The Civic Federation

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COOK COUNTY FY2012 EXECUTIVE BUDGET RECOMMENDATION:

Analysis and Recommendations

November 3, 2011

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EXECUTIVE SUMMARY

The Civic Federation **supports** the Cook County FY2012 Executive Budget Recommendation totaling $2.9 billion in operating appropriations. Cook County Board President Toni Preckwinkle's proposed $2.2 billion General Fund budget is a 4.6%, or $107.4 million, **decrease** from the FY2011 adopted budget. The budget closes a $315.2 million shortfall with $219 million in spending cuts, $53 million in revenue enhancements and over 1,000 layoffs. The County administration also appears to be on a path towards significant reform of governmental operations, as recommended by the Civic Federation in its Cook County Modernization report.

The Civic Federation commends Board President Preckwinkle and her team for continuing to move toward the full repeal of the ill-conceived one percentage point sales tax increase, reforming County operations and implementation of the managed competition process, making significant budgetary reductions, moving forward on implementation of the Set Target, Achieve Results (STAR) performance management initiative and for reducing subsidies to unincorporated areas.

However, the Civic Federation is concerned about the County's long-term structural deficit. Addressing the structural deficit will require additional operational reforms, which will likely include further staffing reductions. To drive this process in a rational and transparent way, the County needs to develop a long-range financial plan that addresses the County's cost drivers, stabilizes skyrocketing pension obligations and increases the efficiency of service delivery.

The Federation offers recommendations to help the County improve efficiency and enhance its financial practices, including fully repealing the sales tax increase, undertaking a long-term financial planning process that involves all stakeholders, implementing pension reforms, improving the financial management of the Cook County Health and Hospitals System and enhancing budget communication.

The Civic Federation offers the following **key findings** on the Cook County FY2012 proposed budget:

- The County's operating budget, which includes the General and Special Purpose Funds, will decrease by 3.7%, or $112.3 million, to $2.9 billion from FY2011 adopted appropriations of nearly $3.1 billion.
- The FY2012 Cook County budget proposes a decrease of 1,307.8 full-time equivalent (FTE) positions, including Health System positions. This is a 5.6% decrease from the adopted FY2011 budget of 23,213.3 FTEs to 21,914.5.[1]
- The number of fully funded positions for the Health System is 6,240.9, a decline of 12.3%, or 818.6 FTEs, from 6,638.1 in FY2011.[2] The Health System's budget includes 839.0 vacant FTEs and 343.1 new FTEs, but most of these positions are only budgeted for 20% time.
- Personal service appropriations will constitute 64.8% of the total budget, down 5.8 percentage points from 70.6% in FY2011. FY2012 marks the lowest ratio of personnel appropriations to operating budget in the past five years.
- The property tax levy will increase slightly to $721.9 million in FY2012 as the County proposes to capture $1.4 million in property taxes from expiring tax increment financing (TIF) districts. The Cook County property tax levy was held constant at $720.5 million from FY2001 to FY2011.
- The unreserved fund balance for the General Fund dropped to its lowest amount since 2002 - $30.8 million, or 2.3%, of total operating expenditures.

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[1] Details of the exact number of layoffs, including the number of part-time and full-time layoffs, vacancy eliminations and descriptions are not included in the proposed FY2012 budget narrative.
[2] Communication between the Civic Federation and the Cook County Health and Hospitals System, October 27, 2011.

The Civic Federation **supports** the following elements of the Cook County FY2012 proposed budget:

- Repealing an additional 0.25 percentage point of the ill-conceived one percentage point sales tax increase;
- Making significant expenditure reductions, especially in personnel costs;
- Proposing targeted revenue increases primarily in tobacco, alcohol and parking taxes and fees;
- Holding the property tax levy nearly flat;
- Reducing the County subsidy to unincorporated areas;
- Pursuing managed competition opportunities;
- Releasing the budget before the end of the fiscal year; and
- Launching the Set Targets, Achieve Results (STAR) performance management initiative.

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

- The County will continue to have a significant gap between ongoing revenues and expenditures in future years even with the actions taken in FY2012 to reduce the structural deficit;
- The County proposes to use some non-recurring revenues to close the FY2012 budget gap, which should be avoided because it does not address the structural deficit;
- The County's unreserved General Fund fund balance has declined to only 2.3% of operating expenditures;
- The Health System's financial situation is still strained;
- The County's financial reports are not released in a timely fashion; and
- The FY2012 budget document lacks significant detail regarding revenue sources.

The Civic Federation offers the following **<u>recommendations</u>** to Cook County:

- Improve the financial management of the Health System, primarily through re-evaluation of the System's strategic plan;
- Develop and implement a formal long-term financial plan;
- Establish financial policies recommended by the Government Finance Officers Association, including adopting a fund balance policy that establishes the level of unrestricted fund balance that should be maintained in the General Fund;
- Adopt the governance reforms outlined in the Civic Federation's Cook County Modernization Report;
- Implement comprehensive pension reforms to reduce unfunded liabilities, including requiring employer and employee contributions to relate to the health of the fund;
- Produce a comprehensive Capital Improvement Plan that includes a prioritized list of all proposed capital projects and funding sources;
- Improve budget documents by adding more details to appropriations and resources data; and
- Publish the Comprehensive Annual Financial Report within six months of the close of the fiscal year.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Cook County FY2012 Executive Budget Recommendation totaling $2.9 billion in operating appropriations. Cook County Board President Toni Preckwinkle's proposed $2.2 billion General Fund budget is a 4.6%, or $107.4 million, **decrease** from the FY2011 adopted budget. The budget closes a $315.2 million shortfall with $219 million in spending cuts including over 1,000 layoffs and $53 million in revenue enhancements.[3]

We commend Board President Preckwinkle and her team for continuing to move toward the full repeal of the ill-conceived one percentage point sales tax increase, reforming County operations, making significant budgetary reductions and moving forward on implementation of the STAR performance management initiative. We strongly endorse reducing subsidies to unincorporated areas as a matter of fundamental fairness; all taxpayers should pay their fair share of the cost of County services. Finally, we are encouraged by the implementation of a managed competition process for custodial services that should yield improved efficiency and lower costs.

However, the Civic Federation is concerned about the County's long-term structural deficit. The County projects that without remedial action deficits will grow from $210 million in FY2013 to as much as $667 million in FY2016.[4] The drivers of the future deficits include reduced revenues from the repeal of the remaining portion of the sales tax, the continued use of non-recurring revenues, the declining financial situation of the pension funds, escalating healthcare costs and rising personnel costs. Even with the elimination of 1,000 positions spending for personnel services in the General Fund is projected to decrease by only 1.4%, or $24.5 million, in FY2012.

Addressing the structural deficit will require additional operational reforms, which will likely include further staffing reductions. To drive this process in a rational and transparent way, the County needs to develop a long-range financial plan that addresses the County's cost drivers, stabilizes skyrocketing pension obligations and increases the efficiency of service delivery.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of Cook County's FY2012 Executive Budget Recommendation.

Repealing an Additional 0.25 Percentage Point of the One Percentage Point Sales Tax Increase

Board President Preckwinkle continues to fulfill her pledge to fully roll back the County's home rule sales tax to 0.75%. The strategy has been to roll back the increase in three stages: 0.50% in

[3] The number of layoffs includes the elimination of 1,055 filled positions and 482 vacancies, according to communication between the Civic Federation and the Cook County Department of Budget and Management Services, November 1, 2011. However, these figures are not reflected in the County's budget documents.
[4] Cook County FY2012 Executive Budget Recommendation, Resident's Guide, p. 3. Cook County is required by law to pass a balanced budget so it does not have a budget "deficit" in the same sense that the U.S. federal government has a deficit. The "budget deficit" is a commonly used synonym for the projected budget gap calculated by the County before its budget is developed. It refers to the gap between projected revenues and expenditures for the next fiscal year, which must be addressed in the proposed budget ordinance.

FY2011, 0.25% in FY2012 and 0.25% in FY2013 (the latter two effective January 1, 2012 and January 1, 2013, respectively).[5] If the FY2012 reduction is maintained by the County Board, the County's home rule sales tax will fall to 1.0% in 2012 and the composite rate in the City of Chicago will be 9.50%. The FY2012 reduction translates into $51.5 million less in revenues.[6]

Board President Preckwinkle is to be commended for exercising leadership on this key financial management issue. The sales tax increase was ill-conceived and not justified by evidence of demonstrated need. Its full repeal will be welcomed by County residents.

Significant Expenditure Reductions

The proposed FY2012 budget gap-closing measures include $219 million in spending cuts. These reductions are the result of the elimination of over 1,000 positions, elimination of non-union employee step increases, reductions in worker's compensation costs, a 3% across-the-board spending reduction and lower costs due to a reduction of 1,000 in the County jail population through an increase in electronic monitoring efforts.[7] The budget also increases reimbursements by $4 million for indirect and pension costs from Special Purpose Funds to the General Fund. Expenditure reductions constitute 69.3% of all measures being proposed to eliminate the $315 million deficit.

The employee layoffs and possible corresponding reductions in service are unfortunate. No administration makes these decisions lightly. However, as personnel costs are the largest component of the budget, significant reductions must be made in personnel to balance this budget. The scale of these reductions is a consequence of the County's repeated failure to right-size its operations in past years.

Reasonable Targeted Revenue Enhancements

The budget proposes a number of targeted revenue enhancements. They include:

- Extending the County tobacco tax to loose tobacco products ($12.1 million);
- Aligning the Cook County Use Tax on the sale of titled property with other counties ($14 million);
- Increasing alcohol taxes by 50% ($10.9 million); and
- Instituting parking fees at County facilities, such as Stroger Hospital and courthouses ($6.0 million).

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[5] Cook County FY2012 Executive Budget Recommendation, Revenue Estimates, p. 3. See Cook County Ordinance 11-O-31 and Cook County Code Section 74-151.
[6] Cook County FY2012 Executive Budget Recommendation, Revenue Estimates, p. 2.
[7] The number of layoffs includes the elimination of 1,055 filled positions and 482 vacancies, according to communication between the Civic Federation and the Cook County Department of Budget and Management Services, November 1, 2011. However, these figures are not reflected in the County's budget documents. Cook County FY2012 Executive Budget Recommendation, Resident's Guide, p. 3 and information provided by the Cook County Department of Budget and Management Services, October 22, 2011.

The loose tobacco tax closes a loophole, while the use tax and alcohol tax increases align Cook County with other jurisdictions. The parking fees will help pay for rehabilitation and maintenance of County infrastructure. None of these are broad-based taxes, but rather they impact specific sets of users. The Civic Federation supports these revenue enhancements as reasonable adjustments to the County's revenue base.

Holding Property Tax Revenue Nearly Flat

The FY2012 budget proposes to raise the County property tax levy by $1.4 million, from $720.4 million to $721.8 million. The increase reflects the County's intention to capture property tax revenues from three expiring Chicago Tax Increment Financing (TIF) districts. However, the levy increase is not an increase in the amount of money taxpayers will owe in property taxes. This is because taxpayers were previously paying the $1.4 million for TIF district expenses to the City of Chicago. Now, they will pay the $1.4 million instead as part of the Cook County levy. Cook County has not increased its levy since FY2001.

Reducing the County Subsidy to Unincorporated Areas

The administration proposes to end subsidies to unincorporated Cook County by offering these areas a choice of either becoming part of a special service area (SSA) or ending the provision of County services by mid-2012. This measure will save an estimated $5.5 million by requiring residents in these areas to pay for the full cost of law enforcement. In future years, it could save up to $11 million.

<u>The Civic Federation strongly supports ending Cook County taxpayer subsidies to unincorporated areas</u>. This was a key recommendation of our Cook County Modernization Report released in October 2010.[8] We support the administration's direction in implementing a version of our proposal.

Cook County government currently provides law enforcement, animal control, liquor control and building and zoning services to the 109,300 residents of county unincorporated areas. In FY2010 the cost for providing these services was approximately $54.7 million or $501 per resident of the unincorporated areas. Currently all Cook County residents pay taxes to provide services to the residents in the unincorporated areas. Thus, residents in the incorporated areas are subsidizing services for the 109,300 residents in the unincorporated areas. The residents in the unincorporated areas are paying much less in taxes than they would be if they were charged the full cost of those services.

To reduce this subsidy, the County should either transfer the responsibility for providing unincorporated area services to neighboring municipalities or create SSAs. An SSA would have the ability to levy taxes on unincorporated areas, requiring them to pay for the services received.

An SSA is a contiguous area within a municipality or county in which governmental services are provided. The cost of the special services is paid from revenues collected from property taxes

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

levied upon property within that area.[9] An SSA is designed to allow local governments to tax for and deliver services to limited geographic areas within their jurisdictions. The County could shift most of the cost of service provision in the unincorporated areas to their residents by establishing special service areas. The taxes paid by residents would provide for those county services. Because these areas are not contiguous, separate SSAs would have to be created for each unincorporated area. The County could create an umbrella agency to supervise SSA activities, although each area would have its own governing board. Property taxes in the new SSAs would be higher than is currently the case. This could provide a strong incentive for residents to seek annexation to neighboring municipalities.

Managed Competition for Custodial Services

The County is implementing a managed competition process for custodial services.[10] The Civic Federation has long been supportive of alternative service delivery efforts when appropriate. Custodial services are an area where there is a marketplace of qualified vendors, and it is very appropriate to use a competitive model to improve the efficiency of service provision and lower costs to taxpayers. We urge the County to evaluate whether there are additional services that could benefit from outsourcing or managed competition.

Budget Process Improvements

Board President Preckwinkle issued an executive order requiring that the County, like the City of Chicago, issue a preliminary budget estimate prior to the beginning of FY2012. That estimate was released on July 28, 2011. The preliminary budget estimate is a useful tool to inform stakeholders of the County's fiscal situation and help shape the development of the final proposed budget. This was a very good step toward sound financial management.

The FY2012 budget was released on October 24, 2011. It is expected that the budget will be adopted before Thanksgiving. This is a dramatic improvement from prior years when the budget was not presented or adopted until the first quarter of the new fiscal year. Cook County's repeated delays in releasing its budget in past years seriously diminished its accountability to the taxpaying public and made the already difficult task of addressing the County's fiscal problems even more challenging. We applaud the Board President and her financial team for addressing one of the more egregious accountability issues facing Cook County.

County Performance Management Initiative (STAR)

Cook County's STAR (Set Targets, Achieve Results) initiative requires that each department and office prepare a quarterly report that establishes measurable performance goals for services provided. The reports describe what each department does, what it is trying to achieve, what goals it has set and measures progress made toward meeting those goals. It provides policymakers with data that they can use to make evidence-based decisions on budgets and programs.[11] To date, two quarterly reports have been published.

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[9] 35 ILCS 200/27-5.
[10] Cook County FY2012 Executive Budget Recommendation, Resident's Guide, p. 4.
[11] See http://blog.cookcountygov.com/performancemanagement/.

The Civic Federation recommended in its 2010 Cook County Modernization Report that performance measures be incorporated into the budgeting and management process.[12] STAR is a concrete effort to do that, and we look forward to its further development and refinement.

Civic Federation Concerns

The Civic Federation has the following concerns related to Cook County's FY2012 Executive Budget Recommendation and finances.

Structural Deficit

Cook County projects that it will continue to have budget deficits in future years even with the actions taken in FY2012 to reduce the structural deficit. The FY2012 budget book presents a General Fund forecast showing that the FY2013 gap between revenues and expenditures will be $210 million. By FY2016 the deficit could grow to $667 million.[13] The factors driving future budget gaps include:

- *Repeal of the remaining portion of the sales tax:* The Civic Federation supports complete repeal of the remaining 0.25% of the sales tax increase. However, repeal will have a large budgetary impact that will require further expenditure reductions or alternative revenue sources.
- *Use of non-recurring revenues:* The County is using $5.8 million in TIF surplus to finance part of the deficit in FY2012. The use of non-recurring revenues means that the deficit will recur in the future when those revenues are no longer available.
- *Declining financial health of pension fund:* The County's pension funded ratio continues to decline, falling to 60.7% funded on an actuarial basis in FY2010. The unfunded actuarial accrued liabilities have grown from $742.7 million in FY2001 to $5.2 billion in FY2010. This situation will require increased funding and/or a reduction in benefits not yet earned by current employees. It will certainly put additional pressure on the rest of the budget as the pension fund requires increased resources.
- *Healthcare costs:* The County has significant exposure to healthcare costs, which affect both employee health insurance expenses and the cost of operating the Health System. The deficit forecast in the FY2012 budget book assumes that health costs will grow at the industry rate of 8%.
- *Personnel costs:* The County has significant employee costs that will continue to put pressure on the budget in future years. For example, even with the elimination of over 1,000 positions, spending for personnel services in the General Fund is projected to decrease by only 1.4%, or $24.5 million, in FY2012. The percentage of the General Fund budget dedicated to personnel will increase from 78.2% to 79.4%.

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[12] Civic Federation. *Cook County Modernization Report. A Roadmap for Cook County Government*. October 25, 2010. pp. 131-132.
[13] The forecast was originally included in the preliminary budget report and represents a mid-year projection of future revenues and expenditures. Cook County FY2012 Executive Budget Recommendation, Resident's Guide, p. 6.

It is also important to note that the County had to close an FY2011 budget deficit that developed mid-year.[14] That deficit materialized because projected revenues in the Health System were not realized. The shortfall had to be closed using net assets of the Health System. Revenues fell short of projections partly because of overly aggressive forecasts by the Health System. However, $39 million of the shortfall is due to revenues added to the Health System's budget by the Board President and County Board based on anticipated Medicaid reimbursements. These budgeted revenues were used to decrease the County's subsidy to the Health System and increase general county spending outside the Health System.

While great strides have been made, the County must address its ongoing structural fiscal problems by continuing to evaluate its operations, reduce costs and improve efficiencies. This is a multi-year process.

Non-Recurring Revenues Used to Balance Budget

The FY2012 budget is balanced in part in with $19 million in one-time revenues, which includes a $5.8 million distribution of surplus TIF district funds declared by the City of Chicago.[15] The amount of non-recurring revenues used to balance this budget is small – 6.0% of the total deficit of $315.5 million. However, it is never a sound financial management policy to use one-time resources to pay for recurring expenditures. The County will need to find resources next year to substitute for this funding.

Low Unreserved Fund Balance

Cook County's unreserved General Fund balance has declined from a high of $259.5 million, or $19.7% of General Fund expenditures, in FY2006 to just $30.8 million, or 2.3% of expenditures, in FY2010.

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." [16] Two months of operating expenditures is approximately 17%. GFOA notes that a smaller size reserve may be appropriate for the largest governments. GFOA also recommends that governments adopt a formal, publicly available fund balance policy.[17]

The Civic Federation is concerned that the County's unreserved fund balance has dropped to very low levels and that it does not currently have an explicit General Fund reserve policy target.

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[14] Cook County FY2012 Preliminary Budget Estimates, p. 1
[15] Cook County FY2012 Executive Budget Recommendation, Revenue Estimates, p. 13.
[16]Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).
[17] Government Finance Officers Association, Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

Cook County Health System Finances and Management

The Civic Federation has several concerns related to the finances and financial management of the Cook County Health and Hospitals System

Optimistic Revenue Forecasts

The Civic Federation is concerned that the Health System makes aggressive forecasts of patient fee revenues in order to support higher appropriation levels. The Health System's actual patient fee revenues fell short of budgeted revenues by $45.6 million in FY2010. In its report on the County's FY2011 proposed budget, the Civic Federation raised concerns about the FY2011 revenue figure.[18] As noted above, this figure was increased by $39 million before the budget was approved by the County Board. In FY2011 actual patient fee revenues are expected to be as much as $120 million below budget. In the proposed FY2012 budget, patient fee revenues are budgeted to increase by more than 41% from expected revenues in FY2011.

Ability to Pursue Strategic Plan

Limited operating revenue growth and a restricted subsidy from the County have raised questions about the Health System's ability to implement its five-year strategic plan. The plan calls for moving resources away from inpatient care and towards outpatient care. The plan requires additional resources to improve services at an expanded clinic network and at Stroger Hospital. Unless expected revenues materialize, it remains unclear whether the System will have sufficient resources to pursue the current plan. The System itself has warned that the FY2012 budget "does not provide adequate capacity to meet all of the quality, patient safety and process improvement goals established in the budget."[19]

Public reporting on consultants' performance and fees

The Civic Federation is concerned about the lack of a clear explanation of fees paid to the Health System's principal consultant, PricewaterhouseCoopers (PwC). PwC was hired in July 2010 to implement sweeping revenue enhancements and expense reductions. The firm was to be paid up to $50 million, contingent on benefits provided to the System. The System has provided reports on consultants' performance at public meetings, but these reports have not offered meaningful information. It remains unclear why PwC was credited with revenue cycle benefits of nearly double the targeted amount for the first eight months of FY2011and is expected to receive fees of roughly $25 million for the fiscal year , despite little or no growth in patient fee revenues.

It should be noted that beginning in FY2012 PwC's fees are budgeted as an expense rather than a deduction to revenues. The Civic Federation is encouraged by the increased transparency of the revised approach. In addition, the Health System is conducting an internal audit to review the performance and compensation of consultants, including PwC.

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[18]Civic Federation, *Cook County FY2011 Proposed Budget: Analysis and Recommendations*, February 16, 2011, p. 8.

[19] Letter from Dr. Terry Mason to Cook County Board President Toni Preckwinkle and the Cook County Board of Commissioners, September 28, 2011.

Timeliness of Audited Financial Report Release

Cook County's fiscal year begins on December 1 and ends on November 30. The Civic Federation believes that all governments should release audited financial statements no later than six months after the close of their fiscal year. For the County, this would mean releasing the Comprehensive Annual Financial Report (CAFR) on May 31 of the following calendar year. This is a minimum best practice, reflected in the Government Finance Officers Association requirement that submissions for its annual Excellence in Financial Reporting award be postmarked no later than six months after the government's fiscal year end.[20]

Cook County did not release its FY2010 Comprehensive Audited Financial Report (CAFR) until September 6, 2011, nine months after the close of the fiscal year. This is a significant delay.

Cook County: CAFR Release Date FY2005-FY2010

Fiscal Year	Release Date
FY2010	September 6, 2011
FY2009	August 31, 2010
FY2008	November 30, 2009
FY2007	August 31, 2008
FY2006	October 29, 2007
FY2005	November 29, 2006

Source: Cook County CAFRs, FY2005-FY2010.

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. We look to the Preckwinkle administration to address this situation for the FY2011 CAFR.

Lack of Estimated Revenue Details

The FY2012 Executive Budget Recommendation omits important revenue data that was available in prior year budget documents. The FY2011 Revenue Estimate was seventy pages and included five years of revenue data by source and by fund. The FY2012 Revenue Estimate is only seventeen pages and includes five years of General Fund revenues, two years of Special Purpose Funds data and a brief summary of revenues for other funds.

Since the County has discretion over the distribution of home rule sales and use taxes, it is important to make this data available so the public may examine the Corporate Fund, Public Safety Fund and Health Fund's shares of each resource. In addition, since the Special Purpose Funds contribute a significant amount of resources to the County, and particularly to the other elected officials, five years of revenue data should be included to identify the County's revenues across all funds.

It is also important to provide detailed information on the Health System's patient fee revenues, which was included in the FY2011 budget book but not in the FY2012 budget book. Increasing

[20] http://www.gfoa.org/downloads/CAFREligibility.pdf

patient fees is critical to the success of the Health System's strategic plan. Without data on fee revenues, the public is unable to evaluate the plan's progress.

Civic Federation Recommendations

The Civic Federation offers the following recommendations to support improved efficiency and to enhance financial practices. Additional recommendations for reforming Cook County government can be found in the Cook County Modernization Report.

Improve the Financial Management of the County Health System

The Civic Federation makes the following two recommendations regarding the Health System's finances.

<u>Re-evaluate the Health System's Strategic Plan in Light of Available Resources</u>

The Civic Federation has supported the Health System's five-year strategic plan with the caveat that it must be adjusted based on changing circumstances. However, it now appears that limitations on the County subsidy and slower than expected growth in internal revenues might jeopardize the System's ability to implement the plan. The System should reassess the feasibility of its plan, given available resources.

<u>Improve Public Presentation of Health and Hospitals System Consultants' Performance and Compensation</u>

Reports presented at public meetings have not provided sufficient information about the System's main consultant, PricewaterhouseCoopers (PwC). Fees paid to the firm are contingent on benefits produced for the System. The System should provide information that clearly explains benefits produced for the System and fees paid to PwC. It is important to explain the base from which benefits are measured and how benefits are determined. The public should be able to understand why benefits credited to the firm do not seem consistent with the System's results.

The Civic Federation is aware that improving basic revenue-collection processes at the Health System is an extremely difficult task. For decades the Health System has focused on patient care rather than patient fee collection, based on the assumption that most patients could not afford to pay. The System is also hobbled by outdated technology and, in some cases, unqualified personnel. These severe challenges might justify fees paid to consultants. However, the public cannot be confident that the System's current Board of Directors, formed three years ago, is properly performing its oversight role unless significant expenses such as the PwC fees are clearly explained.

Develop and Implement a Formal Long-Term Financial Plan

The Cook County FY2012 proposed budget includes a forecast of revenues and expenditures through FY2016.[21] It is important for governments to disclose forecasts to help stakeholders understand what their future financial situations will be and set a framework for future budgets and plans. The County needs to move to the next step and develop a formal long-term financial plan that is shared with and reviewed by key policymakers and stakeholders. This plan must include concrete action steps to address the County's long-term fiscal balance.

The National Advisory Council on State and Local Budgeting (NACSLB) and the GFOA both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.[22] A long-term financial plan typically includes a review of historical financial and programmatic trends; multi-year projections of revenues, expenditures and debt; an analysis of those trends and projections; and the modeling of options to address problems and opportunities. The plan helps governments address fiscal challenges before they become fiscal crises.

A key component of the financial planning is engaging all stakeholders in the process of development of the plan. The GFOA describes long-term financial planning as "not just a staff-driven process. It is consensus-driven and inclusive, involving elected officials, staff and the public."[23] Among other benefits, involving all stakeholders can help staff refine forecasts, institutionalize planning processes and promote strategic decision-making. The County should immediately begin mobilizing for a comprehensive long-term financial planning process.

Therefore, we recommend that in the new fiscal year the County undertake a long-term financial planning process that would proceed in four stages.[24] First, the Board President and her administration would articulate fiscal and programmatic goals and priorities informed by public input. The Long-Term Financial Plan would evaluate financial and service data in order to determine how to accomplish the goals and priorities. It would include a review of the County's financial policies, a financial condition analysis that presents ten years of historical trend information, multi-year financial forecasts, a reserve analysis, an evaluation of debt and capital obligations and a series of action recommendations. The insights derived from the Long-Term Financial Plan would directly inform the development of a balanced Cook County budget that is fiscally sustainable each year. The plan would then be regularly monitored to ensure its viability by means of regular financial reports.

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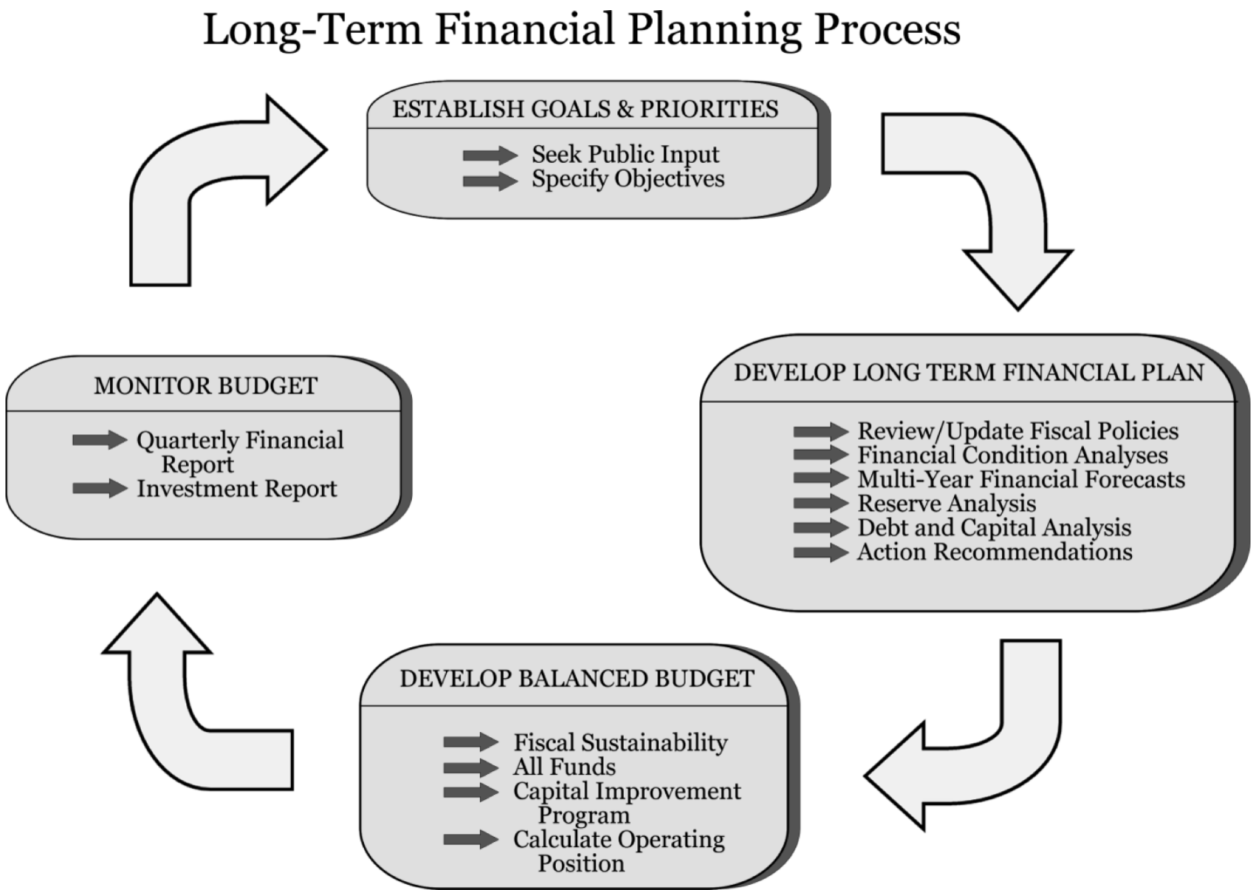
[21] Cook County Cook County FY2012 Executive Budget Recommendation, Resident's Guide, p. 6.

[22] *See* National Advisory Council on State and Local Budgeting and Government Finance Officers Association.

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

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



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

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

Establish Financial Policies

Cook County should develop financial policies recommended by the GFOA and the NACSLB and add a section on financial policies to its budget. The GFOA recommends that the policies be developed by professional staff, adopted by the governing body and summarized in the budget document. It is important to adopt financial polices to help guide the budget process, frame major policy initiatives and provide a benchmark for future financial performance. Financial policies can also be an important building block for long-term financial planning.

Especially critical is the adoption of a fund balance policy that establishes the level of unrestricted fund balance that should be maintained in the General Fund.[25] An adequate fund balance is essential for fiscal stability to protect against revenue and expenditure fluctuations. Cook County could also benefit from considering a policy regarding its property tax levy. In addition, the GFOA recommends that, at a minimum, jurisdictions have policies related to the following:

- **Balanced Budget**: Defines a balanced operating budget, encourages commitment to a balanced budget and provides for disclosure when deviation from a balanced budget is planned or occurs.
- **Long-Range Planning**: Supports a financial planning process that assesses the long-term financial implications of budgets, policies, programs and assumptions.
- **Debt Capacity, Issuance and Management**: Specifies appropriate uses for debt and identifies the maximum amount of debt and debt service that should be outstanding at any time.
- **Reserve or Stabilization Accounts**: Recommends maintaining a prudent level of budget reserves to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.
- **Operating/Capital Expenditure Accountability**: Compares actual expenditures to budgeted expenditures periodically to decide what actions are necessary to bring the budget into balance.
- **Revenue Diversification**: Encourages a diversity of revenue sources to offset fluctuations in individual sources.
- **Fees and Charges**: Identifies the manner in which fees and charges are set and the extent to which they cover services provided.
- **Use of One-time Revenues**: Discourages the use of one-time revenues for ongoing expenditures.
- **Use of Unpredictable Revenues**: Describes the collection and use of major revenues sources that are considered unpredictable.[26]

Adopt Governance Reforms

Although many of the reforms outlined in the Civic Federation's Cook County Modernization Report have been embraced by the current administration, there has been limited discussion of the report's governance recommendations. Governance is a key area to address because the County's current structure obscures responsibility, which is one of the root causes of its inefficient operations. The County should consider the following Modernization Report governance recommendations:

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[25] Government Finance Officers Association, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted October 2009).
[26] Government Finance Officers Association, "Adoption of Financial Policies" (2001).

- Separate the Cook County Forest Preserve District Board from the Cook County Board;
- Create a unified property tax administration office;
- Merge Clerk and Recorder of Deeds Offices; and
- Allow the judiciary to appoint the Clerk of the Circuit Court.[27]

Implement Pension Reforms

The Cook County pension fund actuarial value funded ratio has fallen from 88.9% to 60.7% over ten years. The unfunded actuarial accrued liabilities have reached nearly $5.2 billion. While the County's pension fund is not yet in as dire straits as some other state and local pension funds, it soon will be if no action is taken. Major reforms to contributions and benefits will keep the pension fund solvent and distribute taxpayers' burden more fairly by tackling the problem sooner rather than requiring larger service cuts or tax increases later to keep promises made to retirees and employees. The Civic Federation's Cook County Modernization Report recommended that the following reforms be implemented within the next four years.

<u>Fund Pensions at the Annual Required Contribution Level</u>

Employer and employee contributions should be increased and responsive to the health of the fund. The cost to fund at the annual required contribution (ARC) level will be high: In FY2010 the full employer cost would have added an additional $387.6 million to the current $184.7 million employer contribution. This cost increase would be reduced if the ARC funding were shared with employees (see the Chicago Transit Authority model, which is based on - 60%/40% employer/employee contribution structure).

<u>Reduce Benefits for Current Employees</u>

In order to reverse the deterioration of its pension fund, Cook County will likely need to reduce benefits not yet earned by its current employees. Retiree benefits are protected by the U.S. Constitution and new employee benefits were reduced by recent legislation. If the pension plan's funded ratio is allowed to deteriorate past the point of recovery, current employee benefits will have to be reduced.

<u>Implement Governance Reforms</u>

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

<u>Prohibit Benefit Enhancements Until 90% Funded</u>

Cook County should pursue legislation to prohibit benefit enhancements unless the plan is over 90% funded, enhancements are fully funded with contributions and will expire in five years.

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[27] More information on these recommendations can be accessed at http://civicfed.org/civic-federation/cookcountymodernization.

Develop a Formal Capital Improvement Plan

The County's FY2012 budget includes some information on its capital program such as estimated five-year cost and descriptions of the projects to be funded. However, more detail regarding the capital needs and the prioritization of projects should be made available in future budgets.

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

The County's capital program should identify the funding source for all current and future planned capital investments. The type of funding should be analyzed for the appropriate use of bond funds, pay-as-you-go funds and ongoing capital leases. Long-term bond proceeds should only be used to fund projects with an estimated life as long as or longer than the term of the debt. Investments in capital assets with shorter life spans should be analyzed and prioritized for pay-as-you-go funding or capital leases to ensure effective use of capital funding sources.

Improve Budget Document

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

Clarifying Budget Descriptions

The budget document should use clarifying language to specify whether figures labeled as "FY2011 Expenditures" are year-end estimates, year-to-date expenditures or representative of another calculation. This is an important factor in order to accurately compare past and proposed expenditures.

Additional Appropriations Data

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

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

Additional Revenue Data

The FY2012 Executive Recommendation omits important revenue data that was available in the prior year budget documents. The FY2012 budget's revenue section, called Revenue Estimates, includes details on revenues by source for the General Fund, historical breakdown of the property tax levy, summary of revenue producing agencies with five years of data and the FY2012 Special Purpose Funds summary. Included in previous years, but not in this year's budget proposal, were the following:

- Overview of revenues for all funds;
- Estimated revenues and resources by fund;
- Breakdown of home rule taxes, sales and use taxes and gas tax by fund;
- Fees by fund;
- Intergovernmental revenues by fund;
- Personal Property Replacement Tax (PPRT); and
- Miscellaneous revenues by fund.

Personnel Data

The FY2012 Executive Budget Recommendation's Proposed Expenditures section includes charts with personal service appropriations, FTE count and salary appropriations. However, the proposed budget lacks narrative and detail on personnel changes. The Resident's Guide and Proposed Expenditures sections indicate that the County's workforce will decline by 537.2 FTEs and refer to layoffs of over 1,000. However, the breakdown of full- and part-time positions and vacancy eliminations are not included. Personnel count details such as these would be helpful in understanding the Board President's proposal to reduce the County's workforce.

Additional Explanatory Information

The budget would benefit from additional narrative and summary charts with more thorough explanations of current budgetary issues, such as a detailed list and description of the gap-closing measures with associated dollar amounts and whether or not the actions are one-time solutions or structural ones.

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

State law requires counties with a population over 10,000 but under 500,000 to produce audited financial statements within six months of the close of the fiscal year and submit a financial report to the State Comptroller (55 ILCS 5/6-31003). The state's four largest counties, including Cook County, are effectively exempted from these audit requirements. The Civic Federation has urged the General Assembly to amend 55 ILCS 5/6-31003 and eliminate this exemption. Absent a change to State law, the County should voluntarily release its CAFR within six months of the close of the fiscal year.

ACKNOWLEDGMENTS

The Civic Federation would like to express its appreciation to Cook County Chief Financial Officer Tariq Malhance, Budget Director Andrea Gibson, Chief of Staff to the President Kurt Summers, Cook County Health and Hospitals System Chief Executive Officer Ramanathan Raju, and their staffs for their efforts in preparing this budget. We appreciate their willingness to answer many of our budget questions.

FY2012 BUDGET DEFICIT & GAP CLOSING MEASURES

In the Cook County 2012 Preliminary Budget Estimates report, the Department of Budget and Management Services projected a $315.2 million budget deficit for FY2012.[28]

The largest contributors to the budget deficit are reduced tax revenue (primarily due to the sales tax rollback), delayed patient fee collection through the Cook County Health and Hospitals System, increased costs due to the 2012 elections, reduction in one-time revenue sources and the timing of the 2012 tax sale.[29] General Fund revenues for FY2012 are projected to be $195.7 million, or 8.9%, less than the FY2011 year-end estimates. General Fund expenditures for FY2012 are projected to be $3.3 million more than FY2011 year-end estimates.

Cook County FY2012 Projected Budget Deficit					
	FY2011 Adopted Budget	FY2011 Year-End Estimate	FY2012 Projected	$ Change from Year-End	% Change from Year-End
General Fund Revenues	$ 2,329,529,825	$ 2,207,497,874	$ 2,011,803,050	**$ (195,694,824)**	**-8.9%**
General Fund Expenditures	$ 2,329,529,825	$ 2,323,689,086	$ 2,327,011,393	**$ 3,322,307**	**0.1%**
Budget Surplus (Deficit)	**$ -**	**$ (116,191,212)**	**$ (315,208,343)**	**-**	**-**

Source: Cook County FY2012 Preliminary Budget Estimates, p. 1.

Lack of Information on Gap-Closing Measures

The County's FY2012 Executive Budget Recommendation includes a summary of the steps taken to close the $315.2 million budget gap in the Resident's Guide section. The summary states that the budget deficit will be closed with $219.0 million in structural changes, $25.0 million in financial management initiatives, $52.0 million in revenue enhancements and $19.0 million in one-time budget fixes.

Cook County FY2012 Budget Deficit (in $ millions)	
FY2012 Deficit Closing Measure	
Structural Changes	$ 219
Financial Management	$ 25
Revenue Enhancements	$ 52
One-time Budget Fixes	$ 19
Total	**$ 315**

Note: Totals may not add due to rounding.

Source: Cook County FY2012 Executive Budget Recommendations, Resident's Guide, p. 3.

The following information about the gap-closing measures is provided in the budget: [30]

- *Expenditure Reductions*:
  - Lay off at least 1,000 employees: $40 million
  - Eliminate non-union step increases: $1.8 million

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

[29] Cook County FY2012 Executive Budget Recommendation, Resident's Guide, pp. 1-5.

[30] Cook County FY2012 Executive Budget Recommendation, Resident's Guide, pp. 3-5.

- Make the day after Thanksgiving a county-wide shut-down day: $2 million
    - Reduce jail population by 1,000 defendants by December 1, 2012 through electronic monitoring and community-based alternatives: $5 million
    - Reduce the number of juveniles in the Juvenile Temporary Detention Center through the use of enforcement and/or community-based alternatives: $1.6 million
    - Consolidate weekend bond court to the Criminal Courthouse in Chicago for an estimated savings of $1.9 million
    - Improve snow removal and reduce costs by hiring seasonal workers: $200,000
    - Improve contracting for utilities and additional strategic sourcing methods: no dollar amount provided
    - Reduce the cost of custodial services through managed competition: no dollar amount provided

- *Financial Management*:
    - Use Motor Fuel Tax revenue to issue a $100 million bond for the purpose of infrastructure projects: $25 million relief for the General Fund

- *Revenue Enhancements*:
    - Apply the County tobacco tax to loose tobacco products: $12.1 million
    - Align the Cook County Use Tax on the sale of titled property with other counties: $14 million
    - Increase alcohol taxes by 50%: $10.9 million
    - Institute parking fees at County facilities such as Stroger Hospital and courthouses: $6.0 million
    - Increase property tax levy to capture revenue from expiring Tax Increment Financing (TIF) districts: $1.4 million

- *One-time Budget Fixes*:
    - Distribution from TIF surplus declared by the City of Chicago: $5.8 million[31]

- *Other*:
    - Lower workers' compensation costs due to recent experience: $3 million

The Civic Federation was unable to find further detailed evidence in the budget documents for the specific actions proposed in the general categories described above or the dollar amounts associated with every gap-closing measure. As a result, the Federation cannot evaluate the proposed gap-closing package, projected savings and revenues or proportion of one-time versus structural actions.

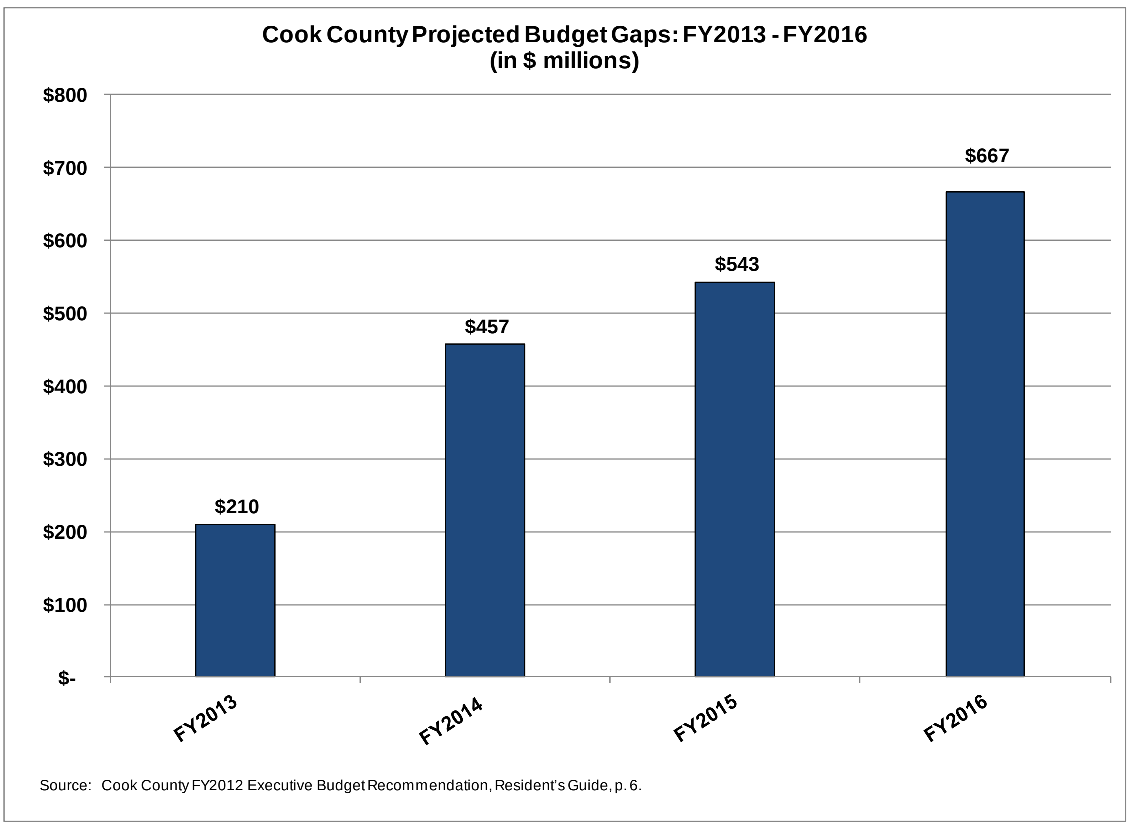
[31] Cook County FY2012 Executive Budget Recommendation, Revenue Estimates, p.13.

Projected FY2013-FY2016 Budget Gaps

The County's FY2012 Executive Budget Recommendation provides a graph showing FY2007 through FY2016 projected General Fund budget gaps.[32] This was a requirement of Board President Preckwinkle's Executive Order 2011-1 issued on June 29, 2011.

The budget book does not provide complete details on the assumptions used to make the projections. It states that the revenue projections use a customized forecasting model to take into account one-time revenue changes (such as the sales tax rollback) and economic trends. Regarding expenditures, the projection assumes that General Fund health-related expenditures (employee healthcare and the Health System) will grow at the industry rate of 8% annually, while non-health-related expenditures will increase at 2.44%, the average annual increase in the Consumer Price Index over the last ten years. It also assumes that bond and interest costs will increase from $191 million in FY2010 to $294 million in FY2014 and that rising pension costs will continue to crowd out property tax revenue available to the General Fund.

These projections demonstrate that if nothing is done in FY2012 to significantly change the structural gap between ongoing expenditures and revenues, the County will face larger gaps in the future.



[32] Cook County FY2012 Executive Budget Recommendation, Resident's Guide, p. 6. The graph does not include numbers for the FY2007 to FY2012 gaps; it only includes numbers for the FY2013 to FY2016 gaps.

COOK COUNTY MODERNIZATION PROJECT

There is widespread recognition that Cook County faces a multitude of challenges including a large structural deficit, inefficient operations and an outmoded governance structure. The Civic Federation embarked on the Cook County Modernization Project in 2010 to provide a roadmap for creating a county government that is more efficient, less costly and more accountable.[33]

The report addressed all Cook County functions, but particular emphasis was paid to improving operational efficiency across the Offices under the President, reforming the governance structure and proposing reforms for the Health System. The report also contained detailed information and analysis regarding Cook County's governance and administration, budget and pension fund.

The Modernization Report contained recommendations that could be implemented in the first 100 days of Board President Preckwinkle's administration as well as others that will require a sustained, multi-year effort. The Modernization Report recommendations were a mixture of new ideas and previously proposed solutions that were never implemented by prior County administrations. The recommendations included a timeline for action and identified the responsible county officials to lead and implement the changes.

On March 25, 2011 the Civic Federation released a review of the status of all 36 recommendations made in the Modernization Report, as well as a dashboard rating system for recommendations that were to be implemented within the first 100 days under the leadership of the incoming Board President.[34] The report found that the County had made substantial progress in implementing many of the recommendations. For example, the County adopted an ordinance to fully repeal the one percentage point sales tax increase of 2008 and adopted a budget that included some significant cost reductions. The administration took steps to incorporate performance measurement into the budget process and made attempts to centralize some key administrative positions.

Since March 2011 additional progress has been made on meeting the Cook County Modernization Report's recommendations. Of the 36 recommendations:

- Five recommendations have been implemented;
- Significant progress has been made on nine recommendations;
- Limited progress has been made on eight recommendations;
- The administration opposes one recommendation – to separate the governance of Cook County government and the Forest Preserve District; and
- The administration's position has not been determined on four recommendations.

The dashboard on the following pages illustrates progress made on the Civic Federation's Modernization Report recommendations. A short narrative on each recommendation is provided in the Appendix on page 76.

[33] Civic Federation, *Cook County Modernization Report: A Roadmap for Cook County Government*, October 25, 2010, http://civicfed.org/civic-federation/cookcountymodernization.
[34] Civic Federation, *Cook County Modernization: 100-day Accountability Report*, March 25, 2011, http://civicfed.org/civic-federation/cookcountymodernization.

Cook County Modernization Report Recommendations Status			
Recommendation	**Rating**	**Status**	**Timeline**
1. Roll Back the Remaining Half Percentage Point Sales Tax Increase		Implemented	First 100 Days
4. Appoint a Public Safety Task Force		Implemented	First 100 Days
5. Delay New Hiring Until January 1, 2011		Implemented	First 100 Days
8. Integrate Performance Measurement into Budgeting and Make the Information Public		Implemented	First 100 Days
20. Reform Purchasing Practices		Implemented	2011
2. Close the FY2011 Budget Deficit		Significant Progress	First 100 Days
6. Upgrade Enterprise Resource Planning System		Significant Progress	First 100 Days
10. Report Additional Appropriations and Resources Data in Budget		Significant Progress	First 100 Days
14. Include All Operating Expenses of the Health System in the System's Budget		Significant Progress	First 100 Days
22. Fully Exercise Presdential Budgetary Authority		Significant Progress	First 100 Days
12. Adopt Budget Prior to the Start of the Fiscal Year		Significant Progress	2011
17. Implement Alternative Service Delivery Options		Significant Progress	2011
16. Eliminate Subsidy for Unincorporated Areas		Significant Progress	2011
26. Reform Criminal Justice Practices		Significant Progress	2012
3. Give Health System Budgetary Flexibility		Limited Progress	First 100 Days
7. Centralize Key Administrative Functions		Limited Progress	First 100 Days
13. Enhance Pension Fund Financial Reporting Data		Limited Progress	First 100 Days
18. Aggressively Pursue Medicaid Patients and Revenues		Limited Progress	2011
19. Reform Information Technology Practices		Limited Progress	2011
21. Provide Incentives for Further Expenditure Reductions and Fee Revenue Enhancements		Limited Progress	2011
29. Identify and Restrict Cost-Shifting to the Health System from Other Healthcare Providers		Limited Progress	2012
34. Implement Pension Reforms		Limited Progress	2014
36. Develop a Vision for the County Revenue Structure		Limited Progress	2014

Cook County Modernization Report Recommendations Status			
Recommendation	**Rating**	**Status**	**Timeline**
9. Adopt and Publish Financial Policies		Supported, But No Implementation	First 100 Days
15. Report Key Indicators of Health System Performance on System Website		Supported, But No Implementation	First 100 Days
11. Produce Audited Financial Statements within Six Months of Close of Fiscal Year		Supported, But No Implementation	2011
23. Prepare a Comprehensive Capital Improvement Program Updated Annually		Supported, But No Implementation	2011
24. Implement a Formal Long-Term Financial Planning Process		Supported, But No Implementation	2011
25. Develop, Track and Publicize Purchasing Performance Goals and Metrics		Supported, But No Implementation	2011
27. Reevaluate Health System Strategic Plan Based on Financial Resources and Geographic Needs		Supported, But No Implementation	2012
33. Establish Reserve Funds for Capital Equipment Replacement		Supported, But No Implementation	2012
28. Separate the Cook County Forest Preserve District from the Cook County Board		Opposed	First 100 Days
30. Create a Unified Property Tax Administration Office		Position Not Determined	2013
31. Merge Clerk and Recorder of Deeds Offices		Position Not Determined	2013
32. Allow the Judiciary to Appoint the Clerk of the Circuit Court		Position Not Determined	2013
35. Consider Establishing a Dedicated Revenue Stream for the Health System		Position Not Determined	2014

Key

Implemented	
Significant Progress	
Limited Progress	
Supported But No implementation	
Opposed	
Position Not Determined	

Note: Implementation timelines have been reassessed, but the numbering from the Modernization Report was maintained. As a result, some recommendations are not in numeric order.

APPROPRIATIONS

The following section presents trends for FY2012 appropriations for all funds by control officer and by fund. FY2012 appropriations are compared to FY2008-FY2010 actual expenditures and FY2011 adopted appropriations.

All Funds Appropriations by Control Officer

Cook County total FY2012 appropriations, including the operating budget and capital improvement funds, will decrease by 5.1%, or $180.2 million, to $3.3 billion from FY2011 appropriations of $3.5 billion.

The County's operating budget will decrease by 3.7%, or $112.3 million, to $2.9 billion from FY2011 adopted appropriations of nearly $3.1 billion. The operating budget is comprised of the General Fund, which includes the Corporate, Public Safety and Health Funds used for general County expenses, and the Special Purpose Funds, which include revenues restricted for particular uses only. Cook County has a number of independently elected officials who play important roles in the budget process; therefore, we examine expenditures by control officer.

General Fund

The General Fund budget will decrease by 4.6%, or $107.4 million, to $2.2 billion from FY2011 appropriations of $2.3 billion. The budget for departments controlled by the President will decrease by 12.0%, or $74.0 million, falling to $541.0 million. Departments controlled by other elected officials are expected to decrease by 1.9%, or $15.6 million, to nearly $787.1 million in FY2012. The budget for the Cook County Health and Hospitals System is projected to decrease by 2.0%, or $17.8 million, to $894.0 million from FY2011 appropriations of $911.9 million.

The majority of expenditures for FY2012 will decrease in comparison to FY2011 appropriations, but four areas under the General Fund are projected to increase in budget. Under the General Fund, appropriations for the President's Office will rise by 14.1%, or $514,800 over FY2011 appropriations. At the same time, appropriations for the President's Office through Special Purpose funds will fall by 100.0%, or $854.0 thousand, from FY2011 budgeted amounts, resulting in a net decrease of $339,200 in the President's Office for all funds.

General Fund appropriations for the Bureau of Human Resources and the Office of the Independent Inspector General will increase by 4.8% and 9.7%, respectively. The Office of the Independent Inspector General plans to hire four additional employees to investigate compliance issues, primarily within the Cook County Health and Hospitals System.[35]

In a five-year trend comparison, the General Fund budget will increase by 9.8%, or $198.7 million, to $2.2 billion in FY2012 from $2.0 billion in FY2008 actual expenditures. Among the Offices Under the President, Fixed Charges and Special Purpose appropriations will increase by

[35] Cook County FY2012 Executive Budget Recommendation, Independent Inspector General, p. J-3.

76.1%, or $173.6 million, in FY2012 over FY2008 actual expenditures.[36] In FY2012 the Office of the Independent Inspector General is projected to increase by 363.7%, or nearly $1.4 million, over FY2008 actual expenditures. Health System appropriations will increase by 8.8%, or $72.0 million, to $894.0 million in FY2012. Appropriations for Facilities, the Chief Judge, Cook County Board of Commissioners and Public Administrator will also rise by 6.4%, 7.0%, 3.0% and 6.2%, respectively.

Special Purpose Funds

Appropriations for the Special Purpose Funds will increase by 5.6%, or $29.7 million, to $561.5 million over the FY2011 adopted budget of $531.8 million. The Board of Election Commissioners will experience the greatest increase in appropriations as its budget rises by 3,503.0%, or $16.9 million as a result of 2012 election costs. Appropriations for the County Clerk will rise by 24.6% also rise due to the 2012 elections. Appropriations for the Bureau of Technology are expected to increase by 194.7%, or $11.8 million, over the FY2011 adopted budget, and the entire amount is designated solely for the Bureau's Department of Geographic Information Systems.[37] The Department of Intergovernmental Agreement/ETSB under the Sheriff will increase by $1.8 million, or 101.3%, over FY2011 appropriations. The majority of the increase can be attributed to personnel costs.[38]

Between FY2008 and FY2012, Special Purpose Funds will decrease by 8.6%, or $52.9 million. While most control officers have increased their budgets during the past five years, a large portion of the overall reduction can be attributed to the 9.0% decline from the Bond and Interest Fund. This decrease accounts for approximately 36.3%, or $19.2 million, of the Special Purpose Funds' overall reduction in the five-year span.

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[36] Fixed Charges and Special Purpose appropriations include items or costs that cannot be readily distributed to any one department within the respective funds as the items or costs contribute to operations of some or all departments of these funds. Cook County FY2012 Executive Budget Recommendation, Proposed Expenditures, p. 4.
[37] Cook County FY2012 Executive Budget Recommendation, Bureau of Technology, p. G-1.
[38] ETSB – Emergency Telephone Services Board, provides 9-1-1 service to Cook County; Cook County FY2012 Executive Budget Recommendation, Sheriff, p. V-73.

Cook County Appropriations All Funds by Control Officer: FY2008-FY2012 (in $ thousands)									
Control Officers	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Adopted	FY2012 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
General Fund									
Offices Under President									
President	$ 4,299.4	$ 4,499.3	$ 4,103.5	$ 3,650.0	$ 4,164.8	$ 514.8	14.1%	$ (134.7)	-3.1%
Chief Administrative Officer	$ 29,385.7	$ 29,367.8	$ 27,763.3	$ 21,716.4	$ 19,807.6	$ (1,908.8)	-8.8%	$ (9,578.0)	-32.6%
Chief Financial Officer	$ 11,813.0	$ 12,306.9	$ 11,963.0	$ 10,772.1	$ 10,325.3	$ (446.9)	-4.1%	$ (1,487.8)	-12.6%
Bureau of Human Resources	$ 3,335.4	$ 3,404.0	$ 3,625.1	$ 2,941.4	$ 3,083.4	$ 142.0	4.8%	$ (252.0)	-7.6%
Bureau of Technology	$ 11,443.9	$ 16,260.8	$ 12,903.2	$ 11,968.1	$ 10,189.0	$ (1,779.1)	-14.9%	$ (1,254.9)	-11.0%
Bureau of Economic Development	$ 6,384.4	$ 6,951.1	$ 6,225.2	$ 5,831.0	$ 5,315.8	$ (515.2)	-8.8%	$ (1,068.5)	-16.7%
Facilities	$ 31,785.9	$ 34,484.2	$ 36,471.4	$ 37,610.8	$ 33,810.7	$ (3,800.1)	-10.1%	$ 2,024.8	6.4%
Other Agency*	$ 54,742.2	$ 56,668.7	$ 58,657.6	$ 53,521.0	$ 52,641.7	$ (879.3)	-1.6%	$ (2,100.5)	-3.8%
Fixed Charges and Special Purpose	$ 228,117.5	$ 261,106.0	$ 312,883.4	$ 467,003.0	$ 401,693.2	$ (65,309.8)	-14.0%	$173,575.6	76.1%
Subtotal Offices Under President	**$ 381,307.3**	**$ 425,048.7**	**$ 474,595.8**	**$ 615,013.8**	**$ 541,031.5**	**$ (73,982.3)**	**-12.0%**	**$159,724.1**	**41.9%**
Elected Officials**									
Cook County Board of Commissioners	$ 7,089.5	$ 7,414.5	$ 7,307.4	$ 7,375.2	$ 7,301.0	$ (74.2)	-1.0%	$ 211.5	3.0%
Assessor	$ 22,281.4	$ 27,181.1	$ 25,391.0	$ 22,170.3	$ 21,774.0	$ (396.3)	-1.8%	$ (507.4)	-2.3%
Board of Review	$ 7,293.7	$ 7,543.2	$ 8,091.9	$ 6,771.9	$ 7,003.9	$ 232.0	3.4%	$ (289.8)	-4.0%
Clerk of the Circuit Court	$ 80,794.9	$ 81,787.4	$ 77,211.0	$ 74,354.0	$ 72,453.4	$ (1,900.7)	-2.6%	$ (8,341.5)	-10.3%
Chief Judge	$ 159,326.9	$ 191,103.8	$ 194,976.0	$ 171,787.1	$ 170,434.5	$ (1,352.6)	-0.8%	$ 11,107.6	7.0%
County Clerk	$ 8,632.0	$ 8,254.4	$ 8,222.3	$ 7,922.7	$ 7,674.8	$ (247.9)	-3.1%	$ (957.2)	-11.1%
Recorder of Deeds	$ 8,214.2	$ 7,850.2	$ 6,884.8	$ 6,074.1	$ 5,738.2	$ (336.0)	-5.5%	$ (2,476.0)	-30.1%
Sheriff	$ 420,089.4	$ 440,590.3	$ 447,129.9	$ 409,396.2	$ 401,154.9	$ (8,241.3)	-2.0%	$ (18,934.5)	-4.5%
State's Attorney	$ 98,608.3	$ 98,788.5	$ 98,973.5	$ 88,871.8	$ 85,764.6	$ (3,107.2)	-3.5%	$ (12,843.7)	-13.0%
Treasurer	$ 6,290.3	$ 5,854.2	$ 5,248.7	$ 5,188.5	$ 4,871.9	$ (316.6)	-6.1%	$ (1,418.4)	-22.5%
Office of the Independent Inspector General	$ 371.9	$ 538.2	$ 889.1	$ 1,572.0	$ 1,724.8	$ 152.8	9.7%	$ 1,352.9	363.7%
Public Administrator	$ 1,092.6	$ 1,169.2	$ 1,121.5	$ 1,172.0	$ 1,160.5	$ (11.5)	-1.0%	$ 67.9	6.2%
Subtotal Elected Officials	**$ 820,085.0**	**$ 878,075.0**	**$ 881,447.0**	**$ 802,655.8**	**$ 787,056.3**	**$ (15,599.5)**	**-1.9%**	**$ (33,028.8)**	**-4.0%**
Cook County Health and Hospitals System	$ 821,978.0	$ 930,614.8	$ 952,593.3	$ 911,860.2	$ 894,018.4	$ (17,841.8)	-2.0%	$ 72,040.5	8.8%
Subtotal General Fund	**$ 2,023,370.4**	**$ 2,233,738.5**	**$ 2,308,636.1**	**$ 2,329,529.8**	**$ 2,222,106.2**	**$ (107,423.6)**	**-4.6%**	**$ 198,735.9**	**9.8%**
Special Purpose Fund									
President	$ (814.8)	$ 550.8	$ 1,478.9	$ 854.0	$ -	$ (854.0)	-100.0%	$ 814.8	-100.0%
Chief Administrative Officer	$ 16,011.2	$ 18,911.8	$ 20,598.2	$ 30,799.4	$ 32,252.3	$ 1,452.9	4.7%	$ 16,241.1	101.4%
Chief Financial Officer	$ 101,394.3	$ -	$ 93.4	$ -	$ -	$ -	-	-	-
Bureau of Technology	$ 4,768.2	$ 5,682.7	$ 9,143.3	$ 6,051.8	$ 17,834.8	$ 11,783.0	194.7%	$ 13,066.6	274.0%
Annuity and Benefits	$ 183,124.0	$ 186,100.0	$ 186,600.0	$ 192,234.2	$ 196,139.5	$ 3,905.3	2.0%	$ 13,015.5	7.1%
Bond and Interest	$ 212,729.2	$ 209,147.1	$ 190,760.4	$ 272,080.7	$ 193,532.4	$ (78,548.3)	-28.9%	$ (19,196.8)	-9.0%
Less Debt Restructuring	$ -	$ -	$ -	$ (85,000.0)	$ -	-	-	$ -	-
Cook County Health and Hospitals System	$ 6,717.1	$ 5,935.6	$ 4,952.1	$ 10,045.3	$ 7,104.9	$ (2,940.4)	-29.3%	$ 387.7	5.8%
Assessor	$ -	$ -	$ -	$ -	$ 1,237.5	-	-	-	-
Board of Election Commissioners	$ 15,709.9	$ 3,630.3	$ 17,341.0	$ 482.9	$ 17,397.2	$ 16,914.4	3503.0%	$ 1,687.3	10.7%
Clerk of the Circuit Court	$ 21,552.9	$ 26,955.3	$ 32,151.9	$ 34,058.9	$ 30,357.1	$ (3,701.8)	-10.9%	$ 8,804.2	40.8%
Chief Judge	$ 10,844.4	$ 12,266.0	$ 11,431.9	$ 29,470.9	$ 18,048.8	$ (11,422.1)	-38.8%	$ 7,204.3	66.4%
County Clerk	$ 27,770.3	$ 19,454.8	$ 22,987.2	$ 20,792.5	$ 25,906.7	$ 5,114.2	24.6%	$ (1,863.6)	-6.7%
Recorder of Deeds	$ 3,524.6	$ 4,890.6	$ 4,714.6	$ 5,621.9	$ 5,717.3	$ 95.4	1.7%	$ 2,192.7	62.2%
Sheriff	$ 1,085.4	$ 1,212.0	$ 1,472.0	$ 1,809.4	$ 3,641.8	$ 1,832.5	101.3%	$ 2,556.4	235.5%
State's Attorney	$ 4,601.8	$ 5,015.6	$ 5,377.9	$ 3,807.7	$ 3,454.5	$ (353.3)	-9.3%	$ (1,147.3)	-24.9%
Treasurer	$ 5,421.0	$ 6,495.3	$ 6,797.2	$ 8,688.0	$ 8,913.0	$ 225.1	2.6%	$ 3,492.0	64.4%
Subtotal Special Purpose Funds	**$ 614,439.7**	**$ 506,248.0**	**$ 515,899.9**	**$ 531,797.5**	**$ 561,537.7**	**$ 29,740.3**	**5.6%**	**$ (52,902.0)**	**-8.6%**
Allowance for Uncollected Taxes	$ 11,628.9	$ 11,527.1	$ 11,598.0	$ 8,727.2	$ 10,253.2	$ 1,526.0	17.5%	$ (1,375.7)	-11.8%
Restricted Funds	$ 135,569.6	$ 119,550.7	$ 160,810.1	$ 185,029.7	$ 148,928.4	$ (36,101.4)	-19.5%	$ 13,358.8	9.9%
Total Operating Funds	**$ 2,785,008.6**	**$ 2,871,064.3**	**$ 2,996,944.2**	**$ 3,055,084.2**	**$ 2,942,825.5**	**$ (112,258.7)**	**-3.7%**	**$ 157,816.9**	**5.7%**
Capital Improvements	$ 161,084.0	$ 197,798.7	$ 216,318.3	$ 459,605.3	$ 391,689.6	$ (67,915.7)	-14.8%	$ 230,605.6	143.2%
Total Budget	**$ 2,946,092.6**	**$ 3,068,863.0**	**$ 3,213,262.4**	**$ 3,514,689.5**	**$ 3,334,515.1**	**$ (180,174.4)**	**-5.1%**	**$ 388,422.5**	**13.2%**

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

**Some control officers are appointed officials though they are presented in the Executive Recommendation as Elected Officials.

Source: Cook County FY2012 Executive Budget Recommendation, Proposed Expenditures, Q-2A.

All Funds Appropriations by Fund

In FY2012 appropriations for all funds, including capital improvement expenditures, are projected to decrease by 5.1%, or $180.2 million, from the adopted FY2011 appropriations. Total Operating Funds appropriations are expected to decrease by 3.7%, or $112.3 million, from the prior year.

Appropriations for the Corporate, Health and Public Safety Funds will decrease from the FY2011 adopted budget. The Corporate and Health Funds will decrease by 6.1% and 2.0%, respectively, and appropriations for Public Safety will decrease by 6.4%. In the aggregate, General Fund appropriations will decrease by 4.6%, or $107.4 million, to $2.2 billion in FY2012. Appropriations for Special Purpose Funds are projected to increase by 5.6%, or $29.7 million, rising from $531.8 million in FY2011 to $561.5 million in FY2012. Special Purpose Funds are used to account for proceeds from earmarked revenue sources and expenditures for specified or restricted purposes. The only decrease in this category will be Bond and Interest, which will decrease by 28.9%, or $78.5 million. Agency Special Purpose Funds will increase by 154.7%, or $104.4 million, over the FY2011 adopted budget.

While the two-year comparison shows a decrease in the General Fund and an increase in Special Purpose Funds, the opposite is true of the five-year comparison. For the period between FY2008 and FY2012, all funds appropriations are projected to increase by 13.2%, or $388.4 million. This represents an increase from $2.9 billion to $3.3 billion. Total Operating Funds appropriations are projected to rise by 5.7%, or $157.8 million, since FY2008. Total General Fund appropriations will increase by 9.8%, or $198.7 million.

Corporate, Health and Public Safety Funds appropriations all show increases over this five-year period, with Public Safety growing by the greatest amount at 11.1%, or $116.4 million. The Corporate and Health Funds will increase by 6.9% and 8.8%, respectively. Special Purpose Funds appropriations will decrease by 8.6%, or $52.9 million, over the five-year period. Agency and Other Special Purpose Funds will decrease by $46.7 million, or 21.4% between FY2008 and FY2012. Restricted Funds will increase by $13.4 million, or 9.9%. Capital Improvements will increase by 143.2%, or $230.6 million, over the five-year span. This significant increase is primarily due to the $243.3 million, or 112.5%, increase in Capital Improvements between FY2010 and FY2011.

Cook County Appropriations All Funds by Fund: FY2008-FY2012 (in $ millions)

Fund	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Adopted	FY2012 Proposed	2-Year $ Change	2-Year % Change	5-Year $ Change	5-Year % Change
Corporate	$ 148.8	$ 161.5	$ 190.1	$ 169.4	$ 159.1	$ (10.3)	-6.1%	$ 10.3	6.9%
Health	$ 822.0	$ 930.6	$ 952.6	$ 911.9	$ 894.0	$ (17.8)	-2.0%	$ 72.0	8.8%
Public Safety	$ 1,052.6	$ 1,141.6	$ 1,165.9	$ 1,248.3	$ 1,169.0	$ (79.3)	-6.4%	$ 116.4	11.1%
Subtotal General Funds	**$ 2,023.4**	**$ 2,233.7**	**$ 2,308.6**	**$ 2,329.5**	**$ 2,222.1**	**$ (107.4)**	**-4.6%**	**$ 198.7**	**9.8%**
Annuity & Benefits	$ 183.1	$ 186.1	$ 186.6	$ 192.2	$ 196.1	$ 3.9	2.0%	$ 13.0	7.1%
Bond & Interest	$ 212.7	$ 209.1	$ 190.8	$ 272.1	$ 193.5	$ (78.5)	-28.9%	$ (19.2)	-9.0%
Agency Special Purpose Funds	$ 218.6	$ 111.0	$ 138.5	$ 67.5	$ 171.9	$ 104.4	154.7%	$ (46.7)	-21.4%
Subtotal Special Purpose Funds	**$ 614.4**	**$ 506.2**	**$ 515.9**	**$ 531.8**	**$ 561.5**	**$ 29.7**	**5.6%**	**$ (52.9)**	**-8.6%**
Allowance for Uncollected Taxes	$ 11.6	$ 11.5	$ 11.6	$ 8.7	$ 10.3	$ 1.5	17.5%	$ (1.4)	-11.8%
Restricted Funds	$ 135.6	$ 119.6	$ 160.8	$ 185.0	$ 148.9	$ (36.1)	-19.5%	$ 13.4	9.9%
Subtotal Operating Funds	**$ 2,785.0**	**$ 2,871.1**	**$ 2,996.9**	**$ 3,055.1**	**$ 2,942.8**	**$ (112.3)**	**-3.7%**	**$ 157.8**	**5.7%**
Capital Improvements	$ 161.1	$ 197.8	$ 216.3	$ 459.6	$ 391.7	$ (67.9)	-14.8%	$ 230.6	143.2%
Total	**$ 2,946.1**	**$ 3,068.9**	**$ 3,213.3**	**$ 3,514.7**	**$ 3,334.5**	**$ (180.2)**	**-5.1%**	**$ 388.4**	**13.2%**

Source: Cook County FY2012 Executive Budget Recommendation, Proposed Expenditures, Q-1.

Grant Funds as a Percentage of Total Appropriations

In FY2012 grant funds will represent 4.5% of the total budget for Cook County. In other words, grant funds will account for $148.9 million of the County's $3.3 billion budget. The Offices Under the President will receive 13.5%, or $92.1 million, of its $683.2 million budget in grant funds. Of the total appropriations for Elected Officials, 4.6%, or $42.6 million, will come from grants. Of the control officers in the Other category, only the Cook County Health and Hospitals System will receive grant funds. The Health System is expected to receive 1.6%, or $14.3 million, of its $915.4 million budget in grant funding.

The grant funds appropriated by the President's Office are Homeland Security grants.

Cook County FY2012 Grant Funds as a % of Total Appropriations

Control Officers	Grant Funds	Total Appropriations	Grants as % of Total Appropriations
Offices Under President			
President	$ 33,547,059	$ 37,711,827	89.0%
Chief Administrative Officer	$ 924,443	$ 52,984,384	1.7%
Chief Financial Officer	$ -	$ 10,325,264	0.0%
Bureau of Human Resources	$ -	$ 3,083,395	0.0%
Bureau of Technology	$ -	$ 28,023,757	0.0%
Bureau of Economic Development	$ 57,585,877	$ 62,901,726	91.5%
Facilities	$ -	$ 33,810,673	0.0%
Other Agency*	$ -	$ 52,641,733	0.0%
Fixed Charges and Special Purpose	$ -	$ 401,693,183	0.0%
Subtotal Offices Under President	**$ 92,057,379**	**$ 683,175,942**	**13.5%**
Elected Officials			
Cook County Board of Commissioners	$ -	$ 7,300,993	0.0%
Assessor	$ -	$ 23,011,480	0.0%
Board of Review	$ -	$ 7,003,904	0.0%
Clerk of the Circuit Court	$ 7,409,507	$ 110,219,936	6.7%
Chief Judge	$ 3,607,939	$ 192,091,154	1.9%
County Clerk	$ 125,000	$ 33,706,468	0.4%
Sheriff	$ 7,163,639	$ 411,960,332	1.7%
Recorder of Deeds	$ -	$ 11,455,463	0.0%
State's Attorney	$ 24,307,547	$ 113,526,623	21.4%
Treasurer	$ -	$ 13,784,931	0.0%
Office of the Independent Inspector General	$ -	$ 1,724,802	0.0%
Public Administrator	$ -	$ 1,160,479	0.0%
Subtotal Elected Officials	**$ 42,613,632**	**$ 926,946,565**	**4.6%**
Other			
Cook County Health and Hospitals System	$ 14,257,344	$ 915,380,662	1.6%
Annuity and Benefits	$ -	$ 196,139,483	0.0%
Bond and Interest	$ -	$ 193,532,419	0.0%
Board of Election Commissioners	$ -	$ 17,397,209	0.0%
Allowance for Uncollected Taxes	$ -	$ 10,253,201	0.0%
Capital Improvements	$ -	$ 391,689,580	0.0%
Subtotal Other	**$ 14,257,344**	**$ 1,724,392,554**	**0.8%**
Total Budget	**$ 148,928,355**	**$ 3,334,515,061**	**4.5%**

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

Source: Cook County, FY2012 Executive Budget Recommendation, Proposed Expenditures, Q-3.

RESOURCES

This section describes General Fund resources for Cook County, including trend analyses of home rule taxes, fee revenues and property tax distribution.

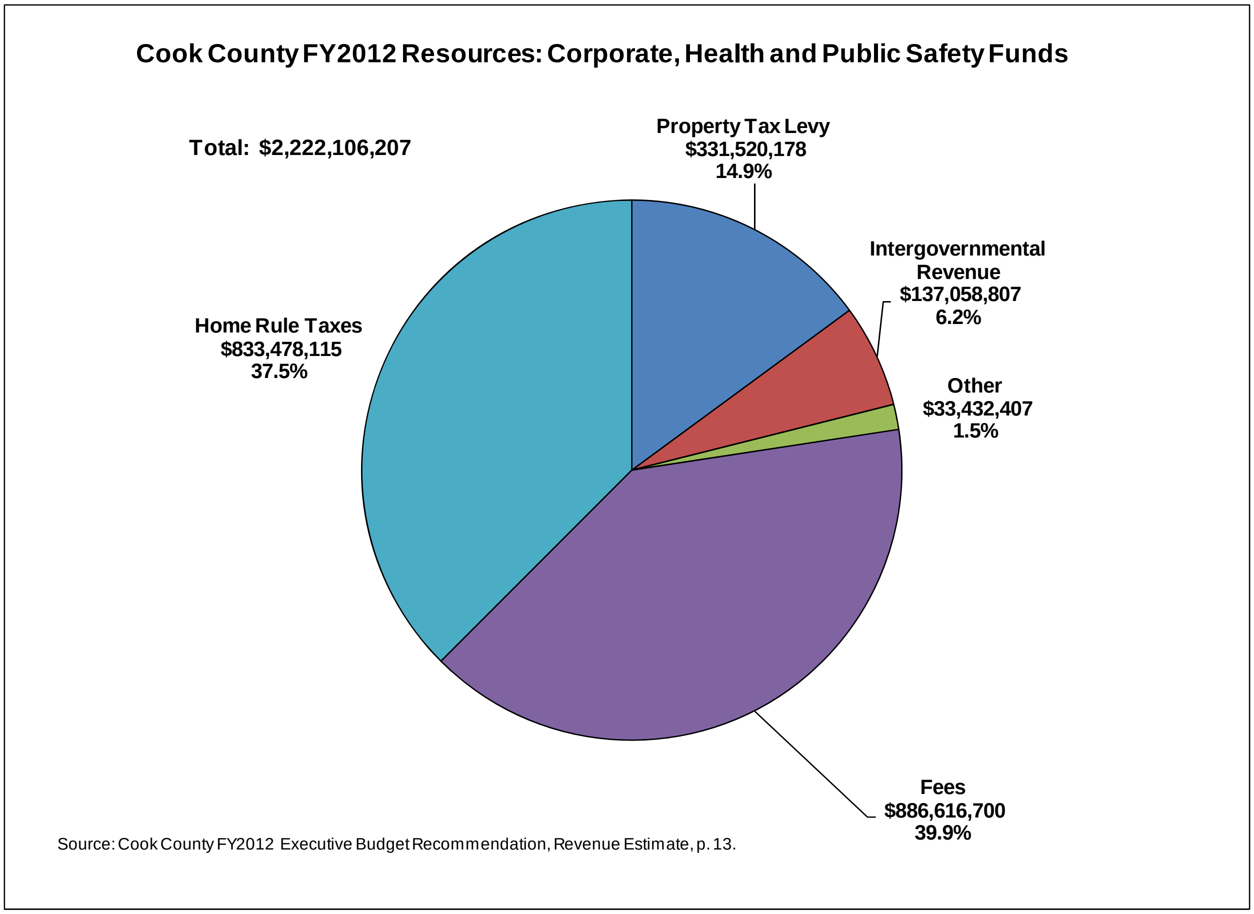
Proposed FY2012 General Fund Resources

In FY2012 the County expects to generate a total of nearly $2.2 billion from various General Fund revenue sources, which include its Corporate, Public Safety and Health Funds. The Corporate Fund is the County's general operating fund and accounts for approximately 7%, or $159 million, of the County's revenues in FY2012. The sources of most Corporate Fund revenues are property taxes, home rule taxes and departmental fees.[39]

The Public Safety Fund operates the County's criminal justice system, including its jails, courts and related programs. The Public Safety Fund makes up roughly 52.5% of the FY2012 resources at $1.16 billion. The Health Fund operates the County's public healthcare system and makes up 40%, or $894 million, of the County's resources.[40] The Health Fund is discussed in more detail on page 41 of this report.

Of the $2.2 billion in General Fund revenues, departmental fees represent the largest resource at $886.6 million or 39.9% of the total. Home rule taxes are also a major source of revenue at 37.5%, bringing in $833.5 million in FY2012. Property taxes will make up 14.9% of General Fund resources with $331.5 million. This year the County does not propose to restructure debt as a source of revenue.

[39] Cook County FY2012 Executive Recommendation, Revenue Estimates, p. 1.
[40] Cook County FY2012 Executive Recommendation, Revenue Estimates, p. 1.



Revenue Trends

Cook County General Fund revenues are projected to decrease by $92.8 million, or 4.6%, between the FY2011 adopted budget and FY2012 proposed budget.[41] In the five-year period between actual FY2008 revenues and those proposed for FY2012, Cook County General Fund revenues will increase by $193.6 million, or 9.5%. Although overall revenues are fairly steady, there have been large changes in individual sources.

In March of 2008, the County increased its home rule sales tax rate. The one percentage point sales tax increase, from 0.75% to 1.75%, was effective on July 1, 2008. At the February 25, 2011 Cook County Board meeting, an ordinance amendment proposed by Board President Preckwinkle was passed (12 to 5) by the County Board to lower the County's home rule sales tax by 1.0% beginning in January 2012 and to 0.75% beginning in January 2013. This follows a partial rollback from 1.75% to 1.25% in July 2010. The amendment constitutes the full repeal of the one cent increase in sales tax passed in 2008 and will reduce the composite sales tax rate in Chicago from 9.75% to 9.25%. Combined receipts of both the home rule sales and use taxes are expected to be $505.1 million in FY2012, down $30.7 million or 5.7%, from the FY2011 adopted budget. There is still an increase in sales and use tax revenues when viewed over the

[41] Does not include financial resources generated in previous fiscal periods (appropriated fund balance).

longer five-year horizon and when excluding the FY2008 tax anticipation notes.[42] Since FY2008 sales tax revenues will increase by $90.4 million, or 25.2%, and use tax revenues will increase by $11.4 million, or 25.5%.

The County's overall property tax levy was held constant at $720.5 from FY2001 to FY2011 and will increase to $721.9 million in FY2012. In FY2012 the County proposes to capture $1.4 million in property taxes from expiring tax increment financing (TIF) districts, raising the overall tax levy. Another major source of home rule tax revenue is the cigarette tax. The County anticipates a $5.5 million, or 4.4%, decline in Cook County cigarette tax revenues from FY2011 to FY2012. In five years, cigarette tax revenues have declined by $41.4 million, or 25.5%. However, in FY2012 the County has proposed taxing other tobacco products such as loose tobacco to ensure that all tobacco products, not just cigarettes, are taxed.[43] The new tax is expected to generate $12.1 million in additional revenue.

The County is proposing a decrease in revenue from fees, from $912.2 million in FY2011 to $886.6 million in FY2012, a $10.9 million, or 2.8% decrease. The County attributes the decline to slow reimbursement and collection of patient fees at the Health System, as well as a 17% reduction in court filings.[44] The FY2012 budget includes proposed increases in Building and Zoning ($700,000, or 50.0%) and in Environmental Control fees ($422,000, or 11.4%), which are in part the result of aligning fees for unincorporated Cook County with those of neighboring municipalities.[45] There have been large changes in fee revenues over the past five years. Overall, fee revenue has increased from $703.5 million in FY2008 to $886.6 million in FY2012, a $183.1 million, or 26.0% change. The largest source of fee revenue is in patient fees, which have increased by $223.7 million, or 55.1%, from $406.3 million in FY2008 to an anticipated $630.0 million in FY2012. The increase is due to the FY2009 introduction of federal Disproportionate Share Hospital (DSH) payments which replaced federal subsidies that had ended in 2007. The FY2009 DSH payments were retroactive to July 2008, causing what appears to be an increase in revenues. Over the past five years, there have been significant declines in Treasurer's fees ($22.7 million, or 27.5%), which are due in part to the FY2012 change of the timing of the tax sale and declining Recorder of Deeds fee revenue ($14.2 million, or 30.7%), which reflect a stagnant recovery from the housing market.[46]

Miscellaneous revenue includes commissions on public telephones, construction and hauling permits, real estate rental income, sale of excess real estate, medical examiners revenue, interest income and some health revenues.[47] Miscellaneous revenue is decreasing in FY2012 due to a $45.0 million line of credit added to the FY2011 approved budget.[48]

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[42] In July 2008, Cook County issued $147.8 million of Corporate Purpose Sales Tax Anticipation Notes (TAN) to provide additional working cash. The TANs impacted the sales tax revenue in FY2009 since the total budgeted repayment of the notes is netted against total sales tax revenue for FY2009. See Cook County FY2008 CAFR, p. 21.
[43] Cook County FY2012 Executive Recommendation, Resident's Guide, p. 5.
[44] Cook County FY2012 Executive Recommendation, Revenue Estimates, p. 5.
[45] Cook County FY2012 Executive Recommendation, Revenue Estimates, pp. 5 and 13.
[46] Cook County FY2012 Executive Recommendation, Revenue Estimates, p. 5.
[47]Cook County FY2012 Executive Recommendation, Revenue Estimates p. 7.
[48] Cook County FY2011 Appropriation Ordinance, Citizens' Summary, p. 43.

Intergovernmental revenue provided by other governments is expected to increase by $13.7 million or 11.1% in FY2012. This is driven primarily by an additional $25.0 million in Motor Fuel Tax revenues collected by the State that will be transferred to the Courts-Public Safety Fund.[49] In addition, the County projects $6.0 million in additional gaming revenue due to the opening of the Rivers Casino in Des Plaines and $5.8 million in Tax Increment Financing (TIF) surplus distributed by the City of Chicago.[50]

Cook County General Fund Revenues
FY2008-FY2012 (in $ thousands)

	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Adopted*	FY2012 Proposed	2 Year $ Change	2 Year % Change	5 Year $ Change	5 Year % Change
Property Taxes	**$ 333,321**	**$ 354,279**	**$ 333,613**	**$ 372,244**	**$ 331,520**	**$ (40,724)**	**-10.9%**	**(1,801)**	**-0.5%**
Home Rule Taxes									
Sales**	$ 358,417	$ 632,705	$ 654,239	$ 499,800	$ 448,800	$ (51,000)	-10.2%	$ 90,383	25.2%
TAN Repayment (Sales Tax)	$ 122,000	$ (121,814)	$ -	$ -	$ -	$ -	-	-	-
Use	$ 44,859	$ 35,611	$ 35,094	$ 36,000	$ 56,278	$ 20,278	56.3%	$ 11,419	25.5%
Subtotal Sales & Use Taxes	**$ 525,276**	**$ 546,502**	**$ 689,332**	**$ 535,800**	**$ 505,078**	**$ (30,722)**	**-5.7%**	**$ (20,198)**	**-3.8%**
Alcoholic Beverage	$ 27,093	$ 26,718	$ 24,878	$ 24,800	$ 37,300	$ 12,500	50.4%	$ 10,207	37.7%
Cigarette	$ 162,180	$ 136,792	$ 130,991	$ 126,300	$ 120,800	$ (5,500)	-4.4%	$ (41,380)	-25.5%
Other Tobacco Products	$ -	$ -	$ -	$ -	$ 12,100	$ 12,100	-	$ 12,100	-
Gas	$ 95,722	$ 89,940	$ 93,845	$ 95,300	$ 90,600	$ (4,700)	-4.9%	$ (5,122)	-5.4%
Retail Sale/Motor Vehicles	$ 2,811	$ 2,006	$ 2,056	$ 2,200	$ 2,600	$ 400	18.2%	$ (211)	-7.5%
Wheel	$ 2,071	$ 1,878	$ 1,950	$ 2,000	$ 3,540	$ 1,540	77.0%	$ 1,469	70.9%
Amusement	$ 21,779	$ 20,258	$ 21,969	$ 24,700	$ 25,240	$ 540	2.2%	$ 3,461	15.9%
Parking Lot	$ 38,315	$ 36,556	$ 36,062	$ 35,500	$ 36,220	$ 720	2.0%	$ (2,095)	-5.5%
Home Rule Projects	$ -	$ -	$ -	$ 14,800	$ -	-	-	-	-
Subtotal Home Rule Taxes	**$ 875,247**	**$ 860,650**	**$ 1,001,083**	**$ 861,400**	**$ 833,478**	**$ (27,922)**	**-3.2%**	**$ (41,769)**	**-4.8%**
Fee Revenue									
Patient Fees	$ 406,276	$ 663,388	$ 533,627	$ 631,536	$ 630,000	$ (1,536)	-0.2%	$ 223,724	55.1%
Clerk of Circuit Court	$ 106,855	$ 103,159	$ 104,211	$ 108,945	$ 102,291	$ (6,654)	-6.1%	$ (4,565)	-4.3%
Recorder of Deeds Fees	$ 46,308	$ 34,151	$ 33,572	$ 32,259	$ 32,100	$ (159)	-0.5%	$ (14,208)	-30.7%
Treasurer's Fees	$ 82,744	$ 79,972	$ 94,284	$ 71,760	$ 60,007	$ (11,753)	-16.4%	$ (22,737)	-27.5%
Other	$ 61,312	$ 61,837	$ 60,031	$ 67,691	$ 62,219	$ (5,472)	-8.1%	$ 907	1.5%
Subtotal Fee Revenue	**$ 703,495**	**$ 942,507**	**$ 825,726**	**$ 912,191**	**$ 886,617**	**$ (10,943)**	**-2.8%**	**$ 183,121**	**26.0%**
Misc. Revenues									
Misc. Revenues	$ 32,141	$ 42,595	$ 33,345	$ 60,346	$ 33,432	$ (26,914)	-44.6%	$ 1,291	4.0%
Subtotal Misc. Revenues	**$ 32,141**	**$ 42,595**	**$ 33,345**	**$ 60,346**	**$ 33,432**	**$ (26,914)**	**-44.6%**	**$ 1,291**	**4.0%**
Intergovernmental Revenues									
Motor Fuel Tax	$ 34,500	$ 43,500	$ 44,500	$ 44,500	$ 69,500	$ 25,000	56.2%	$ 35,000	101.4%
OTB Commissions	$ 3,119	$ 2,821	$ 2,079	$ 2,500	$ 2,300	$ (200)	-8.0%	$ (819)	-26.3%
Retailer's Occupation Tax	$ 4,066	$ 2,983	$ 2,835	$ 3,200	$ 3,000	$ (200)	-6.3%	$ (1,066)	-26.2%
Income Tax	$ 11,179	$ 9,602	$ 9,027	$ 9,500	$ 9,800	$ 300	3.2%	$ (1,379)	-12.3%
Gaming	$ -	$ -	$ -	$ -	$ 6,000	$ 6,000	-	$ 6,000	-
Reimbursements Other Governments***	$ 31,413	$ 30,215	$ 30,528	$ 63,649	$ 46,459	$ (17,190)	-27.0%	$ 15,045	47.9%
Intergovernmental Revenues	**$ 84,277**	**$ 89,120**	**$ 88,969**	**$ 123,349**	**$ 137,059**	**$ 13,710**	**11.1%**	**$ 52,781**	**62.6%**
Total	**$ 2,028,483**	**$ 2,289,152**	**$ 2,282,736**	**$ 2,329,530**	**$ 2,222,106**	**$ (92,793)**	**-4.6%**	**$ 193,624**	**9.5%**

Note: Totals may not add due to rounding.
*Total revenuesfor FY2011includes $85.0 million from debt restructuring.
**Sales Tax includes allocation of Sales Tax to Special Fund in the amount of $(28,192) in FY2008 and $(26,127) in FY2009.
***Reimbursements include Chicago TIF distribution, State Criminal Alien Assistance Program (SCAAP) and indirect costs.
Source: Cook County FY2011 Appropriation Bill, Citizen's Summary, p. 43; FY2012 Executive Budget Recommendation, Revenue Estimate p. 13.

Property Tax Levy

The Cook County property tax levy was held constant at $720.5 million from FY2001 to FY2011. The impact of holding the property tax levy constant while the property tax base has increased has been a 43.3% decrease in the direct property tax rate since FY2001. The County's property tax rate has fallen from 0.746% in FY2001 to 0.423% in FY2010.[51] In FY2012 the

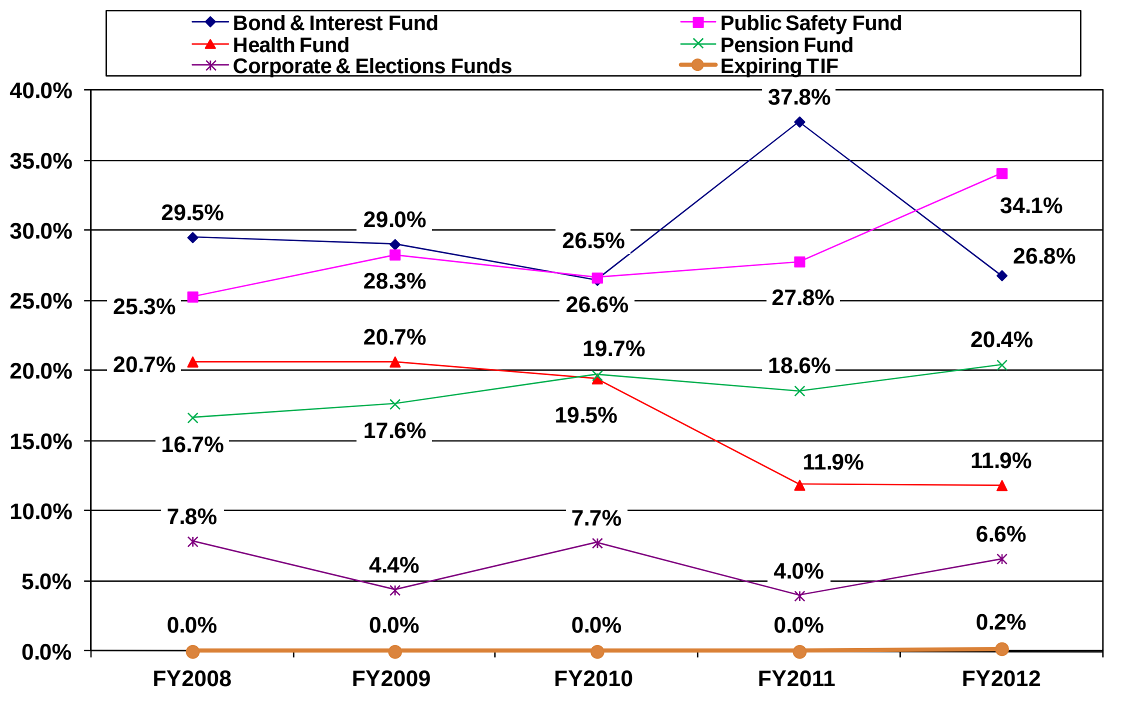
[49] Cook County FY2012 Executive Recommendation, Revenue Estimates p. 7.
[50] Cook County FY2012 Executive Recommendation, Revenue Estimates pp. 7 and 13.
[51] Cook County FY2010 CAFR, p. 229; 2010 Cook County Tax Rate Report, p. i.

County proposes to capture $1.4 million in property taxes from expiring TIF districts, raising the overall tax levy to $721.9 million. The $1.4 million will be allocated to the General Fund.[52]

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). Changes in distribution of the levy between FY2008 and FY2012 are shown below. For purposes of our analysis, the relatively small Corporate and Election Funds have been combined. In FY2012 the portion of the levy dedicated to these funds will be 6.6%. The increase from 4.4% in FY2011 is due to upcoming national and state primary and general elections in 2012.

The Public Safety Fund will consume the largest amount of the levy at $246.1 million or 34.1% of the total in FY2012. This is a slight increase from Public Safety's 27.8% share in FY2011 and an increase of 8.8 percentage points from Public Safety's 25.3% share in FY2008. The most significant five-year decline in share of the property tax levy occurs in the Health Fund, which will decrease from an 11.9% share in FY2011 to an 11.9% share in FY2012. This reflects a decline of $32.8 million, or 27.7%, in property tax revenue for the Health Fund.

Distribution of Cook County Property Tax Levies: FY2008-FY2012
(In $ thousands)



Source: Cook County FY2012 Executive Budget Recommendation, Revenue Estimates, p. 10.

[52] Communication between the Civic Federation and the Department of Budget and Management Services, November 1, 2011.

PERSONNEL TRENDS

The following section addresses trends for budgeted personnel by control officer and trends in personal service appropriations for all funds. Although personnel data for the Cook County Health and Hospitals System is included, details on the Health System are discussed on page 41 of this report. Due to a discrepancy in the Health System's FTE count, county-wide totals may differ from the budget books.[53]

The County proposes to reduce the cost of personnel with over 1,000 layoffs, saving approximately $40 million.[54] The budget charts reflect a reduction of 537.2 FTEs across all funds.[55] However, details of the exact number of layoffs, including the number of part-time and full-time layoffs, vacancy eliminations and descriptions are not included in the proposed FY2012 budget narrative.

[53] In FY2012 all Health System positions were shown as 1.0 FTEs in the budget, even though most vacant and new positions were funded at 0.2 FTEs. The County expects 2,270 vacancies in the General Fund; at least 1,805 are partially funded. Communication between the Civic Federation and the Department of Budget and Management Services, November 1, 2011.

[54] Cook County FY2012 Executive Recommendation, Resident's Guide, p. 2.

[55] Cook County FY2012 Executive Recommendation, Proposed Expenditures, Q-4C.

Full-Time Equivalent Positions by Control Officer

The FY2012 Cook County budget proposes a decrease of 1,307.8 full-time equivalent (FTE)[56] positions. This is a 5.6% decrease from the adopted FY2011 budget, falling from 23,212.3 FTEs to 21,904.5 FTEs. Over the coming months there will likely be further adjustments to the proposed figures presented in the Executive Recommendation as offices implement staff reductions. The most significant reduction in FTEs, aside from the Health System, occurs with the Sheriff's offices. The Sheriff will reduce FTEs by 271.8, or 4.1%. The Clerk of the Circuit Court will reduce FTE count by 219.7 FTEs. The Other Elected Officials category is increasing FTE count by 19.6 FTEs. This is due in part to an additional 32.5 FTEs in the Assessor's office.[57]

Cook County FTEs by Control Officer: FY2011 & FY2012

Control Officer	FY2011 Adopted	FY2012 Proposed	Change	% Change
Offices Under the President	2,117.5	2,009.1	(108.4)	-5.1%
Board of Commissioners	87.3	75.9	(11.4)	-13.1%
County Clerk	285.4	286.0	0.6	0.2%
Recorder of Deeds	206.0	196.0	(10.0)	-4.9%
Treasurer	114.2	110.0	(4.2)	-3.7%
Sheriff	6,698.4	6,426.6	(271.8)	-4.1%
State's Attorney	1,332.9	1,137.7	(195.2)	-14.6%
Chief Judge	3,209.5	3,051.4	(158.1)	-4.9%
Clerk of the Circuit Court	2,020.1	1,800.4	(219.7)	-10.9%
Other Elected Officials*	502.9	522.5	19.6	3.9%
Health and Hospitals System**	6,638.1	6,288.9	(349.2)	-5.3%
Total	**23,212.3**	**21,904.5**	**(1,307.8)**	**-5.6%**

*Other Elected Officials include the County Assessor, Public Administrator, Office of the Independent Inspector General, Board of Review and the Board of Election Commissioners. Some of these control officers are appointed; however, they are presented as Other Elected Officials in the Executive Budget Recommendation.

**FTEs for the Health and Hospitals System may not match the presentation in the Health System section because Special Purpose Funds are included in the chart above for all departments. In FY2012 all Health System positions were shown as 1.0 FTEs in the budget, even though most vacant and new positions were funded at 0.2 FTEs.

Source: Cook County FY2012 Executive Budget Recommendation, Proposed Expenditures, Q-4C; Cook County Health and Hospitals System, D-3; Communication between the Civic Federation and the Department of Budget and Management Services, October 27, 2011.

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

[57] Cook County FY2012 Executive Recommendation, Proposed Expenditures, Q – 4C. This appears to be because many positions listed as 0.2 FTE in the FY2011 approved budget for the Assessor's office are listed as 1.0 or more FTE in the FY2012 budget proposal.

The five-year trend of FTE distribution by control officer reveals a significant reduction in the County's workforce. The total reduction from the adopted FY2008 budget to the proposed FY2012 budget is 3,030.1 FTEs. Every control officer experienced reductions ranging from 5.0% to 21.8% of their workforce. The most significant reductions in terms of dollar amount occur in the Health System, Sheriff and Treasurer. The most significant reductions in terms of percentage occur in the Offices Under the President, State's Attorney and Recorder of Deeds.

Cook County FTEs by Control Officer: FY2008 & FY2012

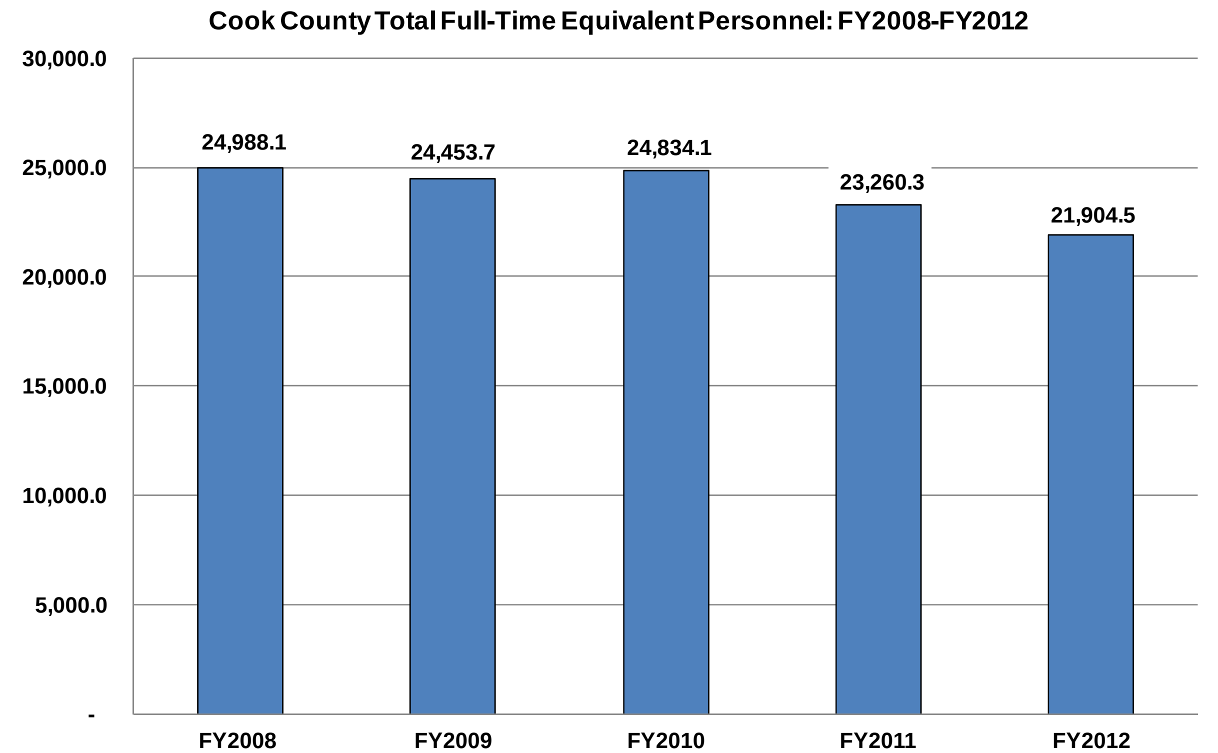
Control Officer	FY2008 Adopted	FY2012 Proposed	Change	% Change
Offices Under the President	2,414.6	2,009.1	(405.5)	-16.8%
Board of Commissioners	97.0	75.9	(21.1)	-21.8%
County Clerk	301.0	286.0	(15.0)	-5.0%
Recorder of Deeds	233.0	196.0	(37.0)	-15.9%
Treasurer	135.5	110.0	(25.5)	-18.8%
Sheriff	7,065.0	6,426.6	(638.4)	-9.0%
State's Attorney	1,389.5	1,137.7	(251.8)	-18.1%
Chief Judge	3,304.0	3,051.4	(252.6)	-7.6%
Clerk of the Circuit Court	2,039.0	1,800.4	(238.6)	-11.7%
Other Elected Officials*	584.0	522.5	(61.5)	-10.5%
Health and Hospitals System**	7,372.0	6,288.9	(1,083.1)	-14.7%
Total	**24,934.6**	**21,904.5**	**(3,030.1)**	**-12.2%**

*Other Elected Officials include the County Assessor, Public Administrator, Office of the Independent Inspector General, Board of Review and the Board of Election Commissioners. Some of these control officers are appointed; however, they are presented as Other Elected Officials in the Executive Budget Recommendation.

**FTEs for the Health and Hospitals System may not match the presentation in the Health System section because Special Purpose Funds are included in the chart above for all departments. In FY2012 all Health System positions were shown as 1.0 FTEs in the budget, even though most vacant and new positions were funded at 0.2 FTEs.

Source: Cook County FY2012 Executive Budget Recommendation, Proposed Expenditures, Q-4C; Cook County Health and Hospitals System, D-3; Communication between the Civic Federation and Budget and Management Services, October 27, 2011.

The next exhibit shows total full-time equivalent positions for the five years between FY2008 and FY2012. Since the peak in FY2008 the proposed number of FTEs has fallen from 24,988.1 FTEs to 21,904.5 FTEs proposed in FY2012, a decline of 12.3%, or 3,083.6 FTEs.



Note: FTEs for the Health and Hospitals System may not match the presentation in the Health System section because Special Purpose Funds are included in the chart above for all departments. Due to a discrepancy in the Health System's FTE count, county-wide totals may differ from the budget books.

Source: Cook County FY2012 Executive Budget Recommendation, Proposed Expenditures, Q-4; Cook County Health and Hospitals System, D-3; and Communication between the Civic Federation and the Department of Budget and Management Services, October 27, 2011.

Personal Service Appropriations

The following chart compares personal service appropriations to the total County operating budget. In FY2012 personal service appropriations will constitute 64.8% of the total budget, down 5.8 percentage points from 70.6% in FY2011. FY2012 marks the lowest ratio of personnel appropriations to operating budget in the past five years. During the five-year period, the ratio has fluctuated between 64.8% and 71.4%.

Ratio of Personal Service to Total Appropriations: FY2008-FY2012			
	Personal Services Appropriation	Total Operating Budget	Personal Services as % of Total Operating Budget
FY2008	$ 1,996,937,500	$ 2,948,384,880	67.7%
FY2009	$ 2,074,024,675	$ 2,915,499,743	71.1%
FY2010	$ 2,182,801,997	$ 3,056,586,488	71.4%
FY2011	$ 2,157,989,520	$ 3,055,084,198	70.6%
FY2012	$ 1,906,277,459	$ 2,942,825,481	64.8%

Note: Adopted appropriations are used because actual expenditures are not available.
Source: Cook County FY2008 Annual Appropriation, p. 39; FY2009, p. 62; FY2010, p. 73; FY2011, p. 114; Cook County FY2012 Executive Budget Recommendation, Proposed Expenditures, p. 21.

In FY2012 the County will appropriate $1.4 billion for salary expenditures, a decline of 5.2%, or $76.9 million, from FY2011 adopted figures. Salary appropriations for all control officers will decrease except for the County Clerk, which will increase by 1.0%, or $159,698, and the Other Elected Officials category, which will increase by $3.0%, or $938,898. The largest percentage decrease in salary expenditures will occur in the Board of Commissioners, which will decrease by 13.9%, or $892,319. The largest dollar amount decline will occur in the Health System, which will decrease by $33.3 million, or 6.7%, from $496.1 million in FY2011 to $462.8 million in FY2012.

Cook County Salary Expenditures by Control Officer: FY2011 & FY2012

Control Officer	FY2011 Adopted	FY2012 Proposed	$ Change	% Change
Offices Under the President	$ 160,396,964	$ 154,762,249	$ (5,634,715)	-3.5%
Board of Commissioners	$ 6,414,984	$ 5,522,665	$ (892,319)	-13.9%
County Clerk	$ 15,416,751	$ 15,576,449	$ 159,698	1.0%
Recorder of Deeds	$ 10,360,374	$ 9,871,310	$ (489,064)	-4.7%
Treasurer	$ 8,143,900	$ 7,865,804	$ (278,096)	-3.4%
Sheriff	$ 402,919,571	$ 392,825,356	$ (10,094,215)	-2.5%
State's Attorney	$ 97,269,516	$ 86,689,505	$ (10,580,011)	-10.9%
Chief Judge	$ 165,636,917	$ 158,302,016	$ (7,334,901)	-4.4%
Clerk of the Circuit Court	$ 93,138,426	$ 83,736,097	$ (9,402,329)	-10.1%
Other Elected Officials*	$ 31,124,704	$ 32,063,602	$ 938,898	3.0%
Health System**	$ 496,129,639	$ 462,813,428	$ (33,316,211)	-6.7%
Total	**$ 1,486,951,746**	**$ 1,410,028,481**	**$ (76,923,265)**	**-5.2%**

*Other Elected Officials include the County Assessor, Public Administrator, Office of the Independent Inspector General, Board of Review and the Board of Election Commissioners. Some of these control officers are appointed, however they are presented as Other Elected Officials in the Executive Recommendations.

** Health System includes a $55.2 million salary adjustment.

Source: Cook County FY2012 Executive Budget Recommendation, Proposed Expenditures, Q-4C; Cook County Health and Hospitals System, D-3.

COOK COUNTY HEALTH AND HOSPITALS SYSTEM

This section examines the budget of the Cook County Health and Hospitals System. The analysis focuses on the Health Fund, a component of the County's General Fund, rather than all Health System funds. Nearly all of the Health System's operations are conducted through the Health Fund, and it receives general tax revenue.[58]

Overview of the Health System

The Cook County Health and Hospitals System is the third largest hospital system in the U.S. operated by a unit of local government.[59] The Health System operates John H. Stroger Jr. and Provident Hospitals. It provides additional services through the Oak Forest Health Center, which was formerly Oak Forest Hospital, and the Ambulatory and Community Health Network

[58] The FY2012 total recommended budget for the Health System is $901.1 million, of which $894.0 million is for the Health Fund. The budget also includes two Special Purpose Funds: the Lead Poisoning Prevention Fund and the Suburban Cook County Tuberculosis Sanitarium District.

[59] Cook County, FY2010 CAFR, p. 18.

(ACHN), which operates 16 clinics across the County and specialty outpatient clinics at the System's hospitals.

The Health System's operations also include the CORE Center, an outpatient facility for patients with HIV/AIDS and related diseases; Cermak Health Services, the infirmary for the Cook County Jail; the Juvenile Temporary Detention Center Health Services (JTDC), which serves children detained by the County; and the Cook County Department of Public Health.

More than half of the Health System's charges are incurred by patients without health insurance of any kind, and the System is by far the largest provider of uncompensated healthcare in Illinois.[60] Most of the System's operating or patient-related revenues come from Medicaid, the joint federal-state program for certain categories of low-income people. Its non-operating revenues come from a county subsidy, which is funded from property, cigarette and sales taxes.

Since mid-2008, the Health System has been governed by its own Board of Directors. The Board has authority over day-to-day decision-making, but must get approval from the Cook County Board of Commissioners for annual budgets and major policy matters, such as hospital closings and strategic plans.[61]

The annual budget process outlined in county ordinance for the Health System is different than that of other components of Cook County government. The budgets of other county offices are only reviewed by the County Board as part of the Board President's recommended budget. In contrast, the Health System submits a preliminary budget to the County Board.[62] After receiving approval from the County Board, the Health System's budget is incorporated into the Board President's recommended budget.

On July 13, 2010 the County Board approved a five-year strategic and financial plan developed by the Health System. The goal of the strategic plan is to shift resources away from inpatient care and toward outpatient care in order to serve more patients and deliver care more efficiently.[63] In FY2011 the Health System ended emergency room (ER) and inpatient services at Oak Forest Hospital. The System also scaled back inpatient service at Provident Hospital and stopped accepting ambulance patients at Provident's ER. Regional outpatient centers are scheduled to be developed at those hospital sites. The financial plan aims to streamline operations and to improve the Health System's ability to collect revenues from non-charity patients.

In July of 2010, the Health System Board hired the consulting firm of PricewaterhouseCoopers (PwC) to implement sweeping revenue enhancements and expense reductions.[64] PwC proposed that it could generate $313.8 million in benefits for the Health System over two years. Of the total $313.8 million, $218.7 million was projected to be achieved through revenue enhancements

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[60] Illinois Health Facilities and Services Review Board, Application for Permit by Oak Forest Hospital, Attachment #43, June 7, 2011. Uncompensated care includes charity care and uncollectable medical bills.
[61] Cook County Code of Ordinances, Chapter 38, Article V, Sections 38-82 and 38-83.
[62] Cook County Code of Ordinances, Chapter 38, Article V, Section 38-83.
[63] Cook County Health and Hospitals System, *Vision 2015: Strategic Direction + Financial Plan Board Presentation*, June 25, 2010.
[64] Cook County Health and Hospitals System, Minutes of the Finance Committee Meeting, June 18, 2010, Attachment #2, p. 16.

and $95.1 million through expense reductions. The main source of revenue enhancement is improvement in the revenue cycle process, which involves patient registration, billing and collections. Expense reductions are expected to come from staffing cuts and decreases in the cost of purchased supplies and services.

As described to the Health System's directors, PwC's compensation was based on cash improvement, with fees to be paid after the first $10 million of benefits was realized and maximum fees set at $50 million.[65] Fees were to be paid at a rate of 16.67% of benefits (ratio of 1:6) for the first $200 million of benefits achieved and at a rate of 14.29% (ratio of 1:7) if benefits exceeded $200 million.[66] Tangible improvement was to be measured as cash improvement over a baseline amount, and the Health System and PwC were to agree on the baseline measurement for each initiative or Statement of Work to be performed.[67]

Over the next few years, the Health System will face changes imposed by the state and federal governments that are expected to significantly affect its operations: 1) a move to Medicaid managed care by the State of Illinois and 2) a sweeping expansion of the Medicaid program under national healthcare reform. The State of Illinois enacted Medicaid reform legislation in January 2011 that requires 50% of Medicaid patients to be enrolled in managed care programs by January 1, 2015.[68] The goal is to reduce unnecessary use of medical services by requiring healthcare providers to assume risk for patients' expenses. National healthcare reform expands the Medicaid-eligible population to childless adults who are neither elderly nor disabled.[69] The expansion is expected to result in an increase in newly eligible Medicaid recipients in Illinois projected at 429,258 to 694,012.[70] After Medicaid coverage increases, newly insured patients may decide to leave the Health System and seek services at other hospitals and clinics.

To prepare for these changes, the Health System is planning to submit a proposal to the federal government that would allow the System to provide managed care to the expanded Medicaid population before 2014.[71] The State of California in November 2010 won approval from the U.S. Department of Health and Human Services for a similar head start on the extension of coverage to low-income adults.[72] Like the Health System plan, the California program is a Section 1115 Medicaid Demonstration Waiver.[73]

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[65] Cook County Health and Hospitals System, Minutes of the Finance Committee Meeting, June 18, 2010, Attachment #1, p.11.
[66] Cook County Health and Hospitals System, Minutes of the Finance Committee Meeting, June 18, 2010, Attachment #1, p.11.
[67] Cook County Health and Hospitals System, Minutes of the Finance Committee Meeting, June 18, 2010, Attachment #2, pp. 17-18.
[68] Public Act 96-1501.
[69] Patient Protection and Affordable Care Act, Public Law 111-148, Title II, Subtitle A, Section 2001.
[70] Mark Holahan and Irene Headen, *Medicaid Coverage and Spending in Health Reform: National and State-by-State Results for Adults at or Below 133% FPL*, Kaiser Commission on Medicaid and the Uninsured, May 2010, p. 41.
[71] Statement by Randall Mark at the Board of Directors of the Cook County Health and Hospitals System, September 23, 2011.
[72] Kaiser Commission on Medicaid and the Uninsured, *California's "Bridge to Reform" Medicaid Demonstration Waiver*, October 2011.
[73] Section 1115 of the Social Security Act gives the federal government authority to waive provisions of the Medicaid program and to allow states to use federal Medicaid funds in ways not otherwise allowed under federal

The Health System currently lacks certain basic resources needed to provide managed care.[74] For example, the System believes that based on new agreements with managed care organizations it needs 22 case managers to coordinate the provision of patient care, but it had only eight as of September 2011.[75] Managed care organizations require that patients receive service within a specified number of minutes of the appointment time, and the System is unable to meet that standard.[76]

Health System Appropriations

The Health System's proposed appropriations for FY2012 total $894.0, or 40.2% of the County's total General Fund budget of $2.2 billion. The System's FY2012 appropriations decline by 2.0%, or $18.0 million, from $912.0 in FY2011.

Health System appropriations cover departmental appropriations as well as fixed charges and special purpose appropriations. Fixed charges include costs related to employee health and life insurance, workers' compensation and medical malpractice and other insurance claims.[77]

The Health System's FY2012 departmental budget was approved by the System's Board of Directors on September 28, 2011 and by the County Board on October 4, 2011. When the Executive Budget Recommendation was issued on October 25, departmental appropriation reductions of $38.3 million that were not incorporated into the previously approved System budget were shown as a reduction to the fixed charges category.[78] Departmental appropriations are expected to be amended to reflect the additional reductions when the budget is considered by the Cook County Board.

The $38.3 million in departmental reductions include a contract modification of $5.0 million for PwC, a reduction of $2.0 million for positions held by staff on leaves of absence for more than a year and $1.6 million in savings from the elimination of non-union step increases.[79] Rush University Medical Center has agreed to be paid $1 million less for providing services to the System. Most of the remaining reductions relate to the elimination of expense reserves that are no longer necessary ($13.0 million) or are reductions to be identified by the Chief Executive Officer during the fiscal year ($15.8 million). The current CEO, Dr. Ramanathan Raju, joined the Health System on October 3, 2011.

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rules. The federal Department of Health and Human Services must determine that the initiative is an "experimental, pilot, or demonstration project" that is "likely to assist in promoting the objectives" of the Medicaid program. For more information on Medicaid waivers, see Kaiser Commission on Medicaid and the Uninsured, *California's "Bridge to Reform" Medicaid Demonstration Waiver*, October 2011.

[74] Meeting between the Civic Federation and the Cook County Health and Hospitals System, October 18, 2011.

[75] Statement by Michael Ayres at Cook County Health and Hospitals System Board of Directors meeting, September 16, 2011.

[76] Statement by Michael Ayres at Cook County Health and Hospitals System Finance Committee meeting, July 22, 2011.

[77] Fixed charges do not include pension costs, which are not allocated to the component funds in the General Fund.

[78] Cook County Health and Hospitals System, FY2012 Budget Summary, October 27, 2011.

[79] Cook County Health and Hospitals System Finance Committee, FY2012 Preliminary Budget Update, October 21, 2011. Step increases are based on an employee's experience. The reduction is given as $40.2 million in the Preliminary Budget Update document. The discrepancy was not explained as of the publication date of this analysis.

The table below is based on the FY2012 Executive Budget Recommendation. Although the table shows an FY2012 appropriation for fixed charges of $66.4 million, the actual appropriation is expected to be $38.3 million higher at $104.7 million. Departmental appropriations are expected to be reduced by $38.3 million to $789.3 million.

Cook County Health Fund Appropriations by Department: FY2008-FY2012 (in $ millions)							
Department	**FY2008 Actual**	**FY2009 Actual**	**FY2010 Actual**	**FY2011 Adopted**	**FY2012 Proposed***	**2 Year $ Change**	**2 Year % Change**
Office of the Chief Health Administrator	$ 139.5	$ 145.7	$ 177.3	$ 147.6	$ 187.8	$ 40.2	27.2%
Cermak Health Services	$ 28.4	$ 30.8	$ 32.1	$ 41.2	$ 39.1	$ (2.1)	-5.1%
JTDC Health Services	$ 4.8	$ 5.9	$ 2.7	$ 3.5	$ 3.9	$ 0.4	11.4%
Provident Hospital	$ 73.4	$ 81.9	$ 72.3	$ 67.1	$ 52.5	$ (14.6)	-21.8%
Ambulatory and Community Health Network	$ 38.5	$ 43.5	$ 44.7	$ 51.8	$ 46.5	$ (5.3)	-10.2%
CORE Center	$ 10.6	$ 10.9	$ 11.1	$ 11.9	$ 11.9	$ -	0.0%
Department of Public Health	$ 14.5	$ 14.8	$ 15.5	$ 17.7	$ 17.3	$ (0.4)	-2.3%
Stroger Hospital	$ 369.3	$ 402.9	$ 398.2	$ 422.0	$ 432.7	$ 10.7	2.5%
Oak Forest Hospital**	$ 72.1	$ 79.8	$ 70.0	$ 52.4	$ 35.9	$ (16.5)	-31.5%
Subtotal Departmental Appropriations	**$ 751.1**	**$ 816.2**	**$ 823.9**	**$ 815.2**	**$ 827.6**	$ 12.4	1.5%
Fixed Charges and Special Purpose Appropriations*	$ 71.0	$ 114.6	$ 128.7	$ 96.8	$ 66.4	$ (30.4)	-31.4%
Total	**$ 822.1**	**$ 930.8**	**$952.6**	**$912.0**	**$894.0**	**$ (18.0)**	**-2.0%**

*FY2012 appropriations were reduced by $38.3 million after the Health System's departmental budget was approved by the Cook County Board of Commissioners on October 4, 2011. The $38.3 million reduction was included in fixed charges and special appropriations in the Executive Budget Recommendation, but departmental appropriations are expected to be amended to reflect the reduction when the Executive Budget Recommendation is considered by the Cook County Board. The actual appropriation for fixed charges and special appropriations is expected to be $104.7 million.

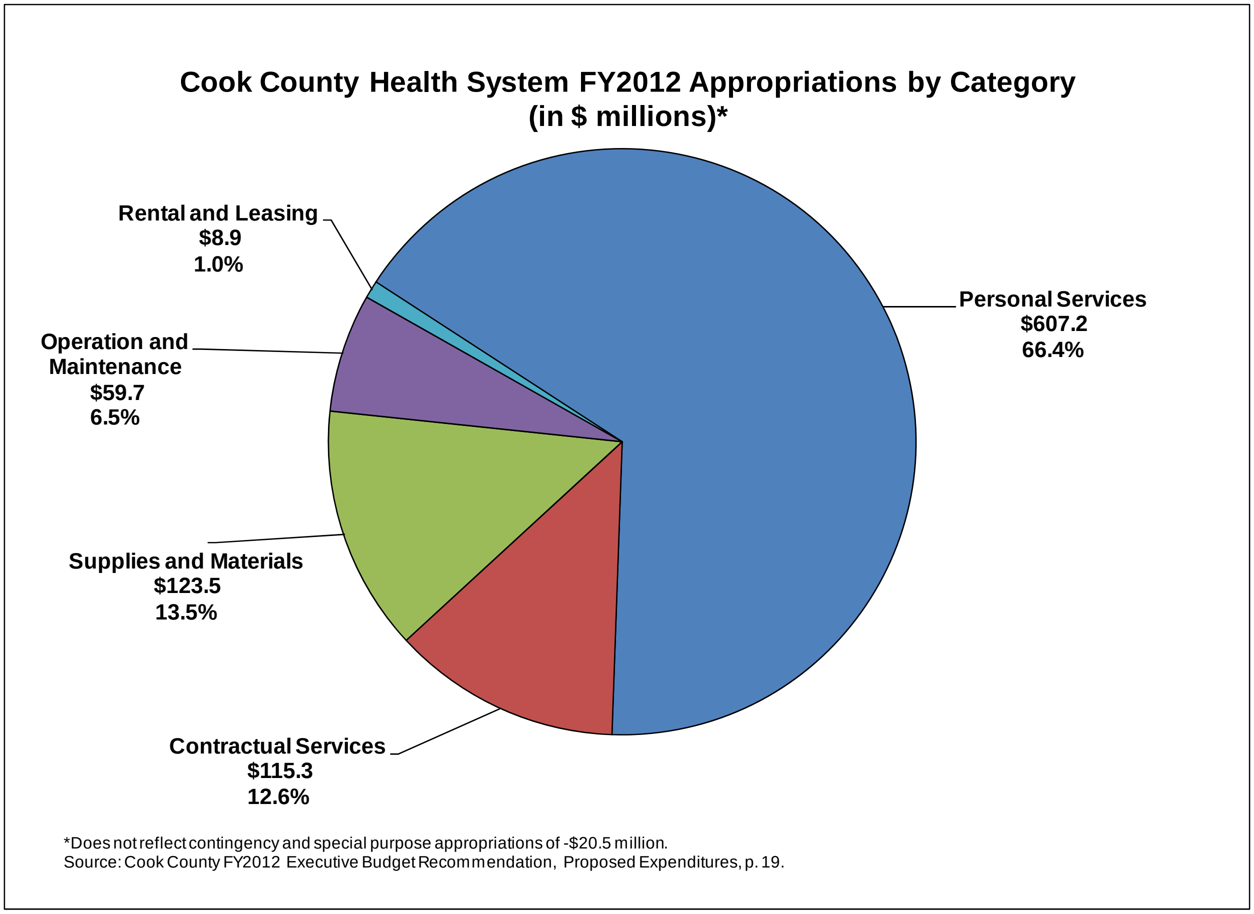
**Oak Forest Hospital was renamed Oak Forest Health Center in FY2011.

Source: Cook County FY2012 Executive Budget Recommendation, Proposed Expenditures, p. 10.

Because of the expected budget amendments to reallocate reductions currently shown in fixed charges, only major appropriations changes are discussed here. The largest declines are for Oak Forest Health Center, where ER and inpatient services were eliminated, and for Provident Hospital, where ER and inpatient services were reduced.

Appropriations increase for the Office of the Chief Health Administrator mainly because of a change in the method used to account for fees paid to PwC. PwC's fees were previously deducted from the System's revenues, but in FY2012 the fees are shown as an expense in order to increase transparency.[80]

The next chart shows FY2012 Health System appropriations by category. Staffing accounts for 66.4% of total appropriations, followed by supplies and materials at 13.5% and contractual services at 12.6%.



Health System Resources

Health System resources consist of operating revenues and the County's subsidy. Most of the Health System's operating or patient-related revenues come from Medicaid, the joint federal-state program for certain low-income people. Its non-operating revenues come from a County subsidy, which is funded from property, cigarette and sales taxes.

Health System Operating Revenues

Most of the Health System's services are provided to patients who lack insurance of any kind. In the thirteen months ended August 2011, 58.8% of the System's charges related to patients

[80] Statement by Director David Carvalho at the September 28, 2011 meeting of the Board of Directors of the Cook County Health and Hospitals System.

without insurance.[81] Uninsured patients generally do not pay for their care. Most of the Health System's payments for patient services come from the federal Medicaid program. Under the Medicaid program, states typically pay healthcare providers for covered medical services received by eligible beneficiaries and then seek reimbursement for the federal share of those payments. The reimbursement rate to states is called the Federal Medical Assistance Percentage (FMAP).[82]

In the case of Cook County, however, the State of Illinois' portion of the expenditures is paid by the County rather than by the State through an Intergovernmental Transfer (IGT) agreement. Because of the IGT, the State incurs no net cost for Medicaid patients treated by the Health System. The Health System, in turn, benefits by the amount of the federal reimbursement.

The Health System also receives supplemental Medicaid payments designed for hospitals that serve large numbers of uninsured patients. These supplemental revenues consist of Disproportionate Share Hospital (DSH) payments and payments under a provision of the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA).[83]

The Health System began receiving DSH payments under an agreement completed in mid-2009 that was retroactive to July 1, 2008. In FY2009 the Health System's DSH payments were increased by roughly $100 million to $258.3 million due to one-time retroactive payments.

Patient fee revenues (not including supplemental Medicaid payments) were budgeted at $360.3 million in FY2011. This total included $39 million added to the Health System's preliminary FY2011 budget by floor amendment when the County Board approved the overall budget on February 26, 2011.[84] The additional $39 million in revenues reflected the estimated value of Medicaid applications awaiting approval by the Illinois Department of Human Services. Although the County Board approved an agreement with the State allowing the Health System to pay for extra state workers to handle the backlog of Medicaid applications, Health System officials remained uncertain about the State's ability to process the backlog by the of FY2011. The County used the additional budgeted revenues to reduce the Health System's subsidy and increase general spending outside of the System.

The Health System's budgeted FY2011 revenues also included approximately $80 million in cash benefits, mainly to be achieved by PwC.[85] Many of these benefits were based on expected improvements in the ability to collect revenues from patients, which in turn depended on improvements in registering patients according to their means of payment, assigning accurate

[81] Communication between the Civic Federation and the Cook County Health and Hospitals System, October 31, 2011. This figure is based on the Health System's longstanding formula for calculating share of patient charges, a measurement known as payer mix. A recently adopted formula shows payer mix for the same period at 48.6%.
[82]The Federal Medical Assistance Percentage was increased due to stimulus funds provided under the American Recovery and Reinvestment Act of 2009. Illinois' FMAP was 50.32% before the federal stimulus program began on October 1, 2008; rose to 61.88% during the program; dropped to 50.2% after the stimulus program ended on June 30, 2011 and stood at 50.0% as of October 1, 2011.
[83] Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000, 701(d)(2).
[84] Cook County Board of Commissioners, 2011 Cook County Executive Budget Recommendation, Floor Amendment 17.
[85] Statement by Michael Ayres to Cook County Health and Hospitals System Finance Committee, June 17, 2011.

medical codes to diagnoses and treatments and billing for appropriate charges. The FY2011 budget also assumed that the Health System would be able to earn additional revenues by billing separately for doctors' services, which had not been done previously.

Actual FY2011 patient fee revenues are estimated at approximately $120 million below the budgeted level.[86] Neither the $39 million attributed to backlogged Medicaid applications nor the $80 million in revenue enhancements was realized. Health System officials have stated that a variety of personnel, process and technical factors contributed to the problems in achieving the revenue enhancement goals.[87] For example, the Health System's computer software for patient billing and medical information were not compatible, resulting in an inability to capture all charges for services.[88] It also took longer than expected for Health System physicians to register for national identification numbers that are needed to bill insurers.[89] The System was unable to recruit managers due to inadequate salaries and a poor reputation among potential candidates.[90] In other instances, such as medical coding, the System tried unsuccessfully to train existing employees to meet national standards of quality and productivity.[91]

Despite the shortfall in revenue enhancement benefits in FY2011, PwC is expected to receive fees of roughly $25 million during the fiscal year.[92] According to documents distributed at a meeting of the System's Finance Committee meeting, PwC was credited with $128 million of revenue cycle benefits for the first eight months of FY2011, or nearly double the targeted benefit.[93]

It remains unclear how the benefits were calculated. However, Health System officials have stated that baseline revenues were reduced because of lower inpatient volumes at Provident and Oak Forest.[94] PwC has also used its own personnel to staff critical functions that could not be filled by System employees.[95] The System is conducting an internal audit to review the performance and compensation of consultants, including PwC.[96]

Patient fee revenues also came in below budgeted amounts in FY2010. In FY2010 patient fee revenues were budgeted at $298.0 million but came in at $252.4 million. The shortfall was

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[86] Meeting between the Civic Federation and the Cook County Health and Hospitals System, October 18, 2011. This estimate is different from the number included in the Cook County FY2012 Executive Budget Recommendation, Revenue Estimates, p. 13. An explanation of the difference was not available as of the publication date of this report.
[87] Cook County Health and Hospitals System, Minutes of the Finance Committee Meeting, August 19, 2011, Attachment #8, pp. 109-111.
[88] Cook County Health and Hospitals System, Minutes of the Finance Committee Meeting, August 19, 2011, Attachment #8, p. 110.
[89] Cook County Health and Hospitals System, Minutes of the Finance Committee Meeting, August 19, 2011, Attachment #8, p. 110.
[90] Statement by Michael Ayres to Cook County Health and Hospitals Finance Committee, June 24, 2011.
[91] Cook County Health and Hospitals System, Minutes of the Finance Committee Meeting. May 20, 2011, Attachment #7, p. 116.
[92] Statement by Michael Ayres at Cook County Health and Hospitals Special Board of Directors meeting, September 16, 2011, September 16, 2011. An exact figure was not available as of the publication date of this report.
[93] Cook County Health and Hospitals System, Minutes of the Finance Committee Meeting, Attachment #8, p. 114.
[94] Meeting between the Civic Federation and the Cook County Health and Hospitals System, October 18, 2011.
[95] Statement by Michael Ayres to Cook County Health and Hospitals Finance Committee, June 24, 2011.
[96] Statement by Director David Carvalho at Cook County Health and Hospitals System Board of Directors meeting, September 28, 2011.

attributed to lower than expected numbers of Medicaid patients and to the State's delay in processing Medicaid applications from Health System patients.

In FY2012 patient fee revenues are budgeted to increase by $105.3 million, or 41.5%, to $359.0 million from $253.7 million in FY2011.[97] Additional revenue is expected to come from a reduction in the backlog of Medicaid applications; physician billing, which began in August 2011; and increased federal Medicaid reimbursements.

In sending its preliminary FY2012 budget to the County Board, the Health System stated in a letter that the patient fee revenue forecast was one of the most significant risks in the budget.[98] The letter noted that the forecast depends on the ability to implement physician billing throughout the System, which requires significant effort to develop more efficient and integrated information technology systems.

The next table shows Health System operating revenues from FY2008 to FY2012. Data that were not available as of the publication date of this report are noted with two asterisks.

Cook County Health Fund Operating Revenues: FY2008-FY2012 (in $ millions)							
	FY2008 Actual	FY2009 Actual	FY2010 Budget*	FY2010 Actual	FY2011 Budget*	FY2011 Estimated	FY2012 Proposed
Patient Fee Revenue							
Medicaid	$ 208.7	$ 166.3	$ 188.5	$ 164.8	$ 266.3	**	**
FMAP***	$ -	$ 35.8	$ 39.0	$ 12.7	na	na	**
Total Medicaid	**$ 208.7**	**$ 202.1**	**$ 227.5**	**$ 177.5**	**$ 266.3**	**	**
Medicare	$ 56.9	$ 53.8	$ 53.5	$ 58.6	$ 66.5	**	**
Uninsured and Private Insurance	$ 13.5	$ 17.8	$ 17.0	$ 16.3	$ 27.4	**	**
Total Patient Fee Revenue	**$ 279.1**	**$ 273.7**	**$ 298.0**	**$ 252.4**	**$ 360.2**	**$ 253.7**	**$ 359.0**
BIPA and DSH	$ 127.3	$ 389.6	$ 281.1	$ 281.3	$ 271.3	$ 282.2	$ 271.0
Total Patient-Related Revenue	**$ 406.4**	**$ 663.3**	**$ 579.1**	**$ 533.7**	**$ 631.5**	**$ 535.9**	**$ 630.0**
Miscellaneous****	$ 7.6	$ 6.5	$ 5.7	$ 7.3	$ 4.1	$ 4.1	$ 12.1
Total	**$ 414.0**	**$ 669.8**	**$ 584.8**	**$ 541.0**	**$ 635.6**	**$ 540.0**	**$ 642.1**

*Budgeted FY2010 and FY2011 numbers are shown for purposes of comparison.

**Data were not available by the publication date of this report.

***FY2011 Medicaid includes FMAP, which ended in that year.

****Includes revenue from cafeteria, medical records, parking income, physicians fees and pharmacy service charge.

Source: Communication between the Civic Federation and the Cook County Department of Budget and Management Services, November 2, 2011; FY2012 Executive Budget Recommendation, Revenue Estimates, p. 13; Cook County FY2011 Appropriations Bills, Revenue Estimate, p. 33, 48, 54; Cook County FY2010 Appropriation Bill, Revenue Estimate, p. 40; Cook County Health and Hospitals System, Preliminary FY2012 Budget, September 16, 2011, pp. 15.

County Subsidy

The Health System's subsidy from the County is budgeted to decline by 8.8%, or $24.3 million, in FY2012 to $252.0 million from the budgeted $276.3 million in FY2011. The projected actual FY2011 subsidy to the System shown in data provided to the Civic Federation by the Cook

[97] The projected patient fee revenue number of $253.7 million is not consistent with estimates by Health System officials. An explanation of the difference was not available as of the publication date of this report.
[98] Letter from Dr. Terry Mason to Cook County Board President Toni Preckwinkle and the Cook County Board of Commissioners, September 28, 2011.

County Department of Budget and Management Services is $95.7 million higher at $371.9 million. This data was based on mid-year estimates.[99]

In October 2011 Health System officials estimated the System's FY2011 deficit, the difference between the budgeted and actual subsidy, will be $120 million due to the shortfall in patient fee revenues.[100] That would suggest an actual subsidy of roughly $396 million.

The table below shows the county subsidy from FY2008 to FY2012. Data that were not available as of the publication date of this report are noted with two asterisks. The FY2012 Executive Budget Recommendation does not provide a breakdown of patient fees by source, such as Medicaid or Medicare. Nor does the budget document provide a breakdown of sales tax and cigarette tax by General Fund component. The budget document does show property tax by General Fund component but does not give the net allowance for uncollected taxes, which is deducted from Health System revenues. Total property taxes allocated to the System, including the allowance for uncollected taxes, are $85.6 million in FY2012.[101]

Cook County Health and Hospitals System County Subsidy: FY2008-FY2012 (in $ millions)*

	FY2008 Actual	FY2009 Actual	FY2010 Budgeted	FY2010 Actual	FY2011 Budgeted	FY2011 Preliminary Results	FY2012 Proposed
Budgeted Subsidy from County							
Sales Tax	$ 127.6	$ 280.5	$ 228.2	$ 229.2	$ 131.0	$ 131.0	**
Cigarette Tax	$ 135.9	$ 29.4	$ 25.0	$ 23.9	$ 21.0	$ 21.0	**
Property Tax***	$ 144.4	$ 144.4	$ 136.0	$ 136.0	$ 82.0	$ 82.0	**
TIF	$ -	$ -	$ -	$ -	$ 7.6	$ 7.6	**
Interest Earnings Transfer Out/Debt Restructuring	$ -	$ 17.0	$ -	$ -	$ 34.6	$ 34.6	**
Total Budgeted Subsidy	**$ 408.0**	**$ 471.2**	**$ 389.1**	**$ 389.1**	**$ 276.2**	**$ 276.2**	**$ 252.0**
Operating Revenues							
Patient Service Revenues	$ 406.3	$ 663.4	$ 579.0	$ 533.6	$ 631.5	$ 535.9	$ 630.0
Miscellaneous Revenues	$ 7.6	$ 6.5	$ 5.7	$ 7.6	$ 4.1	$ 4.1	$ 12.1
Total Operating Revenues	**$ 413.9**	**$ 669.9**	**$ 584.7**	**$ 541.2**	**$ 635.6**	**$ 540.0**	**$ 642.1**
Total Revenues	**$ 821.9**	**$1,141.1**	**$ 973.8**	**$ 930.3**	**$ 911.8**	**$ 816.2**	$ 894.0
Less Expenditures	$ 822.0	$ 930.6	$ 973.9	$ 952.4	$ 911.9	$ 911.9	$ 894.0
Surplus (Deficit)	**$ (0.1)**	**$ 210.5**	**$ (0.0)**	**$ (22.1)**	na	$ (95.7)	na
Actual Subsidy	**$ 408.1**	**$ 260.7**	**na**	**$ 411.2**	**na**	**$ 371.9**	**na**

*Does not include costs paid by County for pension contributions and debt service.

**Data were not available as of the publication date of this report.

***Property tax levy net of allowance for uncollected taxes.

Source: Email communications between Civic Federation and Cook County Department of Budget and Management Services, September 30, 2011 and November 2, 2011.

[99] Communication between the Civic Federation and the Cook County Department of Budget and Management Services, November 2, 2011.
[100] Meeting between the Civic Federation and the Cook County Health and Hospitals System, October 18, 2011.
[101] Cook County FY2012 Executive Budget Recommendation, Revenue Estimates, p. 10.

The additional subsidy required due to the revenue shortfall will be deducted from the Health System's unrestricted net assets.[102] As of November 30, 2010, the Health System had unrestricted net assets of $247.2 million.[103]

Health System Personnel

The FY2012 budget shows 7,059.5 full-time equivalent positions (FTEs) for the Health System.[104] However, this number does not reflect the fact that the System budgeted most vacant and new positions at 0.2 FTEs for FY2012. All Health System positions are shown in the budget at 1.0 FTEs. The personnel number reflecting fully funded positions is 6,240.9, a decline of 12.3%, or 818.6 FTEs, from 6,638.1 in FY2011.[105]

The Health System's budget includes 839.0 vacant FTEs and 343.1 new FTEs. Full funding for these positions would have required $75.2 million, which is $55.2 million more than the Health System's FY2012 salary and wage appropriation. The absence of full funding for these positions is shown as a -$55.2 million "scheduled salary adjustment" in the System's budget.[106]

On September 28, 2011, the Health System's then Interim CEO Dr. Terry Mason explained the staffing proposal in a letter to Board President Preckwinkle and Cook County Commissioners.[107] The letter, which accompanied the System's budget recommendation for FY2012, stated that the 80% reduction in funding for vacant and new positions reflected available resources and the System's expected inability to fill positions quickly. Dr. Mason cautioned that the limited funding did not provide enough resources to meet all of the budget's quality, patient safety and process improvement goals and may affect the System's ability to implement basic functions such as managed care, patient scheduling services and information technology support.

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[102] Communication between the Civic Federation and the Cook County Department of Budget and Management Services, November 2, 2011. The Health System is an enterprise fund of the County under generally accepted accounting principles.
[103] Cook County FY2010 CAFR, p.38.
[104] Cook County FY2012 Executive Budget Recommendation, Proposed Expenditures, p. 57. Like the rest of this section, the discussion of Health System personnel is based only on the Health Fund. The Special Purpose Funds have 48.0 FTEs in FY2012.
[105] Communication between the Civic Federation and the Cook County Health and Hospitals System, October 27, 2011. Unless otherwise noted, all information on the Health System's funding of FTEs is based on this communication.
[106] Cook County FY2012 Executive Budget Recommendation, p. D-3.
[107] Letter from Dr. Terry Mason to Cook County Board President Toni Preckwinkle and the Cook County Board of Commissioners, September 28, 2011.

The table below shows the Health System's personnel changes from FY2008 to FY2012. The numbers for FY2012 are adjusted to reflect actual funding of FTEs.

Cook County Health Fund Personnel FY2008-FY2012 (FTEs)							
	FY2008 Adopted	FY2009 Adopted	FY2010 Adopted	FY2011 Adopted	FY2012 Proposed*	2 Year # Change	2 Year % Change
Office of the Chief Health Administrator	583.0	505.2	553.5	554.3	498.0	-56.3	-10.2%
Cermak Health Services	392.0	445.2	486.5	516.0	504.0	-12.0	-2.3%
JTDC Health Services	40.0	39.0	39.0	36.8	37.0	0.2	0.5%
Provident Hospital	693.0	690.0	683.6	462.9	405.0	-57.9	-12.5%
Ambulatory and Community Health Network	658.0	678.6	702.2	705.1	585.2	-119.9	-17.0%
CORE Center	61.0	61.4	67.7	67.4	64.4	-3.0	-4.5%
Department of Public Health	167.0	160.6	171.6	170.8	176.0	5.2	3.0%
Stroger Hospital	3,768.0	3,866.4	3,898.3	3,614.9	3,631.8	16.9	0.5%
Oak Forest Hospital**	1,010.0	1,055.0	1,024.3	509.9	339.5	-170.4	-33.4%
Total	**7,372.0**	**7,501.4**	**7,626.7**	**6,638.1**	**6,240.9**	**-397.2**	**-6.0%**

*FTEs for FY2012 are funded positions, not budgeted positions. In FY2012, all Health System positions were shown as 1.0 FTEs in the budget, even though most vacant and new positions were funded at 0.2 FTEs.

**Oak Forest Hospital was renamed Oak Forest Health Center in FY2011.

Source: Cook County FY2012 Executive Budget Recommendation, Proposed Expenditures, pp. 56-57; Communication between Civic Federation and Cook County Health and Hospitals System, October 27, 2011.

The number of funded positions declines by 33.4% at Oak Forest Health Center and by 12.5% at Provident Hospital due to elimination or reduction of inpatient services. The System's clinic network sees a 17.0% decline in funded positions. The number of funded positions at Stroger Hospital, which has the System's largest staff, stays virtually unchanged at 3,631.8 FTEs, up 0.5%, or 16.9 FTEs, from FY2011.

FUND BALANCE

All governments should set aside funds to provide for emergencies and contingencies. These funds should be "unreserved." That is, they should not have any external legal restrictions or constraints. Unreserved fund balance is often referred to as a "rainy day" fund.

Fund Balance Policy

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." [108] Two months of operating expenditures is approximately 17%. GFOA notes that a smaller size reserve may be appropriate for the largest governments. GFOA also recommends that governments adopt a formal, publicly available fund balance policy.[109]

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

Currently, the County's discussion of its financial policies does not include an explicit General Fund reserve target.

General Fund Balance Ratio

Cook County's General Fund consists of three operating accounts: the Corporate Account, Public Safety Account and Self Insurance Account. The chart below displays the General Fund fund balance as a ratio of General Fund unreserved fund balance to operating expenditures for FY2010.

From FY2002 to FY2006 Cook County's General Fund maintained an unreserved fund balance ranging from 18.6% to 19.7% of expenditures, reflecting a level of reserves that exceeded the GFOA's minimum standard. However, from FY2007 to FY2010 the fund balance ratio declined below that standard. Between FY2006 to FY2008 the unreserved fund balance declined from $259.5 million to $103.6 million, a 60.1% decrease.

The Cook County FY2009 Comprehensive Annual Financial Report initially reported a fund balance of $142.5 million, or 11.2% of operating expenditures in reserves. However, after further review, it was discovered in June 2011 that this fund balance was calculated in error.[110] The corrected FY2009 General Fund Balance is reported to be $51.3 million, or 4.1% of FY2009 operating expenditures.

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

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

General Fund* Unreserved Fund Balance			
FY2002-FY2010			
	General Fund Balance	Actual Expenditures	Ratio
FY2002	$ 206,477,041	$ 1,101,908,206	18.7%
FY2003	$ 188,564,680	$ 1,104,266,689	17.1%
FY2004	$ 226,636,823	$ 1,157,661,049	19.6%
FY2005	$ 221,838,393	$ 1,194,257,547	18.6%
FY2006	$ 259,516,065	$ 1,316,014,115	19.7%
FY2007	$ 203,554,454	$ 1,309,985,163	15.5%
FY2008	$ 103,565,761	$ 1,279,065,307	8.1%
FY2009**	$ 51,335,834	$ 1,266,752,817	4.1%
FY2010	$ 30,798,552	$ 1,320,303,924	2.3%

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

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

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

Source: Cook County CAFRs, FY2002-FY2010.

COOK COUNTY PENSION FUND

The Civic Federation analyzed four indicators of the fiscal health of the Cook County's pension fund: funded ratios, unfunded actuarial accrued liabilities, investment rate of return and annual required employer contributions. This section presents multi-year data for those indicators and describes the Cook County pension benefits.

Plan Description

The County Employees' and Officers' Annuity and Benefit Fund of Cook County is a single employer defined benefit pension plan for employees and officers of Cook County. It was created in 1926 by Illinois State statute to provide retirement, death and disability benefits to employees and their dependents.[111] Plan benefits and contribution amounts can only be amended through state legislation.[112] The fiscal year of the Cook County pension fund is January 1 to December 31.[113]

[111] County Employees' Annuity and Benefit Fund of Cook County, Financial Statements as of December 31, 2010, p. 8.
[112] The Cook County pension article is 40 ILCS 5/9, but the fund is also governed by other parts of the pension code, such as 40 ILCS 5/1-160 which defines the changes to benefits for new employees enacted in Public Act 96-0889.
[113] This is different from the fiscal year of Cook County, which is December 1 to November 30.

The Cook County pension fund is governed by a nine-member Board of Trustees.[114] As prescribed in state statute, four members are elected by the employees, three are elected by the annuitants and the remaining two are the County Comptroller and Treasurer or their delegates.

In FY2010 the fund had 23,165 active employee members and 15,333 beneficiaries for a ratio of 1.51 active members for every beneficiary. This ratio has fallen from 2.35 in FY2001 as the number of active members has declined and the number of beneficiaries has risen. This trend puts financial stress on the fund as there are fewer employees contributing to the fund and more annuity payments to make.

Cook County Pension Fund Membership: FY2001-FY2010			
Fiscal Year	**Active Employees**	**Beneficiaries**	**Ratio of Active to Beneficiary**
FY2001	26,540	11,305	2.35
FY2002	26,571	11,396	2.33
FY2003	25,513	13,672	1.87
FY2004	25,848	13,782	1.88
FY2005	25,726	13,926	1.85
FY2006	25,555	14,173	1.80
FY2007	23,456	14,469	1.62
FY2008	23,436	14,745	1.59
FY2009	23,570	14,915	1.58
FY2010	23,165	15,333	1.51
10-Year Change	**-3,375**	**4,028**	**-0.8**
10-Year % Change	**-12.7%**	**35.6%**	**-35.6%**

Note: Fiscal year of pension fund is January 1 to December 31.
Source: County Employees' and Officers' Annuity and Benefit Fund of Cook County, Financial Statements FY2001-FY2010.

Benefits

Public Act 96-0889, enacted in April 2010, created a new tier of benefits for many public employees hired on or after January 1, 2011, including new members of the Cook County pension fund.[115] This report will refer to "Tier 1 employees" as those persons hired before the effective date of Public Act 96-0889 and "Tier 2 employees" as those persons hired on or after January 1, 2011.

Tier 1 employees are eligible for full retirement benefits once they reach age 60 and have at least ten years of employment at the County. The amount of retirement annuity is 2.4% of final average salary multiplied by years of service. Final average salary is the highest average monthly salary for any 48 consecutive months within the last 10 years of service. The maximum annuity

[114] The Board and staff of the Cook County pension fund also oversee and manage the pension fund of the Forest Preserve District of Cook County. The Forest Preserve fund has separate financial statements, however and is not included in this analysis. For more information see the Civic Federation's annual Status of Local Pension Funding report, http://www.civicfed.org/sites/default/files/Civic%20Federation%20Status%20of%20Local%20Pensions%20FY2009.pdf.
[115] A "trailer bill" to correct technical problems with Public Act 96-0889 was enacted in December 2010 as Public Act 96-1490.

amount is 80% of final average salary. For example, a 60 year-old employee with 30 years of service and a $65,000 final average salary could retire with a $46,800 annuity: 30 x $65,000 x 2.4% = $46,800.[116] The annuity increases every year by an automatic compounded 3.0%.

Tier 1 employees with ten years of service may retire as young as age 50, but their benefit is reduced by 0.5% for each month they are under age 60. This reduction is waived for employees with 30 or more years of service, such that a 50 year-old with 30 years of service may retire with an unreduced benefit.

The following table compares current employee benefits to new hire benefits enacted in Public Act 96-0889. The major changes are the increase in full retirement age from 60 to 67 and early retirement age from 50 to 62 for Cook County, the reduction of final average salary from the highest 4 year average to the highest 8 year average, the $106,800 cap on pensionable salary and the reduction of the automatic annuity increase from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.

Major Cook CountyBenefit Provisions for Regular Employees

	Tier 1 Employees (hired before 1/1/2011)	Tier 2 Employees (hired on or after 1/1/2011)
Full Retirement Eligibility: Age & Service	age 60 with 10 years of service, or age 50 with 30 years of service	age 67 with 10 years of service
Early Retirement Eligibility: Age & Service	age 50 with 10 years of service	age 62 with 10 years of service
Final Average Salary	highest average monthly salary for any 48 consecutive months within the last 10 years of service	highest average monthly salary for any 96 consecutive months within the last 10 years of service; pensionable salary capped at $106,800*
Annuity Formula	2.4% of final average salary for each year of service	same as current employees
Early Retirement Formula Reduction	0.5% per month under age 60	0.5% per month under age 67
Maximum Annuity	80% of final average salary	same as current employees
Annuity Automatic Increase on Retiree or Surviving Spouse Annuity	3% compounded; begins at year after age 60 is reached, or year of first retirement anniversary if have 30 years of service	lesser of 3% or one-half of the annual increase in CPI-U, not compounded; begins at the later of age 67 or the first anniversary of retirement

Note: This table does not show benefits for Cook Cook Sheriff's Police or elected officials.

*The $106,800 maximum pensionable salary automatically increases by the lesser of 3% or one-half of the annual increase in the CPI-U.

Note: Tier 2 employees are prohibited from simultaneously receiving a salary and a pension from any public employers covered by the State Pension Code ("double-dipping").

Sources: County Employees' Annuity and Benefit Fund of Cook County Actuarial Valuation as of December 31, 2010; 40 ILCS 5/9; Public Act 96-0889; and Public Act 96-1490.

Members of the Cook County pension fund do not participate in the federal Social Security program so they are not eligible for Social Security benefits related to their County employment when they retire.

[116] The average FY2010 salary of Cook County employees 60-64 years old with 30-34 years of service was $68,145, so $65,000 is used as an approximate final average salary. County Employees' Annuity and Benefit Fund of Cook County Actuarial Valuation as of December 31, 2010, p. 4.

Alternate Annuity for County Officers

Cook County officials who were elected to office on or before January 1, 2008 may choose an alternate annuity. The official may contribute an additional 3% of salary annually and receive in exchange an annuity equal to 3% of final salary at time of termination (not final average salary) for the first eight years of service, 4% for the next four years and 5% thereafter subject to a maximum of 80% of final salary. Public Act 95-0654 eliminated this benefit for officials hired after January 1, 2008.

Optional Pension Plan

An additional optional Cook County pension fund benefit existed between 1985 and 2005. The Optional Pension Plan was created in 1985 by the General Assembly and renewed several times before it was allowed to sunset on July 1, 2005.[117] It permitted employees to make additional contributions equal to 3% of salary in exchange for an additional 1% of final average salary benefit for each year for which the additional contribution was paid.

Numerous employees elected to make Optional Plan contributions prior to the expiration of the plan, causing a one-time increase in FY2005 employee contributions. This created a one-time matching employer contribution increase of $104 million two years later.[118] However, the County did not raise its property tax levy to accommodate the one-time increase in employer contribution. The FY2007 and FY2009 Cook County Budget Recommendations proposed issuing $104.1 million in bonds to pay for the obligation.[119] The Civic Federation opposed this borrowing. The Cook County Board of Commissioners debated and declined to issue the bonds several times before approving the issuance of $78.0 million in February 2010.[120] As obligations payable to retirees exercising the Optional Plan came due after July 1, 2005, the County provided funds for its matching share, which reduced the obligation from $104.1 million to $78.0 million in 2010.[121] In June 2010 Cook County sold $80.0 million in short-term taxable general obligation bonds maturing by 2013 in order to pay the $78.0 million owed to the Cook County pension fund.[122] The deposit was to be made to the pension fund by July 30, 2010.

Other Post Employment Benefits

State statute permits the Cook County pension fund to pay all or a portion of the health insurance premium for retirees who choose to participate in one of the County's employee health insurance

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[117] 40 ILCS 5/9-179.3. See also the legislative history provided in County Employees' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2009, pp. 32-40.
[118] Cook County, Illinois Official Statement for $357,950,000 in Series 2010A and Series 2010C Bonds Dated June 11, 2010, p. 14 ; Cook County Board of Commissioners Meeting of February 9, 2010 New Items Agenda; and Cook County Ordinance 10-O-20 passed April 6, 2010.
[119] See Civic Federation, Cook *County FY2007 Proposed Budget Analysis and Recommendations*, January 29, 2007 and Civic Federation, *Cook County FY2009 Proposed Budget Analysis and Recommendations*, December 18, 2009.
[120] Cook County Board of Commissioners Meeting of February 9, 2010 New Items Agenda and Cook County Ordinance 10-O-20 passed April 6, 2010.
[121] Cook County, Illinois Official Statement for $357,950,000 in Series 2010A and Series 2010C Bonds Dated June 11, 2010, pp. 14-15.
[122] Cook County, Illinois Official Statement for $357,950,000 in Series 2010A and Series 2010C Bonds Dated June 11, 2010.

plans.[123] The Cook County pension fund currently subsidizes roughly 55% of retiree premiums (including dependent coverage) and 70% of surviving spouse premiums (including dependent coverage). The remaining premium amount is paid by the participant.[124] The subsidy is funded on a pay-as-you-go basis from the same asset pool used to pay pension benefits; a separate irrevocable trust or a 401(h) trust has not been established to pre-fund the retiree health insurance subsidy.

Cook County government does not directly contribute to the retirees' premium costs. However, as the employer sponsor of the pension plan, the County is required to report other post employment benefit (OPEB) liabilities in its financial statements. The OPEB plan is treated as another pension benefit and does not have a separate contribution rate or asset pool associated with it. The employer contribution for OPEB reported in the County's financial statements is roughly equal to the cost of the premium subsidy.[125]

In 2010 there were 7,554 retiree and surviving spouse participants whose health plan costs were subsidized by the pension fund.[126] This is an increase of 187 participants over the prior year. Retiree health plan data was first disclosed in Cook County's FY2007 financial statements.

Cook County Pension Fund Retiree Health Plan Participants: FY2006-FY2010

	FY2006	FY2007	FY2008	FY2009	FY2010
Retiree and Surviving Spouse Participants	7,132	7,459	7,300	7,367	7,554

Source: County Employees' Annuity and Benefit Fund of Cook County, Financial Statements FY2007, p. 18 and FY2010, p. 20.

Funded Ratios

This report uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting future obligations.

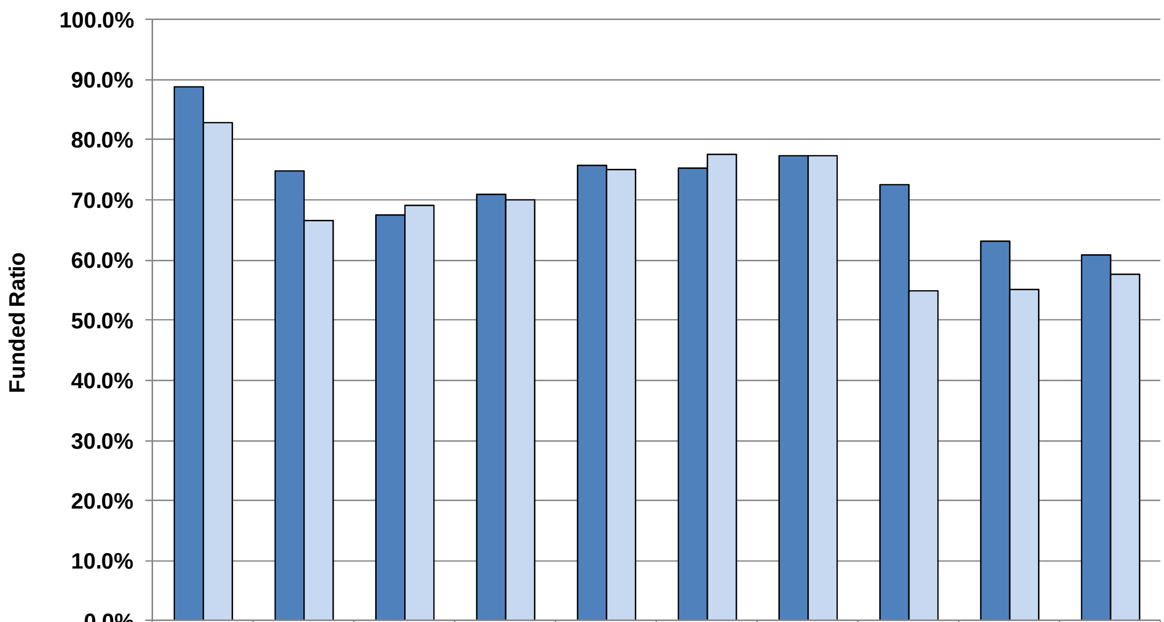
The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses over a period of three to five years.[127] The market value of assets measurement presents the ratio of assets to liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than

[123] 40 ILCS 5/9-239. The statute also specifies that this group health benefit shall not be considered a pension benefit as defined by the Illinois Constitution, Section 5 Article XIII.
[124] County Employees' Annuity and Benefit Fund of Cook County, Financial Statements as of December 31, 2010, p. 19.
[125] County Employees' Annuity and Benefit Fund of Cook County, Financial Statements as of December 31, 2010, p. 19.
[126] These figures do not include the retired pension fund employees who also participate in the plan. There were nine such retired participants in FY2010. County Employees' Annuity and Benefit Fund of Cook County, Financial Statements as of December 31, 2010, p. 20.
[127] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2009*, February 10, 2011.

actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

The following exhibit shows the actuarial and market value funded ratios for Cook County's pension fund over the last ten years. The actuarial value funded ratio fell from a high of 88.9% in FY2001 to 60.7% in FY2010. The market value funded ratio fell from a high of 82.8% in FY2001 to a low of 54.8% in FY2008 before rebounding slightly to 57.6% in FY2010. The sizeable difference between FY2008 actuarial and market value funded ratios is due to the fact that FY2008 investment returns were much lower than the smoothed returns over five years.

Cook County Pension Fund Funded Ratios: Actuarial Value of Assets and Market Value of Assets FY2001-FY2010



	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Actuarial Value	88.9%	74.7%	67.5%	70.9%	75.8%	75.3%	77.3%	72.6%	63.2%	60.7%
Market Value	82.8%	66.6%	69.1%	70.0%	75.1%	77.4%	77.4%	54.8%	55.1%	57.6%

Source: Civic Federation calculations based on County Employees' and Officers' Annuity and Benefit Fund of Cook County, Financial Statements FY2001-FY2010.

Several changes in actuarial assumptions affected the funded ratios over this ten-year period. In FY2004 the Cook County pension plan changed actuaries. The new actuary used a different method for smoothing asset values than the previous actuary.[128] The new actuary also analyzed the fund experience from 2000-2003 and subsequently made two significant assumption changes: 1) the discount rate assumption was lowered from 8.0% to 7.5% per year; and 2) the

[128] The previous actuary used a 5-year smoothed average ratio of market to book value while the new actuary used a 5-year smoothing of unexpected investment gains or losses (market value only), a more common method. County Employees' and Officers' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2003, p. 69 and County Employees' and Officers' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2004, pp. 7-8.

salary increase assumption was lowered from 5.5% to 5.0% per year.[129] The fund actuary estimated that using the old methods and assumptions, the Cook County FY2004 actuarial value funded ratio would have been 69.5% rather than 70.9%.[130]

In FY2005 the actuary changed the methods used to calculate actuarial liabilities in order to more accurately model the liabilities of the Cook County pension fund. These changes resulted in a decrease of $729.6 million in unfunded liabilities for Cook County.[131] Without these changes, the FY2005 Cook County actuarial value funded ratio would have been 70.3% rather than 75.8%.

In FY2009 the actuary changed some assumptions based on the experience of the fund between 2005 and 2008. The mortality table was changed from the 1983 table to the 1994 table, termination rates were increased and retirement rates were revised.[132] The result was an increase in actuarial liability of $810.8 million.[133] Without these changes, the FY2009 Cook County actuarial value funded ratio would have been 67.5% rather than 63.2%.

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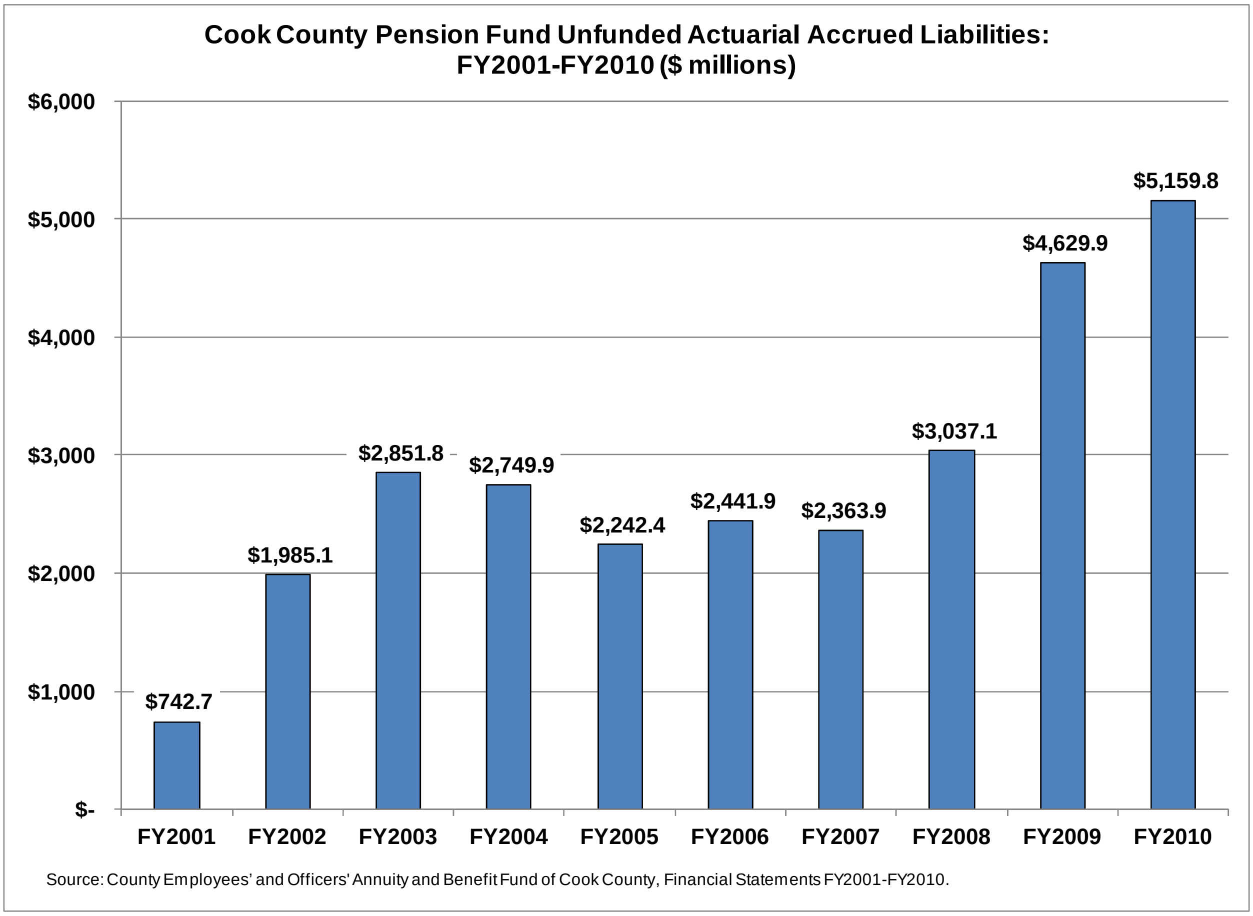
[129] County Employees' and Officers' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2004, p. 10.
[130] Estimates provided by Sandor Goldstein via e-mail to the Civic Federation, January 24, 2008.
[131] County Employees' and Officers' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2005, pp. 13-14. The change was a correction to the actuary's computer model. Information provided by Sandor Goldstein, March 20, 2009.
[132] For details see page 11 and Appendix 1 of the County Employees' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2009.
[133] County Employees' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2009, p.13.

Unfunded Actuarial Accrued Liability

Unfunded actuarial accrued liability (UAAL) is the dollar value of accrued liabilities not covered by the actuarial value of assets. As shown in the exhibit below, unfunded liability for Cook County's pension fund totaled $5.2 billion in FY2010, up from $742.7 million in FY2001.

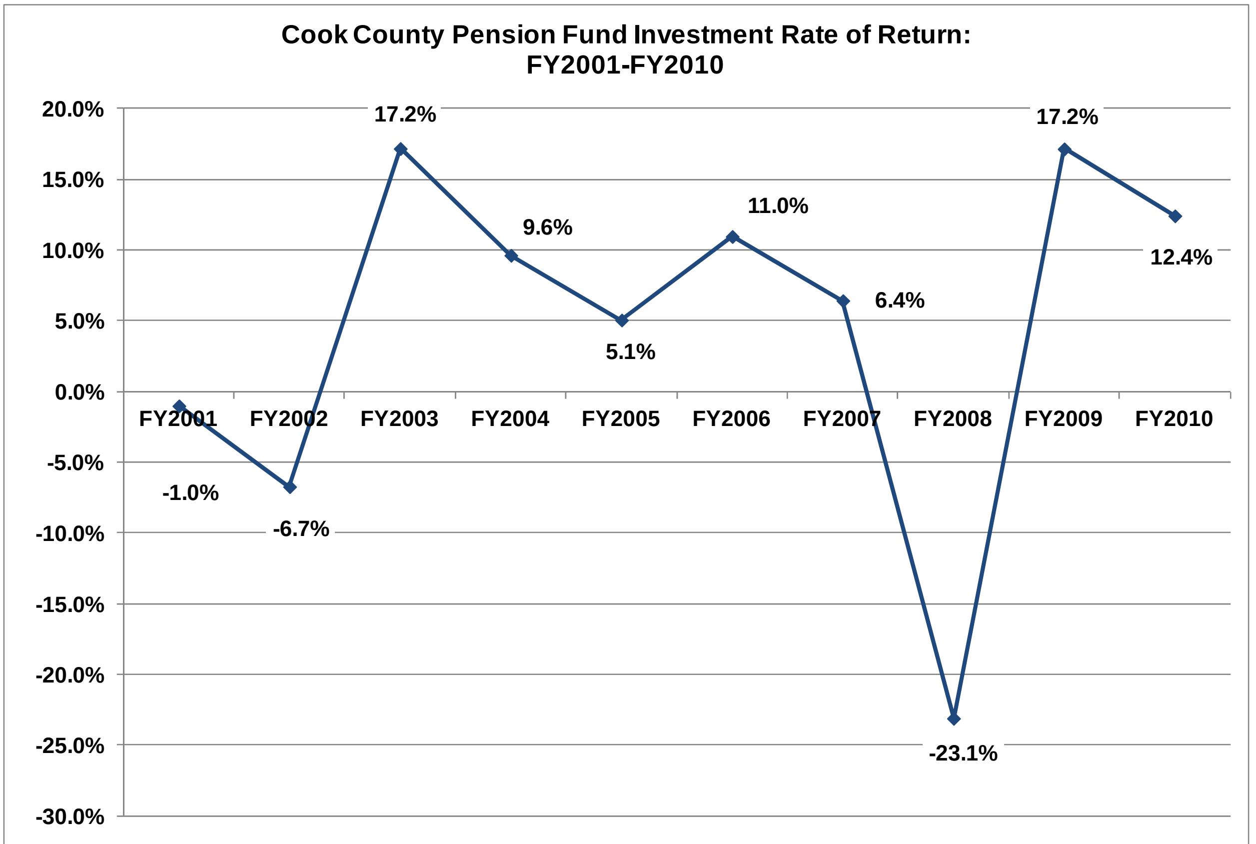
The largest contributor to the $2.4 billion growth in unfunded liabilities between the beginning of FY2005 and the end of FY2010 was investment returns failing to meet the 7.5% expected rate of return.[134] This added $1.5 billion to the UAAL. The second largest contributor was the shortfall in employer contributions as compared to the ARC, which added $1.3 billion to the unfunded actuarial accrued liability over six years.



[134] The UAAL reflects investment gains and losses smoothed over a five-year period, so it does not match the annual investment results shown later in this report. For more information on asset smoothing see Civic Federation, *Status of Local Pension Funding Fiscal Year 2009*, February 11, 2011.

Investment Rate of Return

Investment income typically provides a significant portion of the funding for pension funds. Thus, declines over a period of time can have a negative impact on pension assets. Between FY2001 and FY2010 the Cook County pension fund's average annual rate of return was 4.8%.[135] Returns ranged from highs of 17.2% in FY2003 and FY2009 to a low of -23.1% in FY2008.



Source: Civic Federation calculation based on County Employees' and Officers' Annuity and Benefit Fund of Cook County, Financial Statements FY2001-FY2010.

[135] The Civic Federation calculates investment rate of return using the following formula: Current Year Rate of Return = Current Year Gross Investment Income/ (0.5*(Previous Year Market Value of Assets + Current Year Market Value of Assets – Current Year Gross Investment Income)). This is not necessarily the formula used by the pension fund's actuary and investment managers, thus investment rates of return reported here may differ from those reported in a fund's actuarial statements. However, it is a standard actuarial formula. Gross investment income includes income from securities lending activities, net of borrower rebates. It does not subtract out related investment and securities lending fees, which are treated as expenses.

Employer Annual Required Contribution

The financial reporting requirements for public pension funds and their associated governments are set by the Governmental Accounting Standards Board (GASB). The standards require disclosure of an Annual Required Contribution (ARC), which is an amount equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year and (2) the amount needed to amortize any existing unfunded accrued liability over a period of not more than 30 years. Normal cost is the portion of the present value of pension plan benefits and administrative expenses that is allocated to a given valuation year and is calculated using one of six standard actuarial cost methods. Each of these methods provides a way to calculate the present value of future benefit payments owed to active employees. The methods also specify procedures for systematically allocating the present value of benefits to time periods, usually in the form of the normal cost for the valuation year and the actuarial accrued liability (AAL). The actuarial accrued liability is that portion of the present value of benefits which is not covered by future normal costs.

ARC is a financial reporting requirement but not a funding requirement. The statutorily required Cook County contribution to its pension fund is set in the state pension code. However, because paying the normal cost and amortizing the unfunded liability over a period of 30 years does represent a reasonably sound funding policy, the ARC can be used as an indicator of how well a public entity is actually funding its pension plan. Cook County is required to make an annual employer contribution equivalent to 1.54 times the total employee contribution made two years earlier.[136] The County levies a property tax for this purpose and the pension amount appears as a separate line on tax bills.

Before examining the ARC and actual employer contributions to the Cook County pension fund, it is important to note some reporting changes. GASB Statement 43 required the retirement systems of large governments—those with over $100 million in annual revenue—to begin reporting any OPEB liability information separately for the fiscal year beginning after December 15, 2005. It also required that for those governments that fund retiree health care on a pay-as-you-go basis rather than through a designated trust fund, OPEB liabilities be valued using a discount rate assumption that reflects the rate of return earned on the actual assets used to pay the benefits. If OPEB is not prefunded in a designated trust, that discount rate is expected to reflect the interest rate earned on the plan sponsor's assets—often a long-term money market rate of roughly 4.5%.

In order to comply with these accounting standards, the Cook County pension fund produces three separate actuarial valuations: one valuation of pension liabilities using a 7.5% discount rate, another valuation of OPEB liabilities using a 4.5% discount rate and a "combined" valuation using a 7.5% discount rate for both pension and OPEB liabilities. The Cook County pension fund considers the "combined" valuation to be the best reflection of its assets and liabilities because the pension and OPEB benefits are paid from the same asset pool.[137] However,

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[136] 40 ILCS 5/9-169.

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

the separate pension and OPEB valuations done for GASB purposes are the ones used to compute the net pension and OPEB obligations of Cook County government that appear on the government's balance sheet.

The table below shows only the "combined" valuation comparison of the ARC to the actual Cook County contribution over the last ten years.[138] The employer contribution did not equal 100% of the ARC in any of the years FY2001 through FY2010. In FY2001 the $161.1 million employer contribution represented 76.3% of the ARC, meaning that $50.0 million more would need to have been contributed to meet the ARC that year. In FY2010 the $184.7 million employer contribution represented only 32.3% of the ARC for the "combined" valuation of pension and OPEB, for a shortfall of $387.6 million that year. The cumulative ten-year difference between ARC and actual employer contribution for "combined" pension and OPEB is a $2.0 billion shortfall. In 2010 the combined ARC for pension and OPEB was $572.3 million, or over three times the actual employer contribution of only $184.7 million.

Expressing ARC as a percent of payroll provides a sense of scale and affordability. In FY2001 the ARC was 16.6% of payroll while the actual employer contribution was 12.6% of payroll. In FY2010 the "combined" pension and OPEB ARC was 38.3% of payroll, while the actual employer contribution was 12.4% of payroll.

Cook County Pension Fund
Schedule of Employer Contributions--COMBINED Pension and OPEB Valuation

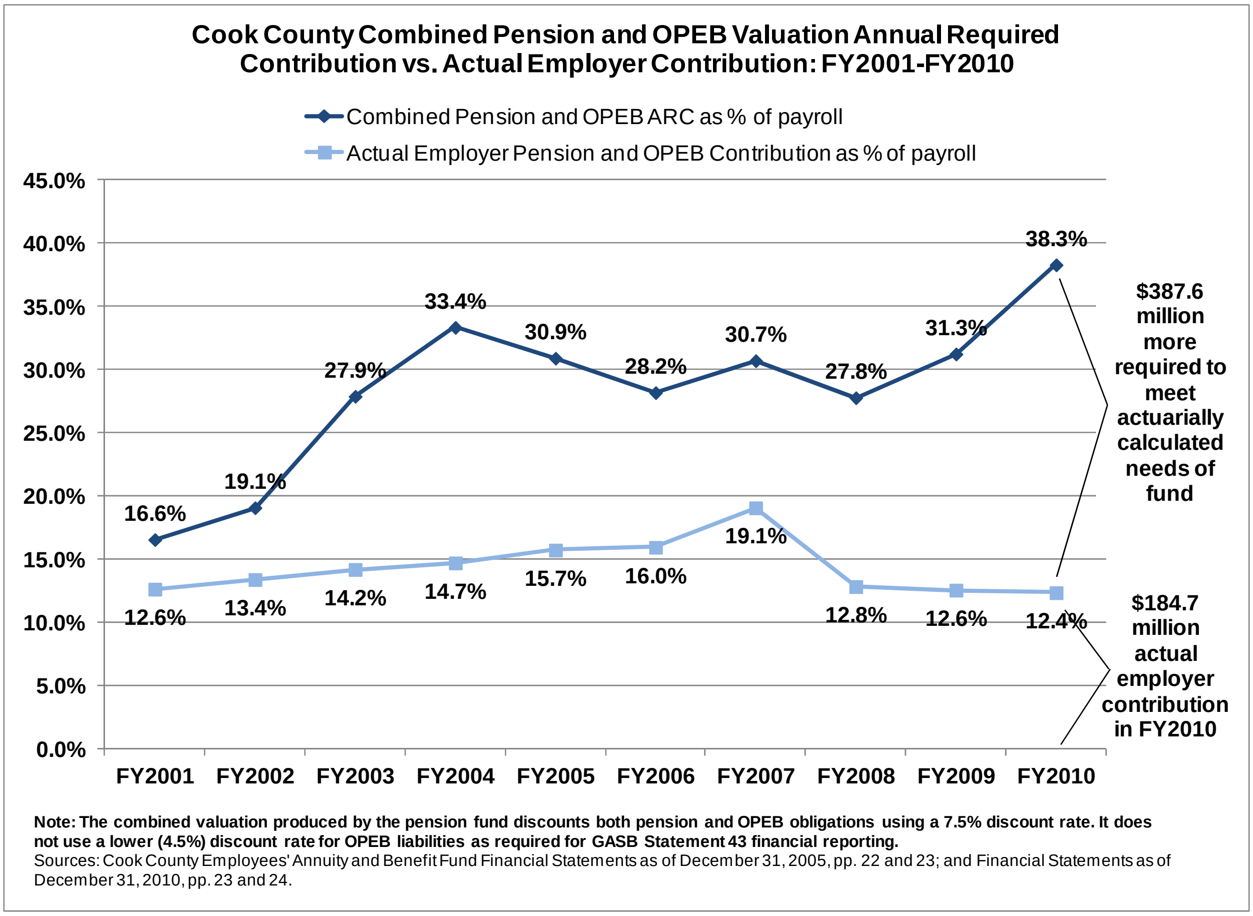
Fiscal Year	Employer Annual Required Contribution (1)	Actual Employer Contribution (2)	Shortfall (1-2)	% of ARC contributed	Payroll	ARC as % of payroll	Actual Employer Contribution as % of payroll
2001	$ 211,188,715	$ 161,141,138	$ 50,047,577	76.3%	$ 1,274,942,064	16.6%	12.6%
2002	$ 253,942,375	$ 178,410,973	$ 75,531,402	70.3%	$ 1,330,456,896	19.1%	13.4%
2003	$ 364,658,305	$ 185,608,032	$ 179,050,273	50.9%	$ 1,307,079,312	27.9%	14.2%
2004	$ 457,427,014	$ 201,957,937	$ 255,469,077	44.2%	$ 1,371,540,481	33.4%	14.7%
2005	$ 428,971,126	$ 218,292,478	$ 210,678,648	50.9%	$ 1,387,459,142	30.9%	15.7%
2006	$ 398,340,979	$ 225,438,363	$ 172,902,616	56.6%	$ 1,412,878,627	28.2%	16.0%
2007	$ 421,092,345	$ 261,534,551	$ 159,557,794	62.1%	$ 1,370,844,734	30.7%	19.1%
2008	$ 406,625,773	$ 188,008,670	$ 218,617,103	46.2%	$ 1,463,372,408	27.8%	12.8%
2009	$ 468,181,943	$ 188,285,316	$ 279,896,627	40.2%	$ 1,498,161,713	31.3%	12.6%
2010	$ 572,318,384	$ 184,722,634	$ 387,595,750	32.3%	$ 1,494,093,569	38.3%	12.4%

Note: This combined valuation produced by the pension fund discounts both pension and OPEB obligations using a 7.5% discount rate. It does not use a lower (4.5%) discount rate for OPEB liabilities as required for GASB Statement 43 financial reporting.

Sources: Cook County Employees' Annuity and Benefit Fund Financial Statements as of December 31, 2005, pp. 22 and 23; and Financial Statements as of December 31, 2010, pp. 23 and 24.

[138] The employer contribution shown in these tables is higher than the employer contribution shown elsewhere in the fund's financial statements because these GASB required tables include federal contributions for federally subsidized programs while the pension fund financial statements show only the tax levy contribution for locally-supported employees.

The graph below illustrates the growing gap between the "combined" pension and OPEB ARC as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts has grown from 3.9% of payroll, or $50.0 million, in FY2001 to 25.9% of payroll in FY2010. In other words, to fund the pension and retiree health care plans at a level that would both cover normal cost and amortize the unfunded liability over 30 years Cook County would have needed to contribute an additional 25.9% of payroll, or $387.6 million, in FY2010.



Cook County has consistently levied and contributed its statutorily required amount of 1.54 times the employee contribution made two years prior. However, that amount has been less than the ARC for each of the last ten years. The pension fund actuary estimates that in order to contribute an amount sufficient to meet the ARC in FY2011, Cook County would need to levy property taxes equal to a tax multiple of 4.95 rather than 1.54.[139]

[139] County Employees' Annuity and Benefit Fund of Cook County, Actuarial Valuation as of December 31, 2010, p. 17.

SHORT-TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. These include short-term notes, accounts payable, accrued payroll and other current liabilities. Cook County reports a variety of short-term obligations due for the next fiscal year in the statement of net assets included in its annual Comprehensive Annual Financial Report (CAFR), which include:

- Accounts payable: monies owed to vendors for goods and services carried over into the new fiscal year;
- Notes payable: short-term loans due within the next fiscal year;
- Accrued salaries: employee pay carried over from the previous year;
- Deferred property tax: property taxes not collected or held for short-term loan repayment or appeals from the previous year;
- Other deferred revenue: revenues collected by the government but not available for spending due to encumbrances from the previous fiscal year;
- Other liabilities: include self insurance funds (the County is self-insured for various types of liabilities, including medical malpractice, workers' compensation, general automobile and other liabilities), unclaimed property and other unspecified liabilities; and
- Arbitrage Liability: The Tax Reform Act of 1986 requires issuers of state and local government bonds to rebate to the federal government arbitrage profits earned on those bonds under certain circumstances. There was no arbitrage rebate liability as of November 30, 2010.[140]
- Accrued interest: includes interest due on deposits payable by the County in the next fiscal year.

[140] Cook County FY2010 CAFR, p. 94.

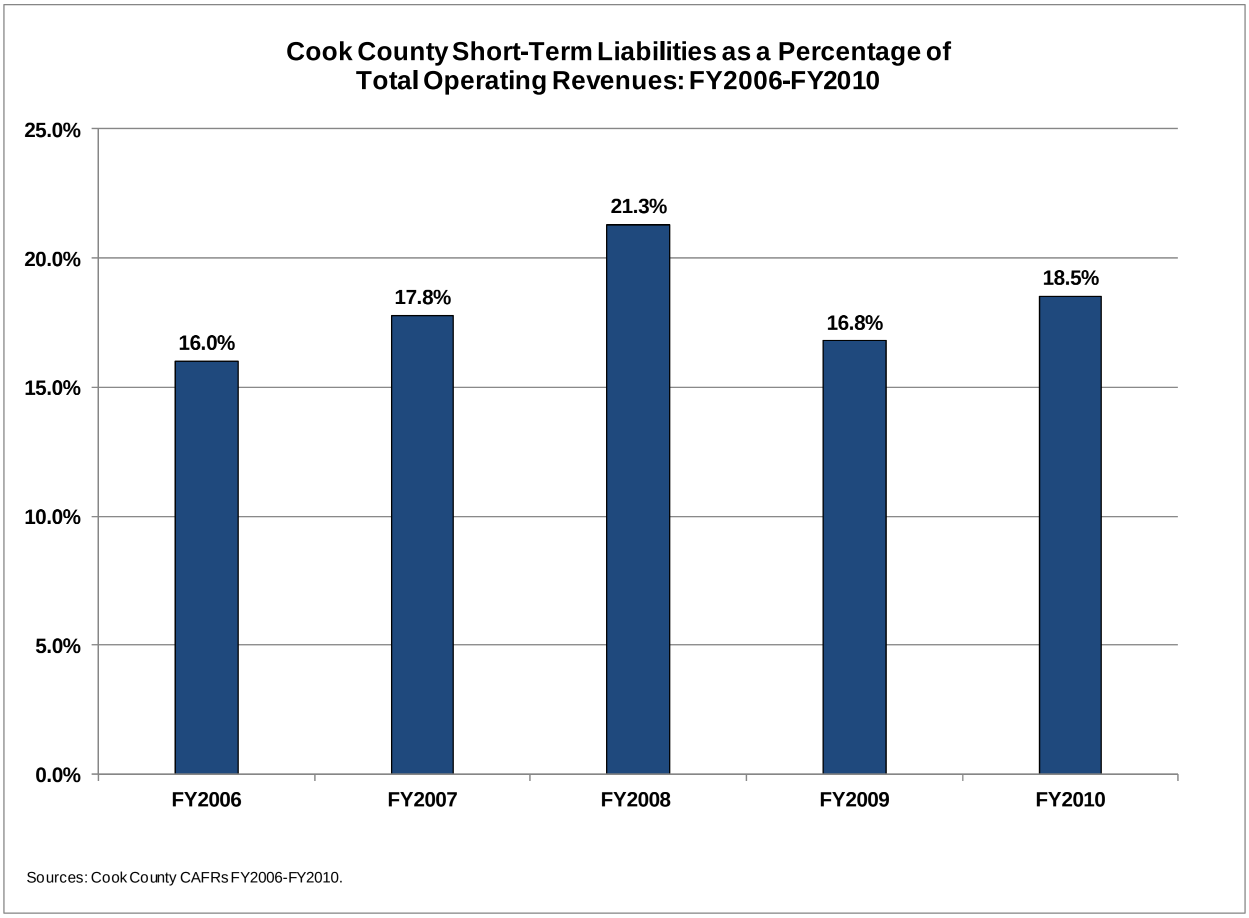
The following short-term liabilities analysis includes data from FY2006 through FY2010. In FY2010, short-term liabilities totaled $376.6 million, an increase of 8.2%, or $28.6 million, from the prior fiscal year. Since 2006 short-term liabilities have increased by $47.0 million, or 14.3%. The largest increase has come in the category of other liabilities, which increased by $67.9 million, or 209.1%.[141]

Cook County Governmental Activities Short-Term Liabilities : FY2006-FY2010 (in $ thousands)							
Type	**FY2006**	**FY2007**	**FY2008**	**FY2009**	**FY2010**	**5-Year Change**	**5-Year % Change**
Accounts Payable	$ 141,388	$ 172,707	$ 159,078	$ 149,816	$ 150,008	$ 8,620	6.1%
Accrued Salaries Payable	$ 68,014	$ 18,829	$ 25,125	$ 27,078	$ 32,114	$ (35,900)	-52.8%
Deferred Property Tax	$ 55,274	$ 62,063	$ 65,711	$ 64,533	$ 64,872	$ 9,598	17.4%
Other Deferred Revenue	$ 24,161	$ 19,924	$ 9,872	$ 21,262	$ 21,861	$ (2,300)	-9.5%
Other Liabilities	$ 32,457	$ 76,441	$ 39,290	$ 76,961	$ 100,313	$ 67,856	209.1%
Notes Payable	$ -	$ -	$ 118,268	$ -	$ -	$ -	…
Arbitrage Liability	$ -	$ -	$ 336	$ -	$ -	$ -	….
Accrued Interest	$ 8,296	$ 8,087	$ 8,756	$ 8,357	$ 7,466	$ (830)	-10.0%
Total	**$ 329,590**	**$ 358,050**	**$ 426,435**	**$ 348,007**	**$ 376,634**	**$ 47,044**	**14.3%**

Source: Cook County CAFRs, FY2006-FY2010.

[141] This increase reflects in part the $55.3 million settlement of the Young jail strip search case that was settled in November 2010 with the payment approved by the County Commissioners based on recommendation of legal counsel. See Cook County FY2010CAFR, pp. 91-92.

Increasing current liabilities in a government's operating funds at the end of the year as a percentage of total operating revenues may be a warning sign of a government's future financial difficulties.[142] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. Cook County's short-term liabilities compared to total operating revenue have fluctuated over time. The ratio rose from 16.0% to 21.3% in FY2008 before dropping again to 18.5% in FY2010. The ratio averaged 18.0% over the five-year period.



Accounts Payable

Over time, rising amounts of accounts payable compared to operating funds may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. Cook County's ratio of operating funds accounts payable to operating revenues increased from 6.9% to 8.6% between FY2006 and FY2007 before falling to 7.4% in FY2010. The ratio has remained relatively stable during the 5-year period reviewed.

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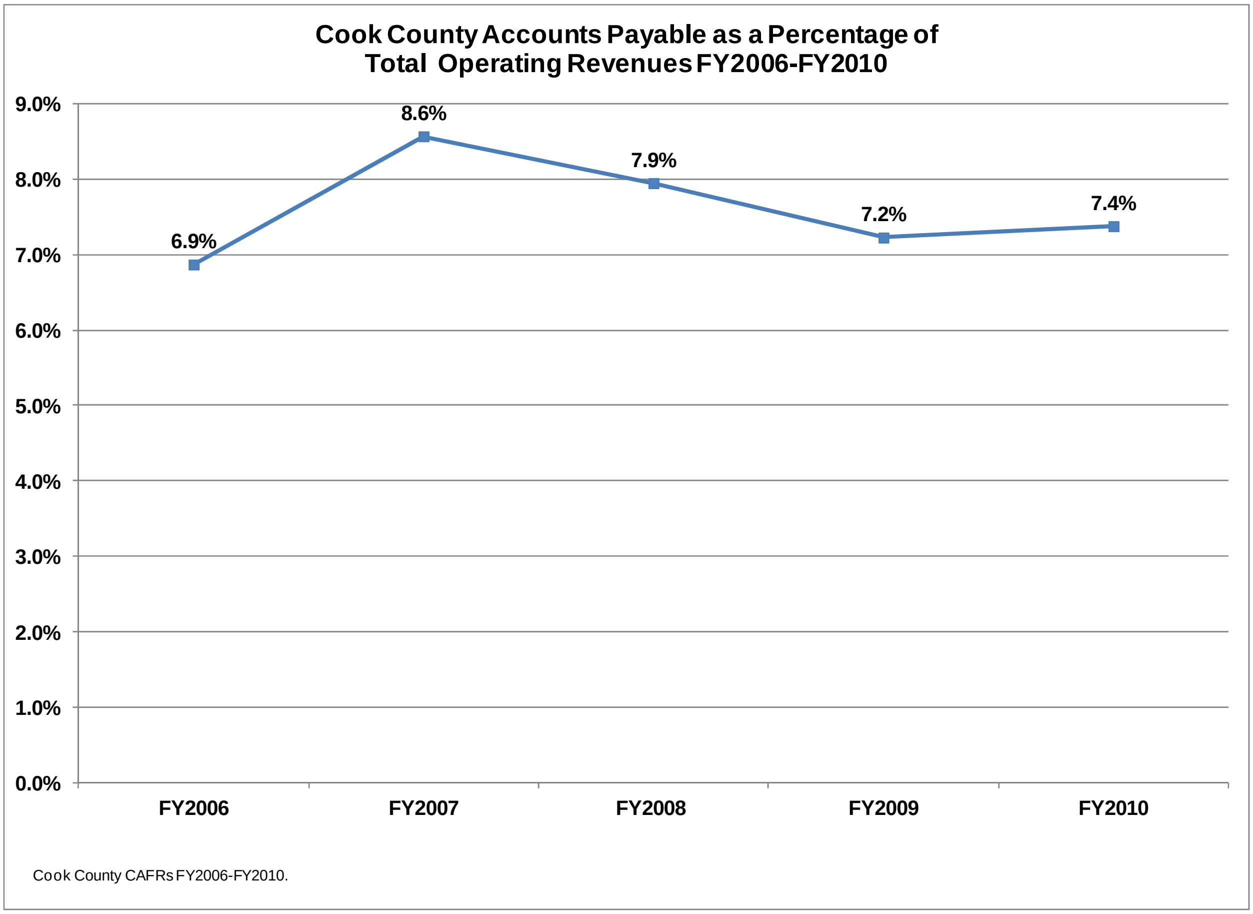
[142] Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County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



Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[143]

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

- *Cash and cash equivalents*: assets that are cash or can be converted into cash immediately, including petty cash, demand deposits and certificates of deposit;
- *Investments*: any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables*: monetary obligations owed to the government including grants, property taxes and interest on loans;

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

- *Due from Other Governments:* Monies due from local property taxes that have been determined or billed but not yet collected and/or monies due but not yet disbursed from the State of Illinois or the federal government; and
- *Internal balances*: monies due from (positive) or due to (negative) the government.

Cook County's current ratio was 5.6 in FY2010, the most recent year for which data is available. In the past five years, the ratio ranged from 4.1 to 6.0. In each of the 5 years reviewed, it was far above 2.0, indicating that the County had more than sufficient liquidity.

Cook County Current Ratio of the Governmental Funds: FY2006-FY2010 (in $ thousands)							
	FY2006	FY2007	FY2008	FY2009	FY2010	5-year $ Change	5-year % Change
Current Assets							
Cash and Investments	$ 1,196,966	$ 862,444	$ 883,290	$ 823,828	$ 962,128	$ (234,838)	-19.6%
Receivables	$ 672,737	$ 858,984	$ 725,834	$ 872,921	$ 937,190	$ 264,453	39.3%
Due From Other Governmental Units	$ 99,912	$ 113,413	$ 155,062	$ 289,609	$ 194,127	$ 94,215	94.3%
Internal Balance	$ -	$ -	$ (28,857)	$ 43	$ 43	$ 43	….
Other Assets	$ 8,467	$ 3,152	$ 31,719	$ 13,872	$ 28,356	$ 19,889	234.9%
Total Current Assets	$ 1,978,082	$ 1,837,992	$ 1,767,048	$ 2,000,274	$ 2,121,845	$ 143,762	7.3%
Current Liabilities							
Accounts Payable	$ 141,388	$ 172,707	$ 159,078	$ 149,816	$ 150,008	$ 8,620	6.1%
Accruals	$ 76,311	$ 26,916	$ 33,880	$ 35,434	$ 39,581	$ (36,729)	-48.1%
Notes Payable	$ -	$ -	$ 118,268	$ -	$ -	$ -	….
Deferred Revenue	$ 79,435	$ 81,987	$ 75,583	$ 85,796	$ 86,734	$ 7,299	9.2%
Other Liabilities	$ 32,457	$ 76,441	$ 39,290	$ 76,961	$ 100,314	$ 67,857	209.1%
Total Current Liabilities	$ 329,590	$ 358,050	$ 426,099	$ 348,007	$ 376,637	$ 47,047	14.3%
Current Ratio	6.0	5.1	4.1	5.7	5.6	-	-

Source: Cook County CAFRs, Statements of Net Assets, FY2006-FY2010.

LONG-TERM LIABILITIES

This section of the analysis examines trends in Cook County's long-term liabilities. It includes information about all long-term obligations, long-term debt, long-term debt per capita and bond ratings. The Forest Preserve District is a legally separate unit of government. However, the District and the County share the same governing board. Under the provisions of Governmental Accounting Standards Board (GASB) statement number 14, a government is considered financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is either able to impose its will on that organization or to impose financial benefits or burdens.[144] Therefore, the District is reported in the governmental activities of Cook County as a blended component unit and is included in the long-term liabilities of the County.[145]

Total Long-Term Liabilities

Long-term liabilities are all of the liabilities owed by a government. Increases in long-term obligations over time could be a sign of fiscal stress. They include long-term debt as well as:

[144] Governmental Accounting Standards Board, "Summary of Statement No. 14 *The Financial Reporting Entity* (Issued 6/91)," http://www.gasb.org/st/summary/gstsm14.html (Last Visited January 11, 2010).
[145] Cook County FY2010 CAFR, p. 6.

- Estimated pollution related liabilities: Reflect reporting for remediation obligations of existing pollution in accordance with GASB 49.[146]
- Self-Insurance claims: Incurred but not yet reported (IBNR) losses. The County reports liabilities it feels are adequate to provide for potential losses resulting from medical malpractice, worker's compensation and general liability claims.[147]
- Property tax adjustments: Estimated probable amounts payable related to property tax suits as well as for specific property tax objections and errors for which refunds are expected to be paid.[148]
- Compensated absences: Liabilities owed for employees' time off with pay for vacations, holidays and sick days.
- Net pension obligations (NPO): The cumulative difference, since the effective date of GASB Statement 27, between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt.[149]
- Net Other Post Employment Benefit (OPEB) obligations: The cumulative difference, since the effective date of GASB Statement 45 in 2008, between the annual OPEB (employee health insurance) cost and the employer's contributions to its OPEB plan.

Between FY2009 and FY2010, total County long-term obligations rose by 13.9%, increasing from $5.3 billion to $6.0 billion. Over the five-year period, liabilities increased 36.2% or nearly $1.6 billion. The increases were primarily due to increases in net OPEB obligations, net pension obligations and long-term debt. Net pension obligations alone rose by $793.5 million, a 107.8% increase. The steady increases in long-term liabilities are a cause for concern.

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[146] Governmental Accounting Standards Boards, "Summary of Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* (Issued 11/06)," http://www.gasb.org/st/summary/gstsm49.html (Last Visited on January 11, 2011).

[147] Cook County FY2010 CAFR, p. 91.

[148] Cook County FY2010 CAFR, p. 90.

[149] Governmental Accounting Standards Boards, "Summary of Statement No. 27 *Accounting for Pensions by State and Local Governmental Employers* (Issued 11/94)," http://www.gasb.org/st/summary/gstsm27.html (Last Visited on December 17, 2010).

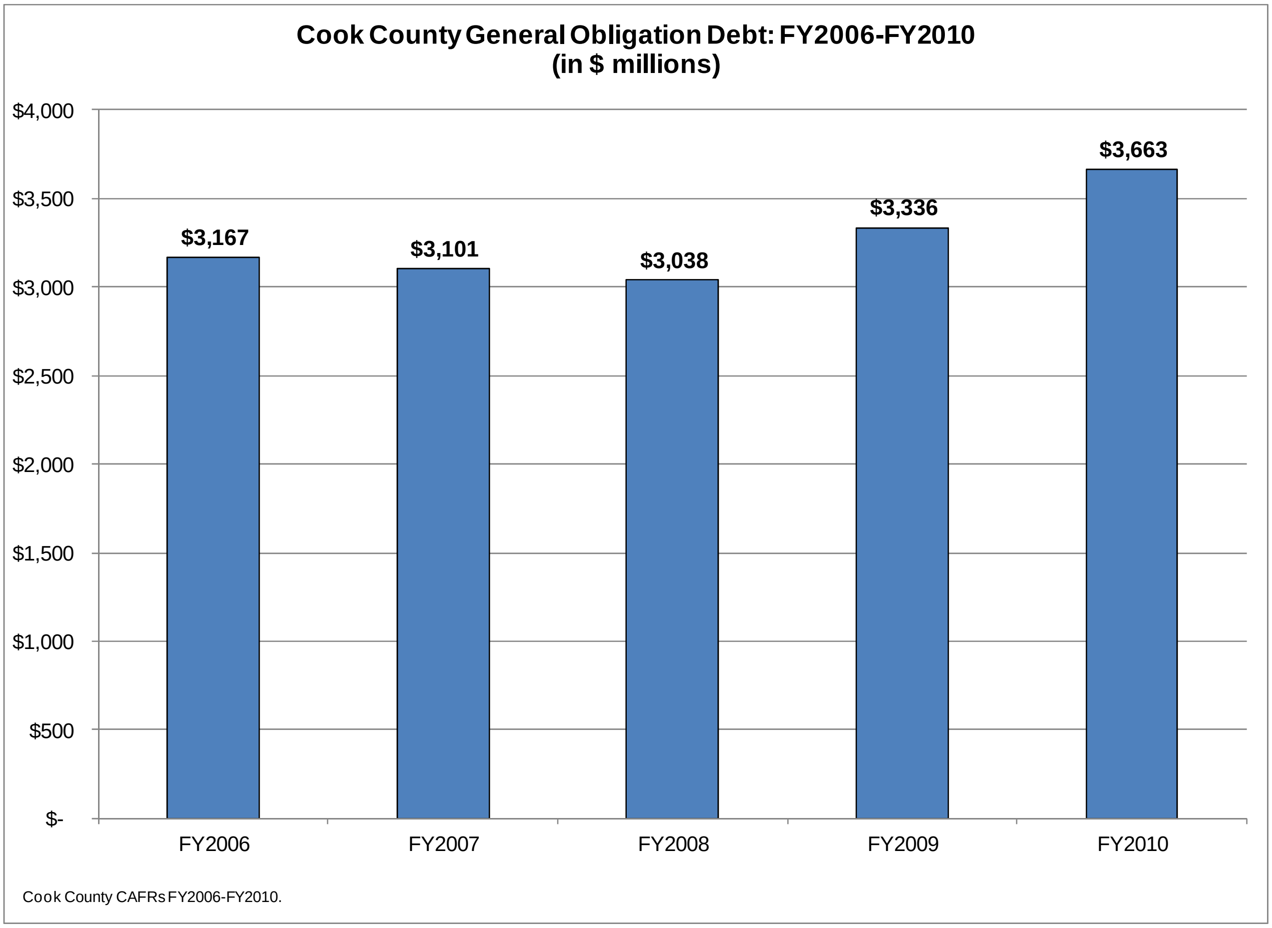
Cook County Long-Term Liabilities Governmental Activities: FY2006-FY2010 (in $ thousands)							
	FY2006	FY2007	FY2008	FY2009	FY2010	5-Year $ Change	5-Year % Change
Total General Obligation Bonds	$ 3,149,690	$ 3,074,880	$ 3,013,080	$ 3,293,495	$ 3,601,550	$ 451,860	14.3%
Net Discount*	$ 73,261	$ 85,617	$ 80,206	$ 102,664	$ 122,446	$ 49,185	67.1%
Refunding	$ (55,141)	$ (58,810)	$ (54,722)	$ (59,493)	$ (60,511)	$ (5,370)	9.7%
Subtotal Long-Term Debt	**$ 3,167,810**	**$ 3,101,686**	**$ 3,038,564**	**$ 3,336,666**	**$ 3,663,485**	**$ 495,675**	**15.6%**
Capital Lease	$ 3,640	$ 1,969	$ 1,434	$ 4,674	$ 418	$ (3,222)	-88.5%
Pollution Remediation Liability	$ -	$ -	$ -	$ 575	$ 3,598	$ 3,598	-
Self Insurance Claims	$ 424,510	$ 467,983	$ 429,108	$ 377,073	$ 351,710	$ (72,800)	-17.1%
Property Tax Objections	$ 35,238	$ 42,584	$ 35,592	$ 27,435	$ 28,969	$ (6,269)	-17.8%
Compensated Absences	$ 54,727	$ 55,876	$ 41,103	$ 63,005	$ 64,414	$ 9,687	17.7%
Net Pension Obligation	$ 736,351	$ 893,836	$ 1,024,586	$ 1,221,587	$ 1,529,849	$ 793,498	107.8%
Net OPEB Obligations	$ -	$ -	$ 134,329	$ 256,736	$ 379,090	$ 379,090	-
Total	**$ 4,422,276**	**$ 4,563,934**	**$ 4,704,715**	**$ 5,287,751**	**$ 6,021,533**	**$1,599,257**	**36.2%**

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

Sources: Cook County CAFRs, FY2006-FY2010.

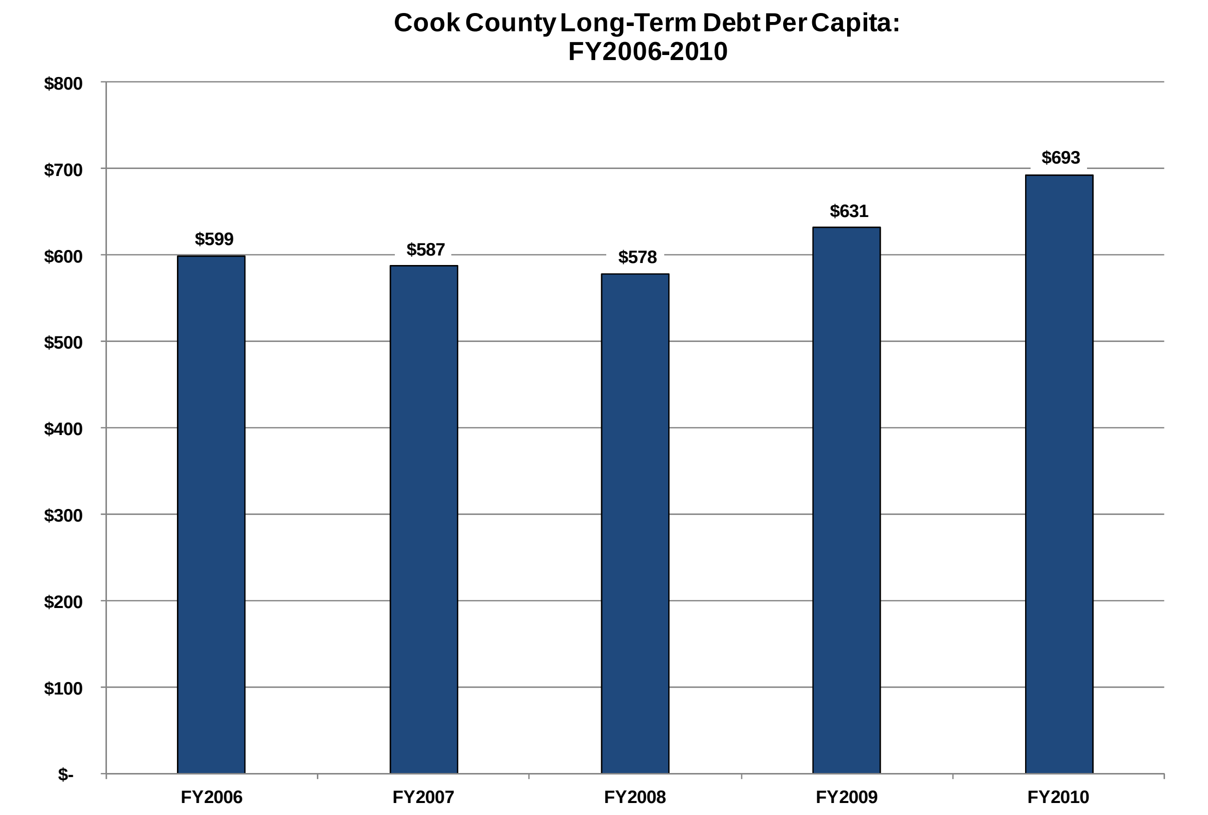
Long-Term Debt

Increases over time in a government's long-term tax-supported debt bear watching as a potential sign of rising financial risk. Cook County long-term debt includes tax-supported debt issues as well as bond premium and issuance costs. All Cook County long-term debt is general obligation debt. Between FY2006 and FY2010, long-term general obligation debt for Cook County increased by 15.7% or $496.0 million. Much of the increase occurred between FY2008 and FY2010, when long-term debt rose by 20.6%, or $625.0 million. The steady increases bear watching.



Long-Term Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. This long-term debt analysis takes the total long-term debt amount reported in the County's financial statements and divides them by population. The County's long-term debt includes general obligation bonds payable and bond premium and issuance costs. Increases in this indicator should be monitored as a potential sign of growing financial risk. The County's long-term debt burden decreased from $599 to $578 between FY2006 and FY2008 before rising to $693 in FY2010. Over the five-year period from FY2006 to FY2010, long-term debt per capita rose by 15.7%.



Sources: Cook County CAFRs FY2006-FY2010.

Debt Service Appropriations as a Percentage of Total Appropriations

The ratio of debt service expenditures as a percentage of total Governmental Fund expenditures is frequently used by rating agencies to assess debt burden. Debt service payments at or exceeding 15-20% of all appropriations are considered high.[150]

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

The County has not exceeded the 15% threshold in the five years examined. The debt service ratio has fluctuated over this period, from a high of 7.7% in FY2011 to a low of 5.8% for the projected FY2012 budget.

Cook County Debt Service Expenditures as a Percentage of Total Expenditures					
	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Adopted	FY2012 Proposed
Debt Service Expenditures	$ 212,729,169	$ 209,147,064	$ 190,760,412	$ 272,080,716	$ 193,532,419
Total Expenditures	$ 2,946,092,565	$ 3,068,862,953	$ 3,213,262,439	$ 3,514,689,452	$ 3,334,515,061
Debt Service as a % of Total Expenditures	**7.2%**	**6.8%**	**5.9%**	**7.7%**	**5.8%**

Source: Cook County FY2012 Executive Budget Recommendation, Proposed Expenditures, p. 13.

Cook County Bond Ratings

Standard & Poor's affirmed the County's AA rating in June 2011.[151] However, both Fitch and Moody's downgraded the general obligation bond rating for the County in September 2011.[152] Moody's reduced the Cook County bond rating in June 2011 from Aa3 to Aa2 with a stable outlook while Fitch reduced the bond rating from AA to AA-.[153] A key reason for the downgrades was Cook County's rising unfunded pension liabilities.

[151] Caitlin Devitt, "S&P Affirms Cook's AA," *The Bond Buyer*, June 29, 2011.
[152] Lisa Donovan, "Downgrade for Cook Co. bond rating," *Chicago Sun-Times*, June 16, 2011.
[153] *Crain's Chicago Business*. " Fitch downgrades Cook County bonds over pension liabilities," September 21, 2011.

APPENDIX: COOK COUNTY MODERNIZATION REPORT RECOMMENDATION STATUS - EXPANDED

Cook County Modernization Report Recommendations Status			
Recommendation	**Status**	**Notes**	**Timeline**
1. Roll Back the Sales Tax Increase	Implemented	At the February 25, 2011 Cook County Board Meeting, an ordinance amendment was passed (12 to 5) to lower the County's sales tax by 0.25% in 2012 and by another 0.25% in 2013.	First 100 Days
4. Appoint a Public Safety Task Force	Implemented	Included in the Transition Report. The administration had made changes to the Judiciary Advisory Council and Cook County Justice Coordinating Council to accomplish the goals of a public safety task force.	First 100 Days
5. Delay New Hiring Until January 1, 2011	Implemented	The Board President's office reports that between December 6 and December 31, 2010, a total of 32 exempt positions were vacated and the President only filled 17 positions.	First 100 Days
8. Integrate Performance Measurement into Budgeting and Make the Information Public	Implemented	Board President Preckwinkle proposed an ordinance, which was passed by the Board in February 2011, to link performance management to the budget process. It requires each department to prepare a quarterly report that establishes measurable goals for the services provided and show the relationship to resources. In July 2011, the County released the first of the S.T.A.R. quarterly reports. This first installment reports for the period of December 31, 2010 to May 31, 2011 and is available on the County's website.	First 100 Days
20. Reform Purchasing Practices	Implemented	Included in Transition Report. In September 2011, the County Board passed a new Procurement Ordinance which streamlines the procurement and purchasing processes and eliminates step-by-step Board approval. Contract information will be accessible to the public on the County's website.	2011
2. Close the FY2011 Budget Deficit	Significant Progress	On February 26, 2011, the Board of Commissioners approved the FY2011 budget. The budget makes significant reductions to County agencies and the Health System subsidy. The budget includes some temporary measures such as one-time revenues and furlough days. The budget will be challenging to implement and the County likely faces continued budget shortfalls. The FY2012 Preliminary Budget reports a $116.2 million deficit for FY2011 Year-End Estimate, primarily due to a budget deficit from the County's Health System.	First 100 Days
6. Upgrade Enterprise Resource Planning System	Significant Progress	The County has solicited information from potential vendors and plans to issue a Request for Proposal by the fourth quarter of FY2011. A "Meet & Greet" event was held in May 2011 to allow vendors to meet and discuss potential collaboration for joint bids.	First 100 Days
10. Report Additional Appropriations and Resources Data in Budgets	Significant Progress	Some additional data was included in the budget, but not those specified in the Modernization Report. The County published new budget summary document with additional explanation. In July 2011, the County released a Preliminary Budget for FY2012.	First 100 Days
14. Include All Operating Expenses of the Health System in the System's budget.	Significant Progress	Fixed charges were allocated to the Health System, but pension and debt service contributions were not.	First 100 Days
12. Adopt Budget Prior to the Start of the Fiscal Year	Significant Progress	Included in Transition Report. President Preckwinkle issued an Executive Order, 2011-1, requiring the Department of Budget and Management Services to issue a preliminary budget by July 31st of each year and to present an executive budget recommendation to the Board by October 31st of each year.	2011
17. Implement Alternative Service Delivery Options	Signficiant Progress	In March 2011, the County and the City of Chicago created a joint city-county committee to explore possible service-delivery partnerships. As of June 2011, the committee identified three initial areas of cost-savings: custodial services, energy management and joint purchasing.	2011
16. Eliminate Subsidy for Unincorporated Areas	Significant Progress	In the FY2012 Executive Budget Recommendation, the County proposed to end the subsidy for residents of unincorporated Cook County.	2011
22. Fully Exercise Presidential Budgetary Authority	Significant Progress	Agencies were required to make significant reductions. Administration is planning to utilize budget allotments. President Preckwinkle has exercised her authority through several initiatives including: repealing the sales tax increase by FY2013, imposing an Executive Order to formalize the budget process and establishing a subcommittee on pension reform.	First 100 Days
26. Reform Criminal Justice Practices	Significant Progress	Included in the Transition Report. The administration has made changes to the Judiciary Advisory Council and Cook County Criminal Justice Coordinating Council, has taken steps to reach substantial compliance and brough together stakeholders to apply for a technical assistance grant. In September 2011, the Board passed an Ordinance amendment allowing police to fine, rather than arrest, persons possessing minimal amounts of cannabis. FY2012 proposed budget includes effort to lower jail population and space, and juvenile detention population.	2012

Cook County Modernization Report Recommendations Status

Recommendation	Status	Notes	Timeline
3. Give Health System Budgetary Flexibility	Limited Progress	The Health System's budget reduction was based on its County subsidy. However, the County Board limited System flexibility by requiring that certain Medicaid revenues go to the County and requiring System furlough days instead of layoffs.	First 100 Days
7. Centralize Key Administrative Functions	Limited Progress	Included in Transition Report. FY2011 Budget Amendment 25 proposed to realign IT departments and place them under the responsibility of the Cook County CIO. The amendment was not passed by the Board due largely to State's Attorney concerns, but most commissioners expressed support. The administration reports that they have begun a number of efforts to consolidate back-office functions.	First 100 Days
13. Enhance Pension Fund Financial Reporting Data	Limited Progress	Included in Transition Report, but not specific. The 100-Day report card considers initiative 23 complete. The County's website features some data on pension fund finances, but the data is not comprehensive.	First 100 Days
18. Aggressively Pursue Medicaid Patients and Revenues	Limited Progress	The Health System is working to enroll patients in Medicaid and plans to pay the State to process a backlog of System-related Medicaid applications. National healthcare reform and the move toward managed care presents challenges.	2011
19. Reform Information Technology Practices	Limited Progress	In addition to taking steps to select an ERP system, the County is considering the potential for Voice Over Internet Protocol and cloud computing and has developed a plan for countywide IT governance and performance management.	2011
21. Provide Incentives for Further Expenditure Reductions and Fee Revenue Enhancements	Limited Progress	Transition Report recommended crediting departments for performance-enhancing ideas.	2011
29. Identify and Restrict Cost-Shifiting to the Health System from Other Healthcare Providers	Limited Progress	The Health System has taken steps to curb cost-shifting, but requires system improvements to fully implement.	2012
34. Implement Pension Reforms	Limited Progress	Pension Committee was created in December 2010 as a subcomittee of the Finance Committee of the Cook County Board.	2014
36. Develop a Vision for the County Revenue Structure	Limited Progress	In February 2011, Ordinance 11-0-18 adjusted a number of fees. The Board President has committed to financial planning as a means to enable the sales tax repeal.	2014
9. Adopt and Publish Financial Policies	Supported, But No Implementation	No policies are included in the budget document. CFO has a goal to adopt GFOA policies.	First 100 Days
15. Report Key Indicators of Health System Performance on System Website	Supported, But No Implementation	Information needed to track the Health System's progress is not available on its website.	First 100 Days
11. Produce Audited Financial Statements within Six Months of Close of Fiscal Year	Supported, But No Implementation	Included in Transition Report. However, the FY2010 CAFR has not yet been released.	2011
23. Prepare a Comprehensive Capital Improvement Program Updated Annually	Supported, But No Implementation	Moratorium placed on non-essential capital projects recognizing need for capital planning reforms.	2011
24. Implement a Formal Long-Term Financial Planning Process	Supported, But No Implementation	Included in Transition Report.	2011
25. Develop, Track and Publicize Purchasing Performance Goals and Metrics	Supported, But No Implementation	Included in Transition Report.	2011
27. Reevaluate Health System Strategic Plan Based on Financial Resources and Geographic Needs	Supported, But No Implementation	The Health System recently began to implement its strategic plan and has not made changes as of yet.	2012
33. Establish Reserve Funds for Capital Equipment Replacement	Supported, But No Implementation	Included in Transition Report.	2012
28. Separate the Cook County Forest Preserve District from the Cook County Board	Opposed	Board President Preckwinkle has indicated that she does not support.	First 100 Days
30. Create a Unified Property Tax Administration Office	Position Not Determined	Board President Preckwinkle is supportive of streamlining property tax administration, but believes this initiative needs in-depth analysis and public meetings before moving forward.	2013
31. Merge Clerk and Recorder of Deeds Offices	Position Not Determined	There has not been any discussion regarding this proposal.	2013
32. Allow the Judiciary to Appoint the Clerk of the Circuit Court	Position Not Determined	Board President Preckwinkle is not taking a position on this issue.	2013
35. Consider Establishing a Dedicated Revenue Stream for the Health System	Position Not Determined	The Health System supports this recommendation and is consideirng how it could be	2014