STATEMENT MADE AT THE PUBLIC HEARING ON THE PROPOSED FY2002 COOK COUNTY BUDGET, NOVEMBER 28, 2001

The Civic Federation would like to thank President Stroger, Finance Chairman Daley, and the members of the Board of Commissioners for this opportunity to comment on the proposed FY2002 budget. We would also like to commend the County's Budget and Finance staffs for their hard work and effort in preparing this budget.

I. OVERVIEW OF TESTIMONY

The Civic Federation **commends** Cook County for proposing a FY2002 budget that holds the line on spending and avoids tax or fee increases. We are very pleased that the County has made the prudent decision not to raise taxes in an economic downturn. The budget is being balanced through the elimination of vacant positions and the implementation of some innovative cost saving measures, both good and proper actions. There may also be some savings through the implementation of an early retirement program. Finally, we are very pleased that the County has successfully transferred Traffic Court operations to the Daley Center, a move that has saved taxpayers as much as $175 million by voiding the need to build costly new court facilities.

Cook County's financial condition is good, according to several long-term indicators. Long-term debt is relatively low, pension fund assets are more than sufficient to cover liabilities, and the County's bond ratings are high. These are signs of the County's sound financial management and we salute the administration and its financial management team for their efforts.

However, while the Civic Federation believes that Cook County has done the right thing in carefully balancing the FY2002 budget by means of targeted expenditure reductions, we are extremely **disappointed** in the direction this budget has taken. The County has failed once again to make the tough choices necessary to improve its financial condition or management in the long-term, to improve the efficiency of County operations, or to contain costs.

Some offices and agencies have taken the lead in containing costs in the FY2002 budget. The Chief Judge and Treasurer eliminated positions, the County Clerk saved $800,000 by laying out ballots in-house, and the Bureau of Health Services has saved $8 million by consolidating pharmacy contracts. Most departments complied with the President's prudent request to hold their FY2002 budget requests to the FY2001 appropriation. Unfortunately, however, not all elected officials or department heads followed these examples. We are dismayed that some elected and appointed officials demanded substantial budgetary increases far in excess of FY2001 appropriations.

The Civic Federation is very surprised that the County has only implemented three of the 117 recommendations proposed by the County's own excellent Operations Review Team report. This represents only $9.8 million out of a possible $129 million in savings. Because the County is not aggressively pursuing implementation of more of the recommendations, opportunities for substantial savings simply are being brushed aside. Cook County's strategy of riding out the economic downturn and hoping for a return to business as usual if better times return in the middle of 2002 is not a prudent strategy at all. Cook County must reform its financial operations by implementing financial management reforms, pursuing alternative service delivery mechanisms, and entering into innovative cooperative arrangements with other governments and the private sector. If the County cannot move forward in these times that demand fiscal restraint and repositioning how it operates, it never will.

Based on our analysis of the budget, audited financial reports, Civic Federation research, and a review of best practices in budgeting, The Civic Federation offers the following policy recommendations and notes several issues that could impact budgets in the long-term.

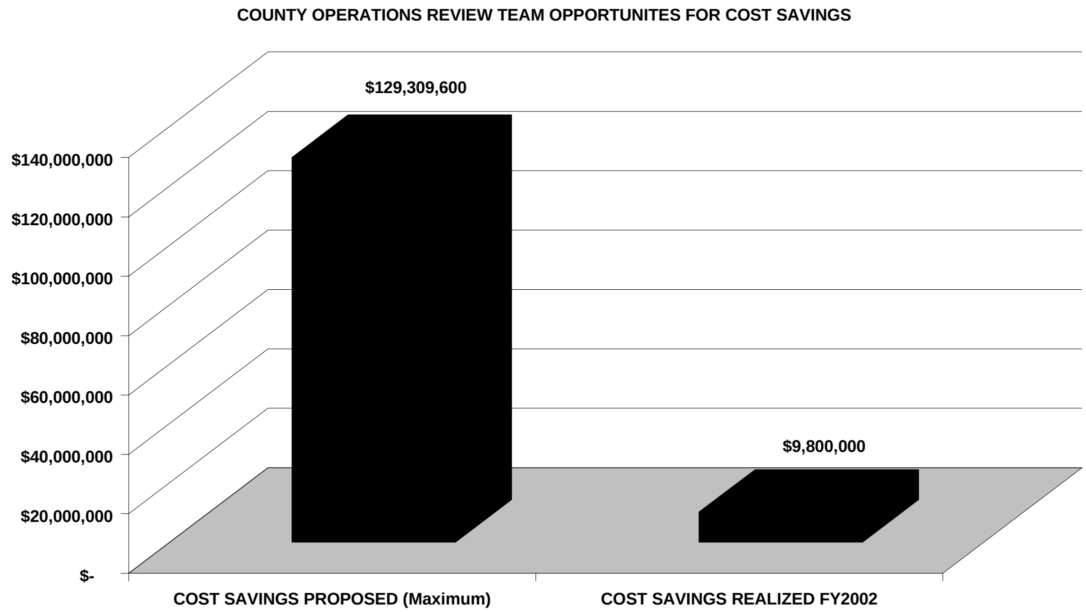
Recommendations: Implement CORT Study Recommendations, Pursue Joint Health Insurance Purchasing, and Institute Long-Term Financial Planning Process

The County has faced deficits in two succeeding fiscal years. Given the economic downturn, with its attendant sluggish revenue growth, Cook County may endure more bad fiscal news during FY2002. Thus, it is imperative that the County undertake measures that can generate additional budgetary savings and help both policymakers and staff plan strategically for future exigencies. The Civic Federation recommends that Cook County undertake the measures outlined below to achieve those goals.

Three reports have been issued over the past six years outlining ways the County can cut costs and improve efficiency: President Stroger's 1995 Transition Report, the Cook County Cost Control Task Force reported prepared by The Civic Federation and the Chicagoland Chamber of Commerce, and the County Operations Review Team report issued in July 2001. A large number of excellent short and long-term proposals were presented. Two of these reports were prepared for the President and the third in cooperation with his office. In short, there is hardly a shortage of ideas for improving County operations while containing costs. Yet, few proposals have been implemented.

Implement County Operations Review Team Recommendations: Could Yield as Much as $129 Million in Savings

The County Operations Review Team (CORT) report presented 117 recommendations generated by various offices and agencies and CORT itself. The report identified as much as $129 million in savings, representing about 4.7% of the entire budget. However, only three of the recommendations have been implemented for a savings of $9.8 million. This is an underwhelming sign of commitment by the County to actually put its financial house in order. The Civic Federation strongly urges Cook County to prepare for the future by implementing the findings of its own cost control report.



Save Millions of Dollars Per Year through Joint Purchasing of Health Insurance with Chicago Area Governments

The cost of health care is rising rapidly once again. In the first quarter of 2001, the cost of medical care services rose by 4.9% alone.[1] To contain these costs, The Civic Federation urges the County to aggressively pursue the joint purchasing of health care insurance with other governments in the Chicago area. A recent study conducted for The Civic Federation on the feasibility of consolidated health insurance purchasing found that forming a joint insurance pool consisting of the employees of the County (excluding the Forest Preserve District), the City of Chicago, the Chicago Park District, Chicago Transit Authority, the City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority could yield projected savings of $40.1 million in the first year or $222 million over a 5-year period.

Cut Costs by Increasing Employee Contributions to Health Insurance

Cook County employees make only a minimal contribution to the cost of their health insurance. Many governments require employees to contribute up to 25% of the cost of their insurance. In the private sector, the average figure is between 20% and 30%. The County could cut its health insurance costs significantly by increasing employee contributions for their health insurance.

[1] Health Care Financing Administration. "Recent Changes in Medical Prices: 1997-2001." See www.hfca.gov/stats/indicatr/tables/t9.htm.

Cook County also could save between 1% to 3% of health insurance costs if co-payments were mandated for certain medical services. It's time for Cook County to cut health insurance costs by increasing employee contributions.[2]

Bring County Salary Structure into Line with Standard Practices

Cook County employees receive both cost of living and step increases. This is an unusual arrangement not found in most governments or the private sector, which has led to annual salary increases far in excess of the norm. This practice must be reviewed and brought into line with standard public sector practices. It could yield substantial cost savings.

Implement Formal Long-Term Financial Planning Process

The County should consider developing and implementing a formal long-term planning process that is presented to key policymakers and stakeholders. Governments across America have found that instituting a formal long-term financial planning process has been extraordinarily useful in more effectively linking policy and program priorities to the financial resources available currently and in the near future.

President Should More Forcefully Use His Budget Authority to Control Costs

The President requested that all elected officials and department heads hold their FY2002 budget requests to the FY2001 appropriation, a commendable and prudent action. However, several offices and departments requested appropriations far in excess of that amount. In the end, many received increases, though not to the degree they requested. They should not have done so unless there was a powerfully compelling reason. We urge the President to use the authority he already possesses and control costs by fully exercising budgetary authority over the elected officials and the department heads. While many argue that the President has little or no authority over elected officials, research prepared for The Civic Federation suggests that the President, because of the authority he or she possesses to establish binding monthly expenditure schedules, ultimately has ultimate budgetary authority over all County officials. [3]

Concerns and Cautions: Property Tax Refunds, "One Shots" and Early Retirement

The Civic Federation has comments on several issues that could have an impact on the FY2002 budget.

Property Tax Appeal Board Decisions Could Lead to Substantial County Revenue Loss

Recent decisions by the Illinois Property Tax Appeal Board (PTAB) could result in potentially huge losses in local government revenue. If the decisions stand and are applied to all eligible property, Cook County could face a loss of $63 million per year.

[2] The Civic Federation and the Chicagoland Chamber of Commerce. Cook County Cost Control Task Force Report. June 2001. (Chicago: The Civic Federation), p. 42.
[3] The Civic Federation and the Chicagoland Chamber of Commerce. Cook County Cost Control Task Force Report. June 2001. (Chicago: The Civic Federation), p. 59.

"One Shots" and Early Retirement May be of Limited Value

The FY2002 is being balanced in part through the use of several "one-shot" expenditure reductions and revenue enhancements. In a budget as tightly balanced as this, these measures will fulfill their goal only if there is a quick economic recovery by mid-year 2002. If that recovery doesn't materialize, more cuts and enhancements will be needed.

The FY2002 budget is being balanced in part through the use of $14 million in working cash interest. This is a one shot action that should not become a standard County financial management practice in the future.

Cook County also has proposed offering employees early retirement. Approximately 2,400 employees 50 years or older with a minimum of 20 years of service would be eligible. The County estimates that 40% (960) employees will take advantage. This is projected to yield a savings of $10 million from elimination of unnecessary positions and returning remaining positions to their original step and grade.

Early retirement may temporarily boost the County's bottom line and the County's plan may well yield long-term cost savings. However, we would like to caution the County that research has shown that early retirement programs can actually increase costs in the long run unless they are carefully structured.[4] This is due to the costs of retirement benefits plus salaries and benefits of new workers hired to replace retired workers. Even hiring new workers at uniformly lower wages and salaries may not save money in the long run because of pension and health care costs for retired workers. Thus, for early retirement to be cost effective some positions must be completely eliminated; many of the now vacant positions should not be filled for as long as 3-5 years, and many of the replacement workers hired must be paid lower salaries than their predecessors received.

II. SUMMARY OF GAP-CLOSING MEASURES IN FY2002 BUDGET

Cook County faced a budget deficit estimated at $80 million out of a total projected budget of $2.7 billion for FY2002. Gap-closing measures proposed in FY2002 budget focus on several cost-cutting initiatives. On the revenue side of the ledger, there are no tax or fee increases proposed for FY2002.

Cook County is proposing a number of cost-cutting initiatives in the FY2002 budget. They include:

- A hiring freeze on non-essential positions will be extended at least through the first quarter of 2002, which has saved an estimated $15 million to date;
- Offering early retirement to 2,400 eligible workers for a projected savings of $10 million;

[4] Surveys by the National Association of State Budget Officers and the National Conference of State Legislatures have found that early retirement programs at the state level yield cost savings only if controls are placed on replacement hiring and funding for retirement system costs. See David Ferrari. "Designing and Evaluating Early Retirement Programs: The State of Wyoming Experience," *Government Finance Review*, February 1999, pp. 29-31.

- Cutting spending on non-essential travel, seminars and supplies for a savings of $6 million;
- Eliminating 100 full time equivalent vacancies from offices under the President, the Office of the Chief Judge and the Treasurer's Office for a savings of $5.5 million;
- Consolidating pharmacy contracts within the Bureau of Health Services will save $8 million;
- Utility and telephone audits are projected to lead to $1 million in savings; and
- $800,00 will be saved by the County Clerk preparing the layout of election ballots and printing sample and absentee ballots in-house.

III. FINANCIAL ISSUES AND TRENDS

This section provides summaries of key issues likely to have an impact on Cook County's financial situation in the forthcoming fiscal year as well as expenditure, appropriation and revenue trends.

Recent Property Tax Appeal Board Decisions: County Faces Potential Annual Loss of $63 million

Recent decisions by the Illinois Property Tax Appeal Board (PTAB) could result in potentially huge losses in local government revenue and a significant tax burden shift onto homeowners. If the decisions stand and are applied to all property in the county, The Civic Federation's projections indicate that Cook County could face a loss of $63 million per year. The maximum potential loss to all governmental units in Cook County could well exceed $500 million per year. These losses could come at a time when revenue growth is anemic due to the economic downturn.

The Illinois State Constitution requires that the highest assessment level be no more than 2.5 times the lowest assessment level. The Cook County ordinance that classifies property for taxation sets the lowest assessment level at 16% for residential property and the highest assessment level at 38% for commercial property. However, the Illinois Department of Revenue conducts studies every year claiming that residential property is actually assessed at closer to 10% of its value. Based on these studies, the PTAB has created a new level of assessment for non-residential (business and apartment) property. This new level of assessment is the result of multiplying the Department of Revenue's median residential assessment level of approximately 10% by 2.5. The result is a maximum assessment level of 25%. Therefore, a commercial property appealing its assessment to the PTAB would be assessed at 25% of its value, rather than 38% as the county ordinance directs. This lower assessment level, if applied to all properties currently assessed at more than 25% of full value, would result in large refunds for commercial and industrial properties.

Unless it is addressed soon, PTAB's decision has the potential to cause a serious fiscal crisis in Cook County. The Civic Federation believes that it is imperative that the County must join with other local governments and the State of Illinois to address local governments' overreliance on property taxes.

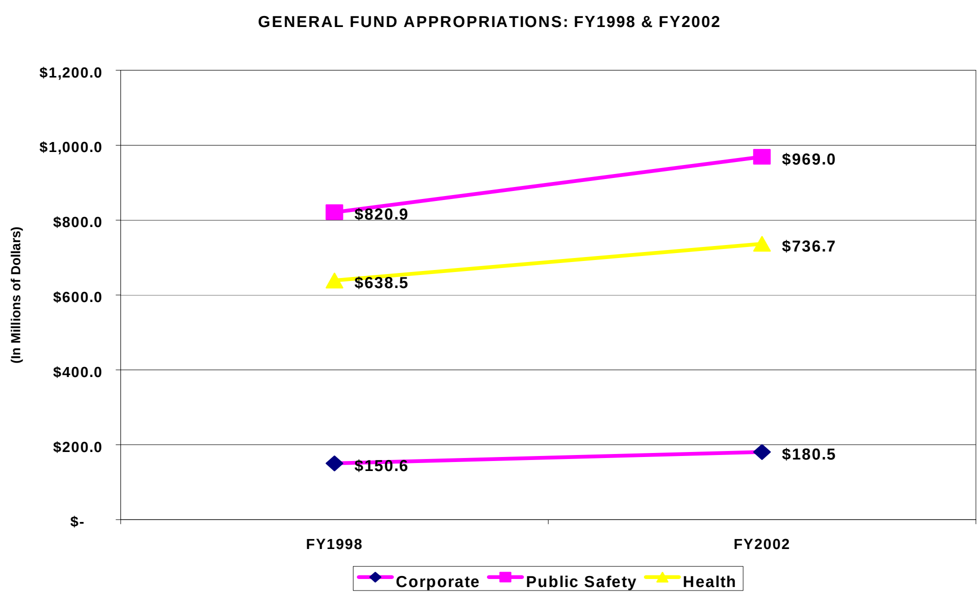
Appropriations and Expenditures

The FY2002 budget proposes an appropriation (all funds) of $2.7 billion. This a $25 million increase from FY2001. Between FY1998 and FY2002, appropriations could increase by just over 15%. From FY1998 to FY2001, expenditures rose by 22%.

COOK COUNTY EXPENDITURES AND APPROPRIATIONS (ALL FUNDS) FY1998-FY2002			
	Expenditures	**Appropriations**	**Difference**
FY1998	$ 2,146,882,210	$ 2,379,538,916	11%
FY1999	$ 2,275,936,803	$ 2,434,009,960	7%
FY2000	$ 2,536,702,487	$ 2,615,477,197	3%
FY2001	$ 2,620,173,478	$ 2,717,142,084	4%
FY2002	……………..	$ 2,742,324,308	……

Source: Cook County Budgets

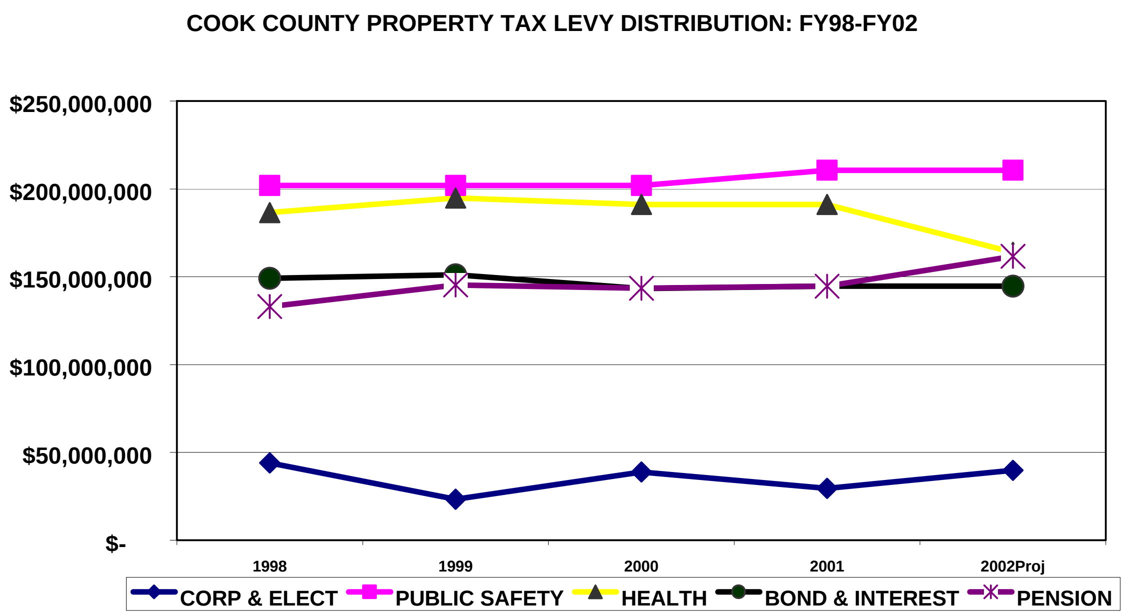
The next exhibit presents the distribution of General Fund appropriations by fund. Over the past five years, the distribution has remained constant, with the Public Safety Fund consuming 51% of all appropriations, the Health Fund approximately 39% and the Corporate Fund the remaining 10%.



Property Tax Levy: Levy Held Constant at $720 Million

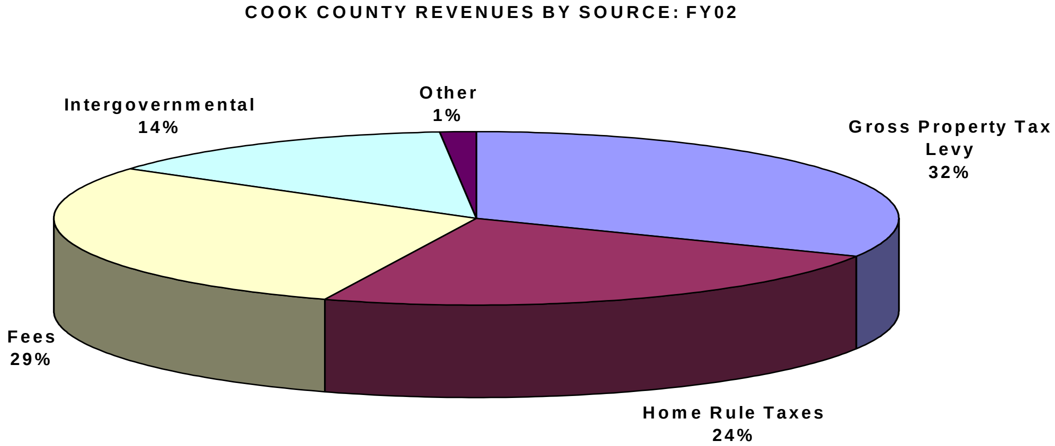
The Cook County property tax levy will be held constant in FY2002, at $720.4 million. Since FY1998, the levy has risen by less than 1%, from $714 million. The levy is the County's single largest revenue source.

Property tax revenues have been distributed in recent years to six major funds: Corporate, Elections, Public Safety, Health, Bond and Interest, and Pensions Annuity and Benefit Fund. The exhibit below shows how distribution of the levy has changed from FY1998 to FY2002. Because the Corporate and Election Funds receive such a small portion of property tax revenues, approximately 6% of the total in FY2002, they have been combined into a single category. The Public Safety Fund will continue to consume the largest single portion of the levy - $210 million or 29% of the total – in FY2002. However, the pension fund's share of the levy has risen the most of any fund, from $133 million in FY1998 to $161 million five years later, a 21% increase. Property tax revenues earmarked for the Health Fund have declined by 12% during the same period.



Revenue Sources and Trends

Cook County revenues derive from four major sources: the property tax, fees, home rule taxes, intergovernmental revenues and home rules taxes. Approximately 70% of all fees collected ($451 million) are patient fees for health and hospital services. Home rule taxes include sales, alcoholic beverage, cigarette, parking lot, amusement, gas, wheel, and retail sale of motor vehicle taxes. Over $300 million, or 59% of all home rule tax revenues are derived from the County's sales and use tax.



Cook County revenues are projected to increase very modestly by 0.8% in FY2002 from FY2001, as the exhibit below shows. Home rule taxes and intergovernmental revenues are projected to decrease slightly, while fee revenue is estimated to rise by 2.7%. The "Other" category, which is relatively small, includes bail bond forfeitures and other miscellaneous revenues.

COOK COUNTY REVENUES: FY01 and FY02

REVENUE SOURCE	FY01	FY02Proj	% Change
Gross Property Tax Levy	$ 720,483,542	$ 720,483,542	0.0%
Home Rule Taxes	$ 545,890,000	$ 534,750,000	-2.0%
Fees	$ 625,713,741	$ 642,563,026	2.7%
Intergovernmental	$ 316,906,169	$ 315,678,602	-0.4%
Other	$ 15,930,000	$ 29,538,628	85.4%
TOTAL	**$ 2,224,923,452**	**$ 2,243,013,798**	**0.8%**

Source: 2002 Cook County Revenue Estimate

Personnel Trends: Personal Service Appropriations and FTEs

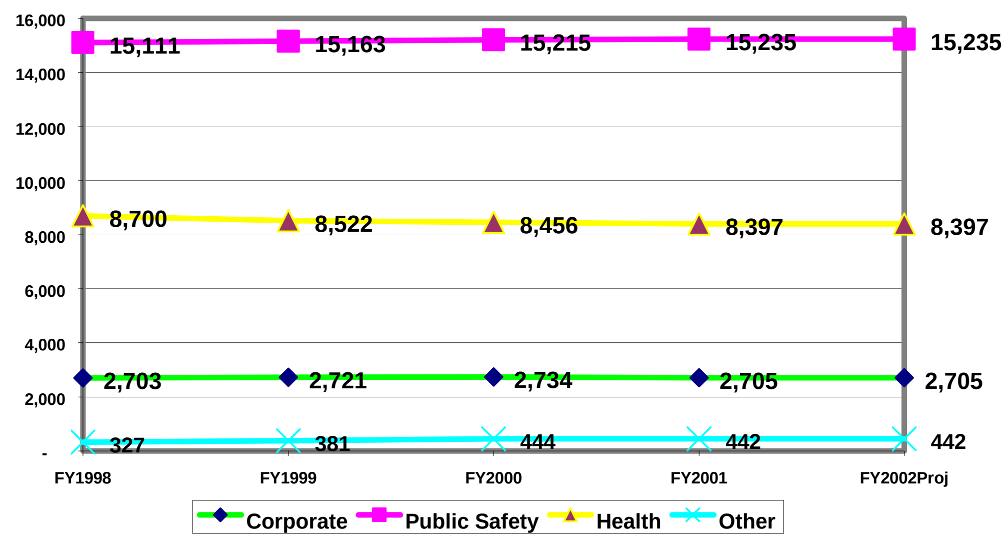
Personal service appropriations include the budgetary categories of wages and salaries, overtime, extra employees, workers' compensation, and benefits. Since FY1998, personal service appropriations have risen by approximately 20%, from $1.4 billion to $1.7 billion. Personnel costs will consume approximately 64 % of the entire budget in FY2002.

COOK COUNTY PERSONAL SERVICE APPROPRIATIONS: FY1998-FY2002		
	APPROPRIATIONS	% CHANGE
FY1998	$ 1,470,587,698	
FY1999	$ 1,525,522,015	3.7%
FY2000	$ 1,632,630,014	7.0%
FY2001	$ 1,723,404,152	5.6%
FY2002	$ 1,768,012,641	2.6%

Source: Cook County Budgets

The next exhibit shows the number of full time equivalent (FTE) positions budgeted over the past five years. The number of FTEs for FY2002 was frozen from the previous fiscal year. FTEs have declined by 62 positions since FY1998, from 26,841 to 26,779. The proportions of FTEs per fund have remained relatively constant. In FY2002, 56% of all FTES were budgeted to the Public Safety Fund, which includes the Offices of Sheriff, Clerk of the Circuit Court, Chief Judge and State's Attorney. 32% of all FTEs were located in the Health Fund, 10% in the Corporate Fund and the remaining 1% in "other" which includes certain special revenue funds and the Election Fund.

COOK COUNTY POSITIONS BUDGETED BY FUND (FTEs)



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 in the General and Special Revenue Funds includes obligations such as accounts payable, contracts payable, deposits, interest payable, interest, due to other funds, and liabilities from restricted assets. In sum, it includes all liabilities except accrued salaries and wages, accrued payroll, compensated absences and long-term debt.

The exhibit below presents Cook County short-term debt trends for Fiscal Years 1996 through 2000. It shows that Cook County's short-term debt obligations grew by 46% in that 5-year period, a substantial sum. Much of the increase came between FY97 and FY98, when short-term obligations rose sharply by over $154 million, a 42% increase. Since FY98, the amount of short-term debt has raised much more slowly, a positive sign.

COOK COUNTY SHORT-TERM DEBT TRENDS: FY96-FY00

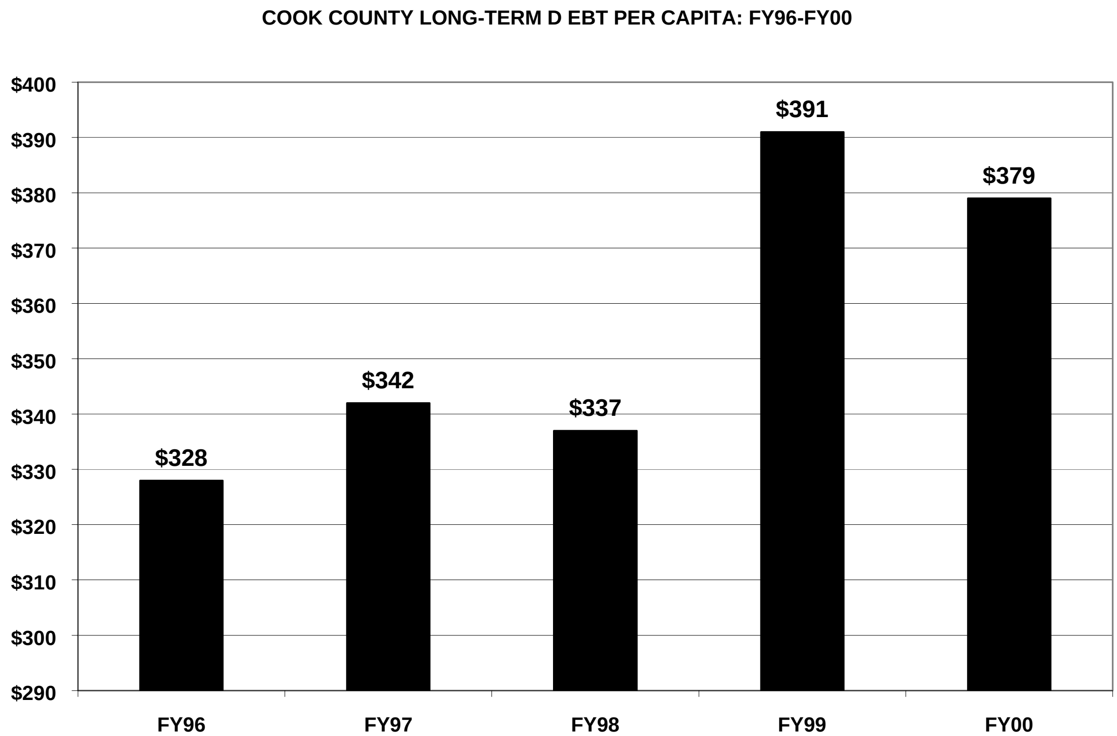
Fiscal Year	Total Short-Term Debt	% Annual Increase
1996	$ 368,297,587	
1997	$ 366,404,925	-0.5%
1998	$ 520,520,676	42.1%
1999	$ 532,059,799	2.2%
2000	$ 536,619,098	0.9%

Source: Cook County Comprehensive Annual Reports, FY96-FY00

Long-Term Debt Per Capita

Long-term debt per capita is a measure of a government's ability to maintain its current financial policies. This long-term debt analysis takes the total liabilities in the General Long-Term Obligations Account Group and divides them by population. Cook County's long-term debt includes general obligation bonds payable, general obligation variable rate demand bonds payable, property tax objections, and compensated absences. Any increases bear watching as a potential sign of increasing financial risk.

Long-term debt per capita increased by 16% between FY1996 and FY2000, rising from $328 to $379. The rate of increase was lower than the 18.5% increase for the Consumer Price Index for the Chicago metropolitan region during the same period. Cook County's total long-term debt increased from $1.6 billion to $1.9 billion. Between FY98 and FY99, long-term debt declined by $61 million. Given the modest increases, the County's long-term debt situation was not a cause for concern during the 5-year time period examined here.



Pension 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.[5]

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 averaged a robust 94% from FY1996 to FY2000. Thus, during this period, Cook County had more than sufficient assets to cover pension liabilities in the long term.

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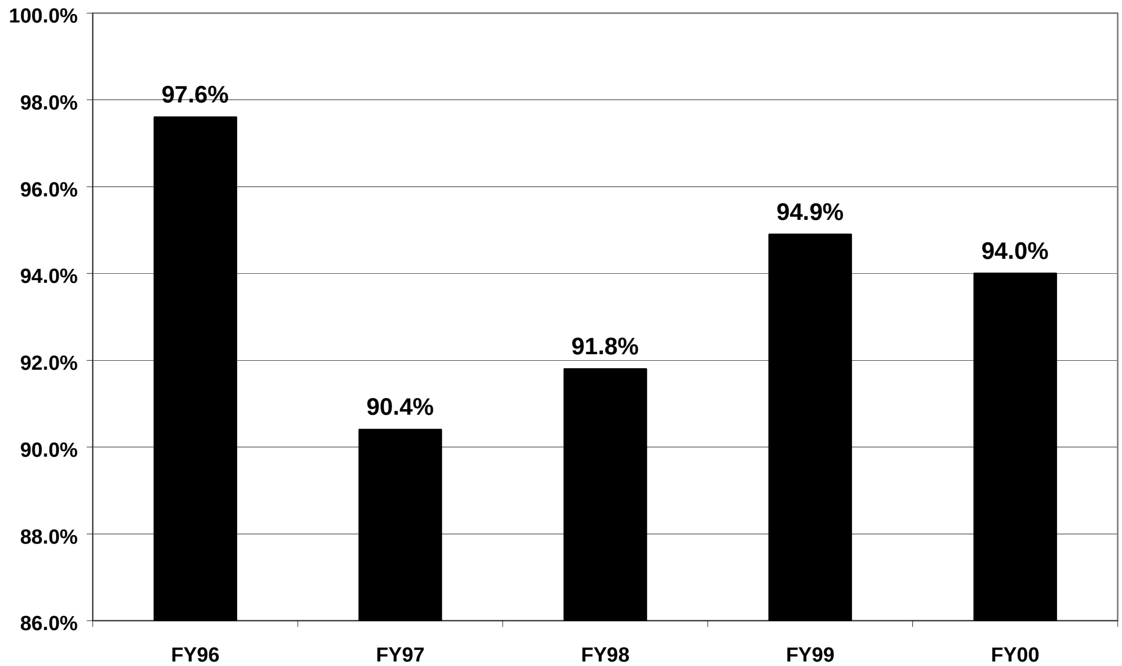
[5] The discussion of Cook County's pension fund trends is drawn from Myer Blank. *Status of Local Pension Funding* (Chicago: Civic Federation, 2001).

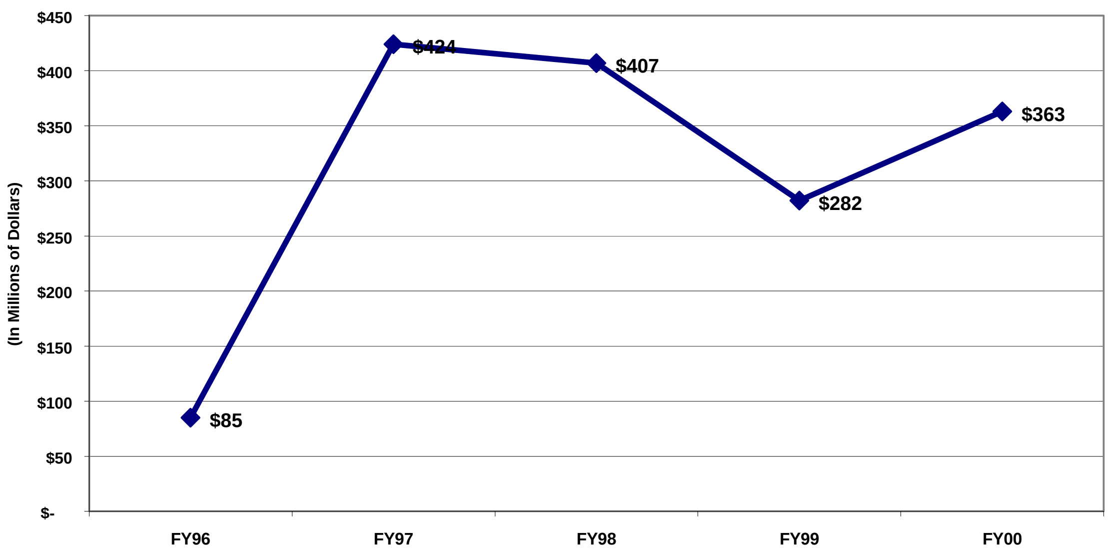
FUNDED RATIO - ACTUARIAL VALUE OF ASSETS



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 $363 million in FY2000. This was a steep 327% increase since FY1996.

Cook County Unfunded Pension Liabilities

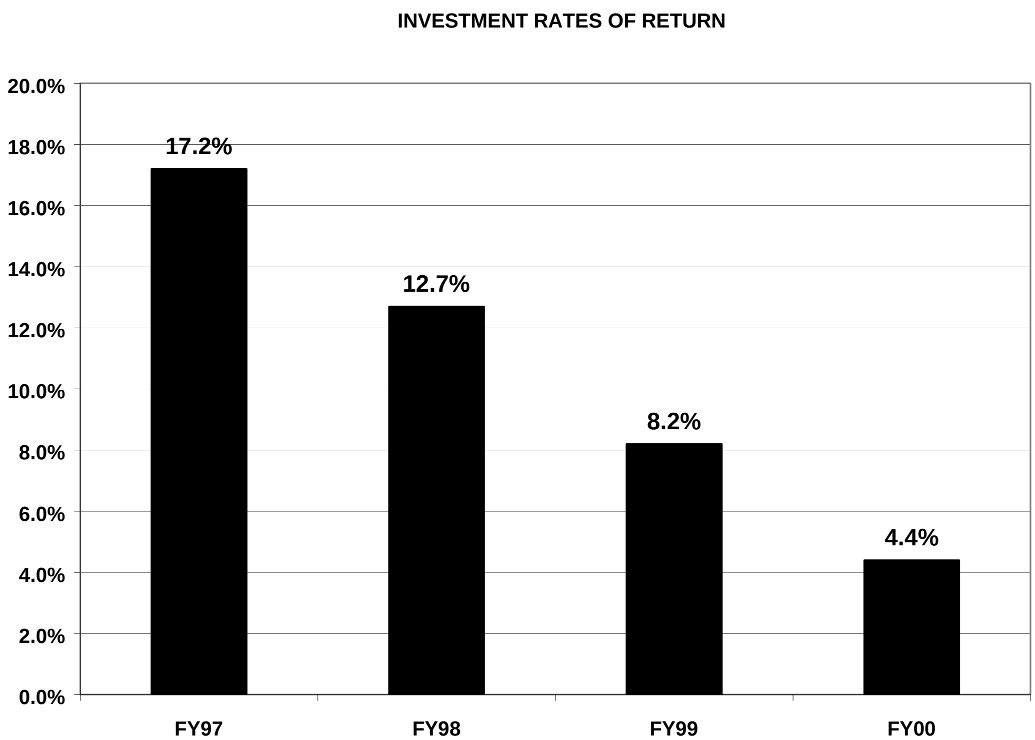


Investment Rates of Return

Investment returns for the Cook County pension fund fell sharply in FY2000 because of declining financial markets, as the following exhibit illustrates. The Fund's rate of return fell from 17.21% in FY1997 to just 4.4% in FY2000. Investment income typically provides a significant portion (over 50%) of the funding for pension funds.

Clearly, investment income is down sharply from the boom years of the 1990s. However, this is not necessarily a cause for concern at this time. Because the stock market has increased in value over the long-term, the pension funds' investment income (which is derived largely from stock market investments) is likely to rise over time as well. It is also important to note that: 1) the County pension fund's investment rate of return for FY2000 (4.4%) continued to outpace the rate of inflation (3.2%)[6] and 2) to reiterate that the County's pensions currently are very well funded.

[6] Consumer Price Index – Chicago Metropolitan Region (All Consumers).



IV. BUDGET PROCESS IMPROVEMENTS

The County has reported operating deficits two years in a row. The financial situation this year has been exacerbated by lower tax and fee revenues due to the current economic downturn. Thus, even with revenue enhancement increases approved last year, the County faces a shortfall for FY2002. If the economic downturn continues, it is likely that deficits will occur again in the near future. Given this financial situation, Cook County should consider adopting certain structural or process reforms that can help the County develop appropriate strategies to address anticipated changes in financial condition. This includes developing and implementing a formal long-term financial planning process.

Implementing a Formal Long-Term Financial Planning Process

Increasing numbers of jurisdictions around the nation are preparing and implementing formal long-term financial plans. They include New York, Philadelphia, Washington, D.C., Phoenix and San Diego. The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association GFOA) both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.[7]

Long term financial planning is a strategic process that provides governments with the insights and information they need to establish sound financial and operations policies and pursue actions that maintain good fiscal health over time. A typical long-term financial plan (LTFP) consists of

[7] See National Advisory Council on State and Local Budgeting and Government Finance Officers Association

a 3-5 year forecast of revenues, expenditures and debt capacity; an assessment of historic economic and financial trends; and an evaluation of problems or opportunities and actions to address them, such as gap-closing or surplus management actions. The benefits of long-term financial planning include helping to determine if:

- Revenues are adequate to maintain services at current levels;
- Financial resources are sufficient to address future operating and capital expenditures;
- It is possible to expand existing programs or initiate new ones; or
- It is prudent to issue new debt to fund new capital projects.

By effectively linking policy and program priorities to the financial resources available currently and in the near future, the long-term financial planning process helps governments prepare for future contingencies before they become crises.

Cook County undoubtedly employs many of the techniques of a long-term financial planning process internally, including the projection of multi-year revenue trends. However, it has not developed a formal long-term financial planning process. The Civic Federation recommends that Cook County take the next step and develop a formal long-term financial plan that is shared with and/or reviewed by key policymakers and stakeholders.

V. SUMMARY

The Civic Federation is disappointed that Cook County has once again failed to implement the structural reforms that are necessary to put its financial house in order. We are especially dismayed that the County has failed to implement most of the cost cutting recommendations of its own County Operations Review Team report. We strongly urge the County to contain costs by adopting more of the CORT recommendation and aggressively pursuing joint purchasing of health insurance with other local area governments. The Civic Federation does commend the County for avoiding any tax or fee increase in the FY2002 budget in this negative economic climate and holding the line on spending.

Respectfully Submitted,

John Curie, President
Scott Metcalf, Research Manager
Roland Calia, Research Consultant