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CIVIC FEDERATION REJECTS COOK COUNTY BORROWING PLANS, OPPOSES UNSTABLE BUDGET



(CHICAGO) Calling the proposed FY2009 Cook County budget an exceptionally bad deal for taxpayers during extraordinarily difficult economic times, the Civic Federation's analysis of the spending plan calls on the Board of Commissioners to reject plans to borrow any funds for County operations. The Federation **opposes** the \$2.9 billion budget as the result of an extraordinary and irresponsible failure of County government to consider the long-term implications of its fiscal actions. The 45-page report will be released today on www.civiced.org.

The proposed budget is built on an unstable foundation of \$364.0 million in borrowed funds to pay for operating expenses and \$376.0 million for capital projects less than one year after a massive one percentage point sales tax increase. The Civic Federation **categorically rejects** all of the Stroger administration's arguments in favor of borrowing. Borrowing funds for operations is a poor deal for taxpayers because it adds hundreds of millions of dollars in interest costs that must be paid over a decade or more into the future. The Board should seek alternative means to pay for the County's operational expenses, including personnel reductions. "Cook County is not immune from the economic pressures that have forced other governments and many businesses in the region to tighten their belts and cut spending," said Laurence Msall, president of The Civic Federation.

President Stroger and the Board of Commissioners are in such a precarious budgetary position because they approved \$410.0 million in personnel spending commitments before confirming, or even considering, whether the County had revenues sufficient to pay for them. This is a stunning failure that highlights the resistance of County government to performing even basic planning to guide its operations. If the County had a fully-developed performance measurement system, it would have the ability to make spending adjustments in this budget based on a careful assessment of program and service performance. Instead, the County will likely be forced again to perform inefficient across-the-board spending cuts if borrowing is not approved. "This is a government that is ill-prepared for the economic storm ahead," said Msall. "With no reserve funds and a lack of prioritization of spending, Cook County is set to continue its history of stumbling from one fiscal crisis to the next."

The Federation's analysis provides recommendations to reform the County's financial management grouped into three categories: cost reductions, management reforms and pension reforms. Cost reduction recommendations include implementing long-discussed privatization and outsourcing opportunities. Additional management reforms should include implementing a long-term financial planning process and establishing a formal budget reserve or "rainy day" fund. Pension reforms should include instituting a two-tiered pension system with reduced benefits for new employees and limiting annual cost of living increases—which often exceed the rate of inflation.

One of the few bright spots the Federation sees at the County is the beginning steps of the restructuring of the Health and Hospitals System. The System is taking modest steps to increase its revenue by redesigning its patient billing, an area in which it has been deficient for many years. It has made praiseworthy moves to identify its core mission and emphasize efficient delivery of services. The Civic Federation is also pleased with the public nature of the restructuring process at the System. However, these improvements still do not justify the recent one percentage point sales tax increase the County promoted last year as essential to avoid the failure of the County health system. Curiously, although the hike will generate \$380.0 million for the County this fiscal year, the System will only receive \$46.8 million in new resources in this budget. While problems still remain within the System, especially with regard to the transparency of the budget process, on the whole the Federation applauds the work of the new Health and Hospital Board.

The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions.



**COOK COUNTY
FY2009 PROPOSED BUDGET**

Analysis and Recommendations

**Prepared By
The Civic Federation
December 19, 2008**

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EXECUTIVE SUMMARY

The Civic Federation opposes Cook County's \$2.9 billion operating budget because it is built on an unstable foundation of \$364.0 million in borrowed funds to pay for operational expenses. Cook County President Todd Stroger argues that the borrowing is essential because the massive one percentage point sales tax increase approved last year will not generate sufficient revenues to pay for the County's spending plan. This is the result of the County Board approving multi-million spending personnel and contractual commitments earlier this year before considering whether there were funds sufficient to pay for these increases. The failure of this government to consider the long-term implications of its fiscal actions is extraordinary and irresponsible.

Borrowing funds for operations is a very bad deal for Cook County taxpayers as it would force them to pay for today's County personnel costs for decades to come. Borrowing can also add hundreds of millions of dollars in interest expenses that must be paid over time and pushes fiscal responsibility for today's poor fiscal planning into the future. The Cook County Board of Commissioners should reject the unwarranted borrowing for operations proposals and seek alternative ways to pay for these expenses. The alternative methods for paying for these increases must include personnel reductions.

The Civic Federation offers the following **key findings** on the Cook County FY2009 budget:

- The FY2009 Cook County operating budget is projected to slightly increase by 0.02% over FY2008 appropriations;
- The County is balancing its FY2009 budget in part on a proposal to borrow \$364.0 million for operating funds;
- Approximately 70.9% of the total proposed FY2009 Cook County budget is earmarked for personal services, up from 61.7% in FY2008;
- The number of full-time equivalent (FTE) positions funded in FY2009 will decrease by 583.9. This is a 2.3% decrease from the adopted FY2008 appropriation figures, falling from 24,988.1 to 24,404.2 FTEs.
- Operations appropriations for the Cook County Health and Hospitals System will increase by \$46.8 million, or 5.6%, over FY2008 appropriation ordinance levels;
- The property tax levy will be held flat for the ninth consecutive year; and
- The appropriated fund balance for the General Funds will remain \$0 in FY2009, just as it was in FY2007 and FY2008.

The Civic Federation offers three general areas of **recommendations**, including cost reductions, management reforms and pension reforms, as ways to improve Cook County's financial management. Some of the specific recommendations include:

- Limiting total annual percentage increases for employee compensation to 3.0%, a percentage of prior revenue growth, or inflation - whichever is less;
- Privatizing the delivery of programs or functions for which a competitive private sector exists, such as the pharmacy, dietary and food service functions in Health and Hospitals

System, as well as County print shops, janitorial services and service of process functions for civil lawsuits;

- Outsourcing the management of selected services, such as highways and animal control, to other governments;
- Establishing by ordinance a formal budget stabilization policy and fund;
- Developing a formal long-term financial planning process;
- Publishing the Comprehensive Annual Financial Report within six months of the close of the fiscal year;
- Adopting a formal budget approval process and budget document for the Health System;
- Requiring a return on investment report for all information technology contracts to assess costs and benefits; and
- Implementing comprehensive pension reforms, including establishing a two-tiered pension system and requiring employer contribution levels to relate to funding levels.

CIVIC FEDERATION POSITION

The Civic Federation **opposes** Cook County's \$2.9 billion FY2009 operating budget because it is built on an unstable foundation of \$364.0 million in borrowed funds to pay for operational expenses.

Last year the County approved a massive one percentage point sales tax increase, but it has since announced that this increase will not generate sufficient revenues to pay for the County's spending proposals. As a result, Cook County President Todd Stroger and his administration are relying on the County Board's approval of borrowing plan as an alternative source of revenue for previously approved retroactive salary and contract increases.

President Stroger and the Board of Commissioners are in this precarious situation because they approved huge multi-million dollar spending commitments **before** confirming, or even considering, whether the County had revenues sufficient to pay for them. This stunning failure of fiscal responsibility by both the President and the Board to consider the long-term implications of their actions was reckless and irresponsible. It further illustrates the resistance of this government to develop and implement plans to guide operations in a prudent way. If personnel and contractual spending increases were truly the County's top priority, then a like amount of other spending should have been reduced to produce a responsible spending plan.

Borrowing funds for operational expenses is a monumentally poor deal for taxpayers. It forces them to pay for costs assumed, and benefits enjoyed, today over a decade or more in the future. It adds hundreds of millions of dollars in interest costs that must be paid over that same time period. It pushes responsibility for today's poor fiscal planning into the future.

In the Federation's FY2007 analysis of the County's budget, it was noted that the budget was balanced in part by allocating \$104.1 million in bond proceeds to pay for pension costs. The need for additional bond proceeds for an otherwise typical operating cost stemmed from a pension sweetener originally approved by the state. The Federation opposed the proposed

borrowing plan at that time and urged the County to adopt cost-cutting measures as a means of paying the increased pension obligations.¹

The Civic Federation continues to urge the Board of Commissioners to reject plans for borrowing any amount of funds for operations. The Board should put an immediate halt to these unwarranted debt proposals and seek monies for the pension and self insurance funds from other sources. As new tax increases are not feasible, this will likely force deep cuts in both non-personnel and personal service costs, including layoffs. In our view, cutting spending is the only fiscally responsible action possible that will fix the situation created by years of mismanagement and a lack of planning.

President Stroger and his administration argue that borrowing is essential to balance the FY2009 budget and its debt plan must be finalized because:

- The Cook County Board of Commissioners approved \$410.0 million in personnel and contractual expenses earlier this year;
- The County owes an additional \$145.0 million in sales tax anticipation notes;
- Sales tax revenues will be much less than originally anticipated in FY2008 and FY2009; and
- The Board of Commissioners approved the pension obligation bonds and unless an alternative is developed a lawsuit may arise if the Board does not follow through on funding its pledge.

The Civic Federation categorically rejects all of these arguments.

With respect to the aforementioned tax increase, the one percentage point sales tax increase approved in FY2008 was promoted as a way to prevent the possible systemic failure of the Cook County Health and Hospitals System by placing it on firm financial footing. Yet the budget for the System will increase by only \$46.8 million in FY2009 while the estimated amount of total revenue from the sales tax increase will be approximately \$380.0 million.

Given these facts, it appears that revenues from the sales tax increase are being used for non-healthcare related purposes, which is in contradiction to the stated purpose of the increase. This comes at an unfortunate time as the County's Health and Hospital System is taking positive steps towards reform. As part of the agreement necessary for approval of the one percentage point sales tax increase, the County created an independent Board of Directors for the Health and Hospitals System. The Board met for the first time in June of 2008 and since this meeting they have overseen the implementation of a new patient billing system, started a strategic planning process and authorized a pilot performance audit system for its contingency contracts.

While the System still has areas in which it needs to improve, including the transparency of budget process and the state of its pharmaceutical system, positive first steps are being taken to create a public health system that is efficient and serves the needs of the community.

¹ Civic Federation, "Cook County FY2007 Proposed Budget Analysis and Recommendations." January 29, 2007.

Issues the Civic Federation Supports

The Civic Federation supports President Stroger and his financial team for moving forward on performance reporting, reducing unnecessary vacant full-time equivalent positions and initiating reforms within the Health and Hospitals System.

Position Reductions and Employee Furlough Days

The budget proposal includes the elimination of as many as 583 vacant full-time equivalent positions and the requirement that employees take three to seven furlough days in FY2009.² The latter action is projected to save as much as \$15.0 million in the upcoming fiscal year. These are reasonable and prudent measures that are supported by the Civic Federation.

Performance Reporting

The Cook County financial management team has developed quarterly performance reports that are available online in the Department of Budget and Management Services section of the County's website. This effort successfully meets a Departmental goal articulated in its FY2008 budget. A Performance Management Unit has been created in the Department to implement and oversee this process.

The Quarterly Reports include key performance measures for each office and agency, a year-end target for each measure and quarterly statistics that depict how close the agency came to meeting targets for each measure. The performance measures are accompanied by narrative sections that discuss the importance of the measures, compare actual performance data to the target ranges, explain variance between these numbers and offers commentary on future issues.

The Civic Federation praises the Cook County Bureau of Finance on fulfilling its pledge to begin developing a performance measurement system that is publicly disclosed. While much more work remains before the system is fully implemented, this move is an important step in the right direction towards informed decision making by County leaders. It is our hope that the system can be used in the future to develop a performance based budgeting system.

Restructuring of the Hospital Billing and Revenue Systems

The Cook County Health and Hospitals System is taking steps to increase its revenue streams by redesigning their current patient billing system. For years the System has been deficient in billing patients for services rendered, including billing those who have means to pay. The System has embarked on a multi-faceted plan to increase the amount of revenue it receives from the services it provides.

The System is taking steps to rectify this situation by restructuring and re-training billing departments. A portion of the restructuring efforts is being focused on capturing patient

² The Civic Federation is unable to determine the exact number of vacant positions eliminated in FY2009. In President Todd Stroger's remarks on the FY2009 Executive Budget Recommendation, he indicated 561 vacant positions would be eliminated. However, in the FY2009 budget document, FY2009 FTE positions are decreasing by 583.9 over FY2008. See Cook County FY2009 Executive Budget Recommendations, Vol, 1 p. 49.

identification and care information early in the treatment process as a means of expediting the billing process.³ This is being done by augmenting existing staff structures within the System and implementing a new patient registration system.⁴ The need for a new patient billing system is evident as patient revenues are projected to decline by 0.6% or \$2.5 million between FY2008 and FY2009. Between FY2005 and FY2009 patient billing revenues are projected to decline by 31.7% or \$195.6 million. It is our expectation that the new Health and Hospitals System Board will be successful in achieving its increased revenue goals in future years.

The System is also working to increase the amount of Medicaid reimbursements obtained by the System. The importance of capturing these dollars is reflected by the fact that more than half of the annual patient fees received at Stroger Hospital are from Medicaid reimbursements alone.⁵

The Civic Federation agrees with the need for a restructured billing process and is encouraged that steps are being taken to create a proper patient revenue system.

Public and Transparent Restructuring Efforts for the Hospital System

The Civic Federation is pleased with the public nature of the restructuring process at the Health and Hospitals System. On the whole, the new Board of Directors for the System is digesting large amounts of information related to System operations and is making this information available to the public. Beginning with the first meeting of the Finance Committee, the Board requested regular updates on the System's financial situation. These reports were not previously provided to Board members, which meant a format and process had to be created from scratch. The Finance Committee, along with members of the System's staff, have worked to create a process by which financial information can be summarized and digested by the Board and public alike.

The Board has held regular meetings since its inception, making notices and agendas available to the public prior to each meeting. The meetings themselves are held in locations that are easily accessible to the public. The discussions during the public portion of the meetings, which accounts for the majority of the board meetings, are detailed and provide the public with insight into how the System is being run and how changes are being made to current operations. We applaud the Board for making each meeting a public affair and encourage a continuous flow of information to, and dialogue with, County residents.

Emphasis on Efficient Service Delivery within the Health and Hospitals System

The System Board has indicated its desire to streamline service delivery and eliminate unnecessary personnel positions throughout the System. In particular, the Board has been concerned with the high ratio of patients to employees, as well as increasing amounts of overtime logged by current employees. The Human Resources and Strategic Planning committees are

³ Presentation by Med Assets to the Cook County Health and Hospital Systems Finance Committee, September 12, 2008.

⁴ Ibid.

⁵ Presentation by Matt Powers, Health Management Associates, to the Cook County Health and Hospital Systems Board of Directors, September 19, 2008.

working to identify data sets that will measure performance and point to staffing needs within the system. The goal is to balance staffing levels across departments based on needs while maintaining proper health care service. The Board has rejected the idea of making across-the-board cuts, deeming that action inefficient and detrimental to the long-term stability of the System. The Civic Federation supports the Board's measured approach to fixing the staffing problems within the System.

Long-Term Strategic Planning Process for the Health and Hospitals System

Per the enabling ordinance, the new Board has assumed the task of creating a long-term strategic plan for the System. This involves identifying the core mission of the System and creating a plan that satisfies that mission while being able to sustain the achievement of that goal over time. A Strategic Planning Committee has been created and, along with System staff, is charged with organizing this effort. While only in the early stages, the committee has experienced difficulty collecting the data necessary to make proper long-term goals. They did, however, recently hold a public forum where community input was sought regarding the needs and desires of Cook County residents.⁶

Alongside the strategic planning efforts, the Board is working with the System's management staff and outside search firms to fill key executive positions. Finding suitable candidates for positions, including the Chief Financial Officer, Chief Executive Officer and Corporate Compliance Director, is key to establishing a stable institution in the long term. Currently these positions are filled by interim employees while the Board works to identify the best candidate for each position.

While the executive search process and strategic planning efforts may be taking longer than the staff or Board had hoped, the Civic Federation encourages the Board to continue with their thorough approach for each task.

Implementing Performance Audits for Health and Hospitals System Contracts

The System Board recently approved a contract with a local consulting firm to conduct a performance audit on a contingency contract entered into by the County. Board members indicated during their discussion of whether to approve this audit that other contingency contracts should also be reviewed to ensure compliance with the contract terms. The Federation believes that all governments must carefully monitor the ongoing use of taxpayers' money for services provided. Initiating a performance audit system is a sound governance policy.

Issues of Concern

The Civic Federation has several issues of concern related to Cook County's FY2009 spending plan. The concerns include its proposal to borrow funds to pay for operations, its failure to implement planning procedures, its lack of reserves, the transparency of the hospitals system's budget approval process and the future of the County's hospital pharmacies.

⁶ Forum was held on November 14, 2008 on the campus of John H. Stroger Hospital.

Borrowing \$364 Million to Pay for Operating Expenses

The Stroger administration proposes to borrow \$364.0 million in FY2009 to pay for operating expenses. Approximately \$260.0 million will be used to fund the County's self insurance program and \$104.0 million will be borrowed for pension obligations. Both of these expenses are operating costs for Cook County government. In addition, the County proposes to borrow \$376.0 million for capital costs related to construction and information technology projects.

The Stroger administration argues that borrowing funds for operations is necessary to balance the FY2009 budget. It says the massive one percentage point sales tax increase approved last year will not generate sufficient revenues to pay for the County's spending proposals. The budget gap is due in large part to spending obligations and increases approved earlier this year.

The Board of Commissioners approved the pension obligation and capital bond issues earlier this year. However, to date, it has refused to approve the financial team necessary to market the bonds.⁷

At the November 5, 2008 Cook County Board of Commissioners meeting, Cook County Chief Financial Officer Donna Dunnings reported that the Board had approved \$270.0 million in union and non-union salary and benefit increases earlier this year. Of that amount, she said \$180.0 million was earmarked for cost of living adjustments, \$60.0 million was designated for step increases and \$30.0 million was set aside for benefit increases. In addition, the Commissioners approved \$140.0 million in additional contract expenses while still owing \$145.0 million for sales tax anticipation notes issued over the previous summer.⁸ At the same meeting, Ms. Dunnings indicated that revenues from the one percentage point increase in the home rule sales tax has generated less revenue than originally anticipated.⁹

The County originally projected that the sales tax increase would yield \$71.8 million in FY2008, representing only two months of actual receipts, and \$426.0 million in revenues for FY2009. However, revised figures total only \$57.6 million in actual revenues for FY2008 and a projected \$380.0 million for FY2009. These amounts are \$13.2 million less in revenues for FY2008 and \$46.0 million less for FY2009. The reductions are a reflection of the negative impact of the current economic recession.

In sum, Cook County government made huge spending commitments **before** considering how to pay for them, an act that is both reckless and irresponsible.

The Civic Federation believes that it is reasonable for governments to issue short-term debt to pay for cash flow shortfalls. The Federation also supports issuing long-term debt to pay for capital projects. However, it is almost never reasonable to issue debt for operating purposes. Operating expenses should be paid from current receipts. To do otherwise is fiscally reckless and

⁷ Hal Dardick. "Stroger says he'll curtail taxing and spending, but budget proposal rests on borrowing \$740 million, critics point out." Chicago Tribune, November 26, 2008.

⁸ Cook County Board of Commissioners Meeting, November 5, 2008.

⁹ Cook County Board of Commissioners Meeting, November 5, 2008.

irresponsible. The County's operational borrowing scheme forces future taxpayers to pay for costs assumed and benefits enjoyed today.

It also adds hundreds of millions of dollars in interest costs that must be paid over many years. For example, if \$364.0 million in debt was issued for ten years at 4.3% interest with a AAA rating, it could cost taxpayers over \$450.0 million. A 20-year AA rated bond at 5.56% interest could cost approximately \$578.0 million.¹⁰ These added costs are unnecessary and could be avoided with prudent planning.

Both the President and Board of Commissioners share responsibility for promoting this ill-considered operational borrowing plan. The Cook County Board of Commissioners clearly was irresponsible in approving the bond issues. President Stroger could have used his veto power to force a reconsideration of the issue, but he did not.

The Civic Federation strongly opposes Cook County's plan to borrow funds to pay for operations. We urge the administration to withdraw its proposal and, instead, fund the obligations it has incurred for its pension and self-insurance funds from current receipts. This may well necessitate spending or personnel reductions, or both. However, it is the only fiscally responsible course of action possible for the County at this time.

Lack of Long-Term Planning Processes

Cook County's irresponsible plan to borrow millions of dollars to balance its FY2009 budget illustrates the inability of this government to develop and implement core plans to guide its operations. Due to a lack of such plans, the public is ill-served and the County continues to stumble from one fiscal crisis to the next with no clear resolution in sight.

A high performing government must engage in comprehensive planning processes. Planning enables governments to better manage their resources, prioritize spending and identify problems before they become crises so reasonable corrective actions can be taken. Key components of a planning process include:

- A strategic plan that helps a government evaluate its environment and develop specific strategies to achieve its mission.
- A formal long-term financial plan that provides governments with the insights and information they need to establish multi-year budgeting and financial policies and pursue actions that maintain good fiscal health.
- A multi-year capital improvement plan (CIP) that forecasts future facility, infrastructure and equipment needs; identifies financing sources; and reports the impact of capital spending on the operating budget.

In addition, governments need a performance measurement system to support these planning processes in order to provide the data necessary for effective evaluation of programs and processes.

¹⁰ The rates of interest are those reported for AAA rated municipal debt at http://finance.yahoo.com/bonds_composite_bond_rates_for_December_12, 2008.

Unfortunately, the County has failed to develop a formal long-term financial plan and is only now beginning to develop a performance measurement system.

If the Stroger administration had developed and implemented a long-term financial plan, there could have been an informed public discussion of the fiscal options facing the County. If necessary, the County would have better prepared to make the painful, but necessary, budget adjustments well in advance of this moment in time.

If the County had a fully-developed performance measurement system, it would have the ability to make spending adjustments in this budget based on a careful assessment of program and service performance. Rejection of the borrowing plan will likely once again force the County to utilize an across-the-board spending reduction approach that will produce neither efficient nor desirable results.

No General Fund Balance

The fund balance for the General Funds, which includes the Corporate, Public Health and Public Safety Funds, will be \$0 in FY2009, having been completely depleted by operating expenditures since FY2006. In fact, the County indicates that the General Funds will have a \$44.5 million deficit in FY2009.¹¹

The depletion of the once robust General Funds fund balance is a cause for grave concern. In FY2005, just five fiscal years ago, the General Funds had a balance of \$136.0 million, 6.2% 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 minimum 5% ratio, the County would have to reserve \$107.7 million as fund balance in FY2009. The Civic Federation urges the County to reverse this trend.

Transparency of the Health and Hospitals System Budget Process

While the Board meetings on the whole have been open to the public and documents have been made readily available, this does not hold true for the entirety of the FY2009 budget process for the Health and Hospitals System. While recognizing that this was the first year the Board of Directors for the Hospital System produced a System-wide budget, the Civic Federation is disappointed that basic transparency protocols were not adhered to during this process.

First, the fact that the passage of the FY2009 budget was not on the Board's agenda was problematic. During the Board's October 3, 2008 meeting the System's budget was approved, yet this action was not reflected on that day's agenda. Second, an insufficient number of copies of the budget document were produced for public distribution. Despite repeated requests the Federation was unable to receive a copy of the budget document.

¹¹ *Cook County FY2009 Revenue Estimates*, p. 13.

The System is funded primarily through public tax dollars and should have a transparent budget proposal practice. The Federation is disappointed in the lack of full transparency in Board operations.

State of the County's Pharmaceutical System

The Civic Federation has concerns regarding the County's proposal to significantly increase the FY2009 personal service appropriations for the pharmaceutical system.

The Health System operates six pharmacies out of its hospital facilities, including inpatient and outpatient pharmacies for Provident and Stroger Hospitals.¹² Personal service appropriations for the six pharmacies will increase dramatically in FY2009, rising from \$17.1 million in the FY2008 appropriation ordinance to \$26.1 million in the FY2009 executive budget recommendation, a 52.6% increase over the two-year period. The number of FTEs across the entire pharmaceutical system will increase as well, rising by 9.4 FTEs or 3.7%.

This steep increase in personnel appropriations gives the Federation pause as there is no accompanying data in the budget document that details the causes or need for additional funds. Greater transparency of information surrounding the operations and future plans for the pharmaceutical system should be provided to educate the taxpaying public as to why these expenses are necessary.

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 cost reduction, management reforms, and pension recommendations.

Cost Reductions

Limit Total Annual Personnel Compensation Increases to 3.0% Per Year or CPI

County employees currently receive both cost of living adjustments (COLA) and automatic salary step increases each year.

Employees should not automatically receive **both** COLA and step salary increases. Step increases in particular are an antiquated, overly-generous personnel practice no longer found in either efficiently operated governments or the private sector. Limiting total annual percentage increases to 3.0%, a percentage of prior revenue growth, or inflation - whichever is less - would be a far more responsible benchmark.

Former Cook County Board President John Stroger acknowledged in his FY2004 Budget Address that step increases are an obsolete mechanism and he promised to consider significant

¹² Cook County FY2009 Executive Recommended Budget, Vol. 2. P. D-14.

changes to the County's compensation plans. We hope that the County will finally act on his promise and eliminate this expensive practice.

Pursue Alternative Service Delivery Opportunities, Including Privatization

The Civic Federation has long supported privatization of janitorial services formerly under the control of the Cook County Sheriff's office. The County embarked on a limited pilot janitorial privatization program in President Todd Stroger's first year in the office, but then quickly reversed course. We also recommend that the County conduct efficiency studies to aid in the selection of other services that can be privatized. A list of possible service candidates for which a competitive private-sector option exists include:

- The Pharmacy function in the Health and Hospitals System;
- The four print shop locations serving all County offices;
- Dietary and food service functions in the Health and Hospitals System; and
- The service of process function for civil lawsuits.

Outsource Management of Selected Services to Other Governments

Given the County's ongoing financial difficulties and the opportunities available for cost savings, outsourcing to other governments rather than maintaining full-scale operations more suited to a bygone era makes good fiscal sense. Two areas we find particularly promising were identified in Commissioner Quigley's 2003 *Reinventing Cook County* report: the County's discontinuous highway system and animal control. Both functions could be outsourced to local municipalities for considerable budgetary savings.

Review Current Policies Regarding the System's Pharmacies

Before any additional dollars are appropriated for the System's pharmacies, an in-depth study of the pharmaceutical programs should be conducted by the Health System. In the past the Federation has called for exploration of the privatization of the County's pharmaceutical system as a means of controlling costs and improving efficiency of operations and customer service.¹³ The County should consider this as an option as it closely examines the conduct the operations of their pharmaceutical program. This study should be done before any large scale capital or operational changes are made.

Management Reforms

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

¹³ Civic Federation, Cook County FY2008 Proposed Budget Analysis and Recommendations, p. 28.

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 website of the Government Finance Officers association, located at www.gfoa.org.

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 FY2009 is \$0, the same as for the past two years. In FY2009 the total all funds fund balance will be \$37.8 million, just 1.3% of all appropriations.

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; and 2) a limit that considers the balance in a "rainy day" fund plus any other undesignated balance in the general funds.

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 (CAFR). The following is a list of recent CAFRs and their release dates:

- 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.
- The FY2005 CAFR was not released until November 29, 2006, almost a year after the close of the fiscal year.
- The FY2006 CAFR was not released until October 29, 2007, approximately eleven months after the close of the fiscal year.

- The FY2007 CAFR was not released until August 31, 2008, approximately ten months 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 in a timely fashion.

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 it is unclear what dividends these investments have yielded. 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. We think it is imperative that the potential for cost savings be measured in a systematic and transparent way. Therefore, the Civic Federation all Cook County information technology contracts include a requirement for an independent analysis of the costs and benefits of the projects being implemented. Subsequently, the Board of Commissioners and taxpayers alike will have access to demonstrable evidence of the value and cost saving potential of the continuing multi-million dollar investments in technology.

Adopt a Formal Budget Approval Process for the Health and Hospitals System

The Board of Directors for the Health and Hospitals System should adopt a formal budget approval process to ensure transparency and afford opportunity for public review and participation. The public should have at least ten days notice prior to debate and passage of an initial budget plan. This notice should be clearly stated on the meeting agendas that are required by the Illinois Open Meetings Act.

After the budget has been approved, a sufficient number of copies of the tentative budget document should be produced and available for public review. The budget should also be posted online at the System's website, as well as having printed copies for public review at all System facilities.

Improve the Health and Hospitals System's Budget Format

The annual budget for the System should be expanded to include vital information necessary for public understanding of the decisions made by the Board of Directors and management staff. It is important for the System to include accompanying narrative sections to describe the policies reflected in its annual appropriation spreadsheets. While stating the mission, goals, and major accomplishments for each division of the System is useful, it does not paint a complete picture

for the reader. Increases and decreases for specific line items, such as personnel or capital expenses, should be fully explained in these narrative sections.

Pension Recommendations

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 was reported at 77.3% in FY2007, the last year for which complete data is available. This figure is below the 80% funded ratio many experts believe is needed for a healthy fiscal position and does not reflect recent investment losses which are likely to be significant.

Cook County should move to adopt a number of pension funding reforms that would help improve the long-term financial health of its Pension Fund.

Establish a Two-Tiered Pension 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.¹⁴ 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 a multiplier is 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.

¹⁴ Cook County Employees' Annuity and Benefit Fund *Actuarial Valuation as of December 31, 2007*, P. 26.

Reform Pension Board Composition to Provide Balance between Employees, 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.¹⁵

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.

ACKNOWLEDGMENTS

The Civic Federation would like to express its appreciation to Cook County Chief Financial Officer Donna Dunnings, Budget Director Takashi Reinbold, Director of Financial Control Shakeel Qureshi 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.

BUDGET HIGHLIGHTS

The proposed FY2009 Cook County budget of \$2.9 billion includes no new taxes or expansions of existing taxes. The budget's significant features are highlighted below.

\$740 Million in Borrowing

The FY2009 budget is predicated upon approval of \$740.0 million in borrowing.¹⁶ Of that amount:

¹⁵ Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois*, February 13, 2006.

¹⁶ Hal Dardick. Cook County Board President Todd Stroger warns of layoffs without bonds. County needs \$740 million to pay bills, he says," Chicago Tribune, November 24, 2008.

- \$376.0 million is earmarked for Highway Department construction projects and an upgrade of the County's Information Technology Planning Project;
- \$260.0 million is proposed for the County's self insurance fund to cover court costs and insurance claims; and
- \$104 million is reserved to pay for pension obligations.

The pension obligation amount represents a one-time expense related to the June 2005 termination of the County's Optional pension plan, which was an enhancement for any employee willing to pay an extra 3% of salary. The obligation was approved in the 2007 budget and was to be paid through issuance of a bond at a future date.¹⁷ County officials have warned that failure to make the payment by the close of this fiscal year would be likely to generate a lawsuit.

Commissioners already have approved issuing the bonds. However, President Stroger has been unable to win approval of the financial teams needed to proceed with the debt issue. The administration has warned that failure to approve the bond issues will force the County to make deep spending cuts to balance the budget that will include personnel reductions.

Personnel Actions

The FY2009 budget includes the elimination of 583.9 FTE vacant posts. No layoffs of existing personnel are planned. President Stroger has also indicated that employees will be required to take between three and seven furlough days a year, resulting in a cumulative savings of \$15.0 million.¹⁸

New Agency Established

The administration proposes to create a new Administrative Hearing Board to hear cases related to violations of County ordinances in the following areas:

- Department of Building and Zoning for zoning code, building code and fire code violations;
- Department of Environmental Control for permit violations and hazardous materials violations; and
- Department of Revenue for violations of the home rule tax ordinance.

The County hopes that the new agency's activities will generate additional revenues.¹⁹

¹⁷ See Cook County FY2007 Appropriation Ordinance, Revenue section, p. 67.

¹⁸ Hal Dardick. "Cook County Board President Todd Stroger warns of layoffs without bonds. County needs \$740 million to pay bills, he says," Chicago Tribune, November 24, 2008.

¹⁹ Ibid.

APPROPRIATIONS

The following section presents trends for FY2009 appropriations for all funds by control officer and by individual fund.

All Funds Appropriations by Control Officer

The Cook County operating budget will increase slightly by 0.02%, rising by \$0.610 million to \$2.9 billion. The total budget, including capital improvement funds, will increase by 4.1% to \$3.3 billion. This is an increase of \$132.7 million from the FY2008 budget. The budget for departments controlled by the President will increase by 5.2% or \$53.1 million, rising to nearly \$1.1 billion. Departments controlled by elected officials are expected to increase by 3.2% or \$116.6 million. Of the elected officials, three offices will experience reductions. The Board of County Commissioners budget will be cut by 2.1%. The budgets of the County Clerk and the Board of Election Commissioners will be reduced next year because 2009 is not a general election year and therefore the election-related activities of both offices will be curtailed.

Cook County Appropriations All Funds: FY2008 & FY2009				
	FY2008 Appropriation	FY2009 Recommendation	\$ Change	% Change
Control Officers				
Offices Under President				
Bureau of Health Services	\$ 835,928,500	\$ 882,873,917	\$ 46,945,417	5.6%
President	\$ 3,450,400	\$ 3,229,680	\$ (220,720)	-6.4%
Chief Administrative Officer	\$ 108,360,200	\$ 110,851,287	\$ 2,491,087	2.3%
Bureau of Human Resources	\$ 3,626,300	\$ 3,442,970	\$ (183,330)	-5.1%
County Auditor	\$ 1,109,600	\$ 973,596	\$ (136,004)	-12.3%
Office of the Inspector General	\$ 1,078,500	\$ 1,360,094	\$ 281,594	26.1%
Bureau of Finance	\$ 12,317,100	\$ 12,734,601	\$ 417,501	3.4%
Bureau of Information Technology	\$ 26,461,000	\$ 27,563,723	\$ 1,102,723	4.2%
Capital Planning	\$ 34,143,000	\$ 36,193,637	\$ 2,050,637	6.0%
Office of Administrative Hearings	\$ -	\$ 444,117	\$ 444,117	100.0%
Subtotal Offices Under President	\$ 1,026,474,600	\$ 1,079,667,622	\$ 53,193,022	5.2%
Other Elected Officials				
Sheriff	\$ 420,478,700	\$ 445,955,533	\$ 25,476,833	6.1%
Chief Judge	\$ 204,369,800	\$ 222,229,658	\$ 17,859,858	8.7%
State's Attorney	\$ 102,209,000	\$ 104,925,786	\$ 2,716,786	2.7%
Clerk Circuit Court	\$ 93,845,300	\$ 96,982,334	\$ 3,137,034	3.3%
County Clerk	\$ 37,174,600	\$ 31,293,800	\$ (5,880,800)	-15.8%
Board of Election Commissioners	\$ 17,422,700	\$ 1,544,168	\$ (15,878,532)	-91.1%
Assessor	\$ 23,712,800	\$ 24,537,841	\$ 825,041	3.5%
Recorder of Deeds	\$ 12,370,300	\$ 13,438,587	\$ 1,068,287	8.6%
Treasurer	\$ 12,293,000	\$ 13,106,992	\$ 813,992	6.6%
Board of Review	\$ 6,973,600	\$ 7,521,910	\$ 548,310	7.9%
County Commissioners	\$ 8,092,800	\$ 7,925,859	\$ (166,941)	-2.1%
Public Administrator	\$ 1,095,100	\$ 1,102,071	\$ 6,971	0.6%
Subtotal Other Elected Officials	\$ 940,037,700	\$ 970,564,539	\$ 30,526,839	3.2%
Self Insurance	\$ 94,498,400	\$ 104,961,245	\$ 10,462,845	11.1%
Managed Care Support Fund	\$ 338,000	\$ -	\$ (338,000)	-100.0%
Annuity and Benefits	\$ 183,124,000	\$ 186,100,000	\$ 2,976,000	1.6%
Bond and Interest	\$ 212,729,169	\$ 209,147,064	\$ (3,582,105)	-1.7%
Other Restricted Funds	\$ 135,569,600	\$ 119,550,729	\$ (16,018,871)	-11.8%
Allowance for Uncollected Taxes	\$ 11,628,911	\$ 11,527,095	\$ (101,816)	-0.9%
Fixed Charges and Special Purpose	\$ 343,984,500	\$ 267,476,832	\$ (76,507,668)	-22.2%
Total Operating Funds	\$ 2,948,384,880	\$ 2,948,995,126	\$ 610,246	0.02%
Capital	\$ 286,183,112	\$ 418,280,663	\$ 132,097,551	46.2%
Total Budget	\$ 3,234,567,992	\$ 3,367,275,789	\$ 132,707,797	4.1%

Source: Table Q2, Cook County Executive Budget Recommendations FY2009, pp. 23-24.

The next exhibit presents five-year appropriation trend information. Between FY2005 and FY2009, total appropriations are projected to rise by 12.6%, from \$2.9 billion to \$3.3 billion. This is a \$376.9 million increase. During this 5-year time period, appropriations for the various elected officials are projected to increase by 13.7%, from \$853.9 million to \$970.9 million. During the same period, appropriations for the offices under the President will increase by 3.1%, from \$1.0 billion to nearly \$1.1 billion.

Cook County Appropriations All Funds: FY2005 & FY2009				
	FY2005 Appropriation	FY2009 Recommendation	\$ Change	% Change
Control Officers				
Offices Under President				
Bureau of Health Services	\$ 829,202,402	\$ 882,873,917	\$ 53,671,515	6.5%
President	\$ 2,958,709	\$ 3,229,680	\$ 270,971	9.2%
Chief Administrative Officer	\$ 139,631,834	\$ 110,851,287	\$ (28,780,547)	-20.6%
Bureau of Human Resources	\$ 3,976,641	\$ 3,442,970	\$ (533,671)	-13.4%
County Auditor	\$ 1,400,784	\$ 973,596	\$ (427,188)	-30.5%
Office of the Inspector General	\$ 387,804	\$ 1,360,094	\$ 972,290	250.7%
Bureau of Finance	\$ 13,252,398	\$ 12,734,601	\$ (517,797)	-3.9%
Bureau of Information Technology	\$ 20,017,473	\$ 27,563,723	\$ 7,546,250	37.7%
Capital Planning	\$ 36,652,572	\$ 36,193,637	\$ (458,935)	-1.3%
Office of Administrative Hearings	\$ -	\$ 444,117	\$ 444,117	100.0%
Subtotal Offices Under President	\$ 1,047,480,617	\$ 1,079,667,622	\$ 32,187,005	3.1%
Other Elected Officials				
Sheriff	\$ 385,539,377	\$ 445,955,533	\$ 60,416,156	15.7%
Chief Judge	\$ 177,036,448	\$ 222,229,658	\$ 45,193,210	25.5%
State's Attorney	\$ 99,093,487	\$ 104,925,786	\$ 5,832,299	5.9%
Clerk Circuit Court	\$ 89,470,917	\$ 96,982,334	\$ 7,511,417	8.4%
County Clerk	\$ 33,609,675	\$ 31,293,800	\$ (2,315,875)	-6.9%
Board of Election Commissioners	\$ 371,451	\$ 1,544,168	\$ 1,172,717	315.7%
Assessor	\$ 25,850,013	\$ 24,537,841	\$ (1,312,172)	-5.1%
Recorder of Deeds	\$ 13,401,380	\$ 13,438,587	\$ 37,207	0.3%
Treasurer	\$ 13,252,927	\$ 13,106,992	\$ (145,935)	-1.1%
Board of Review	\$ 7,601,734	\$ 7,521,910	\$ (79,824)	-1.1%
County Commissioners	\$ 7,424,132	\$ 7,925,859	\$ 501,727	6.8%
Public Administrator	\$ 1,257,700	\$ 1,102,071	\$ (155,629)	-12.4%
Subtotal Other Elected Officials	\$ 853,909,241	\$ 970,564,539	\$ 116,655,298	13.7%
Self Insurance	\$ 64,430,478	\$ 104,961,245	\$ 40,530,767	62.9%
Managed Care Support Fund	\$ 464,252	\$ -	\$ (464,252)	-100.0%
Annuity and Benefits	\$ 209,151,000	\$ 186,100,000	\$ (23,051,000)	-11.0%
Bond and Interest	\$ 180,500,663	\$ 209,147,064	\$ 28,646,401	15.9%
Other Restricted Funds	\$ 169,609,949	\$ 119,550,729	\$ (50,059,220)	-29.5%
Other	\$ 2,258,150	\$ -	\$ (2,258,150)	-100.0%
Allowance for Uncollected Taxes	\$ 11,013,957	\$ 11,527,095	\$ 513,138	4.7%
Fixed Charges and Special Purpose	\$ 320,876,144	\$ 267,476,832	\$ (53,399,312)	-16.6%
Total Operating Funds	\$ 2,859,694,451	\$ 2,948,995,126	\$ 89,300,675	3.1%
Capital	\$ 130,643,500	\$ 418,280,663	\$ 287,637,163	220.2%
Total Budget	\$ 2,990,337,951	\$ 3,367,275,789	\$ 376,937,838	12.6%

Source: Table Q2, Cook County Executive Budget Recommendations FY2009., pp. 23-24.

All Funds Appropriations by Fund

In FY2009 All Funds appropriations are projected to increase by 4.1% from FY2008. The FY2009 budget projects a 0.7% or \$1.1 million decrease in Corporate Fund appropriations. Public Safety appropriations are expected to increase by 0.3%, rising by \$3.2 million. Health Fund appropriations will increase by 1.5% or \$13.6 million. Overall, General Funds appropriations will increase slightly by 0.7%, rising from \$2.12 billion to \$2.14 billion.

Appropriations for Special Purpose Funds are projected to decrease by 1.9%, falling from \$807.7 million to \$792.7 million. Special Purpose Funds are used to account for proceeds from

earmarked revenue sources and expenditures for specified or restricted purposes.²⁰ The largest decrease in this category will be in “Other Restricted Funds” which will decrease by 11.8% or \$16.0 million; these funds account for federal, state and private grants.

Total Operating Funds appropriations are expected to increase by 0.02% from the prior year. Capital improvement appropriations will increase by 46.2% or \$132.1 million.

Cook County Appropriations All Funds: FY2008-FY2009				
Fund	FY2008 Appropriation	FY2009 Recommended	\$ Change	% Change
Corporate	\$ 168,593,200	\$ 167,463,670	\$ (1,129,530)	-0.7%
Public Safety	\$ 1,053,167,600	\$ 1,056,435,626	\$ 3,268,026	0.3%
Health	\$ 907,218,500	\$ 920,864,355	\$ 13,645,855	1.5%
Subtotal General Funds	\$ 2,128,979,300	\$ 2,144,763,651	\$ 15,784,351	0.7%
Annuity & Benefits	\$ 183,124,000	\$ 186,100,000	\$ 2,976,000	1.6%
Bond & Interest	\$ 212,729,169	\$ 209,147,064	\$ (3,582,105)	-1.7%
Other Restricted Funds	\$ 135,569,600	\$ 119,550,729	\$ (16,018,871)	-11.8%
Agency and Office Special Purpose Funds	\$ 276,353,900	\$ 277,906,587	\$ 1,552,687	0.6%
Subtotal Special Purpose Funds	\$ 807,776,669	\$ 792,704,380	\$ (15,072,289)	-1.9%
Allowance for Uncollected Taxes	\$ 11,628,911	\$ 11,527,095	\$ (101,816)	-0.9%
Subtotal Operating Funds	\$ 2,948,384,880	\$ 2,948,995,126	\$ 610,246	0.02%
Capital Improvements	\$ 286,183,112	\$ 418,280,663	\$ 132,097,551	46.2%
Total	\$ 3,234,567,992	\$ 3,367,275,789	\$ 132,707,797	4.1%

Source: Table Q1, Cook County Executive Budget Recommendations FY2009, pp. 13-14.

The next exhibit presents five-year trend information for appropriations by fund. For the period between FY2005 and FY2009, All Funds appropriations are projected to increase by 12.6%. This represents an increase from \$2.99 billion to \$3.36 billion.

Cook County Appropriations All Funds: FY2005-FY2009				
Fund	FY2005 Appropriation	FY2009 Recommended	\$ Change	% Change
Corporate	\$ 187,318,674	\$ 167,463,670	\$ (19,855,004)	-10.6%
Public Safety	\$ 1,078,521,488	\$ 1,056,435,626	\$ (22,085,862)	-2.0%
Health	\$ 873,543,215	\$ 920,864,355	\$ 47,321,140	5.4%
Subtotal General Funds	\$ 2,139,383,377	\$ 2,144,763,651	\$ 5,380,274	0.3%
Annuity & Benefits	\$ 209,151,000	\$ 186,100,000	\$ (23,051,000)	-11.0%
Bond & Interest	\$ 180,500,663	\$ 209,147,064	\$ 28,646,401	15.9%
Other Restricted Funds	\$ 169,609,949	\$ 119,550,729	\$ (50,059,220)	-29.5%
Agency and Office Special Purpose Funds	\$ 150,035,505	\$ 277,906,587	\$ 127,871,082	85.2%
Subtotal Special Purpose Funds	\$ 709,297,117	\$ 792,704,380	\$ 83,407,263	11.8%
Allowance for Uncollected Taxes	\$ 11,013,957	\$ 11,527,095	\$ 513,138	4.7%
Subtotal Operating Funds	\$ 2,859,694,451	\$ 2,948,995,126	\$ 89,300,675	3.1%
Capital Improvements	\$ 130,643,500	\$ 418,280,663	\$ 287,637,163	220.2%
Total	\$ 2,990,337,951	\$ 3,367,275,789	\$ 376,937,838	12.6%

Source: Table Q1, Cook County Executive Budget Recommendations FY2009, pp. 13-14.

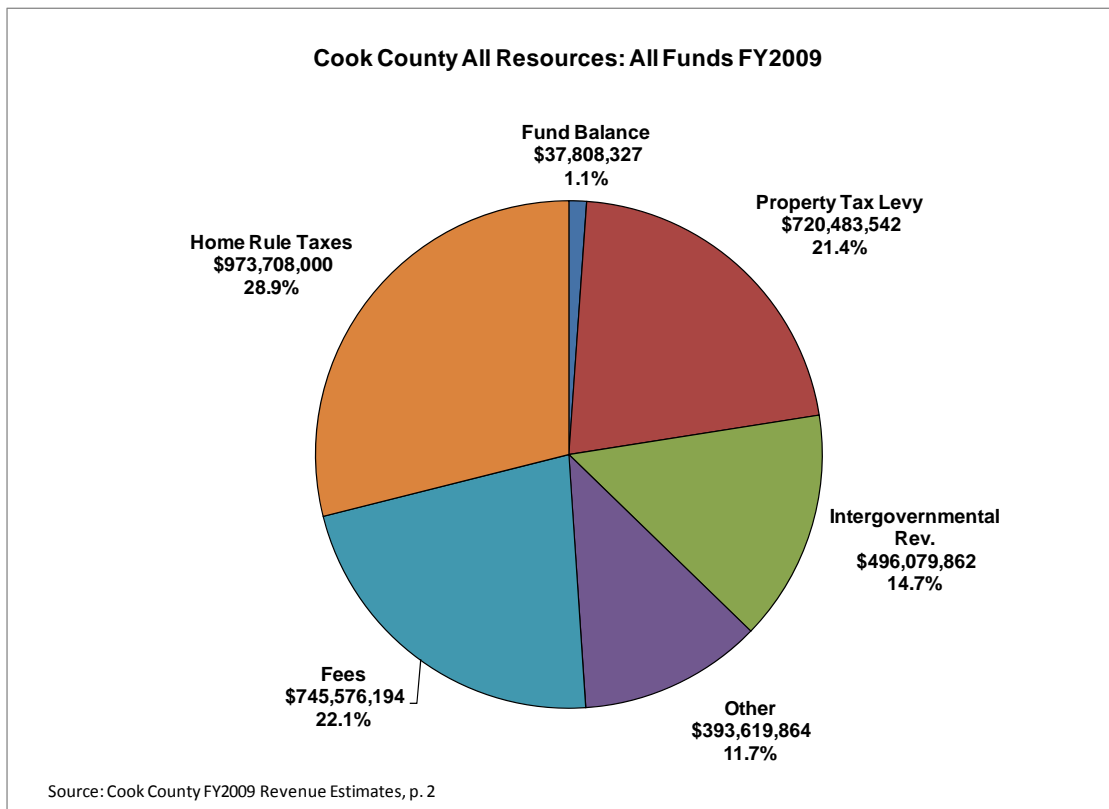
Corporate and Public Safety appropriations show decreases of 10.6% and 2.0% respectively over this five-year period. Health Fund appropriations will increase by 5.4% or \$47.3 million. The greatest percentage increases between FY2005 and FY2009 occurred in Special Purpose Funds appropriations, which grew in the aggregate by 11.8%. Annuity & Benefits appropriations are projected to fall by 11.0% or \$23.0 million and Bond & Interest appropriations will increase by

²⁰ Cook County FY2007 Executive Budget Recommendation, p. A-22.

15.9% or \$28.6 million. Total Operating Funds appropriations are projected to rise by 3.1% since FY2005.

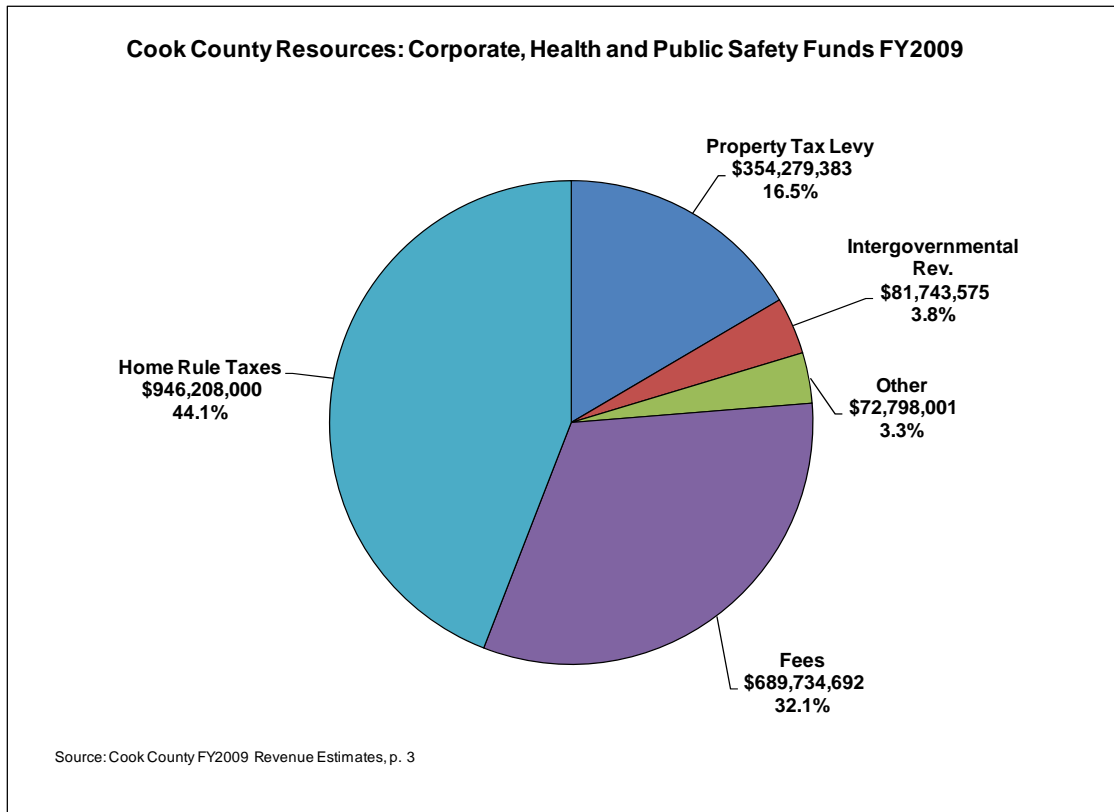
RESOURCES

Cook County total resources include revenues and appropriated net assets or fund balance. In FY2009 the County estimates that it can draw upon a total of \$3.33 billion from various revenue sources and a total special purpose fund balance of about \$37.8 million for a total of approximately \$3.37 billion.²¹ The total special fund balance represents 1.1% of all resources available. There is no general fund balance for FY2009.



The next exhibit shows resources available in the County's General Funds, which include its Corporate, Public Safety, and Health Funds. General Fund resources are projected to total \$2.14 billion in FY2009. Fees and home rule taxes will provide 76.2% of all General Fund resources or \$1.6 billion. The Property Tax Levy will remain flat over FY2008 at \$354.3 million or 16.5% of General Fund resources. No General Fund Balance revenue is projected in FY2009.

²¹ Cook County FY2009 Revenue Estimates, p. 2



Revenues in FY2009

Cook County All Fund revenues are projected to increase by 1.9% between FY2008 and FY2009. This will be a \$55.3 million increase from \$2.86 billion to \$2.91 billion.²²

Cook County's Home Rule Taxes are projected to show an aggregate increase of \$193.7 million or 24.8% in FY2009, rising from \$780.0 million in FY2008 to \$973.7 million. This increase is driven by projected increases in Gas, Garage, Amusement and County Sales tax collections.²³

Cook County increased its home rule sales tax from 0.75% to 1.75% on February 28, 2008. The County's Home Rule Use tax remains at 0.75%. Because the Home Rule sales tax increase commenced mid-calendar year in 2008 and there are lags between the time the State collects sales taxes and the time the County would receive those revenues, Cook County would receive only two months of increased collections in FY2008.²⁴

Combined receipts of both the home rule sales and use taxes are expected to be \$617.4 million in FY2009, up \$187.0 million or 43.4%. Of the projected FY2009 total, \$571.4 million will be from sales tax revenues and \$46.0 million from use tax revenues.

²² Cook County FY2009 Revenue Estimates, p. 52

²³ Cook County FY2009 Revenue Estimates, p. 52

²⁴ Remarks of President Todd H. Stroger on his Executive Budget Recommendations for Cook County Fiscal Year 2008, p. 3.

At the November 5, 2008 Cook County Board of Commissioners meeting, Cook County Chief Financial Officer Donna Dunning indicated that revenues from the one percentage point increase in the home rule sales tax has generated less than originally anticipated. The County had projected that the increase would yield \$71.8 million in FY2008, which represents only two months of actual receipts, and \$426.0 million in FY2009. However, revised figures are \$57.6 million actual for FY2008 and a projected amount of \$380.0 million for FY2009. These amounts are \$13.2 million less in revenues for FY2008 and \$46.0 million less for FY2009. The reductions are a reflection of the negative impact of the current economic recession.

The County estimates that the non-home rule sales tax revenues it receives from the State of Illinois will increase by 8.2% between FY2008 year end estimated amounts and FY2009, rising from \$4.0 million to \$4.4 million. This contrasts with the 4.0% decrease the City of Chicago forecasts for FY2009 total sales tax receipts.²⁵

The County's property tax levy will be held constant at \$720.5 million for the ninth consecutive year.

County revenue from fees will decrease from \$779.6 million to \$745.6 million, a 4.4% or \$34.0 million decrease. Patient fees, the most significant fee collected, are expected to decrease by 0.6%, or \$2.5 million from nearly \$424.6 million to \$422.1 million. Intergovernmental revenues provided from other governments will decline by \$18.0 million or 4.3% in FY2009.

²⁵ Civic Federation. City of Chicago FY2009 Proposed Budget: Analysis and Recommendations, p. 20.

Cook County Revenues				
FY2008-FY2009 (in \$ thousands)				
Tax or Fee	FY2008 Adjusted	FY2009 Projected	\$ change	% change
Property Taxes	\$ 720,484	\$ 720,484	\$ -	0.0%
Home Rule Taxes				
Sales & Use	\$ 430,424	\$ 617,443	\$ 187,019	43.4%
Alcoholic Beverage	\$ 26,793	\$ 27,000	\$ 207	0.8%
Cigarette	\$ 162,787	\$ 163,000	\$ 213	0.1%
Gas	\$ 95,269	\$ 100,000	\$ 4,731	5.0%
Retail Sale/Motor Veh's	\$ 2,811	\$ 2,765	\$ (46)	-1.6%
Wheel	\$ 2,058	\$ 2,000	\$ (58)	-2.8%
Amusement	\$ 21,038	\$ 22,000	\$ 962	4.6%
Parking Lot	\$ 38,792	\$ 39,500	\$ 708	1.8%
Subtotal Home Rule Taxes	\$ 779,972	\$ 973,708	\$ 193,736	24.8%
Fee Revenue				
Patient Fees	\$ 424,650	\$ 422,147	\$ (2,503)	-0.6%
Circuit Clerk Fees	\$ 109,489	\$ 106,177	\$ (3,312)	-3.0%
Recorder of Deeds Fees	\$ 47,120	\$ 45,282	\$ (1,838)	-3.9%
Treasurer's Fees	\$ 78,510	\$ 60,000	\$ (18,510)	-23.6%
Other	\$ 119,812	\$ 111,970	\$ (7,842)	-6.5%
Subtotal Fee Revenue	\$ 779,581	\$ 745,576	\$ (34,005)	-4.4%
Misc. Revenues				
Bail Bond Forfeitures	\$ 68	\$ -	\$ (68)	-100.0%
Misc. Revenues	\$ 161,321	\$ 74,978	\$ (86,343)	-53.5%
Subtotal Misc. Revenues	\$ 161,389	\$ 74,978	\$ (86,411)	-53.5%
Intergov. Rev.	\$ 414,468	\$ 396,441	\$ (18,027)	-4.3%
Total	\$ 2,855,894	\$ 2,911,187	\$ 55,293	1.9%

Source: Cook County FY2009 Revenue Estimates, pp. 52-64
FY2008 figures are unaudited year-end estimates.

Five-Year Revenue Trends

In the five-year period between FY2005 and FY2009, Cook County all fund revenues increased by 6.6%. This represents a \$181.0 million increase, from \$2.7 billion to \$2.9 billion.²⁶ The rate of growth for home rule taxes is projected to increase 40.4% over the five year period. Fees are expected to decrease by 18.1% or \$164.3 million.

²⁶ Cook County FY2006 Revenue Estimates, p. 52

Cook County Revenues: FY2005-FY2009 (in \$ thousands)				
Tax or Fee	FY2005 Adjusted	FY2009 Projected	\$ Change	% Change
Property Taxes	\$ 720,484	\$ 720,484	\$ -	0.0%
Home Rule Taxes				
Sales & Use	\$ 348,633	\$ 617,443	\$ 268,810	77.1%
Alcoholic Beverage	\$ 25,813	\$ 27,000	\$ 1,187	4.6%
Cigarette	\$ 157,533	\$ 163,000	\$ 5,467	3.5%
Gas	\$ 103,693	\$ 100,000	\$ (3,693)	-3.6%
Retail Sale/Motor Veh's	\$ 3,575	\$ 2,765	\$ (810)	-22.7%
Wheel	\$ 979	\$ 2,000	\$ 1,021	104.3%
Amusement	\$ 16,119	\$ 22,000	\$ 5,881	36.5%
Parking Lot	\$ 37,018	\$ 39,500	\$ 2,482	6.7%
Subtotal Home Rule Taxes	\$ 693,363	\$ 973,708	\$ 280,345	40.4%
Fee Revenue				
Patient Fees	\$ 617,704	\$ 422,147	\$ (195,557)	-31.7%
Circuit Clerk Fees	\$ 99,215	\$ 106,177	\$ 6,962	7.0%
Recorder of Deeds Fees	\$ 75,869	\$ 45,282	\$ (30,587)	-40.3%
Treasurer's Fees	\$ 52,482	\$ 60,000	\$ 7,518	14.3%
Other	\$ 64,606	\$ 111,970	\$ 47,364	73.3%
Subtotal Fee Revenue	\$ 909,876	\$ 745,576	\$ (164,300)	-18.1%
Misc. Revenues				
Bail Bond Forfeitures	\$ 18	\$ -	\$ (18)	-100.0%
Misc. Revenues	\$ 27,955	\$ 74,978	\$ 47,023	-
Subtotal Misc. Revenues	\$ 27,973	\$ 74,978	\$ 47,005	168.0%
Intergov. Rev.	\$ 378,455	\$ 396,441	\$ 17,986	4.8%
Total	\$ 2,730,151	\$ 2,911,187	\$ 181,036	6.6%

Sources: Cook County FY2006 Revenue Estimates, p. 51; Revenue Estimates FY2009, p. 52
FY2005 figures are unaudited year-end estimates.

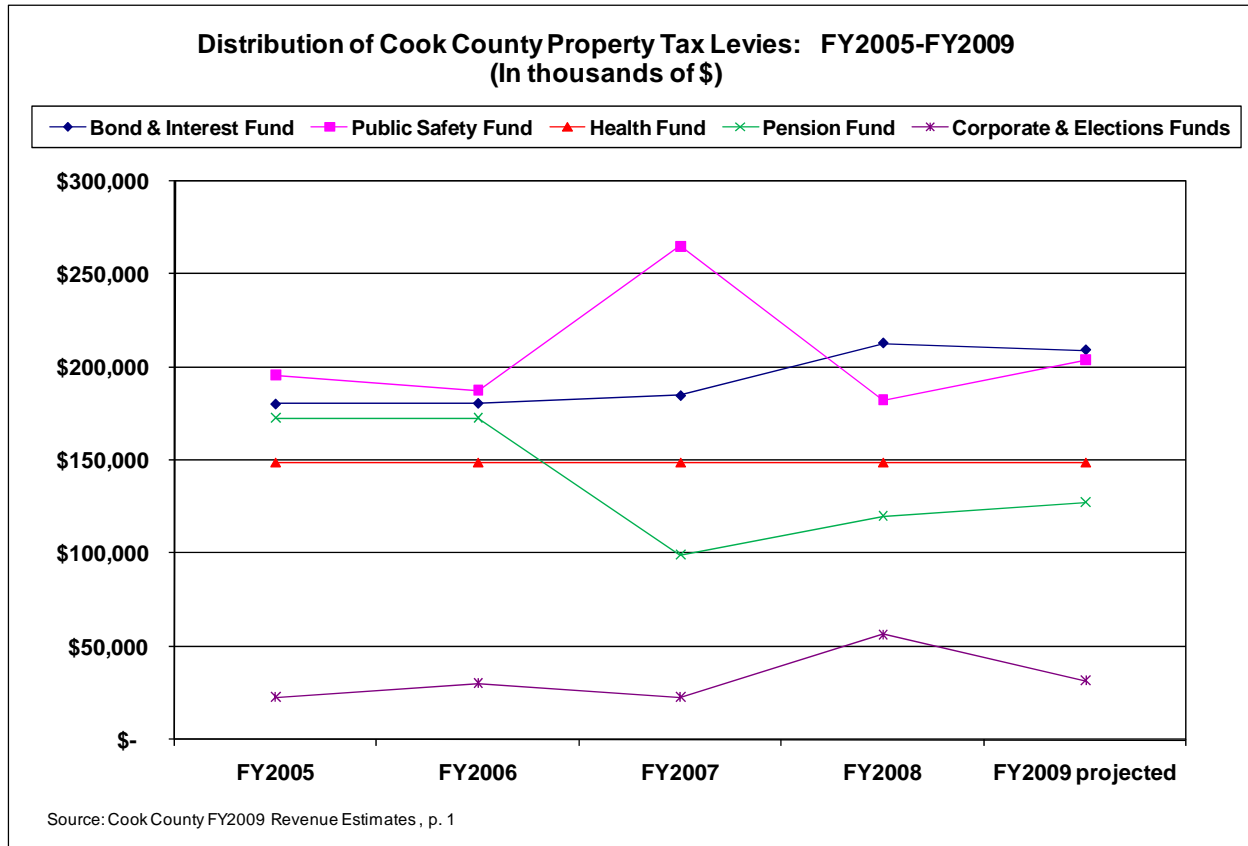
Property Tax Levy

The Cook County property tax levy will be held constant in FY2009, remaining at \$720.5 million for the ninth consecutive year.²⁷

Property tax revenues are distributed to six major funds: Corporate, Elections, Public Safety, Health, Bond and Interest, and Pension (also known as Annuity and Benefit) Fund. Changes in distribution of the levy between FY2005 and FY2009 are shown below. For purposes of our analysis, the relatively small Corporate and Election Funds have been combined. Together they averaged about 4.5% of the total levy for the five years analyzed. In FY2009, the portion of the levy dedicated to these funds will be 4.4% of the total, down from 7.8% in the previous year in which national primary and general elections were held.

²⁷ 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 Bond and Interest Fund, funds earmarked to pay for debt service, will consume the largest single portion of the levy: \$209.1 million, or 29.0% of the total. The Public Safety Fund will consume the second largest amount, \$203.8 million, 28.3% of the total. The County's Health Fund will consume the third highest amount at \$148.9 million, or 20.7% of the total. Approximately 17.6% of the levy, or \$127.1 million, is earmarked for the Pension Fund.



Fund Balance

The fund balance for the General Funds (i.e. Corporate, Public Health and Public Safety Funds) will be \$0 in FY2009, 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 FY2009. The General Funds balance of \$0 in FY2009 also represents a substantial decline since FY2005, when General Funds had a balance of \$136.0 million, 6.2% 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 \$107.8 million as fund balance in FY2009.

Fund Balance for Corporate, Public Safety & Health Funds: FY2005-FY2009			
	Fund Balance	Revenues	Ratio
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%
FY2008	\$ -	\$ 2,157,474,700	0.0%
FY2009	\$ -	\$ 2,155,720,746	0.0%

Source: Cook County FY2009 Revenue Estimates, p. 2

The County's fund balance for All Funds has seen a similarly dramatic erosion between FY2005 and FY2009, falling from \$163.2 million in FY2005 to nearly \$37.8 million in FY2009. The latter amount represents 1.3% of all fund resources.

Fund Balance for All Funds: FY2005-FY2009			
	Fund Balance	Total Resources	Ratio
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%
FY2008	\$ 16,790,300	\$ 3,245,797,192	0.5%
FY2009	\$ 37,808,327	\$ 2,948,995,126	1.3%

Source: Cook County FY2009 Revenue Estimates, p. 2

PERSONNEL TRENDS

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

Full-Time Equivalent Positions by Fund

The FY2009 Cook County budget proposes a decrease of 583.9 full time equivalent (FTE) positions.²⁸ This is a 2.3% decrease from the adopted FY2008 budget, or a decrease from 24,988.1 to 24,404.2 FTEs. The largest numerical decrease will come in the Public Safety Fund which will shed 410.0 FTEs for a total of 13,736.0 FTEs.

²⁸ The decrease in overall positions found in the budget book, 583.9, is slightly higher than the number of eliminated positions quoted by the Stroger Administration, which is 561. See Cook County FY2009 Executive Budget Recommendation, Volume 1, p. 49.

Cook County Budgeted FTEs by Fund (All Funds): FY2008-FY2009				
Fund	FY2008 Adjusted	FY2009 Recommended	# Change	% Change
Corporate Fund	1,968.6	1,791.2	(177.4)	-9.0%
Health Fund	7,332.0	7,322.8	(9.2)	-0.1%
Public Safety Fund	14,146.0	13,736.0	(410.0)	-2.9%
Election Fund	125.0	120.5	(4.5)	-3.6%
Special Purpose Funds	1,416.5	1,433.7	17.2	1.2%
Total	24,988.1	24,404.2	(583.9)	-2.3%

Source: Cook County Executive Budget Recommendation FY2009 Vol. 1. , Citizens' Summary, p. 46-48

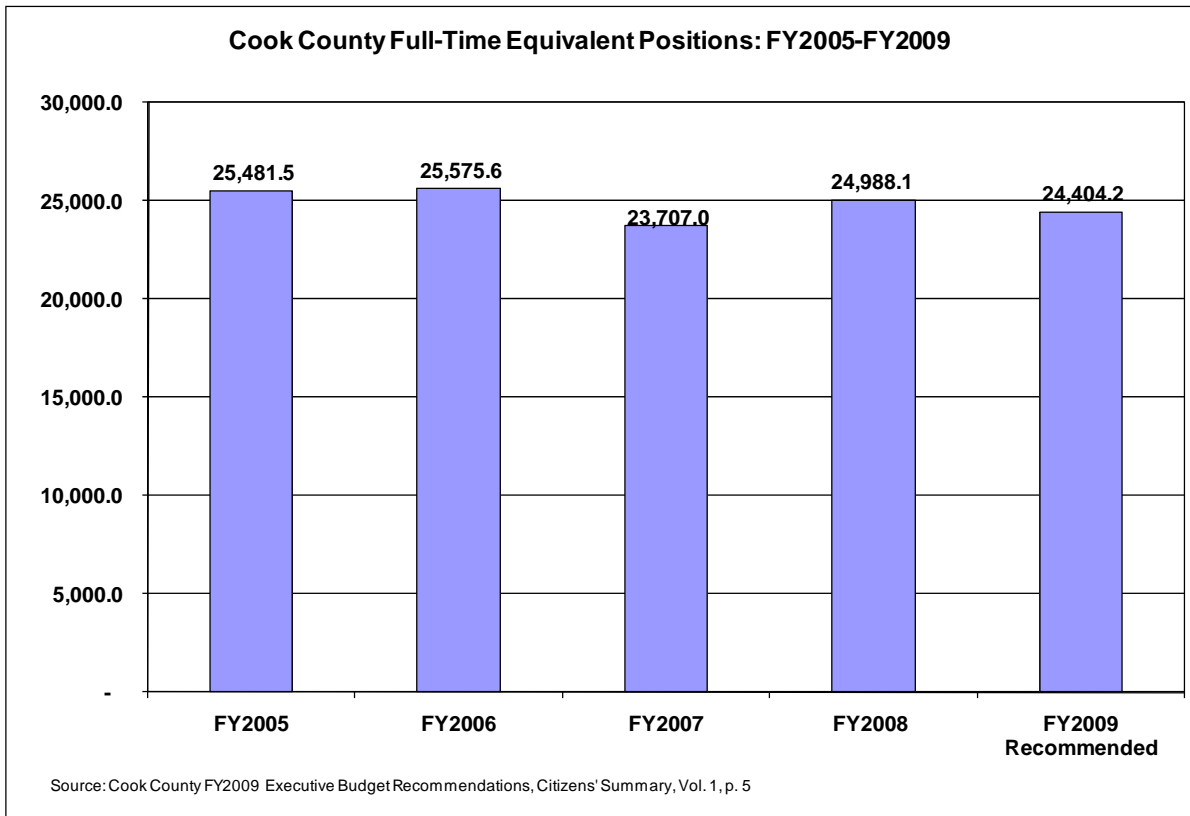
Over a 5-year period, from FY2005 to FY2009, Cook County FTEs have decreased by 4.2%. This represents a decrease of 1,077.3 FTEs. Most of the reductions have been in the Health Fund, in which the number of FTEs will be cut by 703.1 or from 8,025.9 to 7,322.8 FTEs.

Cook County Budgeted FTEs* by Fund (All Funds): FY2005-FY2009				
Fund	FY2005 Adjusted	FY2009 Recommended	# Change	% Change
Corporate Fund	2,346.9	1,791.2	(555.7)	-23.7%
Health Fund	8,025.9	7,322.8	(703.1)	-8.8%
Public Safety Fund	13,993.8	13,736.0	(257.8)	-1.8%
Election Fund	30.8	120.5	89.7	291.2%
Special Purpose Funds	1,084.1	1,433.7	349.6	32.2%
Total	25,481.5	24,404.2	(1,077.3)	-4.2%

Source: Cook County Executive Budget Recommendation FY2009 Vol. 1. , Citizens' Summary, p. 46-48

The next exhibit shows total full time equivalent positions for each of the five years between FY2005 and FY2009. It shows that

- The number of FTEs **increased** by 94.1 between FY2005 and FY2006;
- The number of FTEs **decreased** by 1,868.6 between FY2006 and FY2007;
- The number of FTEs **increased** by 1,281.1 between FY2007 and FY2008; and
- The number of FTEs is projected to **decrease** by 583.9 in the coming fiscal year.



Personal Service Appropriations

The following chart compares total personal service appropriations to the total County budget. For FY2009, personal service appropriations will constitute 70.9% of the total budget, up from 70.9% in FY2008.

Ratio of Personal Service to Total Appropriations: FY2006-FY2009			
	Personal Services	Total Budget	Personal Services as % of Total Budget
2006 Final	\$ 2,012,622,129	\$ 3,080,714,914	65.3%
2007 Final	\$ 1,999,505,543	\$ 3,039,621,923	65.8%
2008 Final	\$ 1,996,937,500	\$ 3,234,567,992	61.7%
2009 Recommended	\$ 2,090,687,696	\$ 2,948,995,126	70.9%

Sources: Cook County FY2009 Executive Budget Recommendation, Vol. 1, Citizens' Summary, p. 8 & p. 22

Cook County FY2008 Appropriation Ordinance updated 07-07-08, Citizens' Summary, p. 24

Cook County FY2006 & FY2007 Appropriation Ordinances

The next exhibit presents a breakdown of County employee health benefit costs. Employee benefits, which include health and health-related insurance costs as well as pension, unemployment and workers' compensation, will total \$295.3 million in FY2009 or 14.1% of total personal service appropriations in FY2009.

Cook County Employee Benefit Appropriations: FY2009 (in \$ thousands)		
Benefit	FY2009	% of Total Personal Service Appropriations
Mandatory Medicare Costs	\$ 19,257.3	0.9%
Workers' Compensation	\$ 4,119.0	0.2%
Pension	\$ 3,894.1	0.2%
Life Insurance	\$ 5,780.0	0.3%
Health Insurance	\$ 246,655.1	11.8%
Dental Insurance	\$ 5,521.8	0.3%
Unemployment Compensation	\$ 7,603.6	0.4%
Vision Care Insurance	\$ 2,422.3	0.1%
Total Benefit Costs	\$ 295,253.2	14.1%
Total Personal Service Appropriations	\$ 2,090,687.7	100.0%

Source: Cook County Chief Financial Officer Donna Dunnings, December 17, 2008.

COOK COUNTY HEALTH AND HOSPITALS SYSTEM

The following section details the budget for the Cook County Health and Hospital System.

Overview of Health and Hospitals System

The Cook County Health and Hospitals System (System)²⁹ oversees the operation of three public hospitals, including John H. Stroger Hospital of Cook County, Provident Hospital of Cook County and Oak Forest Hospital of Cook County. These three hospitals combined provide all levels of health care to County residents and serve as both teaching hospitals and long-term care facilities.

Additional health services are provided by the System's CORE Center, the Cook County Department of Public Health and the Ambulatory and Community Health Network. The CORE Center operates as an outpatient facility for HIV/AIDS patients as well as those with related diseases. The Cook County Department of Public Health provides regulatory, preventative and protective health services to County residents, including clinical public health visits. The Ambulatory Network operates out of 16 satellite clinical offices located across the County, providing primary and outpatient care services to residents of all ages.³⁰

The System also operates Cermak Health Services, which serves as the hospital for the Cook County Department of Corrections, as well as the Juvenile Temporary Detention Center Health Services (JTDC). Cermak is the largest single jail health facility in the country and provides public, mental and general health care services to all male and female inmates of the Cook County jail system. JTDC provides similar primary, dental and mental health care to the children detained by the County. The System also operates three pharmacies.

²⁹ In FY2008 the Bureau of Health was renamed the Cook County Health and Hospitals System. See Cook County FY2009 Executive Budget Recommendation Vol. 1, p. 7.

³⁰ Cook County Health and Hospitals System website at <http://www.ccbhs.org/pages/Ambulatory&CommunityHealthNetwork.htm> (last visited on December 11, 2008).

The total FY2009 operating budget for the entire System is \$882.8 million.³¹ The total number of full-time equivalent employees for the System in FY2009 totals 7,322.8.³² Funding for the System will come from three primary sources in FY2009, including patient fee revenues, home rule taxes and property taxes.

Overview of Board of Directors

As part of the agreement required to pass the FY2008 Cook County budget and subsequently raise the Cook County sales tax rate by 1.0 percentage point, Cook County President Todd Stroger agreed to create a separate, independent oversight Board of Directors for the System.³³ The purpose behind the creation of the new oversight board was to have a team of experienced professionals supervise the restructuring of the health care system.³⁴ Instead of being under the direct control of the Cook County Board of Commissioners, System oversight is now conducted by an 11 member panel. Selection criteria for Directors included being residents of the community and possessing the expertise necessary to oversee the proper reconstruction of the System's entire operating structure. In contrast to the County Commissioners, the System Directors do not receive compensation for their time. One County Commissioner, Jerry Butler, is also a member of the new System Board. The Cook County Board of Commissioners still possess final authority over System operations, but the new Board of Directors oversees most of the day-to-day operational questions facing System management.

Per the enabling ordinance, the Board of Directors will operate for three years, with the Board of Commissioners retaining the authority to reauthorize the Board of Directors' powers and responsibilities at the end of this initial term.³⁵

The Board had its first meeting on June 18, 2008 and has met as a full board approximately 12 times since this date. The Board of Directors has divided their work into five committees – audit, finance, human resources, quality and patient safety and strategic planning – who meet on a regular basis to deal with more specific questions facing the management team. There are also ad hoc committees in place, including one charged with conducting a search for a permanent Chief Executive Officer for the system. The five regular committees have met approximately 33 times since June 2008.

The Board was given a number of duties in the enabling ordinance, including general duties such as ensuring efficient service delivery of high quality medical services to all medically indigent residents, eliminating political interference for all operations and creating long-term strategic and financial plans for the System.³⁶

³¹ FY2009 Executive Budget Recommendation Vol. 2, p. D-1.

³² Cook County FY2009 Executive Budget Recommendation Vol. 1, p. 48.

³³ Chapter 38, Art. I, Sections 38-2 through 38-5 of the Cook County Code.

³⁴ Cook County Code Article I, Chapter 38, Sections 2-5.

³⁵ Cook County Code Article I, Chapter 38, Sections 2-5.

³⁶ Ibid.

The more specific duties assigned to the Board of Directors include collecting all revenues due to the System, approving all annual operating and capital budgets, overseeing the CEO of the System and ensuring all personnel policies are consistent with applicable law.³⁷

The new Board of Directors also acts in conjunction with the Cook County Board of Commissioners to approve all leases, intergovernmental agreements and contracts after they are first approved by Commissioners. The Board of Directors also maintains all System property with prior approval of the Commissioners.³⁸

The Civic Federation supported the creation of a separate Board for the System and participated on the nominating committee in charge of selecting candidates for these positions. To date, we are encouraged by the initial work being done by the Board.

Chairman Warren Batts and his fellow board members are taking important steps to address the problems that must be resolved in order for the System to eventually operate efficiently and effectively. Each board member possesses a necessary area of expertise and together they are creating a proper oversight structure for the System. The Civic Federation applauds the members for donating their time to this challenge and is encouraged by the first steps taken by the Board to fix this ailing institution.

Appropriations

The following section presents trends for FY2009 appropriations for the Health and Hospitals System by Object and Entity. The comparisons reflect all appropriations, except for capital appropriations. Additionally, for both sections FY2008 and FY2005 appropriation data is used as a comparison to FY2009 budget recommendation data.

Appropriation by Object

In FY2009 appropriations for the operating budget will increase by 5.6% or \$46.8 million, rising from \$836.0 million in the FY2008 appropriation ordinance to \$882.8 million in the FY2009 executive budget recommendation. Personal service appropriations over the two year period will rise by 12.4%, or \$63.3 million, for the System.

Cook County HHS Appropriations by Object: General and Special Purpose Funds FY2008 & FY2009 (in \$ millions)				
Object	FY2008	FY2009	\$ Change	% Change
Personal Services	\$ 510.3	\$ 573.6	\$ 63.3	12.4%
Contractual Services	\$ 114.5	\$ 118.0	\$ 3.5	3.1%
Supplies and Materials	\$ 151.5	\$ 159.6	\$ 8.1	5.3%
Operation and Maintenance	\$ 54.1	\$ 55.7	\$ 1.6	3.0%
Rental and Leasing	\$ 3.4	\$ 3.2	\$ (0.2)	-5.8%
Contingency	\$ 2.2	\$ (27.4)	\$ (29.5)	-1372.1%
Total	\$ 836.0	\$ 882.8	\$ 46.8	5.6%

Source: Cook County FY2009 Executive Budget Recommendation, pp. D3 - D-6.

³⁷ Ibid.

³⁸ Ibid.

The Civic Federation was unable to locate comparable data to conduct a five-year analysis of appropriations by object.

Appropriations by Entity

Operating appropriations for Stroger Hospital will increase by \$48.8 million, rising from \$380.3 million to \$429.1 million. Provident Hospital will receive an additional \$16.7 million in FY2009 over the FY2008 appropriation ordinance amount of \$77.4 million, a 21.6% increase. Appropriations for the Health and Hospitals System will decrease by 22.7%, falling from \$182.4 million to \$141.0 million.

Cook County HHS Appropriations by Entity: General & Special Purpose Funds FY2008* & FY2009 (in \$ millions)				
	FY2008	FY2009	\$ Change	% Change
Bureau of Health	\$ 182.4	\$ 141.0	\$ (41.4)	-22.7%
Provident Hospital	\$ 77.4	\$ 94.1	\$ 16.7	21.6%
Ambulatory/CH Network	\$ 44.0	\$ 48.5	\$ 4.5	10.2%
CORE Center	\$ 11.0	\$ 11.2	\$ 0.2	1.8%
Department of Public Health	\$ 16.0	\$ 15.9	\$ (0.1)	-0.6%
Stroger Hospital	\$ 380.3	\$ 429.1	\$ 48.8	12.8%
Oak Forest Hospital	\$ 79.9	\$ 91.1	\$ 11.2	14.0%
Public Safety Fund	\$ 31.0	\$ 35.9	\$ 4.9	15.8%
Special Purpose Funds	\$ 14.0	\$ 15.9	\$ 1.9	13.6%
Total	\$ 836.0	\$ 882.7	\$ 46.7	5.6%

*FY2008 data is from the appropriation ordinance, not the executive budget recommendations.

Source: Cook County FY2009 Executive Budget Recommendation, p. D-1.

The next exhibit presents five-year operating appropriation trend information. Between FY2005 and FY2009 General and Special Purpose funds appropriations for the System will increase by 7.0% or \$57.5 million, rising from \$825.2 million to \$882.7 million. Appropriations for the Ambulatory and Community Health Network have decreased by \$58.9 million or 54.8%.

Cook County HHS Appropriations by Entity: General & Special Purpose Funds FY2005 & FY2009 (in \$ millions)				
	FY2005	FY2009	\$ Change	% Change
Bureau of Health	\$ 10.7	\$ 141.0	\$ 130.3	1217.8%
Provident Hospital	\$ 98.1	\$ 94.1	\$ (4.0)	-4.1%
Ambulatory/CH Network	\$ 107.4	\$ 48.5	\$ (58.9)	-54.8%
CORE Center	\$ 11.3	\$ 11.2	\$ (0.1)	-0.9%
Department of Public Health	\$ 19.3	\$ 15.9	\$ (3.4)	-17.6%
Stroger Hospital	\$ 423.7	\$ 429.1	\$ 5.4	1.3%
Oak Forest Hospital	\$ 114.3	\$ 91.1	\$ (23.2)	-20.3%
Public Safety Fund	\$ 40.4	\$ 35.9	\$ (4.5)	-11.1%
Special Purpose Funds	\$ -	\$ 15.9	\$ 15.9	100.0%
Total	\$ 825.2	\$ 882.7	\$ 57.5	7.0%

Source: Cook County FY2009 Executive Budget Recommendation, p. 26 of Citizens' Summary and D-1.

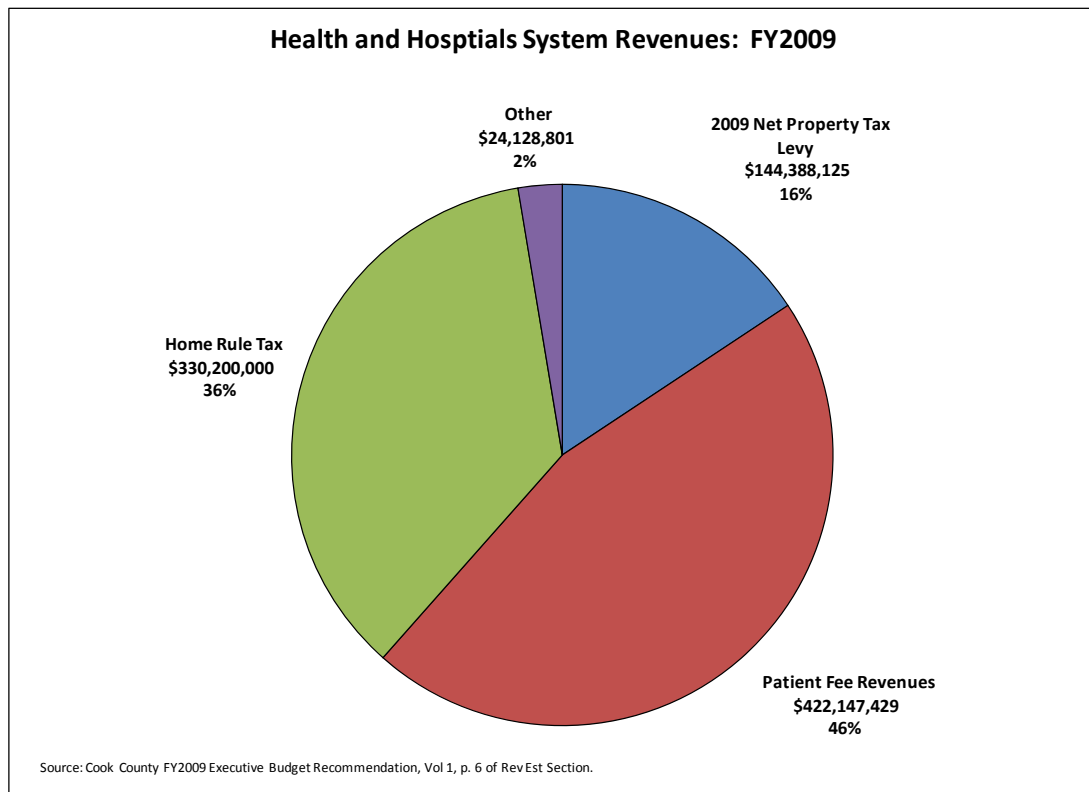
Resources

Resources for the System in FY2009 will total \$920.9 million for all funds. In FY2009 the System estimates that it will receive \$422.1 million in patient fee revenue. Home rule taxes comprise 35.9% of total resources for the System in FY2009, totaling \$330.2 million. Home rule taxes include sales, retail sale of motor vehicles, gasoline, cigarette, alcoholic beverage, use, wheel, amusement and parking lot and garage operations taxes.³⁹

Cook County Health & Hospitals System Revenue Sources: FY2009		
Revenue Source	FY2009	% of Total
2009 Net Property Tax Levy	\$ 144,388,125	15.7%
Patient Fee Revenues	\$ 422,147,429	45.8%
Home Rule Tax	\$ 330,200,000	35.9%
Other	\$ 24,128,801	2.6%
Total	\$ 920,864,355	100.0%

Source: Cook County FY2009 Executive Budget Recommendation, Vol 1, p. 6 of Rev Est section.

The following graph depicts the breakdown of resources by type for FY2009.



³⁹ Cook County FY2009 Executive Budget Recommendation, Revenue Estimates, p. 54.

Personnel

Systems full-time equivalent positions comprise 30.0% of total FTEs for the County in FY2009.⁴⁰ The FY2009 Systems budget proposes a decrease of 11.2 full-time equivalent positions. This is a 0.2% decrease from the FY2008 appropriation ordinance, falling from 7,426.0 FTEs to 7,414.8 FTEs. Both Stroger and Oak Forest hospitals will see an increase in FTE positions, 54.6 and 51.8 respectively. FTE positions within the administrative Health and Hospitals System department will decrease by 146.8 FTEs, a 25.2% decrease from FY2008 appropriation of 583.0 FTEs.

Cook County Health & Hospitals System Personnel: All Funds FY2008* & FY2009				
Department	FY2008	FY2009	# Change	% Change
Cermak Health Services	392.0	414.0	22.0	5.6%
Bureau of Health	583.0	436.2	-146.8	-25.2%
Provident Hospital	693.0	693.0	0.0	0.0%
Ambulatory/CH Network	658.0	673.2	15.2	2.3%
CORE Center	61.0	61.4	0.4	0.7%
Department of Public Health	167.0	160.6	-6.4	-3.8%
Stroger Hospital	3,768.0	3,822.6	54.6	1.4%
Oak Forest Hospital	1,010.0	1,061.8	51.8	5.1%
Lead Poisoning Prevention Fund	5.0	4.0	-1.0	-20.0%
TB Sanitarium District	49.0	49.0	0.0	0.0%
JTDC Health Services	40.0	39.0	-1.0	-2.5%
Total	7,426.0	7,414.8	-11.2	-0.2%

*FY2008 data is from the appropriation ordinance, not the executive budget recommendations.

Source: Cook County FY2009 Executive Budget Recommendation, p. D-1.

From FY2005 to FY2009 System FTEs have decreased by 7.7%. This represents a decrease of 615.1 FTEs. Most of the reductions occurred at the three hospitals operated by the System, including a reduction of 505.3 FTEs at Oak Forest Hospital and 299.5 FTEs at Stroger Hospital over the same five-year period.

⁴⁰ FY2009 Executive Budget Recommendation, p. 50.

Cook County Health & Hospitals System Personnel: All Funds FY2005* & FY2009				
Department	FY2005	FY2009	# Change	% Change
Cermak Health Services	464.4	414.0	-50.4	-10.9%
Bureau of Health	30.1	436.2	406.1	1349.2%
Provident Hospital	749.2	693.0	-56.2	-7.5%
Ambulatory/CH Network	860.0	673.2	-186.8	-21.7%
CORE Center	61.0	61.4	0.4	0.7%
Department of Public Health	172.0	160.6	-11.4	-6.6%
Stroger Hospital	4,122.1	3,822.6	-299.5	-7.3%
Oak Forest Hospital	1,567.1	1,061.8	-505.3	-32.2%
Lead Poisoning Prevention Fund	4.0	4.0	0.0	0.0%
TB Sanitarium District	0.0	49.0	49.0	100.0%
JTDC Health Services	0.0	39.0	39.0	100.0%
Total	8,029.9	7,414.8	-615.1	-7.7%

*FY2005 data is from the appropriation ordinance, not the executive budget recommendation.

Source: Cook County FY2005 Budget Appropriation, p. I-1, and FY2009 Executive Budget Recommendation, p. D-1.

PENSION FUND TRENDS

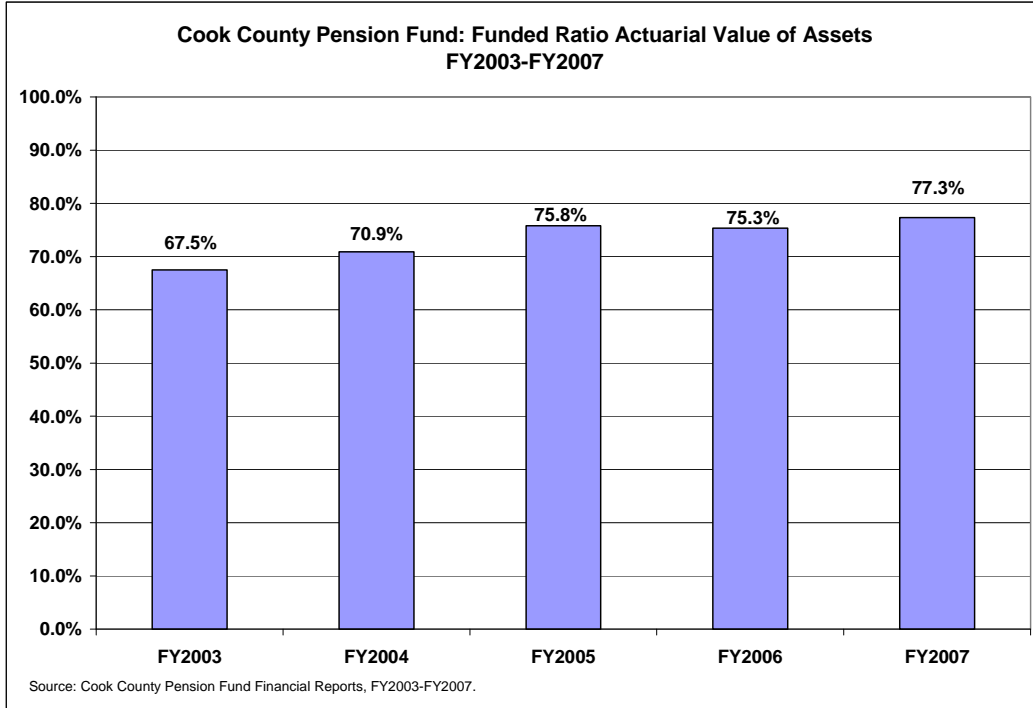
The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of Cook County's pension fund: funded ratios, the investment rate of return, and the value of unfunded liabilities.

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 increased from 67.5% to 77.3% between FY2003 and FY2007, the last year for which complete information was available. In FY2007, the funded ratio rose slightly, from 75.3% to 77.3%. In FY2004, the funded ratio rose slightly, from 67.5% to 70.9% 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.⁴¹

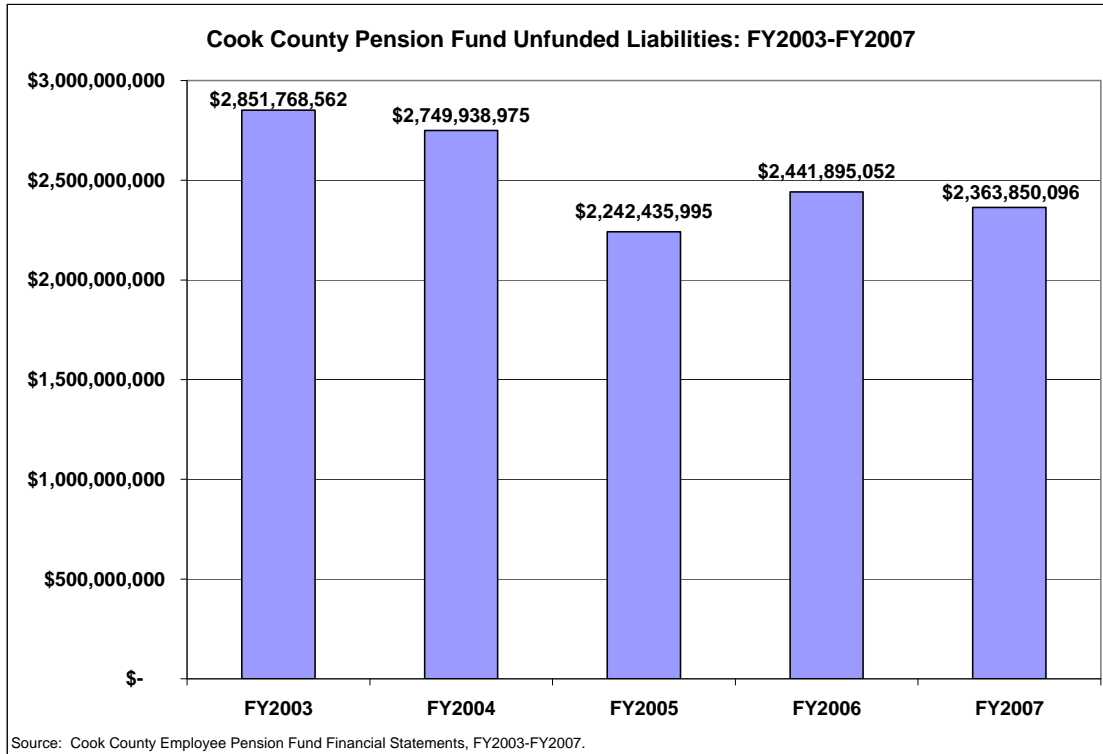
⁴¹ The FY2004 *Actuarial Valuation* reports net assets at the beginning of the year as \$6,529,956,047, while the former actuary reported net assets as being \$5,929,201,142. The method boosts the value of net assets by \$600,754,905, thus in part increasing the funded ratio and decreasing unfunded liabilities. County Employees' Annuity and Benefit Fund of Cook County, *Actuarial Valuation as of December 31, 2004*, p. 9.



Unfunded Pension Liabilities

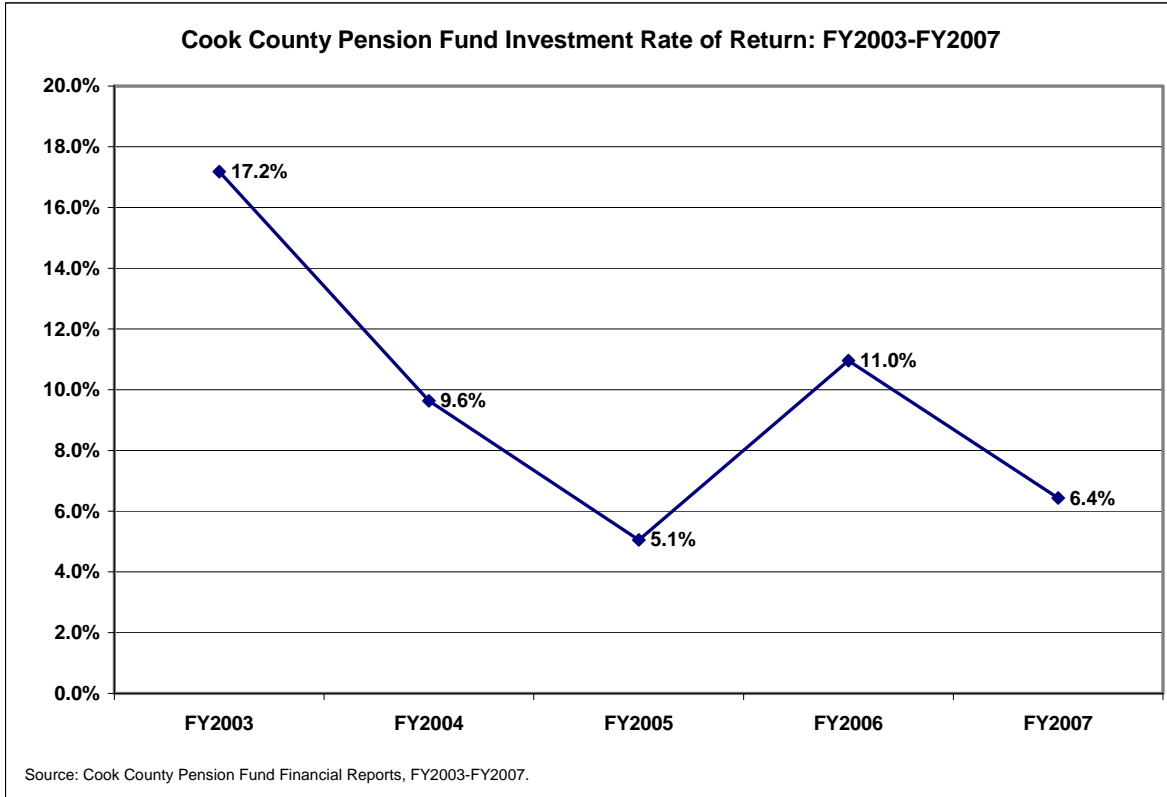
Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for Cook County’s pension fund totaled nearly \$2.4 billion in FY2007. There was a 17.1%, or \$487.8 million decrease in unfunded liabilities from FY2002.

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.



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 FY2003, Cook County investment rates of return have fallen from 17.2% to 6.4% five years later.



DEBT TRENDS

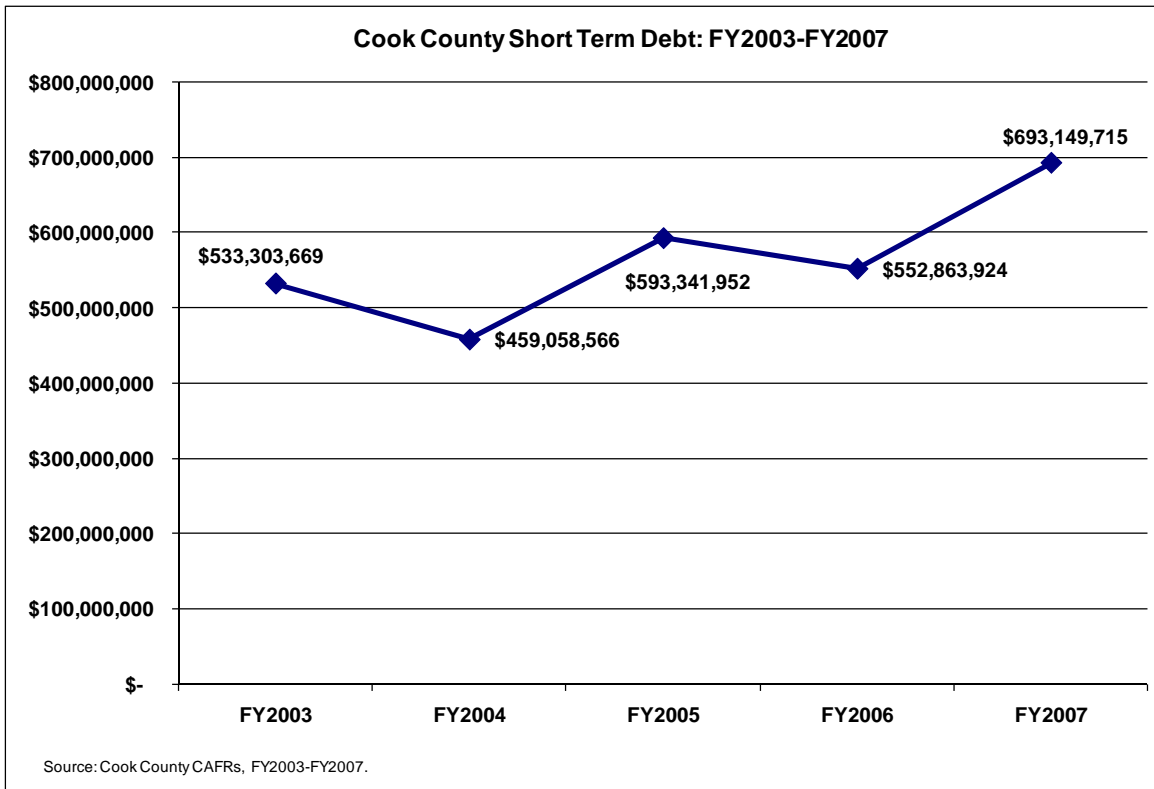
The Civic Federation has employed two measures of debt for purposes of this analysis: short-term debt trends and long-term debt per capita trends.

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 2003 through 2007. During that five-year period, the amount of short-term debt rose by 30.0% or \$159.8 million. This represents an increase from \$553.3 million to \$693.1 million. If they continue, the increases could be a cause for concern.⁴²

⁴² Information obtained from *Cook County Comprehensive Annual Reports*, various years.



Bond Ratings

Cook County currently has the following bond ratings:

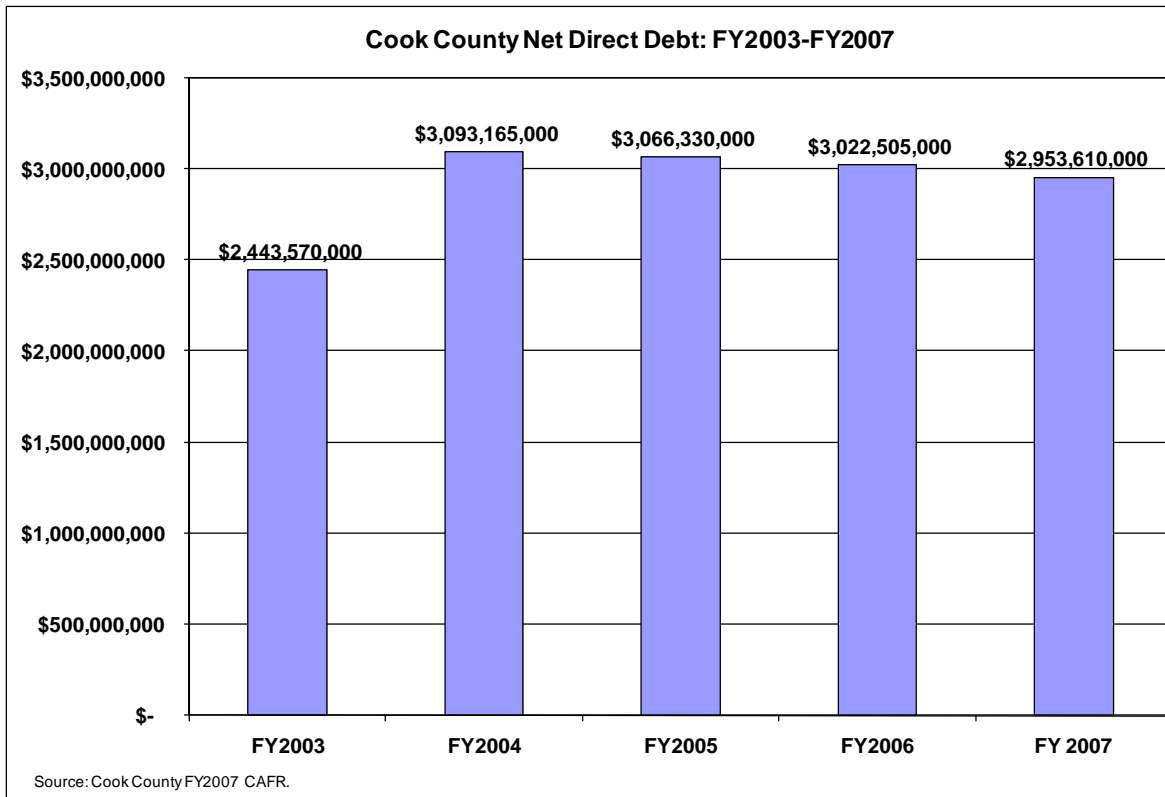
- Standard & Poor’s Investors Service: “AA”
- Moody’s Investors Service: “Aa2”
- Fitch Ratings: “AA”

Total Net Direct Debt

Cook County’s total long-term debt increased from \$2.4 billion to \$2.9 billion. This is a 22.3%, \$510.0 million increase.⁴³ 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.⁴⁴

⁴³ Information on net direct debt for FY2003-FY2007 is from the FY2007 *Cook County Comprehensive Annual Financial Report*, p. 185.

⁴⁴ For definition, see FY2004 Cook County Comprehensive Annual Financial Report, p. 154.

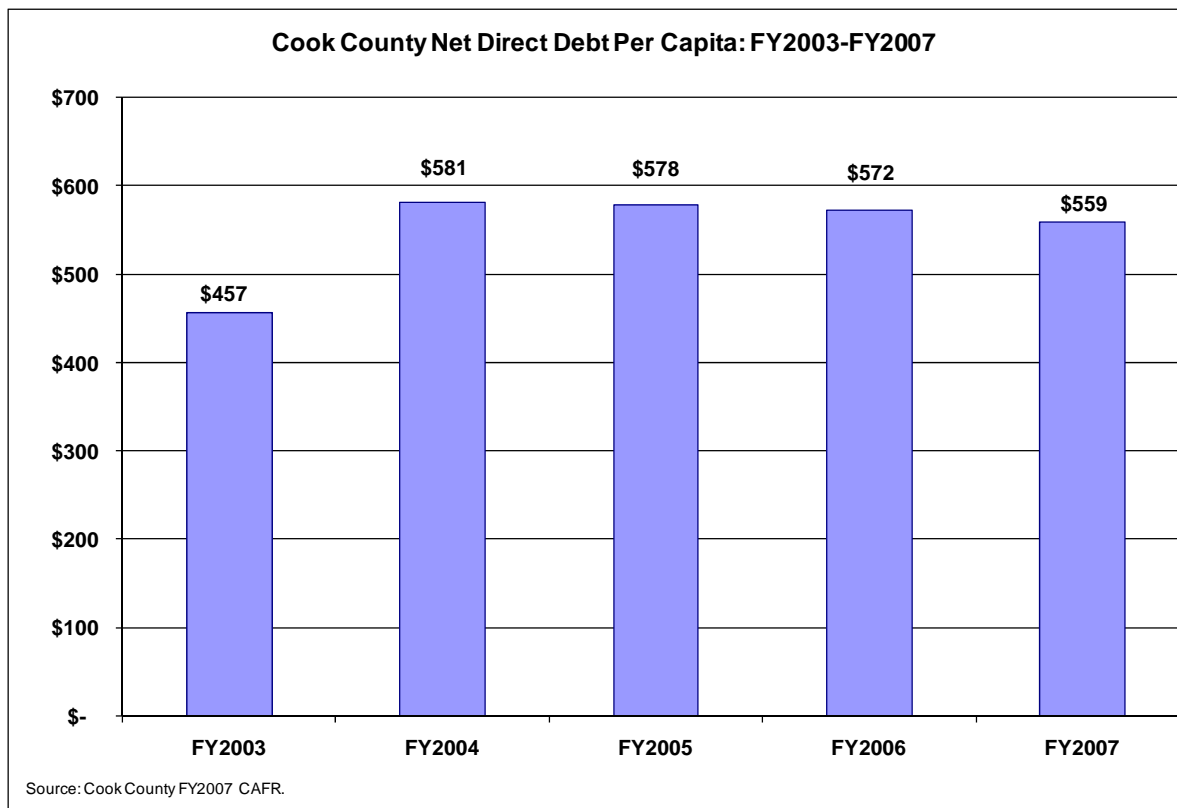


Net Direct Debt Per Capita

Net direct debt per capita is a measure of a government’s ability to maintain its current financial policies. 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.

Cook County net direct debt per capita increased by 22.3% between FY2003 and FY2007, rising from \$457 to \$559.⁴⁵

⁴⁵ Information on net direct debt for FY2003-FY2007 is from the FY2007 *Cook County Comprehensive Annual Financial Report*, p. 185. Population statistics used to calculate per capita figures are from the *Cook County Comprehensive Annual Financial Report*, p. 187.



OTHER POST EMPLOYMENT BENEFITS

The Cook County Employees' and Officers' Annuity and Benefit Plan provides healthcare benefits for the County's retirees. The plan is funded on a pay as you go basis. As of December 31, 2007, a total of 14,591 annuitants and surviving spouses were being subsidized.

The exhibit below shows the amount of the actuarially determined annual required contribution (ARC) for FY2005 through FY2007. Over that 3-year period, the ARC has grown from \$107.3 million to \$174.7 million. At the same time, the net OPEB obligation, or the amount not covered by employer contributions, has risen by 80.1%, from \$79.6 million to \$143.3 million.

OPEB Costs for Cook County Pension Fund Retiree Healthcare Plan (in \$ thousands)			
	FY2005	FY2006	FY2007
Annual Required Contribution	\$107,301,732	\$166,070,688	\$174,767,784
Employer Contribution	\$27,696,148	\$26,818,379	\$31,420,216
Net OPEB Obligation	\$79,605,584	\$139,252,309	\$143,347,568
% of ARC Contributed	25.8%	16.1%	18.0%

Source: Cook County Pension Fund FY2007 CAFR, p. 21.

In 2007, the actuarial accrued liability for Cook County retiree healthcare benefits was \$1.5 billion. Liabilities rose from \$1.4 billion in FY2005 to \$1.5 billion three years later. The plan had no assets in any of the three years reported and thus had a 100% unfunded liability.

Cook County Pension Fund OPEB Funded Status			
	FY2005	FY2006	FY2007
Actuarial Accrued Liability	\$ 1,460,682,921	\$ 1,506,821,967	\$ 1,554,123,496
Actuarial Value of Assets	\$ -	\$ -	\$ -
Unfunded Actuarial Accrued Liability	\$ 1,460,682,921	\$ 1,506,821,967	\$ 1,554,123,496

Source: Cook County Pension Fund FY2007 CAFR, p. 20.