately 1,380 filled positions.

The Civic Federation offers **qualified support** for this budget. Substantially cutting spending is the only viable way of dealing with the extraordinary fiscal crisis that the County currently faces. We commend President Stroger's courageous first step toward controlling the County's unsustainable spending and support the unavoidable reductions in staff and operational spending he has proposed. Although we support the necessary cuts contained in this budget, The Civic Federation has concerns about the process by which it was produced as well as the administration's proposal to borrow funds to pay for pension costs.

The process that produced this budget was not optimal. Spending cuts should be based on careful assessments of program and service performance. Unfortunately, though, Cook County does not have an effective performance evaluation system that allows for careful executive assessments. The lack of salient performance metrics, the massive size of the budget deficit, and the limited time frame for developing the budget left the recently-elected President Stroger with little choice but to pursue across-the-board cuts. Going forward, the County must recognize that the inability to measure program performance is a serious defect in the County's operational management. This defect must be remedied if the County is to manage its programs efficiently.

The Civic Federation is very concerned that this budget was balanced in part by allocating \$104.1 million in bond proceeds to pay for pension costs. In FY2007 the County's required pension contribution will be \$41.6 million more than in FY2006 largely because of a pension sweetener originally approved by the state. When the program was closed in 2005, employees rushed to buy in at the last minute, and the County must now match this avalanche of contributions. Unfortunately, a more generous optional pension sweetener remains open to the County's elected officials. There is no economic justification for burdening the County with the added costs of a pension sweetening program for any County employees. **We urge the County Board to eliminate all pension sweeteners for all County employees. We also urge the Board to avoid compounding County taxpayers' fiscal burden by borrowing funds to pay for the optional pension plan that was closed in 2005.** Using borrowed money to pay for operating expenses is never a sound or responsible fiscal practice. The County's operating budget can only be truly balanced if FY2007 expenses are paid for with FY2007 revenues.

To live within its means, the County must find an additional \$104.1 million in spending cuts and/or introduce additional cost-saving management efficiencies. In particular, the County should re-consider its proposed \$62.3 million increase in capital improvement appropriations over FY2006 appropriations of \$111.1 million. Maintaining a reserve for capital contingencies is reasonable, but increasing the capital appropriation by 56% in a time of severe fiscal crisis is imprudent.

The Civic Federation offers the following **key findings** on the Cook County FY2007 budget:

- The FY2007 budget will decrease by 2.2%, or \$68.5 million, from \$3.07 billion to \$3.01 billion.
- Personal services appropriations will consume 68.4% of the entire Cook County budget in FY2007, or \$2.1 billion, a 14.7% increase since FY2003.
- The number of full-time equivalent (FTE) positions will decrease by 2,493.7 FTEs or 9.8% in FY2007, declining from 25,575.6 to 23,081.9 FTEs. Of the 2,493.7 FTEs eliminated, approximately 1,380 are filled.
- The number of FTEs in offices under the President will be reduced by 12.9% or 1,400.3 FTEs in FY2007, and the number of FTEs employed by the elected officials will decrease by 7.4%, or 1,093.4 FTEs. Since FY2003, the number of FTEs in offices under the President has decreased by 21.2%, or 2,538.0 FTEs. The number of FTEs in offices under the elected officials has fallen by 7.2%, or 1,064.2 FTEs.
- This budget proposes no tax or fee increases for FY2007. The property tax levy will be held flat for the seventh consecutive year.
- The \$502 million budget deficit will be closed in part by \$104 million in bond proceeds, \$46 million in debt refinancing, \$40 million in revenue growth, and \$112 million in department cuts.
- The appropriated fund balance for the General Funds will decline from \$66.0 million in FY2006 to \$0 in FY2007.

The Civic Federation offers the following specific **recommendations** on ways to improve Cook County's financial management:

1. Cook County should go back and find a way to balance the budget that does not rely on borrowing \$104.1 million to make its pension contribution.
2. The Stroger Administration and the County Commissioners should work together to eliminate the extravagantly generous optional pension plan that remains open to elected officers.
3. Cook County employees should be required to pay increased health insurance premiums and physician visit co-payments to reduce mounting healthcare costs.
4. Cook County should limit total annual percentage increases for employee compensation to 3%, a percentage of prior revenue growth, or inflation, whichever is less. The current practice of giving County employees both step and cost of living increases is an antiquated, expensive, and unaffordable practice that should be eliminated.
5. The President and County Budget Office should develop and implement an effective performance management system.
6. All financial functions and responsibilities (including responsibility for the Health Funds) should be centralized and coordinated by the County Chief Financial Officer (CFO).

7. The County should establish by ordinance a formal budget stabilization policy and fund.
8. The President's Executive Budget proposal should be presented publicly, allowing adequate time for public hearings and enactments, prior to the beginning of the fiscal year on December 1.
9. The County should develop a formal long-term financial planning process that would allow input from the Cook County Board of Commissioners and key external stakeholders.
10. The Comprehensive Annual Financial Report should be published within 6 months of the close of the fiscal year.
11. A return on investment report should be required for all information technology contracts to assess costs and benefits.
12. The County pension system should be reformed to provide for reduced benefits for new hires, increased employee contributions, and a capping of annuity increases at 3% or CPI, whichever is less.

OVERVIEW OF ANALYSIS

The Civic Federation recently concluded an analysis of financial issues related to Cook County's proposed FY2007 budget. Based upon that review, we offer the following comments. Our analysis is also available on our Web site at www.civicfed.org.

Civic Federation Position on FY2007 Budget

President Stroger's FY2007 budget of \$3.01 billion makes important strides towards rectifying decades of fiscal neglect and begins the long, difficult process of making Cook County into a more modern and efficient government.

The Civic Federation offers **qualified support** for this budget. Substantially cutting spending is the only viable way of dealing with the extraordinary fiscal crisis that the County currently faces. The President's spending plan addresses Cook County's massive \$502 million deficit crisis by making spending cuts rather than relying on new or increased taxes or fees. The proposed All Funds budget is \$68 million less than the FY2006 appropriation. Staffing will be reduced by nearly 2,500 full time equivalent positions, including at least 1,380 filled positions. These spending cuts and personnel reductions are painful but necessary measures to help get Cook County on the road to long-term fiscal solvency.

The President has also proposed requiring all departments to set aside 2% allotments for reserves, moving toward a zero-based budgeting process for the next budget cycle, and outsourcing some services at Oak Forest Hospital and in the Juvenile Temporary Detention Center. These are also reasonable measures which we support.

Although we commend President Stroger's courageous first step toward controlling the County's unsustainable spending, The Civic Federation has concerns about the process that produced this budget and the administration's proposal to borrow funds to pay for pension costs.

The budget process this year was not optimal. Budget spending cuts should be based on a careful assessment of program and service performance rather than an across-the-board

approach. Unfortunately, however, Cook County does not have an effective performance evaluation system in place that would permit careful executive assessments. **The failure to effectively measure and evaluate program performance is a serious defect in the County's management of its operations. This defect must be rectified if County programs are ever to be managed more efficiently and effectively.**

The lack of salient performance metrics, the massive size of the budget deficit, and the limited time frame for developing the budget left the recently-elected President Stroger with little choice but to pursue across-the-board cuts. We certainly hope that will not be case next year.

The Civic Federation is very concerned that this budget was balanced in part by allocating \$104.1 million in bond proceeds to pay for pension costs. In FY2007 the County's required pension contribution will be \$41.6 million more than in FY2006 largely because of a pension sweetener originally approved by the state. When the program was closed in 2005, employees rushed to buy in at the last minute, and the County must now match this avalanche of contributions. Unfortunately, a more generous optional pension sweetener remains open to the County's elected officials. There is no economic justification for burdening the County with the added costs of a pension sweetening program for any County employees. **We urge the County Board to eliminate all pension sweeteners for all County employees. We also urge the Board to avoid compounding County taxpayers' fiscal burden by borrowing funds to pay for the optional pension plan that was closed in 2005.** Using borrowed money to pay for operating expenses is never a sound or responsible fiscal practice. The County's operating budget can only be truly balanced if FY2007 expenses are paid for with FY2007 revenues.

To live within its means, the County must find an additional \$104.1 million in spending cuts and/or introduce additional cost-saving management efficiencies. In particular, the County should re-consider its proposed \$62.3 million increase in capital improvement appropriations over FY2006 appropriations of \$111.1 million. Maintaining a reserve for capital contingencies is reasonable, but increasing the capital appropriation by 56% in a time of severe fiscal crisis is imprudent.

Issues the Civic Federation Supports

The Civic Federation believes that President Stroger's effort to focus on spending reductions rather than tax increases in developing the FY2007 budget represents an important and necessary change in the County's approach to its financial difficulties. We also applaud his move to outsource the delivery of a few non-core services.

Spending Reductions

The Civic Federation **commends** President Todd Stroger for breaking with past practices and making the difficult decision to reduce spending and eliminate jobs in Cook County government. His efforts in this budget are an important step toward finally promoting financial responsibility in County government.

For far too long, Cook County government has reflexively relied on revenue increases to fund its programs rather than streamlining operations through the implementation of common sense cost-control measures and management efficiencies. This year the County faces a fiscal crisis of extraordinary magnitude. It would be virtually impossible to raise taxes or fees or adjust revenue estimates high enough to cover the enormous \$502 million deficit. The only answer is to do what should have been done many years ago: reduce spending.

President Stroger proposes to cut Cook County appropriations for all funds by \$68.4 million or 2.2%. General Funds appropriations will fall by \$112.2 million or 5.2% from FY2006. The Bureau of Health Services will face a 12.3% cut of \$102.2 million. Its appropriations will fall from \$832.1 million in FY2006 to \$729.9 million in FY2007, forcing the closure of 16 of the Bureau's 26 community health care clinics.¹

The Civic Federation is concerned, however, that the process that produced this budget was not optimal.

It is never prudent to submit a budget after the beginning of the fiscal year. We were disappointed that Interim President Bobbie Steele did not submit a budget that would have met the fiscal year deadline. President Steele's failure to do so left incoming President Stroger with only 12 weeks before the County was legally required to have adopted a budget.

While The Civic Federation recognizes the time constraints that the current administration faced, the FY2007 *Executive Budget Recommendation* should nonetheless have been completed prior to its submission to the County Board rather than being released with calls for large, unspecified cuts that would have to be designated later by amendment (the "targeted adjustment" process).

Most importantly, though, spending cuts should be based on a careful assessment of program and service performance rather than an across-the-board approach that may penalize efficient departments. A fiscal plan with cuts predicated on performance assessments would reflect the administration's clearly articulated policy priorities rather than just the need to meet spending targets. Unfortunately, Cook County does not have an effective performance evaluation system in place. Without such a system, the it is virtually impossible for the County to construct a budget that clearly designates the County's priorities and that specifies how they are being met. As a result, important discussions about which programs should be retained and which should be reduced or eliminated is often characterized by a lack of verifiable evidence that would support either decision.

The failure to effectively measure and evaluate program performance is a serious deficiency in the County's operational management. It is a longstanding County problem and not something that the current administration could have addressed before preparing the FY2007 budget. We urge the President, though, to move forcefully to implement a performance management program, and we urge the County Board of Commissioners to support efforts to implement such a program. The County's financial problems have not been solved by the cuts called for in the FY2007 budget, even if they are all adopted. The failure to implement an effective performance

¹ Mickey Ciokajlo, "Stroger Budget Would Cut Health Clinics, 450 Jobs," *Chicago Tribune*, January 16, 2007.

management program will ensure that the County faces the same uncertainty next year about which cuts are most conducive to the County's continuing to meet its core responsibilities.

The lack of salient performance metrics, the massive size of the budget deficit, and the limited time frame for developing the budget left the County with little choice but to pursue broad-based, across-the-board cuts this year. We certainly hope that will not be case next year.

The Civic Federation recognizes that the impact of the proposed budget cuts will be painful. They may lead to longer waiting times for customers and reduced levels of service. The County may no longer be able to provide certain services at all. This is unfortunate. **However, Cook County simply does not have the resources to provide services at current levels.**

The FY2007 spending reductions are **essential** if the County is to meet its extraordinary budget crisis responsibly and ensure that it continues to provide the most critical services. The Health Fund must bear its share of cuts because the Bureau of Health Services' operational costs are one of the most significant drivers of this enormous deficit. Over time, these budget cuts will force the County to prioritize its services and to direct funds to those priorities. This process is long overdue.

No Tax Increases

The FY2007 Cook County budget does not include tax or fee increases. The budget contains no property tax increase for the seventh year in a row, and the levy remains frozen at approximately \$720.5 million. We support this move. The fundamental problem with Cook County government is not a lack of revenues, but the failure to prioritize programs and effectively manage existing resources.

The Civic Federation believes that Cook County must demonstrate to a skeptical citizenry that it has taken the necessary steps to reform and modernize its antiquated and inefficient operations before it can reasonably ask for additional revenues. We hope that process has begun with this budget.

Personnel Reductions

The proposed FY2007 budget includes a reduction of 2,493.7 full time equivalent (FTE) positions. The total number of FTEs will decline from 25,575.6 to 23,081.9. Approximately 1,380 of these positions are currently filled and the remaining positions are vacancies.²

Approximately 68% of the Cook County budget is earmarked for personal services, that is, employee wages and benefits. Controlling budgetary costs therefore necessarily means controlling the costs of personnel. Unfortunately, in a fiscal crisis of the magnitude currently facing Cook County, personnel cost reductions must include both greater cost sharing between the government and employees and the elimination of positions.

² Documents provided to The Civic Federation by the Cook County Budget and Management Services department, January 26, 2007.

The Civic Federation recognizes the necessity of the proposed personnel reductions in the FY2007 Cook County budget.

Issues of Concern

The Civic Federation has four areas of concern this year: the use of bond proceeds to pay for pension costs, the elected officials' expensive pension program, the lack of fund balance, and the failure of the County to implement a performance management system.

Using Bond Proceeds to Pay for Pension Costs

The County will use \$104.1 million from the proceeds of General Obligation (G.O.) debt to make its FY2007 pension contribution of \$264.8 million, which is \$41.6 million more than the County contributed in FY2006. Because they are general operating expenditures, pension contributions should **never** be paid for by issuing debt. The Civic Federation **strongly opposes** this decision.

In his budget address, President Stroger characterized this \$104.1 million bond issue as “the restructuring of debt” because this year’s pension contribution includes matching funds for employee contributions that had accrued for up to 20 years and were paid into the pension fund in a lump sum in 2005.³ Between 1986 and 2005, the County offered employees an optional pension plan to supplement their regular pension under legislation originally authorized by the state. Employees could contribute 3% of their salary in addition to the 8% they were required to contribute for their regular pension. In essence, the optional plan allowed employees to receive a higher annual retirement benefit than their years of service would have entitled them to otherwise, or would diminish the number of years they would have to work before receiving the maximum benefit allowed under the law. (By statute, employees cannot receive more than 80% of this averaged salary figure.) Employees’ annual pension benefit is determined by multiplying 2.4% by the employee’s years of service, and multiply that product again by the highest average annual salary for any four consecutive years. For each year of service that they paid into the optional plan, the 2.4% multiplier would be boosted to 3.4%.

Under the legislation creating this optional plan, if County employees decided to participate in the plan but had not been making annual payments, they could choose to pay retrospectively for their years of County service during the plan’s operation. In 2005, when County Commissioners deemed the optional plan too expensive and closed it, many County employees paid years’ of deferred contributions into the plan in a lump sum. Since Illinois statute requires that the County’s pension contribution equal the two-years-prior employee contribution multiplied by 1.54, the County must match all of these lump sum contributions in addition to the regular 2005 employee contributions in FY2007.

³ Todd Stroger (President of the Cook County Board of Commissioners, Cook County), in a speech to the Cook County Board of Commissioners, January 16, 2007. Cf. “President’s Budget Message: FY 2007 Executive Budget Recommendations,” http://www.co.cook.il.us/2007_budget1.htm. The \$104.1 million bond issue is included in the \$150 million that President Stroger identifies as “the restructuring of debt.” The explanation of why this pension expense qualifies as debt was given by Walter Knorr (Comptroller, Cook County), in a speech to the Cook County Board of Commissioners, January 22, 2007.

The current administration is obliged to produce a budget built around the recognition that the County's pension obligations should not be treated differently than any of the County's other regular operating costs. The Civic Federation acknowledges that part of the increase in the County's required FY2007 pension contribution was due to an ill-advised program to sweeten County employees' already generous pension plans, and that the current administration does not bear responsibility for that program. This budget, however, proposes allocating only \$98.9 million from the property tax levy for pensions, \$73.9 million less that was allocated for pensions in FY2006, while increasing Public Safety's allocation of the property tax levy by \$77.5 million.

Enhanced Pension Benefits for Elected Officials

The Civic Federation calls upon the Stroger Administration and County Commissioners to work with state legislators to end the overly generous optional pension program that remains open to the County's elected officers.

By paying an additional 3% of their salary into the County's pension fund, elected officers qualify for an annuity calculated at a rate of 3% of final salary for their first eight years of service, 4% for their next four years of service, and 5% thereafter.⁴ This accelerated schedule is more generous than the program for all County employees that the County Board closed in 2005 because it was not affordable. Under the County's regular pension plan, an employee would have to serve for 33.3 years before he or she would be eligible to annuity payments at the maximum 80% level. As the chart below indicates, if an employee took maximal advantage of the optional plan offered between 1986 and 2005, contributing an additional 3.0% of salary for all 20 years that the plan was available, he or she could retire and receive the maximum annuity after 25 years of service. County officers who contribute the same additional 3.0% of salary would be eligible to retire with maximum benefits after just 20 years.

Cook County Pension Plan Annuity Formulas		
	Percent of Salary Used in Annuity Calculation	Years of Service Required to Reach 80% Maximum
Minimum Formula Annuity (Regular County Pension Plan)	2.4%	33.3
Optional Plan of Contributions and Benefits (Available to Employees from 1986 to 2005)	3.4% between 1986 and 2005, 2.4% for all other years	25 (assumes optional plan participation for 20 years)
Alternate Annuity for County Officers (Currently Available to Elected Officers)	3.0% for first 8 years, 4.0% for next 4 years, 5.0% thereafter	20 (assumes optional plan participation for 20 years)

Source: County Employees Annuity and Benefit Fund of Cook County 2005 Actuarial Valuation

The County's overly generous pension plan is a significant driver of the County's annual budget difficulties. It cannot afford its regular pension plan, and it is even less able to afford enhancing that plan for elected officials.

⁴ The annual annuity is calculated by multiplying the annuity rate by the number of years of service, and multiplying this product by the highest average annual salary for any four consecutive years.

No Fund Balance

The fund balance for the General Funds (i.e. Corporate, Public Health and Public Safety Funds) will be \$0 in FY2007, having been completely depleted by operating expenditures in FY2006. This depletion is a cause for grave concern. The General Funds balance of \$0 in FY2007 also represents a tremendous decline since FY2003, when General Funds had a balance of \$218.5 million, 11.0% of operating revenues. The Government Finance Officers Association (GFOA) recommends that general purpose governments maintain a General Fund balance ratio of 5% to 15% of operating expenditures or revenues. To achieve a 5% ratio, the County would have to reserve \$102.8 million as fund balance in FY2007.

The Civic Federation recognizes that President Stroger has directed that agencies and offices hold back 2% of their budget allotments in FY2007. This is a necessary step to assist the County in replenishing its fund balance.⁵

Lack of Performance Management Systems

Cook County is a large urban government providing important services on a daily basis to tens of thousands of customers. We are surprised and dismayed that a government of this size and complexity has not developed and implemented a comprehensive system of performance management. Such a system would allow managers to objectively evaluate the performance of programs, determine if they are meeting their goals, and make corrective changes wherever necessary. In a time of budget crisis, the information derived from a performance management system is critical to making well-informed decisions about how to prioritize spending and how to determine necessary reductions. Without effective performance management, the budget process tends to be reduced to a “one size fits all approach” which may or may not produce desirable results.

President Todd Stroger is not responsible for the County’s stunning lack of a performance management system. But he is responsible for moving quickly to develop and implement one. The City of Chicago has embarked on an aggressive performance measurement system that could be a model for Cook County efforts. It is well worth investigating.

Civic Federation Recommendations

The Civic Federation offers the following set of recommendations on ways that Cook County can improve management and reduce the costs of Cook County government. They include a variety of short-term and long-term reforms.

Cook County has taken some initial steps toward reducing costs and improving efficiency. However, much more remains to be done to reverse the legacy of decades of inefficiency and mismanagement. In the coming months we will be looking to see that management reforms do follow the budget cuts so that the process of reducing the County’s structural deficit may continue.

⁵ 2007 Cook County Executive Budget Recommendations, President’s Remarks, January 16, 2007.

Personnel Cost Reductions

Approximately 68% of the total proposed FY2007 Cook County budget of \$3.01 billion, or \$2.0 billion, is earmarked for personal services.⁶ If Cook County is to stabilize its long-term financial situation, it must take steps to control these costs.

Limit Total Annual Personnel Compensation Increases to 3% Per Year or CPI

Cook County is currently in negotiation with many of its collective bargaining units. Once again, the Civic Federation urges the County to insist on the elimination of automatic step increases in its collective bargaining. Step increases are an antiquated, overly generous personnel practice not found in more efficiently operated governments or in the private sector. We think that limiting total annual percentage increases to 3%, a percentage of prior revenue growth, or inflation, whichever is less, would be a far more responsible benchmark.

County employees currently receive both cost of living adjustments (COLA) and step increases each year. Employees should not automatically receive **both** increases. President John Stroger acknowledged in his FY2004 Budget Address that step increases are an obsolete mechanism today since public employee salaries have increased, and he promised to consider significant changes to the County's compensation plans. We hope that the County will finally act on this promise and eliminate this expensive practice.

Increase Employee Contributions to Health Insurance Costs

In FY2004, the County increased monthly health insurance contributions for non-union employees earning salaries of \$65,000 or more to 0.7% of salary for single HMO coverage and 1.4% for family HMO coverage. However, union employees and non-union employees making less than \$65,000 were exempt from this HMO increase. Employees enrolled in the HMO program pay up to \$8.00 per pay period or \$208 per year.⁷ Within HMOs, there are no deductibles, out of pocket costs, or lifetime maximums.⁸ For PPO coverage, all employees, regardless of union status, contribute 1.5% of annual base pay.⁹ In FY2006, County employees paid, on average, 3.9% of the cost of their health insurance premiums.¹⁰ This is far less than the nationwide state and local government employee average of 9%, the nationwide all industries average of 16.3%, and the State of Illinois employee average of 5.4%-11.6% shown in the table below.

The Civic Federation believes all Cook County employees must begin to pay a share of premium costs that more closely mirrors Illinois or national averages. This is essential to reduce rising healthcare costs. The County is currently in negotiation with its unions and has stated its

⁶ These figures reflect the data presented in the FY2007 *Executive Budget Recommendation* and do not include any financial adjustments that may result from President Stroger's budget amendments (Amendment Nos. 1-36).

⁷ Information from Proposed Resolution Submitted by Commissioners Goslin, Quigley and Silvestri (Item #62), Meeting of January 20, 2005. Information also provided in letter to Civic Federation from CFO Thomas Glaser on January 5, 2005.

⁸ Cook County Department of Risk Management. "Comparison of Your Cook County Medical Benefits."

⁹ Information from John Hibbett, Cook County Director of Risk Management, May 18, 2006.

¹⁰ Information from John Hibbett, June 1, 2006.

intention to negotiate for health care plan changes and increases in employee premium contributions. The County cannot release the details and potential cost savings of these changes until negotiations with its remaining unions have been completed. If, however, employees contributed a sum equal to an additional 1% of the total projected FY2007 costs for hospitalization insurance, the County would save \$2.5 million.

AVERAGE EMPLOYEE CONTRIBUTION TO HEALTH INSURANCE PREMIUM (SINGLE COVERAGE)	
	% of Premium
Cook County employee (2006) ¹	3.9%
State of Illinois employee (2006) ²	5.4% - 11.6%
U.S. State and Local Govt. Average ³	9.0%
U.S. All Industries Average (2006) ⁴	16.3%

¹Information from John Hibbett, Cook County Director of Risk Management, June 1, 2006.

²State of Illinois *Benefit Choice Options* FY2006. Ranges are based on salary level.

³Kaiser Family Foundation and Health Research and Educational Trust, Employer Health Benefits 2006 Annual Survey. Average for all plans.

⁴Kaiser Family Foundation and HRET, Employer Health Benefits 2006 Annual Survey. Average for all plans in large firms (over 200 employees)--largest firm size available.

The County should also increase **co-payments for physician visits**. Currently, County employees enrolled in the HMO plans pay \$3 per medical visit.¹¹ The co-payment saves the County approximately 0.5% in premium costs. An increase to a \$10 co-payment would decrease premium costs (\$253 million projected in FY2006) by 3% to 3.5%. This could have saved the County from \$7.6 million to \$8.8 million in FY2006.¹²

Management Reforms

Require Performance Management

The County requires performance measures, but most of those submitted and published measure workload, not efficiency or effectiveness. The performance measurement system needs to be overhauled to provide managers with the tools to identify strengths and weaknesses in service delivery and to use that information to implement efficiencies accordingly. A performance management system that would permit effective evaluation and benchmarking would help County managers make judicious decisions about the allocation of resources.

The Civic Federation urges the President and the County Budget Office to take a leadership position in developing and implementing an effective performance management system.

¹¹ Cook County Department of Risk Management, "Comparison of Your Cook County Medical Benefits."

¹² This information is extrapolated from information provided to the Civic Federation by CFO Thomas Glaser on January 5, 2005.

Give the County CFO Responsibility for all County finances

All financial functions and responsibilities (including the Health Funds) should be centralized and coordinated by the County Chief Financial Officer (CFO). While this structure currently exists in theory, past practice has been that other financial staff manage their own areas, particularly in the Health Fund. Ultimate responsibility for financial operations of the Bureau of Health Services, including purchasing, billing, collections, accounts payable, and preparation of the annual financial audit, should be given to the CFO. Previously, the Hospital CFO did not report to the County CFO, resulting in uncoordinated efforts and the dissemination of inaccurate information to the President and the Board. We believe that, working with the medical leadership of the three hospitals and the various clinics, the CFO of Cook County should be assigned full responsibility for financial operations of the Bureau of Health Services.

Establish a Formal Budget Stabilization Policy and Fund

Cook County should establish by ordinance a formal budget stabilization policy and fund. This is a means of controlling the volatility of unstable revenue sources such as the sales tax, and is recommended by bonding agencies and the Government Finance Officers Association. Cook County currently appropriates revenues for a fund balance. However, this arrangement does not adequately guarantee that these funds will be used solely for budget stabilization purposes.

The need for a formal budget stabilization policy and fund has become increasingly urgent. The proposed fund balance for General Funds in FY2007 is \$0. The County therefore has no cushion to meet unanticipated contingencies except for the 2% allotment that departments are required to save. In FY2006 the originally proposed fund balance was 3.1%, but that was still far short of the 5% to 15% recommended by the GFOA.

To be effective, a budget stabilization fund should have an automatic triggering device for deposits and withdrawals. In many jurisdictions, deposits are tied to an objective economic indicator, such as growth in personal income or a formula that considers revenue growth. Withdrawals are also linked to a formula. A budget stabilization fund should have a cap on its size to prevent the unnecessary accumulation of resources. The cap should take the form of: 1) an overall limit on the fund itself; 2) a limit that considers the balance in a "rainy day" fund plus any other undesignated balance in the general funds.

Present an Executive Budget before the Beginning of the Fiscal Year

The Civic Federation believes that all governments have a duty and an obligation to prepare, release, and adopt their fiscal plans before the beginning of the fiscal year. There is no sound public policy reason for delaying or obfuscating the budget process. The President should submit an executive budget recommendation to the County Board Finance Committee on or after September 15th but no later than October 15th.

Implement a Formal Long-Term Financial Planning Process

Cook County currently employs many of the techniques of a long-term financial planning process internally, including the projection of multi-year revenue trends and modeling of various revenue and expenditure possibilities. However, the County does not develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. Cook County should develop and implement a formal long-term financial planning process that allows for input from the Cook County Board of Commissioners and key external stakeholders. The President should submit to the Finance Committee revenue and expenditure projections for the next five fiscal years as well as narrative explanations of assumptions made in order to reach the projections. In our view, this is a sound and reasonable proposal. For an example of what such a plan would look like, please see best practice examples at the Web site of the Government Finance Officers association at www.gfoa.org.

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

The Civic Federation believes that all governments, including Cook County, should release audited financial statements no later than six months after the close of their respective fiscal years. Unfortunately, Cook County has fallen into a pattern of delaying the release of its Comprehensive Annual Financial Report. The FY2002 CAFR was not released until March 31, 2004, sixteen months after the close of FY2002. The FY2003 CAFR was not released until February 17, 2005, over fourteen months after the close of the fiscal year. The FY2004 CAFR was not released until November 2, 2005, eleven months after the close of the fiscal year. And the FY2005 CAFR was not released until November 29, 2006, almost a year after the close of the fiscal year.

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

The Civic Federation believes that the Comprehensive Annual Financial Report should be released to the Board of Commissioners and the public no later than May 31 of the following calendar year or within six months of the close of the fiscal year.

Require Return on Investment Reports for all Information Technology Contracts

In recent years the County has spent millions of dollars on information technology, including the automation of processes. No doubt many of those expenses are reasonable and essential. But, what dividends have these investments yielded? It is unclear. We would expect some reductions in cost since automation should have made some positions unnecessary.

In our view, investments in technology can and should yield cost savings as well as increased operational efficiency of operation. We think it imperative that the potential for cost savings be measured in a systematic and transparent way. Therefore, the Civic Federation recommends that all Cook County information technology contracts should include a requirement for an independent analysis of the costs and benefits of the projects being implemented. Then, the

Board of Commissioners and taxpayers alike can have demonstrable evidence of the value and cost saving potential of the continuing multi-million dollar investments in technology.

Pension Recommendations

Reject Borrowing for the FY2007 Pension Contribution

The FY2007 budget must be built around the sound fiscal principle that the County's pension obligations should not be treated differently than any of the County's other regular operating costs. Using bond proceeds to close a budget gap is never a sound or responsible fiscal practice.

The Civic Federation believes that the administration must go back and fashion a budget that is truly balanced. In our view, that will require an additional \$104.3 million in spending cuts and/or the introduction of additional cost-saving management efficiencies. The County should begin by rescinding a portion of the proposed \$62.3 million increase in capital improvements appropriations in FY2007 from \$111.1 million to \$173.5 million. Maintaining a reserve for capital contingencies is reasonable. However, increasing the capital appropriation by 56% in a time of severe fiscal crisis is imprudent.

Eliminate the Elected Officials Extravagant Optional Pension Plan

The Civic Federation also calls upon the Stroger Administration and County Board of Commissioners to work with state legislators to end the extravagantly generous optional pension program that is open to the County's elected officials. The fact that the program continues to operate for elected officials reinforces for the public that County management has not recognized that it cannot afford its existing benefit programs. Elected officials should be enrolled in and receive the same benefits as regular County employees.

Implement Comprehensive Pension Benefit Reform

For many years, the Civic Federation has commented on the funding status of the Cook County pension funds. The County Fund has traditionally been well funded. However, the funded ratio of the Fund declined from 88.9% to 75.8% between FY2001 and FY2005.

Over the past year, the State of Illinois has adopted several key reforms designed to help the State control mounting employee retirement costs. The Civic Federation strongly supported these reforms and believes that the time has come to apply some of them to local government benefit plans, including those provided to Cook County employees. This year, we offer specific recommendations designed to improve the long-term financial health of the funds.

Establish a Two-Tiered System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of two-tiered benefit systems where existing and new

employees receive different retirement benefits. Given the rising cost of pension benefits, this is a reasonable approach that the County should undertake.

Annuity Increases for New Hires Should be Fixed at the Lesser of 3% or CPI

Currently, Cook County pension fund beneficiaries receive 3% annual cost of living increases.¹³ However, this rate can and often does exceed the rate of inflation. To control costs, annual annuity increases for new hires should be fixed at the projected Consumer Price Index or 3%, whichever is less.

Any Benefit Increases Should Require Contribution Increases

Many benefit enhancements are added to public pensions without accompanying contribution increases. Public Act 94-0004 requires that every new benefit increase made to one of the five state retirement systems must identify and provide for additional funding to fund the resulting annual accrued cost of the increase. It also requires that any benefit increase expire after five years, subject to renewal. We support extending this reasonable control on benefit increases to the County's pension fund.

Require Employer Contributions to Relate to Funding Levels

The Cook County government employer contributions are determined by multipliers for each fund that are not tied to the fund's funded ratio. The Cook County multiplier is 1.54 times the total employee contribution made two years prior. The Civic Federation believes that employer contributions should be tied to funded ratios, such that additional contributions are required when the ratio drops below a given level.

Reform Pension Board Composition to Provide Balance between Annuitants, Government, and Taxpayers

The Cook County Employees' Annuity and Benefit Fund and the Cook County Forest Preserve District Employees' Annuity and Benefit Fund are governed by a single nine-member Board of Trustees that includes: two appointed officials (County comptroller and treasurer, or representatives appointed by them), three elected actives, two elected annuitants, one elected forest preserve active, and one elected forest preserve annuitant. Therefore the ratio of management to employee representatives is 2:7, one of the least balanced of the 17 Illinois pension boards recently surveyed by the Civic Federation.¹⁴

The proper role of a pension board is to safeguard the assets of the fund and to balance the interests of employees and retirees who receive benefits and taxpayers who pay for pension benefits. All of these parties have an interest in the management of the fund. However, the heavy tilt toward employees on the Cook County pension board raises questions about how objective the Board can be in its work. In our view, a pension board should:

¹³ Cook County Employees' Annuity and Benefit Fund *Actuarial Valuation as of December 31, 2004*, P. 26.

¹⁴ Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois*, forthcoming.

- Balance employee and management representation on pension boards;
- Develop a tripartite structure that includes citizen representation on pension boards, and
- Include financial experts on pension boards and require financial training for non-experts.

We urge Cook County to seek reform of the Pension Fund governing structure to ensure greater balance of interests.

ACKNOWLEDGMENTS

The Civic Federation would like to express its appreciation to Cook County Chief Financial Officer Thomas Glaser, Comptroller Walter Knorr, Director of Budget and Management Services Donna Dunning and the Cook County finance staff for their efforts in preparing this budget. We appreciate their willingness to provide us with a briefing and answer many of our budget questions.

FY2007 BUDGET DEFICIT AND GAP-CLOSING MEASURES

Cook County proposes an FY2007 budget of **\$3.01 billion**. This is a \$68.5 million or 2.2% reduction from the FY2006 budget of \$3.08 billion. The General Funds budget, which includes the Corporate, Public Health, and Public Safety budgets, is \$2.05 billion, a \$112.2 million or 5.2% reduction from the FY2006 General Funds budget of \$2.16 billion.

Estimated deficit of \$502 million or 17% of the budget for FY2007

Cook County's massive \$502 million deficit was generated by a number of spending pressures and revenue losses. Among other spending pressures, the County faced a \$46 million increase in pension and bond and interest costs, \$59 million in cost of living adjustments, and \$113 million in other salary and benefits cost increases. On the revenue side, the County would not have \$66 million in fund balance that was available in FY2006, and it projected revenue shortfalls of \$70 million in patient fees, \$42 million in intergovernmental transfers, and \$37 million in cigarette taxes. The \$502 million budget deficit will be closed in part by \$104 million in bond proceeds, \$46 million in debt refinancing, \$40 million in revenue growth, and \$112 million in departmental budget cuts. Spending cuts to the Bureau of Health include the closing of 16 of the 26 community health clinics.

APPROPRIATIONS

The following section addresses trends for FY2007 appropriations for all funds by control officer and by individual fund.

All Funds Appropriations by Control Officer

Cook County appropriations are projected to decrease from approximately \$3.08 billion to \$3.01 billion between FY2006 and FY2007, a 2.2% decrease. Appropriations for departments controlled by the President will decrease by 12.2% or \$127.2 million, falling from in FY2006 to in FY2007. Departments controlled by elected officials will also see decreased appropriations in

FY2007. In the aggregate, their appropriations will fall by 9.9%, from roughly \$888.1 million to \$799.8 million, and decreases are projected for all 12 of the elected officials' offices. Appropriations for Self-Insurance will drop by 24.0% or \$26.0 million. Several categories, though, will see substantial increases. The County will appropriate 56.1% or \$62.4 million more for Capital projects, 26.8% or \$90.4 million more for Fixed Charges and Special Purpose Appropriations (employee benefits), and 18.6% or \$41.6 million more for its Annuity & Benefits programs.

Cook County Appropriations FY2006-FY2007 (All Funds)				
	FY2006 Final	FY2007 Recommended	% Change FY2006-FY2007	\$ Change FY2006-FY2007
Control Officers				
Offices Under President				
Bureau of Health Services	\$ 832,182,842	\$ 729,964,924	-12.3%	\$ (102,217,918)
President	\$ 3,067,135	\$ 2,552,530	-16.8%	\$ (514,605)
Chief Administrative Officer	\$ 59,351,505	\$ 53,089,416	-10.6%	\$ (6,262,089)
Bureau of Human Resources	\$ 4,011,500	\$ 3,727,138	-7.1%	\$ (284,362)
Bureau of Public Safety	\$ 77,926,949	\$ 66,655,861	-14.5%	\$ (11,271,088)
County Auditor	\$ 1,353,750	\$ 1,101,966	-18.6%	\$ (251,784)
Office of the Inspector General	\$ 387,804	\$ 391,824	1.0%	\$ 4,020
Bureau of Finance	\$ 13,241,535	\$ 11,211,070	-15.3%	\$ (2,030,465)
Bureau of Information Technology	\$ 19,007,139	\$ 15,945,098	-16.1%	\$ (3,062,041)
Capital Planning	\$ 35,903,233	\$ 34,604,050	-3.6%	\$ (1,299,183)
Subtotal: Other than Health Services	\$ 214,250,550	\$ 189,278,953	-11.7%	\$ (24,971,597)
Subtotal: Offices Under President	\$ 1,046,433,392	\$ 919,243,877	-12.2%	\$ (127,189,515)
Sheriff	\$ 401,899,755	\$ 373,091,403	-7.2%	\$ (28,808,352)
Chief Judge	\$ 166,138,754	\$ 147,689,963	-11.1%	\$ (18,448,791)
State's Attorney	\$ 99,857,180	\$ 90,415,232	-9.5%	\$ (9,441,948)
Clerk Circuit Court	\$ 103,540,062	\$ 100,515,196	-2.9%	\$ (3,024,866)
County Clerk	\$ 33,644,823	\$ 28,874,869	-14.2%	\$ (4,769,954)
Assessor	\$ 25,331,051	\$ 21,149,529	-16.5%	\$ (4,181,522)
Recorder of Deeds	\$ 15,265,604	\$ 12,724,575	-16.6%	\$ (2,541,029)
Treasurer	\$ 12,609,231	\$ 11,367,819	-9.8%	\$ (1,241,412)
Election Commissioners	\$ 371,451	\$ 364,502	-1.9%	\$ (6,949)
Election Fund	\$ 13,218,298	\$ -	-100.0%	\$ (13,218,298)
Board of Review	\$ 7,416,991	\$ 6,192,632	-16.5%	\$ (1,224,359)
County Commissioners	\$ 7,755,240	\$ 6,436,850	-17.0%	\$ (1,318,390)
Public Administrator	\$ 1,037,958	\$ 1,022,647	-1.5%	\$ (15,311)
Subtotal: Other Elected Officials	\$ 888,086,398	\$ 799,845,217	-9.9%	\$ (88,241,181)
Fixed Charges and Special Purpose	\$ 337,729,655	\$ 428,080,263	26.8%	\$ 90,350,608
Other				
Self Insurance	\$ 108,141,402	\$ 82,177,672	-24.0%	\$ (25,963,730)
Managed Care Support	\$ 385,000	\$ 405,355	5.3%	\$ 20,355
Annuity & Benefits	\$ 223,270,000	\$ 264,846,000	18.6%	\$ 41,576,000
Bond & Interest	\$ 180,870,852	\$ 184,941,441	2.3%	\$ 4,070,589
Other Restricted Funds (Fed, St, Priv. Grants)	\$ 173,665,246	\$ 146,101,672	-15.9%	\$ (27,563,574)
Allowance for Uncollected Taxes	\$ 11,004,381	\$ 13,098,381	19.0%	\$ 2,094,000
Subtotal: Other Funds	\$ 697,336,881	\$ 691,570,521	-0.8%	\$ (5,766,360)
Subtotal Operating Funds	\$ 2,969,586,326	\$ 2,838,739,878	-4.4%	\$ (130,846,448)
Capital	\$ 111,128,588	\$ 173,502,774	56.1%	\$ 62,374,186
Total Budget	\$ 3,080,714,914	\$ 3,012,242,652	-2.2%	\$ (68,472,262)

Source: 2007 Cook County Executive Budget Recommendations, pp. C19-C20

In FY2007 Cook County President Todd Stroger introduced "targeted adjustments" in order to achieve deeper cuts than those already contained in the departmental budgets submitted to the President's office. The President's budget recommendation presents the line item budget

submitted by each department, totals the appropriations called for in the departmental budget, and then specifies an additional amount that the department will have to cut in order to reach the President's recommended budget appropriation. The following table lists by control officer the department's proposed budget appropriations, the President's recommendations, and the amount of the "targeted adjustment" called for by the President. The Bureau of Health is being asked to cut its budget by an additional \$61.8 million or 7.9%, and the Sherriff's Office is being asked to cut its budget by \$26.8 million or 6.7%.

2007 Targeted Adjustments to General Fund Appropriations by Control Office				
Control Officers	Proposed Budget Appropriation	President's Recommendation	Targeted Adjustment	Adjustment as % of Office Budget
Offices Under President				
Bureau of Health	\$ 785,608,225	\$ 723,825,764	\$ (61,782,461)	-7.9%
President	\$ 2,740,477	\$ 2,552,530	\$ (187,947)	-6.9%
Chief Administrative Officer	\$ 35,701,199	\$ 33,900,668	\$ (1,800,531)	-5.0%
Bureau of Human Resources	\$ 3,819,609	\$ 3,727,138	\$ (92,471)	-2.4%
Bureau of Public Safety	\$ 66,688,203	\$ 66,655,861	\$ (32,342)	0.0%
County Auditor	\$ 1,101,966	\$ 1,101,966	\$ -	0.0%
Office of the Inspector General	\$ 391,824	\$ 391,824	\$ -	0.0%
Bureau of Finance	\$ 11,529,207	\$ 11,211,070	\$ (318,137)	-2.8%
Bureau of Information Technology	\$ 12,026,187	\$ 11,936,171	\$ (90,016)	-0.7%
Capital Planning	\$ 34,612,244	\$ 34,604,050	\$ (8,194)	0.0%
Subtotal: Other than Health Services	\$ 168,610,916	\$ 166,081,278	\$ (2,529,638)	-1.5%
Subtotal: Offices Under President	\$ 954,219,141	\$ 889,907,042	\$ (64,312,099)	-6.7%
Sheriff	\$ 398,899,297	\$ 372,105,005	\$ (26,794,292)	-6.7%
Chief Judge	\$ 138,496,117	\$ 138,496,117	\$ -	0.0%
State's Attorney	\$ 87,847,771	\$ 86,562,929	\$ (1,284,842)	-1.5%
Clerk Circuit Court	\$ 80,742,423	\$ 78,253,950	\$ (2,488,473)	-3.1%
County Clerk	\$ 8,619,162	\$ 8,598,853	\$ (20,309)	-0.2%
Assessor	\$ 22,400,581	\$ 21,149,529	\$ (1,251,052)	-5.6%
Recorder of Deeds	\$ 8,690,243	\$ 8,473,829	\$ (216,414)	-2.5%
Treasurer	\$ 9,769,980	\$ 9,681,884	\$ (88,096)	-0.9%
Election Commissioners	\$ 364,502	\$ 364,502	\$ -	0.0%
Board of Review	\$ 7,010,738	\$ 6,192,632	\$ (818,106)	-11.7%
County Commissioners	\$ 7,508,250	\$ 6,436,850	\$ (1,071,400)	-14.3%
Public Administrator	\$ 1,022,647	\$ 1,022,647	\$ -	0.0%
Subtotal: Other Elected Officials	\$ 771,371,711	\$ 737,338,727	\$ (34,032,984)	-4.4%
Total	\$ 1,725,590,852	\$ 1,627,245,769	\$ (98,345,083)	-5.7%

Source: Cook County 2007 Executive Budget Recommendations Volumes I and II

The next exhibit presents five-year appropriation trend information. Between FY2003 and FY2007, appropriations for the various elected officials are projected to decrease by 14.2%, from \$934.7 million to \$799.8 million. During the same period, appropriations for the offices under the President will decrease by 14.1%, from \$1.07 billion to \$0.92 billion.

Cook County Appropriations FY2003-FY2007 (All Funds)				
	FY2003 Recommended	FY2007 Recommended	% Change FY2003-FY2007	\$ Change FY2003 FY2007
Control Officers				
Offices Under President				
Bureau of Health Services	\$ 822,541,560	\$ 729,964,924	-11.3%	\$ (92,576,636)
President	\$ 3,403,742	\$ 2,552,530	-25.0%	\$ (851,212)
Chief Administrative Officer	\$ 67,924,953	\$ 53,089,416	-21.8%	\$ (14,835,537)
Bureau of Human Resources	\$ 4,631,110	\$ 3,727,138	-19.5%	\$ (903,972)
Bureau of Public Safety	\$ 92,120,196	\$ 66,655,861	-27.6%	\$ (25,464,335)
County Auditor	\$ 1,656,441	\$ 1,101,966	-33.5%	\$ (554,475)
Office of the Inspector General	\$ 368,876	\$ 391,824	6.2%	\$ 22,948
Bureau of Finance	\$ 15,333,757	\$ 11,211,070	-26.9%	\$ (4,122,687)
Bureau of Information Technology	\$ 21,166,075	\$ 15,945,098	-24.7%	\$ (5,220,977)
Capital Planning	\$ 41,411,336	\$ 34,604,050	-16.4%	\$ (6,807,286)
Subtotal: Other than Health Services	\$ 248,016,486	\$ 189,278,953	-23.7%	\$ (58,737,533)
Subtotal: Offices Under President	\$ 1,070,558,046	\$ 919,243,877	-14.1%	\$ (151,314,169)
Sheriff	\$ 406,159,361	\$ 373,091,403	-8.1%	\$ (33,067,958)
Chief Judge	\$ 192,888,435	\$ 147,689,963	-23.4%	\$ (45,198,472)
State's Attorney	\$ 105,508,026	\$ 90,415,232	-14.3%	\$ (15,092,794)
Clerk Circuit Court	\$ 112,246,723	\$ 100,515,196	-10.5%	\$ (11,731,527)
County Clerk	\$ 34,789,884	\$ 28,874,869	-17.0%	\$ (5,915,015)
Assessor	\$ 30,575,468	\$ 21,149,529	-30.8%	\$ (9,425,939)
Recorder of Deeds	\$ 16,280,271	\$ 12,724,575	-21.8%	\$ (3,555,696)
Treasurer	\$ 14,906,871	\$ 11,367,819	-23.7%	\$ (3,539,052)
Election Commissioners	\$ 371,526	\$ 364,502	-1.9%	\$ (7,024)
Election Fund	\$ -	\$ -	0.0%	\$ -
Board of Review	\$ 8,544,899	\$ 6,192,632	-27.5%	\$ (2,352,267)
County Commissioners	\$ 8,331,664	\$ 6,436,850	-22.7%	\$ (1,894,814)
Public Administrator	\$ 1,103,768	\$ 1,022,647	-7.3%	\$ (81,121)
Subtotal: Other Elected Officials	\$ 931,706,896	\$ 799,845,217	-14.2%	\$ (131,861,679)
Fixed Charges and Special Purpose	\$ 53,581,988	\$ 428,080,263	698.9%	\$ 374,498,275
Other				
Self Insurance	\$ 57,250,734	\$ 82,177,672	43.5%	\$ 24,926,938
Managed Care Support	\$ 791,791	\$ 405,355	-48.8%	\$ (386,436)
Annuity & Benefits	\$ 187,745,000	\$ 264,846,000	41.1%	\$ 77,101,000
Bond & Interest	\$ 154,492,824	\$ 184,941,441	19.7%	\$ 30,448,617
Other Restricted Funds (Fed, St, Priv. Grants)	\$ 135,177,927	\$ 146,101,672	8.1%	\$ 10,923,745
Allowance for Uncollected Taxes	\$ 11,911,170	\$ 13,098,381	10.0%	\$ 1,187,211
Subtotal: Other Funds	\$ 547,369,446	\$ 691,570,521	26.3%	\$ 144,201,075
Subtotal Operating Funds	\$ 2,603,216,376	\$ 2,838,739,878	9.0%	\$ 235,523,502
Capital	\$ 266,749,560	\$ 173,502,774	-35.0%	\$ (93,246,786)
Total Budget	\$ 2,869,965,936	\$ 3,012,242,652	5.0%	\$ 142,276,716

Source: 2003 and 2007 Cook County Executive Budget Recommendations

Note: FY2003 and FY2007 data are not strictly comparable. Benefit costs that were tallied in department budgets in FY2003 were categorized as "Fixed Charges and Special Purpose" expenditures beginning in FY2005.

All Funds Appropriations by Fund

In FY2007 All Funds appropriations are projected to decrease 2.2% from FY2006. The FY2007 budget projects a 6.3% or \$11.5 million decrease in Corporate Fund appropriations. Public Safety appropriations and Health Fund appropriations are expected to fall by 2.8% and 7.9% respectively. Appropriations for Special Purpose Funds are projected to decrease by 2.3%, though Annuity & Benefits appropriations will rise by 18.6% or \$41.6 million. Special Purpose Funds are defined as the remaining funds after the General Funds are excluded. These funds are used to account for the proceeds from special revenue sources and the expenditures for specified

or restricted purposes.¹⁵ Total Operating Funds appropriations are expected to decrease by 4.4% from the prior year. Capital Improvement appropriations, however, will grow by 56.1% over FY2006 levels.

Cook County Appropriations FY2006-FY2007 (All Funds)				
Fund	FY2006 Final	FY2007 Recommended	% Change FY2006-FY2007	\$ Change FY2006-FY2007
Corporate	\$ 181,513,211	\$ 170,047,088	-6.3%	\$ (11,466,123)
Public Safety	\$ 1,103,789,889	\$ 1,072,805,767	-2.8%	\$ (30,984,122)
Health	\$ 882,297,444	\$ 812,473,177	-7.9%	\$ (69,824,267)
Subtotal: General Funds	\$ 2,167,600,544	\$ 2,055,326,032	-5.2%	\$ (112,274,512)
Annuity & Benefits	\$ 223,270,000	\$ 264,846,000	18.6%	\$ 41,576,000
Bond & Interest	\$ 180,870,852	\$ 184,941,441	2.3%	\$ 4,070,589
Other Special Purpose Funds	\$ 397,844,930	\$ 333,626,405	-16.1%	\$ (64,218,525)
Subtotal: Special Purpose Funds	\$ 801,985,782	\$ 783,413,846	-2.3%	\$ (18,571,936)
Total: Operating Funds	\$ 2,969,586,326	\$ 2,838,739,878	-4.4%	\$ (130,846,448)
Capital Improvements	\$ 111,128,588	\$ 173,502,774	56.1%	\$ 62,374,186
Grand Total: All Funds	\$ 3,080,714,914	\$ 3,012,242,652	-2.2%	\$ (68,472,262)

Source: 2007 Cook County Executive Budget Recommendation

The next exhibit presents five-year trend information for appropriations by fund. For the period between FY2003 and FY2007, All Funds appropriations are projected to increase 5.0%. Public Safety and Health appropriations show increases of 6.0% and 4.0% respectively over this five-year period. Corporate Fund appropriations will decline by 9.7% or \$18.3 million. The greatest percentage increases between FY2003 and FY2007 occurred in Special Purpose Funds appropriations, which grew in the aggregate by 26.1%. Annuity & Benefits appropriations are projected to rise by 41.1% or \$43.7 million and Bond & Interest appropriations will increase by 19.7% or \$30.4 million. Total Operating Funds appropriations are projected to rise by 9.0% since FY2003. A 35.0% decrease is projected in Capital Improvement appropriations over the five-year period.

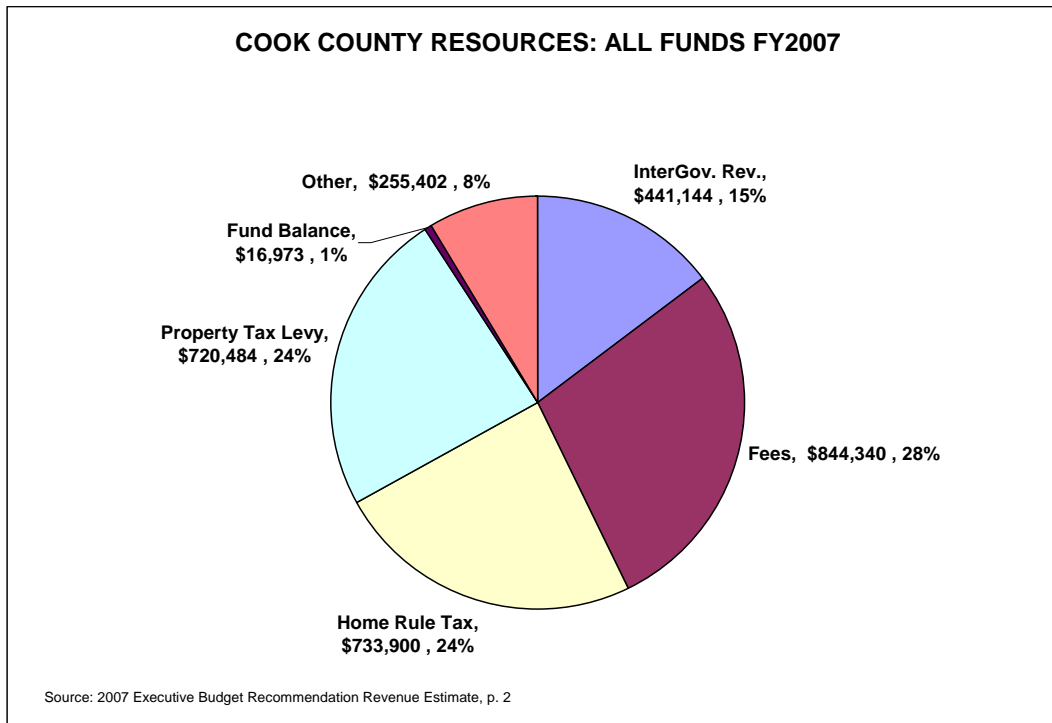
Cook County Appropriations FY2003-FY2007 (All Funds)				
Fund	FY2003 Recommended	FY2007 Recommended	% Change FY2003-FY2007	\$ Change FY2003-FY2007
Corporate	\$ 188,334,591	\$ 170,047,088	-9.7%	\$ (18,287,503)
Public Safety	\$ 1,011,967,533	\$ 1,072,805,767	6.0%	\$ 60,838,234
Health	\$ 781,462,938	\$ 812,473,177	4.0%	\$ 31,010,239
Subtotal: General Funds	\$ 1,981,765,062	\$ 2,055,326,032	3.7%	\$ 73,560,970
Annuity & Benefits	\$ 187,745,000	\$ 264,846,000	41.1%	\$ 77,101,000
Bond & Interest	\$ 154,492,824	\$ 184,941,441	19.7%	\$ 30,448,617
Other Special Purpose Funds	\$ 279,213,490	\$ 333,626,405	19.5%	\$ 54,412,915
Subtotal: Special Purpose Funds	\$ 621,451,314	\$ 783,413,846	26.1%	\$ 161,962,532
Total: Operating Funds	\$ 2,603,216,376	\$ 2,838,739,878	9.0%	\$ 235,523,502
Capital Improvements	\$ 266,749,560	\$ 173,502,774	-35.0%	\$ (93,246,786)
Grand Total: All Funds	\$ 2,869,965,936	\$ 3,012,242,652	5.0%	\$ 142,276,716

Source: 2003 and 2007 Cook County Executive Budget Recommendations

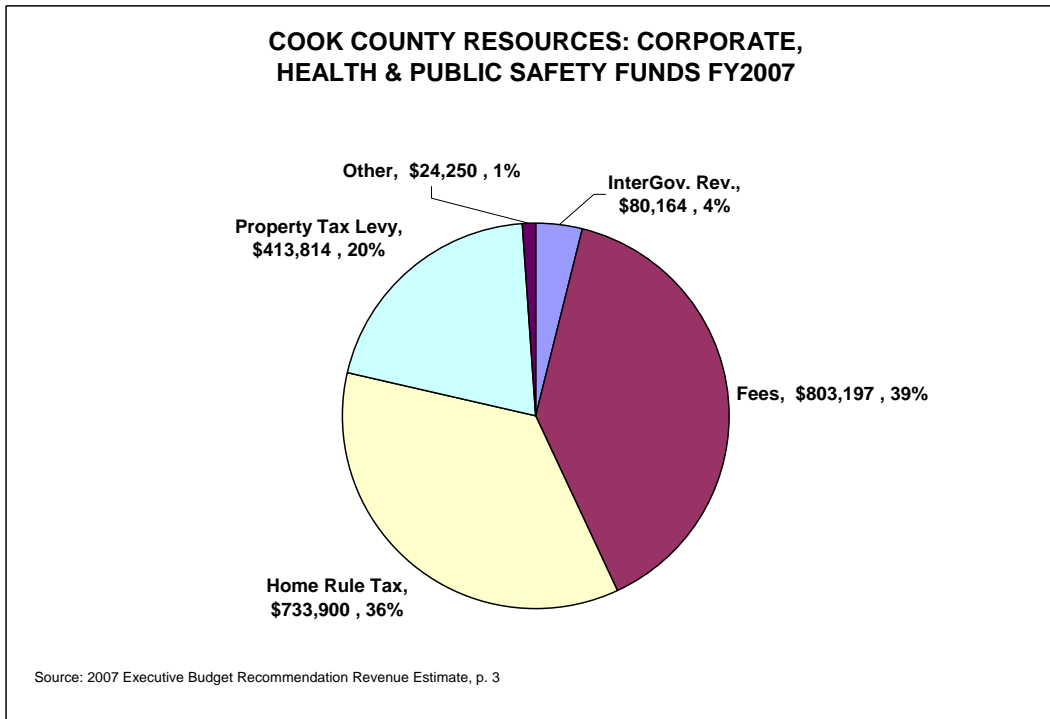
¹⁵ Cook County FY2007 Executive Budget Recommendation, p. A-22.

RESOURCES

Cook County total resources include revenues and appropriated net assets or fund balance. In FY2007, the County estimates that it can draw upon a total of \$3.00 billion from various revenue sources and a fund balance of about \$16.97 million for a total of \$3.01 billion. The total fund balance represents 0.6% of all resources available.



The next exhibit shows resources available in the County's General Funds – its Corporate, Public Safety, and Health Funds. General Fund resources are projected to total \$2.1 billion in FY2007. Fees and home rules taxes will provide 74.8% of all General Fund resources. The Property Tax Levy will represent \$413.8 million or 20.1% of General Funds resources, up from \$338.6 million and 15.6% in FY2006. This increase is due to the fact that Cook County will apportion more of its property tax revenue for Public Safety and less for Annuity & Benefits in FY2007. Unlike FY2006, when Fund Balance constituted 3.1% or \$66.0 million of the General Fund's resources, no Fund Balance revenue is projected in FY2007.



Revenues in FY2007

Cook County All Fund revenues are projected to increase by 1.0% between FY2006 and FY2007. This will be a \$28.5 million increase from \$2.79 billion to \$2.82 billion.¹⁶

Cook County's Home Rule Taxes are projected to show an aggregate decrease of \$17.9 million in FY2007, falling from \$751.8 million in FY2006 to \$733.9 million. This decrease is driven by a projected decrease in Cigarette Tax revenues, which are expected to fall by \$28.1 million or 13.9%. The County's property tax levy will be held constant at \$720 million for the seventh consecutive year.

County revenue from fees, the largest portion of the County's revenue stream, will increase slightly in FY2007. The County anticipates that it will collect \$844.3 million in fees, \$10.2 million or 1.2% more than the \$834.2 million it collected in FY2006. Due in part to the partial privatization of the County hospitals' bill collection services, the County projects that in FY2007 it will collect \$22.0 million more in patient fees, the most significant fee collected.

Intergovernmental revenues will decline by \$41.7 million or 9.6% in FY2007. Though personal property replacement tax (PPRT) revenues will increase by \$11.4 million or 22.5%, the aggregate revenue from Reimbursements from Other Governments will fall by \$51.9 million or 15.7%, dropping from \$329.5 million in FY2006 to \$277.6 million in FY2007. In particular,

¹⁶ FY2006 figures are year-end estimates listed in the FY2007 budget, not the original budgeted amounts in the FY2006 proposed budget.

Self Insurance revenues will decrease by \$26.0 million or 24.0%, and Federal, State & Private Grants will decrease by \$27.6 million or 15.9%.

COOK COUNTY REVENUES FY2006-FY2007 (\$000s)				
Tax or Fee	FY2006 Estimated*	FY2007 Projected	# change FY2006-FY2007	% change FY2005-FY2006
Property Taxes	\$ 720,483	\$ 720,483	\$ -	0.0%
Home Rule Taxes				
Sales & Use	\$ 362,505	\$ 370,000	\$ 7,495	2.1%
Alcoholic Beverage	\$ 26,459	\$ 25,500	\$ (959)	-3.6%
Cigarette	\$ 203,137	\$ 175,000	\$ (28,137)	-13.9%
Gas	\$ 96,507	\$ 101,000	\$ 4,493	4.7%
Retail Sale/Motor Veh's	\$ 3,362	\$ 3,400	\$ 38	1.1%
Wheel	\$ 1,993	\$ 2,000	\$ 7	0.4%
Amusement	\$ 18,476	\$ 18,000	\$ (476)	-2.6%
Parking Lot	\$ 39,360	\$ 39,000	\$ (360)	-0.9%
Subtotal Home Rule	\$ 751,799	\$ 733,900	\$ (17,899)	-2.4%
Fee Revenue				
Patient Fees	\$ 514,864	\$ 536,887	\$ 22,023	4.3%
Circuit Clerk Fees	\$ 102,670	\$ 104,690	\$ 2,020	2.0%
Recorder of Deeds Fees	\$ 74,996	\$ 73,008	\$ (1,988)	-2.7%
Treasurer's Fees	\$ 60,919	\$ 53,000	\$ (7,919)	-13.0%
Other	\$ 80,726	\$ 76,755	\$ (3,971)	-4.9%
Subtotal Fees	\$ 834,175	\$ 844,340	\$ 10,165	1.2%
Misc. Revenues				
Bail Bond Forfeitures	\$ 133	\$ 150	\$ 17	12.8%
Proceeds of GO Debt	\$ -	\$ 104,071	\$ 104,071	100.0%
Other	\$ 53,998	\$ 27,886	\$ (26,112)	-48.4%
Misc. Revenues Subtotal	\$ 54,131	\$ 132,107	\$ 77,976	144.1%
Intergov. Rev.	\$ 432,648	\$ 390,936	\$ (41,712)	-9.6%
TOTAL	\$ 2,793,236	\$ 2,821,766	\$ 28,530	1.0%

Source: Cook County FY2007 Revenue Estimates, pp. 51-62.

* Year End Estimates

These amounts do not include fund balances and capital improvements

Five-Year Revenue Trends

In the five-year period between FY2003 and FY2007, Cook County revenues increased by 15.1%. This represents a \$370.8 million increase, from \$2.5 billion to \$2.8 billion. Because of cigarette tax increases in FY2003 and FY2006, home rule tax revenues rose much faster than fee revenue during this period. The rate of growth for home rule taxes was approximately 33.3% over this five year period while fees rose by only 2.6%.

COOK COUNTY REVENUES FY2003-FY2007 (\$000s)							
Tax or Fee	FY2003	FY2004	FY2005	FY2006 Estimated*	FY2007 Projected	# change FY2003-07	% change FY2003-07
Property Taxes	\$ 724,415	\$ 720,483	\$ 720,483	\$ 720,483	\$ 720,483	\$ (3,932)	-0.5%
Home Rule Taxes							
Sales & Use	\$ 327,839	\$ 337,727	\$ 348,610	\$ 362,505	\$ 370,000	\$ 42,161	12.9%
Alcoholic Beverage	\$ 25,886	\$ 25,723	\$ 25,818	\$ 26,459	\$ 25,500	\$ (386)	-1.5%
Cigarette	\$ 39,555	\$ 131,391	\$ 157,224	\$ 203,137	\$ 175,000	\$ 135,445	342.4%
Gas	\$ 103,470	\$ 99,505	\$ 103,593	\$ 96,507	\$ 101,000	\$ (2,470)	-2.4%
Retail Sale/Motor Veh's	\$ 3,679	\$ 3,595	\$ 3,567	\$ 3,362	\$ 3,400	\$ (279)	-7.6%
Wheel	\$ 989	\$ 980	\$ 977	\$ 1,993	\$ 2,000	\$ 1,011	102.2%
Amusement	\$ 15,445	\$ 14,556	\$ 16,043	\$ 18,476	\$ 18,000	\$ 2,555	16.5%
Parking Lot	\$ 33,643	\$ 35,739	\$ 37,722	\$ 39,360	\$ 39,000	\$ 5,357	100.0%
Subtotal Home Rule	\$ 550,506	\$ 649,216	\$ 693,554	\$ 751,799	\$ 733,900	\$ 183,394	33.3%
Fee Revenue							
Patient Fees	\$ 548,908	\$ 618,038	\$ 617,461	\$ 514,864	\$ 536,887	\$ (12,021)	-2.2%
Circuit Clerk Fees	\$ 91,333	\$ 97,407	\$ 99,577	\$ 102,670	\$ 104,690	\$ 13,357	14.6%
Recorder of Deeds Fees	\$ 78,364	\$ 74,117	\$ 75,923	\$ 74,996	\$ 73,008	\$ (5,356)	-6.8%
Treasurer's Fees	\$ 46,700	\$ 45,114	\$ 50,409	\$ 60,919	\$ 53,000	\$ 6,300	13.5%
Other	\$ 57,525	\$ 63,107	\$ 64,897	\$ 80,726	\$ 76,755	\$ 19,230	33.4%
Subtotal Fees	\$ 822,830	\$ 897,783	\$ 908,267	\$ 834,175	\$ 844,340	\$ 21,510	2.6%
Misc. Revenues							
Bail Bond Forfeitures	\$ 241	\$ 25	\$ 37	\$ 133	\$ 150	\$ (91)	-37.8%
Proceeds of GO Debt	\$ -	\$ -	\$ -	\$ -	\$ 104,071	\$ 104,071	100.0%
Other	\$ 43,159	\$ 31,828	\$ 39,713	\$ 53,998	\$ 27,886	\$ (15,273)	-35.4%
Misc. Revenues Subtotal	\$ 43,400	\$ 31,853	\$ 39,750	\$ 54,131	\$ 132,107	\$ 88,707	204.4%
Intergov. Rev.	\$ 313,716	\$ 335,981	\$ 376,189	\$ 432,648	\$ 390,936	\$ 77,220	24.6%
TOTAL	\$ 2,450,940	\$ 2,635,316	\$ 2,738,243	\$ 2,793,236	\$ 2,821,766	\$ 370,826	15.1%

Source: Cook County FY2006 Revenue Estimates, pp. 51-62.

* Year End Estimates

These amounts do not include fund balances and capital improvements

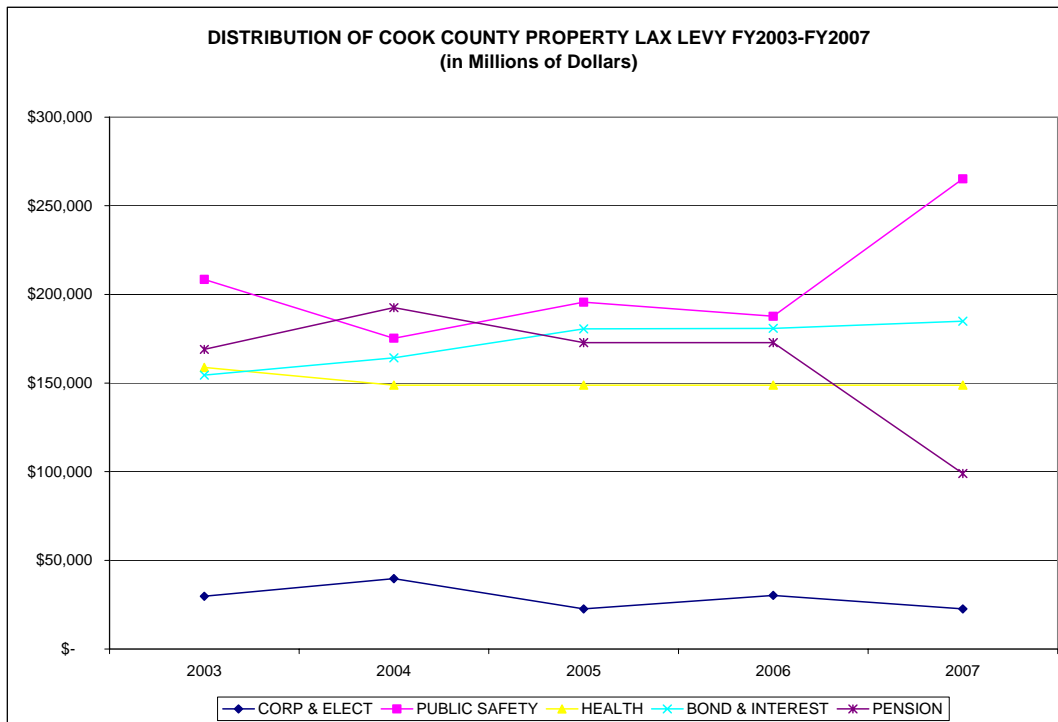
Property Tax Levy

The Cook County property tax levy will be held constant in FY2007, remaining at \$720.4 million for the seventh consecutive year.¹⁷

Property tax revenues are distributed to six major funds: Corporate, Elections, Public Safety, Health, Bond and Interest, and Pensions Annuity and Benefit Fund. Changes in distribution of the levy between FY2003 and FY2007 are shown below. For purposes of our analysis, the relatively small Corporate and Election Funds have been combined. Together they averaged about 4% of the total levy for the five years analyzed. In FY2007, the portion of the levy dedicated to these funds will be 3.1% of the total, down slightly from the previous year because the Election levy will drop after having been increased to pay for the primary and general elections held in 2006.

¹⁷ These are the property tax levy figures reported in the Cook County budget books. The Cook County Clerk's Tax Extension Office reports slightly different figures. In some years, there is up to a \$5 million difference, usually in the Bond & Interest fund levy. The Civic Federation has requested but not received an explanation for this difference from the Cook County financial staff.

The Public Safety Fund will consume the largest single portion of the levy: \$265.2 million or 36.8% of the total. Public Safety's share of the levy will increase by \$77.5 million over FY2006, primarily at the expense of the portion of the levy designated for the Employee Annuity & Benefit Fund (the County's Pension Fund). The Pension Fund will receive \$98.9 million or 13.7% of the levy in FY2007, down from \$172.8 million in FY2006. The County's Pension Fund contribution in FY2007 will be supplemented by \$61.8 million in PPRT revenue and \$104.1 million in proceeds from G.O. Debt. Approximately 25.7% of the levy, or \$184.9 million, is earmarked for the Bond and Interest Fund to pay for debt service.



Source: FY2007 Executive budget Recommendation Revenue Estimate, p. 1

Fund Balance

The fund balance for the General Funds (i.e. Corporate, Public Health and Public Safety Funds) will be \$0 in FY2007, having been completely depleted by operating expenditures in FY2006. This depletion is a cause for grave concern, since the County will have no financial cushion for meeting unexpected contingencies in FY2007 except for the 2% allotment that departments are required to save. The General Funds balance of \$0 in FY2007 also represents a substantial decline since FY2003, when General Funds had a balance of \$218.5 million, 11.0% of operating revenues. Government Finance Officers Association (GFOA) recommend that general purpose governments maintain a General Fund balance ratio of 5% to 15% of operating expenditures or revenues. To achieve a 5% ratio, the County would have to reserve \$102.8 million as fund balance in FY2007.

Fund Balance for Corporate, Public Safety & Health Funds: FY2003-FY2007			
	Fund Balance	Revenues	Ratio
FY2003	\$ 218,467,072	\$ 1,981,765,062	11.0%
FY2004	\$ 200,500,000	\$ 2,076,451,808	9.7%
FY2005	\$ 136,000,000	\$ 2,195,188,977	6.2%
FY2006	\$ 66,000,000	\$ 2,162,500,544	3.1%
FY2007	\$ -	\$ 2,055,326,032	0.0%

Source: Cook County Revenue Estimates

The County's fund balance for All Funds has seen a similarly dramatic erosion between FY2003 and FY2007, falling from \$234.9 million in FY2003 to \$17.0 million in FY2007.

Fund Balance for All Funds: FY2003-FY2007			
	Fund Balance	Total Resources	Ratio
FY2003	\$ 234,852,742	\$ 2,869,965,936	8.2%
FY2004	\$ 220,389,324	\$ 2,993,956,107	7.4%
FY2005	\$ 163,228,191	\$ 3,046,691,218	5.4%
FY2006	\$ 94,224,407	\$ 3,080,646,834	3.1%
FY2007	\$ 16,973,292	\$ 3,012,242,652	0.6%

Source: Cook County Revenue Estimates

PERSONNEL TRENDS

The following section addresses trends for budgeted personnel by office and by fund, and both one-year and five-year trends in personal services appropriations.

Full Time Equivalent Positions by Control Officer

This exhibit shows the number of full time equivalent (FTE) positions budgeted for FY2006 and recommended for FY2007. For FY2007, the figures in this table reflect both the recommendations presented in the FY2007 *Executive Budget* and the budget amendments that President Stroger presented to the Board of Commissioners in order to meet his targeted adjustments.¹⁸ The number of FTEs for FY2007 is projected to decrease by 2,493.7 positions or 9.8% from the previous year. The number of FTEs in the Offices under the President will drop by 1,400.3 or 12.9%, and the number of FTEs under other elected officials will decrease by 1,093.4 or 7.4%.

¹⁸ The "targeted adjustment" cuts were summarized in table form for The Civic Federation by the County's Budget and Management Services department (January 26, 2007).

Cook County Budgeted FTEs* by Office (All Funds): FY2006-FY2007				
	FY2006 Final	FY2007 Recommended	% Change FY2006-FY2007	# Change FY2006-FY2007
Control Officers				
Offices Under President				
Bureau of Health Services	7,931.5	6,839.1	-13.8%	(1,092.4)
President	36.0	33.6	-6.7%	(2.4)
Chief Administrative Officer	726.0	655.0	-9.8%	(71.0)
Bureau of Human Resources	51.0	53.0	3.9%	2.0
Bureau of Public Safety	1,256.4	1,103.6	-12.2%	(152.8)
County Auditor	18.0	14.4	-20.0%	(3.6)
Office of the Inspector General	5.0	5.0	0.0%	0.0
Bureau of Finance	204.6	169.5	-17.2%	(35.1)
Bureau of Information Technology	196.5	158.0	-19.6%	(38.5)
Capital Planning	406.5	400.0	-1.6%	(6.5)
Subtotal: Other than Health Services	2,900.0	2,592.1	-10.6%	(307.9)
Subtotal: Offices Under President	10,831.5	9,431.2	-12.9%	(1,400.3)
Sheriff	6,856.6	6,423.8	-6.3%	(432.8)
Chief Judge	2,878.3	2,608.8	-9.4%	(269.5)
State's Attorney	1,506.7	1,373.0	-8.9%	(133.7)
Clerk Circuit Court	2,100.3	1,975.7	-5.9%	(124.6)
County Clerk	311.0	299.9	-3.6%	(11.1)
Assessor	433.8	388.4	-10.5%	(45.4)
Recorder of Deeds	252.6	217.0	-14.1%	(35.6)
Treasurer	156.1	142.4	-8.8%	(13.7)
Election Commissioners	4.0	3.7	-7.5%	(0.3)
Board of Review	130.0	110.0	-15.4%	(20.0)
County Commissioners	96.0	90.0	-6.3%	(6.0)
Public Administrator	18.7	18.0	-3.7%	(0.7)
Subtotal: Other Elected Officials	14,744.1	13,650.7	-7.4%	(1,093.4)
TOTAL	25,575.6	23,081.9	-9.8%	(2,493.7)

* Includes Special Purpose Fund positions.

Source: 2007 Executive Budget and documents provided by Cook County Budget and Management Services office

Since FY2003 the total number of FTEs employed by Cook County has fallen by 3,602.2, or 13.5%. For the five-year period from FY2003 to FY2007, FTEs under the President are projected to decrease by 2,538.0 positions, or 21.2%, and FTEs under other elected officials are projected to decrease by 1,064.2 positions, or 7.2%. For FY2007, the figures in this table reflect both the recommendations presented in the FY2007 *Executive Budget* and the budget amendments that President Stroger presented to the Board of Commissioners in order to meet his targeted adjustments.

Cook County Budgeted FTEs* by Office (All Funds): FY2003-FY2007				
Control Officers	FY2003 Recommended	FY2007 Recommended	% Change FY2003-FY2007	# Change FY2003-FY2007
Offices Under President				
Bureau of Health Services	8,660.2	6,839.1	-21.0%	(1,821.1)
President	38.0	33.6	-11.6%	(4.4)
Chief Administrative Officer	842.3	655.0	-22.2%	(187.3)
Bureau of Human Resources	54.0	53.0	-1.9%	(1.0)
Bureau of Public Safety	1,412.2	1,103.6	-21.9%	(308.6)
County Auditor	23.2	14.4	-37.9%	(8.8)
Office of the Inspector General	4.0	5.0	25.0%	1.0
Bureau of Finance	224.8	169.5	-24.6%	(55.3)
Bureau of Information Technology	219.0	158.0	-27.9%	(61.0)
Capital Planning	491.5	400.0	-18.6%	(91.5)
Subtotal: Other than Health Services	3,309.0	2,592.1	-21.7%	(716.9)
Subtotal: Offices Under President	11,969.2	9,431.2	-21.2%	(2,538.0)
Sheriff	6,519.0	6,423.8	-1.5%	(95.2)
Chief Judge	3,018.4	2,608.8	-13.6%	(409.6)
State's Attorney	1,482.9	1,373.0	-7.4%	(109.9)
Clerk Circuit Court	2,190.4	1,975.7	-9.8%	(214.7)
County Clerk	314.5	299.9	-4.6%	(14.6)
Assessor	469.6	388.4	-17.3%	(81.2)
Recorder of Deeds	267.2	217.0	-18.8%	(50.2)
Treasurer	203.9	142.4	-30.2%	(61.5)
Election Commissioners	4.0	3.7	-7.5%	(0.3)
Board of Review	130.0	110.0	-15.4%	(20.0)
County Commissioners	96.0	90.0	-6.3%	(6.0)
Public Administrator	19.0	18.0	-5.3%	(1.0)
Subtotal: Other Elected Officials	14,714.9	13,650.7	-7.2%	(1,064.2)
TOTAL	26,684.1	23,081.9	-13.5%	(3,602.2)

* Includes Special Purpose Fund positions.

Source: 2007 Executive Budget and documents provided by Cook County Budget and Management Services office

Full Time Equivalent Positions by Fund

Because 934.0 FTEs were eliminated through the amendment process after the budget was produced, The Civic Federation cannot present information about the distribution of positions by fund for FY2007.

Personal Service Appropriations

All personal service appropriation figures reflect the data presented in the FY2007 *Executive Recommendation* and do not include changes in wages or benefit appropriations that will result from the 36 Budget Amendments offered by President Stroger.

Personal service appropriations are projected to increase by 2.4% in FY2007 over the previous fiscal year, from \$2.01 billion to \$2.06 billion. Regular Wages will decrease by \$29.9 million or 2.1%, from \$1.44 billion to \$1.41 billion. Overtime appropriations, though, will increase by \$9.3 million or 22.2%. Benefits are expected to increase by 13.1%, from \$525.7 million to \$594.4 million.

COOK COUNTY PERSONAL SERVICE APPROPRIATIONS: FY2006-FY2007				
	FY2006 Final	FY2007 Recommended	# change 2006-2007	% change 2006-2007
Regular Wages	\$ 1,444,710,097	\$ 1,414,843,985	\$ (29,866,112)	-2.1%
Overtime	\$ 41,725,668	\$ 50,982,832	\$ 9,257,164	22.2%
Other Wages	\$ 503,644	\$ 611,820	\$ 108,176	21.5%
Subtotal Wages	\$ 1,486,939,409	\$ 1,466,438,637	\$ (20,500,772)	-1.4%
Hospitalization	\$ 239,665,097	\$ 246,729,445	\$ 7,064,348	2.9%
Other Benefits	\$ 286,017,623	\$ 347,639,057	\$ 61,621,434	21.5%
Subtotal Benefits	\$ 525,682,720	\$ 594,368,502	\$ 68,685,782	13.1%
Total Personal Services	\$ 2,012,622,129	\$ 2,060,807,139	\$ 48,185,010	2.4%

Source: 2006 Cook County Annual Appropriation Bill and 2007 Cook County Executive Budget Recommendation

Between FY2003 and FY2007, Cook County personal service appropriations are projected to rise by 14.7%. This represents a \$263.7 million increase. Over this five-year period, wages will increase by 7.7%, with Overtime appropriations in particular rising by 62.8%. Benefits appropriations will also grow by 36.6%

COOK COUNTY PERSONAL SERVICE APPROPRIATIONS: FY2002-FY2006				
	FY2003 Recommended	FY2007 Recommended	# change 2003-2007	% change 2003-2007
Regular Wages	\$ 1,330,048,329	\$ 1,414,843,985	\$ 84,795,656	6.4%
Overtime	\$ 31,319,026	\$ 50,982,832	\$ 19,663,806	62.8%
Other Wages	\$ 524,296	\$ 611,820	\$ 87,524	16.7%
Subtotal Wages	\$ 1,361,891,651	\$ 1,466,438,637	\$ 104,546,986	7.7%
Hospitalization	\$ 188,577,572	\$ 246,729,445	\$ 58,151,873	30.8%
Other Benefits	\$ 246,638,096	\$ 347,639,057	\$ 101,000,961	41.0%
Subtotal Benefits	\$ 435,215,668	\$ 594,368,502	\$ 159,152,834	36.6%
Total Personal Services	\$ 1,797,107,319	\$ 2,060,807,139	\$ 263,699,820	14.7%

Source: 2003 and 2007 Cook County Executive Budget Recommendations

The following chart compares total personal service appropriations to the total County budget. For FY2007, personal service appropriations constitutes 68.4% of the total budget, up from 65.3% in FY2006. In FY2003, Personal Services accounted for 62.6% of the budget.

Ratio of Personal Service to Total Appropriations: 2003, 2006, and 2007			
	Personal	Total	Personal
2003 Rec.	\$ 1,797,107,319	\$ 2,869,965,936	62.6%
2006 Final	\$ 2,012,622,129	\$ 3,080,714,914	65.3%
2007 Rec.	\$ 2,060,807,139	\$ 3,012,242,652	68.4%

Source: 2003 and 2007 Cook County Executive Budget Recommendations

EMPLOYEE HEALTH CARE TRENDS

The following section examines the County's employee and retiree health care plans, expenses, and spending trends.

Costs of Cook County Health Benefits

The County's benefit costs have increased dramatically in recent years. Between FY2003 and FY2007, Cook County personal service appropriations for employee benefits are projected to rise by 14.7%, from \$435.2 to \$594.4 million. Hospitalization costs alone will rise by 30.8% or from \$188.6 to \$246.7 million.¹⁹ Total health care costs in Cook County were \$229 million in FY2005 and were projected to be \$236 million in FY2006.²⁰

Cook County employees contribute about \$9.3 million or an average of 3.91% of total premium costs,²¹ compared to 9% for single coverage and 20% for family coverage for state and local governments nationally.²² Union employees and employees earning less than \$65,000 contribute 0.5% of salary for HMO coverage with a maximum payment of \$8 per pay period. Non-union employees earning more than \$65,000 contribute 0.7% for single HMO coverage and 1.4% for family HMO coverage. All PPO enrollees contribute 1.5% of salary. All contributions for health coverage are pre-tax.²³

Employee Health Plans

Cook County gives its employees a choice of three managed care plans: two HMO plans managed by Blue Cross Blue Shield and UniCare and a PPO plan managed by Blue Cross Blue Shield. Since December 1, 2005 all prescription drug coverage has been provided through Caremark for all types of plans.²⁴ This has required a "carveout" of prescription coverage from the HMO plans.²⁵ The County also provides dental, vision, and life insurance coverage, as well as a flexible spending account option to employees.²⁶

Enrollment

Of a total enrollment of 61,855, nearly 85% of County employees and their dependents were enrolled in the two HMO plans in FY2006.²⁷ The national state and local government average HMO enrollment is 39%, which in turn is higher than the national average for all public and private employers of 20%.²⁸

¹⁹ 2003 and 2007 Executive Budget Recommendations

²⁰ Calculated from information provided by John Hibbett, Cook County Director of Risk Management, August 4, 2006. Both total cost numbers are gross of employee and other contributions and including Forest Preserve District and Chicago Housing Authority employees and the Annuity and Benefit Fund.

²¹ John Hibbett, Cook County Director of Risk Management, email message to William Ketchum, June 1, 2006.

²² G. Claxton et al., *Employer Health Benefits 2006 Annual Survey* (Menlo Park, CA: Henry J. Kaiser Family Foundation, 2006), VI-19

²³ John Hibbett, letter to William Ketchum, May 18, 2006.

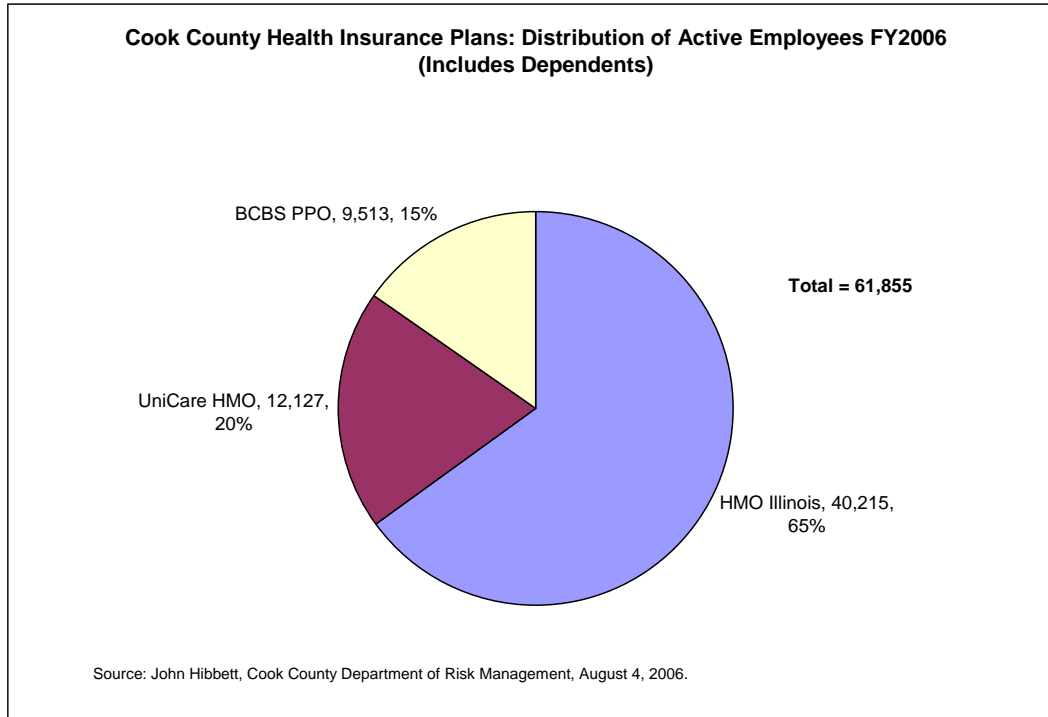
²⁴ John Hibbett, personal communication to William Ketchum, October 5, 2006.

²⁵ Prescription drug "carveout" means that the prescription drug services that would normally be provided from within a vendor's HMO or PPO plan are removed and the premium or premium-equivalent prices are reduced accordingly.

²⁶ Cook County Benefits Overview FY2006.

²⁷ John Hibbett, email message to William Ketchum, August 4, 2006.

²⁸ Claxton et al., *Employer Health Benefits 2006 Annual Survey*, V-3.



There are two possible explanations for such a high HMO enrollment rate. The first is the very low contribution rate of 0.5% of salary for many employees for both single and family coverage. The second is the requirement that all new employees enroll in the HMO plan during their first year of employment. Of employees and dependents covered by an HMO plan, nearly 77% are enrolled in the more expensive Blue Cross Blue Shield HMO plan and 23% in the less expensive UniCare-administered plan. The following table shows employee enrollment in each plan as of July 2006.

Cook County Employees and Dependents Covered by County Health Plans as of July 2006						
	Single	Employee +1	Family	Total Employees	Total Dependents	Total Covered Persons
HMO Illinois	5,544	8,341	26,330	16,289	23,778	40,215
UniCare HMO	1,728	2,664	7,735	4,993	7,095	12,127
BCBS PPO	1,306	2,254	5,953	3,966	5,582	9,513
Total	8,578	13,259	40,018	25,248	36,455	61,855

Source: John Hibbett, email message to William Ketchum, August 4, 2006

Retiree Health Plans

Retiree benefits for County employees are covered by their pension plan. Total health care costs declined from \$32.4 million in 2003 to \$28.4 million in 2005. There are 7,395 annuitants and a total of approximately 9,800 enrollees. Nearly 70% of enrollees opt for single coverage and 27% annuitant plus one coverage. Approximately 60% of enrollees are Medicare-eligible and 40% non-Medicare-eligible. Retirees are offered three plans: two HMOs and one PPO. Fifty-one per cent of the retirees are enrolled in the two HMOs and 49% in the PPO. Retirees contribute 41%

to 45% of premium cost based on their Medicare status and the plan and coverage selected.²⁹ This high level of premium cost-sharing in comparison to other Chicago-area local governments may account for the high percentage of annuitants enrolled in single coverage. Retiree premium and premium-equivalent contributions will increase between 5% and 22% in 2007, depending on the plan and coverage chosen. Co-payments, coinsurance, and deductibles, where applicable, will remain the same.³⁰ The following chart shows enrollment numbers by plan.

Cook County Retirees and Dependents Covered by County Pension Health Plans as of October 2006			
	Annuitant	Dependents	Total Covered Persons
HMO Illinois	2,901	1,192	4,093
UniCare HMO	718	174	892
BCBS PPO	3,776	1,059	4,835
Total	7,395	2,425	9,820

Source: Paul Rzeszutko, Cook County Retirement Fund, October 27, 2006

Recent and Future Changes to Health Care Plan

Recent labor negotiations between the County and its unions have resulted in changes to the employee health care plan designs and employee premium contributions.³¹ The County cannot release the details of these changes until negotiations with the remaining unions have been completed. However, previous Civic Federation budget analyses have calculated the savings that would result from various changes to the County's plan provisions. Increasing contributions equal to an additional 1% of total hospitalization insurance projected costs in FY2007 would save the County \$2.5 million. Increasing co-payments for physician visits from \$3 per visit to \$10 would have saved the County from \$7.6 million to \$8.8 million in reduced premium costs in FY2006.³²

Health Care Summary

Cook County's health care plan costs are very high in comparison to other local governments in northeastern Illinois and state and local governments nationally. Some of the drivers behind higher employee health care costs are beyond the control of the County and affect employers across the country, such as higher-priced technologies (including new prescription drugs), provider consolidation, an aging population, and increased consumer demand.³³ But many factors, including employee cost sharing and plan design, can be manipulated to reduce employer costs.

Cook County employees pay on average a mere 3.9% of total premium costs. Employees of other local governments in the Chicago area contribute anywhere from 8% to 13% of total premium costs. The County's cost sharing measures like co-payments for doctor visits and

²⁹ Paul Rzeszutko, County Employees' Annuity & Benefit Fund Deputy Director of Benefits, October 27, 2006.

³⁰ Paul Rzeszutko, County Employees' Annuity & Benefit Fund Deputy Director of Benefits, October 27, 2006.

³¹ John Hibbett, email message to William Ketchum, July 26, 2006.

³² The Civic Federation, *Cook County FY2006 Proposed Budget, Analysis and Recommendations*, January 6, 2006.

³³ PricewaterhouseCoopers, "The Factors Fueling Rising Healthcare Costs 2006", p. 10.

prescription drugs are minimal and do not compare well to other local governments in Chicago or nationally. The \$3 co-payment for a doctor visit in the HMO plan, in which most employees are enrolled, is very small in comparison to Cook County's fellow joint purchasing partners, most of whose employees pay \$10-\$15 per visit. Cook County is one of only two governments in the Chicago area which do not use three- or four-tiered pricing for prescription drugs, which was a factor in the reduction in the growth of the cost of prescription drugs nationwide.³⁴ Such low co-payments and deductibles and the large network options the County provides in each of its health care plans drive up premium and premium-equivalent costs.³⁵ The lack of a deductible for in-network PPO services for both family and individual plans and the minimal deductibles for out-of-network services in the Cook County PPO plan also increase the premium-equivalent costs to fifty percent more than the national state and local government average.³⁶ The County's plan design also works to increase PPO premium equivalents as it requires new (generally younger) employees to enroll in one of the HMOs and has a premium contribution maximum of \$16 per month. This means that only the older, less healthy employees who require the flexibility of a PPO plan will join. This adverse selection of the sickest employees contributes to the very high PPO premium-equivalent levels the County experiences.

The following charts compare plan highlights for the HMO and PPO plans with national averages.

³⁴ Kaiser Family Foundation, *Prescription Drug Trends* (Menlo Park, CA: Henry J. Kaiser Family Foundation, June 2006), p. 4. See also Paul B. Ginsburg, Bradley C. Strunk, Michelle I. Banker, and John P. Cookson, "Tracking Health Care Costs: Continued Stability But At High Rates in 2005," *Health Affairs*—Web Exclusive, 3 October 2006, pp. W490-W491.

³⁵ John Hibbett, conversation with William Ketchum and Sarah Wetmore, October 5, 2006.

³⁶ See table below.

Cook County HMO Plans Major Provisions and Comparison to National Average for All Firms						
	HMO Illinois		Unicare		2006 Kaiser Survey Nationwide HMO Plans (All Industries Average)	2006 Kaiser Survey Nationwide HMO Plans (State/Local Govt. Average)
Annual Total Premium						
Single ¹	\$6,018		\$5,480		\$4,114 ²	\$4,329
Family ¹	\$13,033		\$11,898		\$11,339 ²	\$11,491
Annual Employee Premium Contribution	% of salary	% of total	% of salary	% of total	% of total	% of total
Single ³	0.5% ⁴ - 0.7% ⁵	3.91%	0.5% ⁴ - 0.7% ⁵	3.91%	15.6%	10.0%
Family ³	0.5% ⁴ - 1.4% ⁵		0.5% ⁴ - 1.4% ⁵			
Deductible						
Single	\$0		\$0		\$268 ^{2,6}	not available
Family	\$0		\$0		\$666 aggregate ^{2,7}	not available
Out-of-Pocket Maximum						
Single	No out-of-pocket costs				69% of all covered workers' maximum is \$1,999 or less	not available
Family					68% of all covered workers' maximum is \$3,999 or less	not available
Lifetime Maximum	Unlimited		Unlimited		not available	not available
Inpatient Copayment	\$0		\$0		\$233 / 15%	not available
Outpatient Surgery Copayment	\$0		\$0		\$118 / 15%	not available
Emergency Room Copayment	\$0		\$0		not available	not available
Physician Copayment	\$3		\$3		83% of all covered workers pay \$10-\$20	not available
Plan Enrollment	65%		20%		23% of all covered workers ⁸	39% of all covered workers

¹Cook County figures are based on COBRA rate for FY2006, minus 2% administrative cost

²Average for large firms (over 200 employees)--largest firm size available

³Cook County "% of total" figure is calculated on a "gross" basis

⁴Up to \$8 per pay period for all union employees and for non-union employees who earn up to \$65,000

⁵Non-union employees earning more than \$65,000

⁶Figure is for the 10% of HMO covered workers in large firms with a deductible for single coverage

⁷Figure is for the 11% of HMO covered workers in large firms with a deductible for family coverage (per-person not available)

⁸Average for jumbo firms (over 5,000 employees)--largest firm size available

Sources: Cook County Benefits Overview FY2006 (effective December 1, 2005-November 30, 2006); Kaiser Family Foundation and Health Research and Educational Trust, Employer Health Benefits 2006 Annual Survey; Cook County enrollment figures provided by John Hibbett, Cook County Department of Risk Management, August 4, 2006.

Cook County PPO Major Provisions and Comparison to National Average for All Firms						
	FY2006 Cook County Employees Blue Cross/Blue Shield PPO		2006 Kaiser Survey Nationwide PPO Plans			
	(In Network)	(Out of Network)	(All Industries Average)		(State/Local Govt. Average)	
Annual Premium Equivalent						
Single	\$7,518		\$4,326 ¹		\$4,879	
Family	\$17,183		\$11,752 ¹		\$11,933	
Annual Employee Premium Contribution	% of salary	% of total	\$	% of total	\$	% of total
Single ²	1.5%	3.9%	\$709 ¹	16.4%	not available	6.0%
Family ²	1.5%	3.9%	\$2,628 ¹	22.4%	not available	18.0%
Deductible						
Single	\$0	\$200	\$375 ^{1,3}		not available	
Family		\$400	\$610 per person ^{1,4}		not available	
Out-of-Pocket Maximum (Plan Year)						
Single	\$1,000	\$3,000	52% of all covered workers' maximum is \$1,999 or less		not available	
Family	\$2,000	\$6,000	53% of all covered workers' maximum is \$3,999 or less		not available	
Lifetime Out-of-Pocket Maximum	Unlimited	\$1,000,000	not available		not available	
Inpatient Copayment + Coinsurance	10%	40%	\$238 / 17%		not available	
Outpatient Surgery Copayment + Coinsurance	10%	40%	\$144 / 17%		not available	
Emergency Room Copayment	0%	0%	not available		not available	
Physician Copayment	\$20	40%	73% of all covered workers pay \$20 or less		not available	
Plan Enrollment	15%		60% of all covered workers ⁵		41% of all covered workers	

¹ Average for large firms (over 200 employees)--largest firm size available

² Cook County "% of total" figure is calculated on a "gross" basis

³ Figure is for the 69% of PPO covered workers in large firms with a deductible for single coverage (in-network)

⁴ Figure is for the 70% of PPO covered workers in large firms with a deductible for family coverage (in-network)

⁵ Average for jumbo firms (over 5,000 employees)--largest firm size available

Note: Coinsurance is % of charges paid by employee after deductible or copayment.

Sources: Cook County Benefits Overview FY2006 (effective December 1, 2005-November 30, 2006); Kaiser Family Foundation and Health Research and Educational Trust, Employer Health Benefits 2006 Annual Survey; Cook County enrollment figures provided by John Hibbett, Cook County Department of Risk Management, August 4, 2006.

Its high premium costs notwithstanding, Cook County has benefited from its participation in a consortium with five other local governments to collectively issue Requests for Proposal (RFPs), screen bidders based on past experience and research, and garner competitive rates for basic plan

services.³⁷ The six governments have collaborated on RFPs for basic prescription drug plans since 2001, when the Civic Federation commissioned a study to explore the feasibility of consolidated purchasing. More recently, they have done the same for health care plans. Most of the six have negotiated and implemented prescription drug plans over the last two years and half have completed negotiations and begun to implement healthcare plans based on a joint RFP issues in mid-2005. According to County estimates, hiring Caremark to provide prescription drugs for all of its employees through the joint negotiation process will save the County up to \$2 million a year.³⁸

While the Civic Federation applauds the County for its participation in the joint purchasing group, more must be done to rein in burgeoning personnel costs. Cook County must include increased cost sharing provisions, such as higher employee contributions toward premium costs, higher deductibles, and higher co-payments in its negotiations with its unions. It must also seek changes that would require employees to pay the difference in price when visiting an out-of-network provider. The Office of Risk Management currently lacks the authority to enforce the use of preferred network providers in employee health plans. This is completely out of line with employee health care practices across the nation. The point of a preferred provider network is to minimize costs by requiring an employee who wants to see a doctor or go to a hospital outside of the insurer's network (where it has negotiated lower fees) to pay at least some of the difference in price.

DEBT TRENDS

The Civic Federation has employed two measures of debt for purposes of this analysis: short-term debt trends and long-term debt per capita trends.

Short-Term Debt Trends

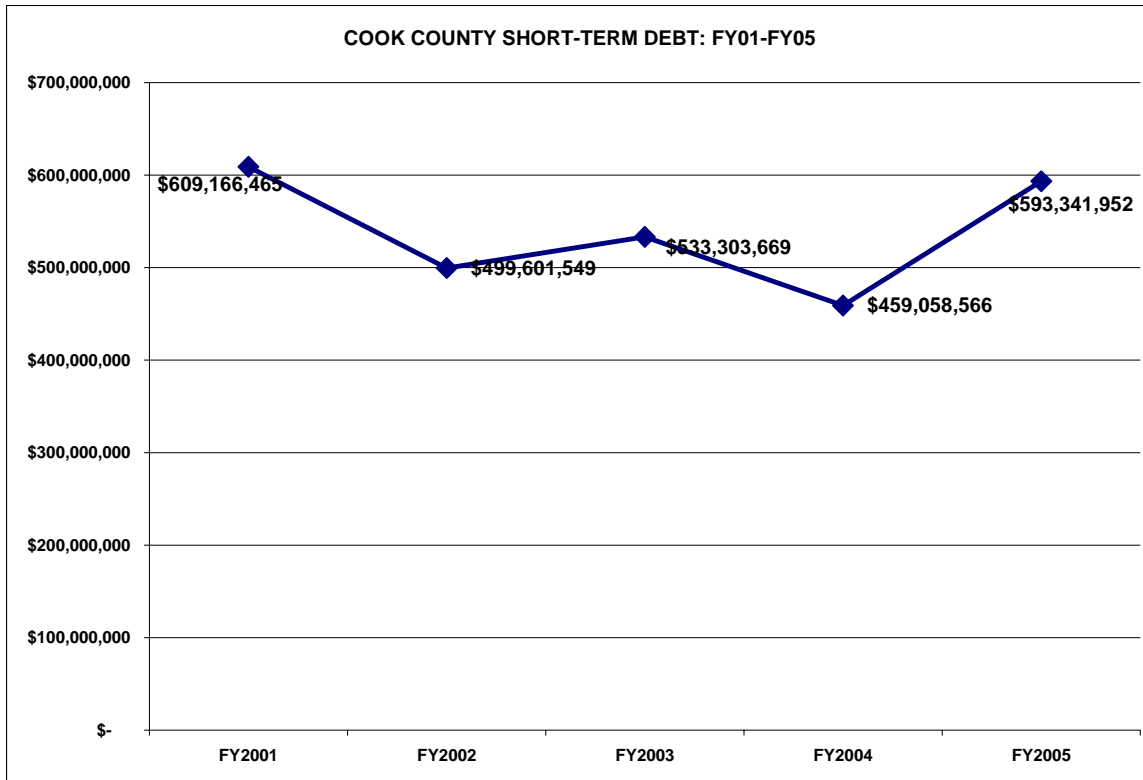
Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits.

Short-term debt includes all current liabilities reported for Governmental and Business-Type activities of the County. The exhibit below presents Cook County short-term debt trends for Fiscal Years 2001 through 2005. During that five-year period, the amount of short-term debt fell by \$15.8 million or 2.6%. This represents a decrease from \$609.1 million to \$593.3 million. However, between FY2004 and FY2005, short-term debt rose by 29.3% or from \$459.0 million to \$593.3 million.³⁹

³⁷ The other five governments in the group are the City of Chicago, Chicago Transit Authority, Chicago Public Schools, City Colleges of Chicago and the Chicago Park District.

³⁸ The Civic Federation, *Cook County FY2006 Proposed Budget, Analysis and Recommendations*, January 6, 2006.

³⁹ Information obtained from *Cook County Comprehensive Annual Reports*, various years.



Bond Ratings

Cook County debt issues carry the following ratings:

- Fitch: AA
- Moody's: Aa2
- Standard and Poor's: AA

These ratings are the highest the County has received in 25 years.⁴⁰

Net Direct Debt Per Capita

Net direct debt per capita is a measure of a government's ability to maintain its current financial policies.⁴¹ This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements and is commonly used by rating agencies and other public finance analysts. Increases over time bear watching as a potential sign of increasing financial risk.

⁴⁰ Cook County FY2007 Executive Budget Briefing, p 16.

⁴¹ Direct debt is tax supported debt such as General Obligation debt. For Cook County, net direct debt includes General Obligation bonds less the amount of G.O. debt available for retirement per year. See *FY2004 Cook County Comprehensive Annual Financial Report*, p. 154.

Cook County net direct debt per capita increased by 74.5% between FY2000 and FY2004, rising from \$310 to \$541. Cook County's total long-term debt increased from \$1.6 billion to \$2.9 billion. Between FY2003 and FY2004, net direct debt per capita rose by 21.6% after declining during the previous year.

Net direct debt data for FY2005 were not available in the *FY2005 Comprehensive Annual Financial Report*.⁴²

PENSION FUND TRENDS

The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of Cook County's pension fund: funded ratios, the investment rate of return, and the value of unfunded liabilities.⁴³

Funded Ratios – Actuarial Value of Assets

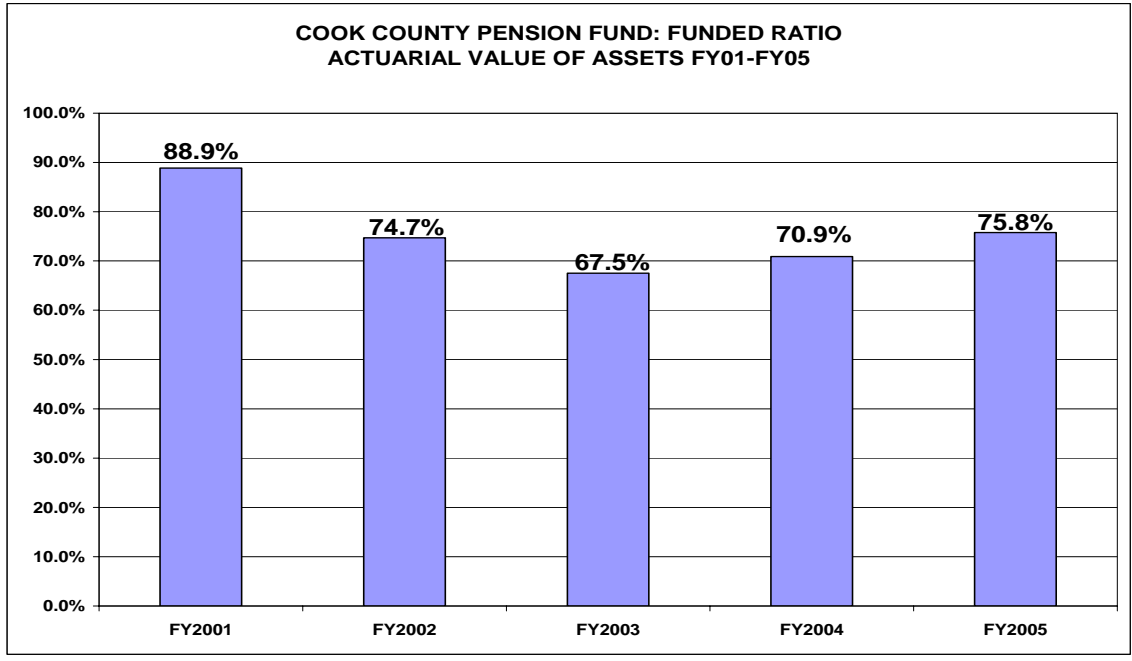
The following exhibit shows the funded ratio for Cook County's pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations.

The funded ratio for Cook County's pension fund declined from 88.9% to 75.8% between FY2001 and FY2005. In large part, the decrease reflects declines in the return of the fund's investments. In FY2004, the funded ratio rose slightly, from 67.5% to 70.9%. This is due in part to changes in actuarial assumptions made in preparing the FY2004 actuarial valuations that increased the value of net assets from the amounts that would have been calculated using previous actuarial methods.⁴⁴ In FY2005, the funded ratio rose again to 75.8%.

⁴² *FY2005 Cook County Comprehensive Annual Financial Report*, p. 157.

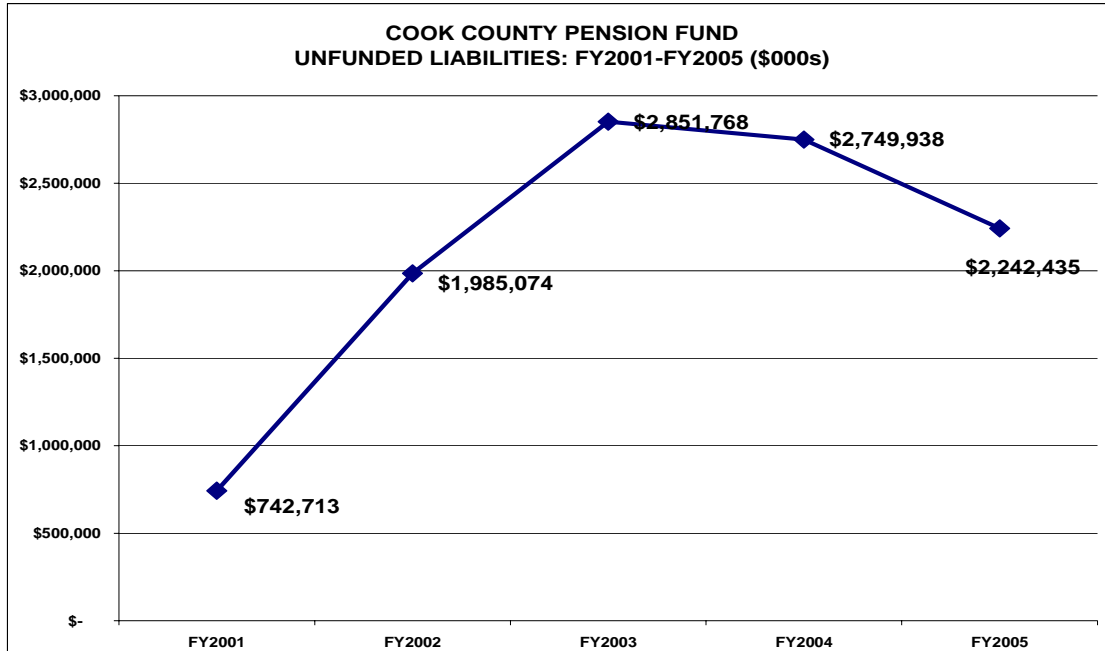
⁴³ The discussion of Cook County's pension fund trends is drawn from *Status of Local Pension Funding* (Chicago: Civic Federation, forthcoming 2007).

⁴⁴ The FY2004 *Actuarial Valuation* reports net assets at the beginning of the year as \$6,529,956,047, while the former actuary reported net assets as being \$5,929,201,142. The method boosts the value of net assets by \$600,754,905, thus in part increasing the funded ratio and decreasing unfunded liabilities. County Employees' Annuity and Benefit Fund of Cook County, *Actuarial Valuation as of December 31, 2004*, p. 9.



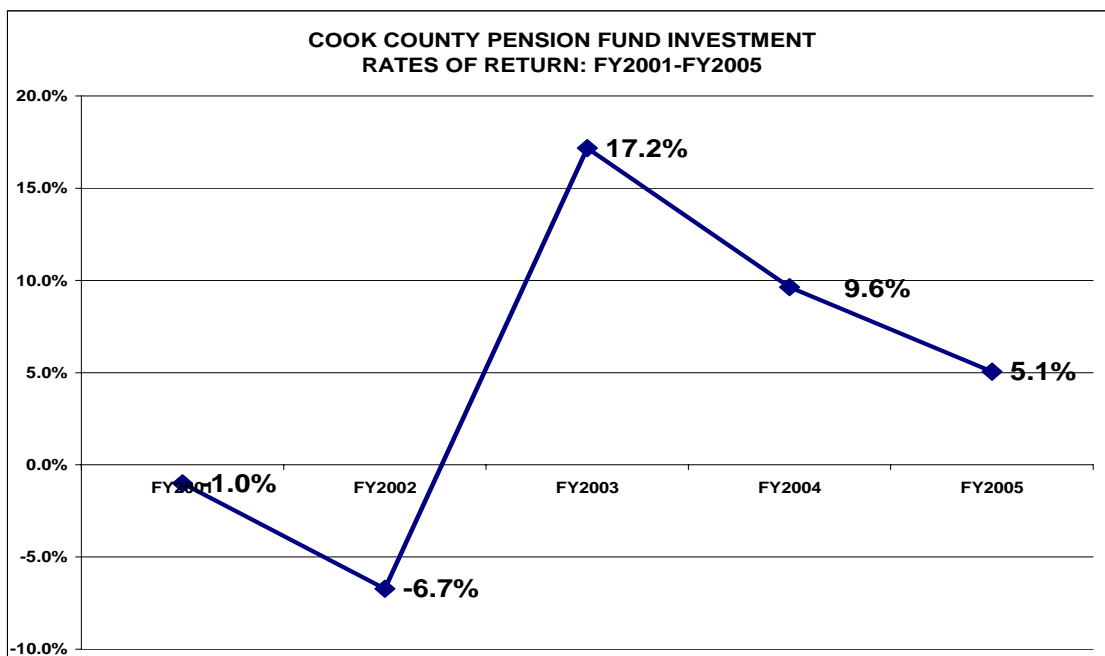
Unfunded Pension Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for Cook County’s pension fund totaled approximately \$2.2 billion in FY2005. There was a 201.9%, or nearly \$1.5 billion increase in unfunded liabilities from FY2001. Between FY2003 and FY2005, unfunded liabilities fell by over \$609.3 million or by 21.4%; this is due in part to the change in actuarial assumptions that occurred in FY2004 as noted above. The sharp increase in unfunded liabilities over the entire five-year period is being driven in large part by declining rates of return for the pension fund’s investments.



Investment Rates 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. Since FY2001, Cook County investment rates of return have increased from 1.0% in FY2001 to 5.1% five years later. In FY2001 and FY2002, the Pension Fund reported negative investment returns, reflecting the impact of the economic downturn. However, since that time, investment returns have been positive though they did fall sharply from 17.2% in FY2003 to 5.1% in FY2005.



CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation offers the following set of recommendations on ways that Cook County can improve management and reduce the costs of Cook County government.

Limit Total Annual Personnel Compensation Increases to 3% Per Year or CPI

Cook County is currently in negotiation with many of its collective bargaining units. Once again, the Civic Federation urges the County to insist on the elimination of automatic step increases in its collective bargaining. Step increases are an antiquated, overly generous personnel practice not found in more efficiently operated governments or in the private sector. We think that limiting total annual percentage increases to 3%, a percentage of prior revenue growth, or inflation, whichever is less, would be a far more responsible benchmark.

County employees currently receive both cost of living adjustments (COLA) and step increases each year. Employees should not automatically receive **both** increases. President John Stroger acknowledged in his FY2004 Budget Address that step increases are an obsolete mechanism today since public employee salaries have increased, and he promised to consider significant changes to the County's compensation plans. We hope that the County will finally act on this promise and eliminate this expensive practice.

Increase Employee Contributions to Health Insurance Costs.

In FY2006, County employees paid, on average, 3.9% of the cost of their health insurance premiums.⁴⁵ Employees enrolled in the HMO program pay up to \$8.00 per pay period or \$208 per year, and employees enrolled in PPO programs contribute 1.5% of salary to participate in that program.⁴⁶ This is far less than the nationwide state and local government employee average of 9%, the nationwide all industries average of 16.3%, and the State of Illinois employee average of 5.4%-11.6%.

The Civic Federation believes all Cook County employees must begin to pay a share of premium costs that more closely mirrors Illinois or national averages. This is essential to reduce rising healthcare costs. The County is currently negotiating with its unions and has stated its intention to negotiate for health care plan changes and increases in employee premium contributions. The County cannot release the details and potential cost savings of these changes until negotiations with its remaining unions have been completed. If, however, employees contributed a sum equal to an additional 1% of total hospitalization insurance projected costs in FY2007, the County would save \$2.5 million.

The County should also increase **co-payments** for physician visits. Currently, County employees enrolled in the HMO plans pay \$3 per medical visit.⁴⁷ The co-payment saves the County

⁴⁵ Information from John Hibbett, June 1, 2006.

⁴⁶ Information from Proposed Resolution Submitted by Commissioners Goslin, Quigley and Silvestri (Item #62), Meeting of January 20, 2005. Information also provided in letter to Civic Federation from CFO Thomas Glaser on January 5, 2005.

⁴⁷ Cook County Department of Risk Management, "Comparison of Your Cook County Medical Benefits."

approximately 0.5% in premium costs. An increase to a \$10 co-payment would decrease premium costs (\$253 million projected in FY2006) by 3% to 3.5%. This could have saved the County from \$7.6 million to \$8.8 million in FY2006.⁴⁸

Require Performance Management.

The County requires performance measures, but most of those submitted and published measure workload, not efficiency or effectiveness. The performance measurement system needs to be overhauled to provide managers with the tools to identify strengths and weaknesses in service delivery and to use that information to implement efficiencies accordingly. A performance management system that would permit effective evaluation and benchmarking would help County managers make judicious decisions about the allocation of resources.

The Civic Federation urges the President and the County Budget Office to take a leadership position in developing and implementing an effective performance management system.

Give the County CFO Responsibility for all County finances.

All financial functions and responsibilities (including the Health Funds) should be centralized and coordinated by the County Chief Financial Officer (CFO). While this structure currently exists in theory, past practice has been that other financial staff manage their own areas, particularly in the Health Fund. Ultimate responsibility for financial operations of the Bureau of Health Services, including purchasing, billing, collections, accounts payable, and preparation of the annual financial audit, should be given to the CFO. Previously, the Hospital CFO did not report to the County CFO, resulting in uncoordinated efforts and the dissemination of inaccurate information to the President and the Board. We believe that, working with the medical leadership of the three hospitals and the various clinics, the CFO of Cook County should be assigned full responsibility for financial operations of the Bureau of Health Services.

Establish a Formal Budget Stabilization Policy and Fund.

Cook County should establish by ordinance a formal budget stabilization policy and fund. This is a means of controlling the volatility of unstable revenue sources such as the sales tax, and is recommended by bonding agencies and the Government Finance Officers Association. The fund should have an automatic triggering device for deposits and withdrawals. In many jurisdictions, deposits are tied to an objective economic indicator, such as growth in personal income or a formula that considers revenue growth. Withdrawals are also linked to a formula. A budget stabilization fund should have a cap on its size to prevent the unnecessary accumulation of resources. The cap should take the form of: 1) an overall limit on the fund itself; 2) a limit that considers the balance in a "rainy day" fund plus any other undesignated balance in the general funds.

⁴⁸ This information is extrapolated from information provided to the Civic Federation by CFO Thomas Glaser on January 5, 2005.

Present an Executive Budget before the Beginning of the Fiscal Year.

The Civic Federation believes that all governments have a duty and an obligation to prepare, release, and adopt their fiscal plans before the beginning of the fiscal year. There is no sound public policy reason for delaying or obfuscating the budget process. The President should submit an executive budget recommendation to the County Board Finance Committee on or after September 15th but no later than October 15th.

Implement a Formal Long-Term Financial Planning Process.

Cook County should develop and implement a formal long-term financial planning process that allows for input from the Cook County Board of Commissioners and key external stakeholders. The President should submit to the Finance Committee revenue and expenditure projections for the next five fiscal years as well as narrative explanations of assumptions made in order to reach the projections. This is a sound and reasonable proposal.

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

The Civic Federation believes that the Comprehensive Annual Financial Report should be released to the Board of Commissioners and the public no later than May 31 of the following calendar year or within six months of the close of the fiscal year.

Require Return on Investment Reports for all Information Technology Contracts.

In recent years the County has spent millions of dollars on information technology, including the automation of processes. No doubt many of those expenses are reasonable and essential. But, what dividends have these investments yielded? It is unclear. We would expect some reductions in cost since automation should have made some positions unnecessary.

In our view, investments in technology can and should yield cost savings as well as increased operational efficiency of operation. We think it imperative that the potential for cost savings be measured in a systematic and transparent way. Therefore, the Civic Federation recommends that all Cook County information technology contracts should include a requirement for an independent analysis of the costs and benefits of the projects being implemented. Then, the Board of Commissioners and taxpayers alike can have demonstrable evidence of the value and cost saving potential of the continuing multi-million dollar investments in technology.

Reject Borrowing for the FY2007 Pension Contribution.

The FY2007 budget must be built around the sound fiscal principle that the County's pension obligations should not be treated differently than any of the County's other regular operating costs. Using bond proceeds to close a budget gap is never a sound or responsible fiscal practice.

The Civic Federation believes that the administration must go back and fashion a budget that is truly balanced. In our view, that will require an additional \$104.3 million in spending cuts and/or the introduction of additional cost saving management efficiencies. The County might

begin by rescinding a portion of the proposed \$62.3 million increase in capital improvements appropriations in FY2007 from \$111.1 million to \$173.5 million. Maintaining a reserve for capital contingencies is reasonable, but increasing the capital appropriation by 56% in a time of severe fiscal crisis is imprudent.

Eliminate the Elected Officials Extravagant Optional Pension Plan.

The Civic Federation also calls upon the Stroger Administration and County Board of Commissioners to work with state legislators to end the extravagantly generous optional pension program that is open to the County's elected officials. The continued operation of this program for elected officials reinforces for the public that County management has not recognized that it cannot afford its existing benefit programs. Elected officials should be enrolled in and receive the same benefits as regular County employees.

Implement Comprehensive Pension Benefit Reform

For many years, the Civic Federation has commented on the funding status of the Cook County pension funds. The County Fund has traditionally been well funded. However, the funded ratio of the Fund declined from 88.9% to 75.8% between FY2001 and FY2005.

Over the past year, the State of Illinois has adopted several key reforms designed to help the State control mounting employee retirement costs. The Civic Federation strongly supported these reforms and believes that the time has come to apply some of them to local government benefit plans, including those provided to Cook County employees. This year, we offer specific recommendations designed to improve the long-term financial health of the funds.

Establish a Two-Tiered System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of two-tiered benefit systems where existing and new employees receive different retirement benefits. Given the rising cost of pension benefits, this is a reasonable approach that the County should undertake.

Annuity Increases for New Hires Should be Fixed at the Lesser of 3% or CPI

Currently, Cook County pension fund beneficiaries receive 3% annual cost of living increases.⁴⁹ However, this rate can and does exceed the rate of inflation. To control costs, annual annuity increases for new hires should be fixed at the projected Consumer Price Index or 3%, whichever is less.

⁴⁹ Cook County Employees' Annuity and Benefit Fund *Actuarial Valuation as of December 31, 2004*, P. 26.

Any Benefit Increases Should Require Contribution Increases

Many benefit enhancements are added to public pensions without accompanying contribution increases. Public Act 94-0004 requires that every new benefit increase made to one of the five state retirement systems must identify and provide for additional funding to fund the resulting annual accrued cost of the increase. It also requires that any benefit increase expire after five years, subject to renewal. We support extending this reasonable control on benefit increases to the County's pension fund.

Require Employer Contributions to Relate to Funding Levels

The Cook County government employer contributions are determined by multipliers per each fund that are not tied to the fund's funded ratio. The Cook County multiplier is 1.54 times the total employee contribution made two years prior. The Civic Federation believes that employer contributions should be tied to funded ratios, such that additional contributions are required when the ratio drops below a given level.

Reform Pension Board Composition to Provide Balance between Annuitants, Government and Taxpayers

The Cook County Employees' Annuity and Benefit Fund and the Cook County Forest Preserve District Employees' Annuity and Benefit Fund are governed by a single nine-member Board of Trustees that includes: two appointed officials (County comptroller and treasurer, or representatives appointed by them), three elected actives, two elected annuitants, one elected forest preserve active and one elected forest preserve annuitant. Therefore the ratio of management to employee representatives is 2:7, one of the least balanced of the 17 Illinois pension boards recently surveyed by the Civic Federation.⁵⁰

The proper role of a pension board is to safeguard the assets of the fund and to balance the interests of employees and retirees who receive benefits and taxpayers who pay for pension benefits. All of these parties have an interest in the management of the fund. However, the heavy tilt toward employees on the Cook County pension board raises questions about how objective the Board can be in its work. In our view, a pension board should:

- Balance employee and management representation on pension boards;
- Develop a tripartite structure that includes citizen representation on pension boards, and
- Include financial experts on pension boards and require financial training for non-experts.

We urge Cook County to seek reform of the Pension Fund governing structure to ensure greater balance of interests.

⁵⁰ Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois*, forthcoming.