Civic Federation Position Statement

February 9, 2009

Civic Federation Urges Cook County Commissioners to Reject Borrowing That May Cost Taxpayers an Additional $214 Million

The Civic Federation urges the Cook County Commissioners to **reject** the proposed $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 a borrowing plan as an alternative source of revenue for previously approved retroactive salary and contract increases.

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. For example, a 20-year AA rated bond at 5.6% interest could cost approximately $578.0 million.[1] These added costs of $214 million are unnecessary and could be avoided with prudent planning.

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 for operations pushes responsibility for today's poor fiscal planning into the future. 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 personnel 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 approved 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;

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- Sales tax revenues will be much less than originally anticipated in FY2008 and FY2009; and
- The Board of Commissioners approved the pension obligation bonds during the FY2007 budget process 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.

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

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.

In conclusion, 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 will likely require spending and personnel reductions. However, it is the only fiscally responsible course of action possible for the County at this time. Although strategic elimination of non-essential and lower priority spending would be preferable, the County's lack of budget transparency and continued absence of a performance measurement system may make across-the-board cuts the only expedient option. A four percent across-the-board cut would reduce the County budget from $2.948 billion to $2.9 billion, just under FY2008 operating expenditures before County Commissioners approved retroactive pay raises for employees that consumed most of the one percentage point sales tax increase.

[1] 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.