

**The
Civic
Federation**

Evaluating Local Government Financial Health

**Financial Indicators for
Cook, DuPage, Kane, Lake,
McHenry, & Will Counties**



**Prepared by
The Civic Federation
July 1997**

*This study
made possible
through the
generosity of the
Arthur Rubloff
Residuary Trust.*

Executive Summary



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**Financial Indicators for
Cook, DuPage, Kane, Lake,
McHenry, & Will Counties**

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Foreword

THE CIVIC FEDERATION HAS MONITORED AND EVALUATED the budgetary and financial policies of local governments in Illinois since 1894. Our mission has always been to promote economy and efficiency in the organization and management of public business and to furnish the public with accurate information concerning governmental revenues and expenditures. The Financial Indicators Project is designed to meet both those objectives.

The purpose of the Financial Indicators Project is to develop a summary list of indicators which present the essential characteristics of government's financial condition. To achieve this goal, The Civic Federation has organized indicators around six areas: 1) quality of reporting; 2) liquidity; 3) cash solvency; 4) budgetary solvency; 5) financial stability; and 6) risk factors. While other studies have fashioned analytical tools to assist government financial managers, this is the first effort aimed at assisting taxpayers to better understand the financial condition of local governments.

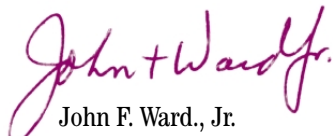
The six counties of the Chicago metropolitan region are the subject of this report. This volume is the first installment of a larger project that will evaluate the financial condition of select municipal governments, school districts and special districts in the same region.

The Financial Indicators Project brought together a number of practitioners in the areas of governmental accounting and financial analysis to help develop its innovative methodology and to help guide the research. We would like to thank everyone who cooperated in the production of this report, including: Dr. Stephen Andes, Fred Ash, William Eager, Howard Greenwich, Jeffrey Markert, and Michael Nardello.


A special debt of gratitude is owed to the Project's Co-Directors who prepared this report: Dr. Woods Bowman, Assistant Professor in the Graduate Program in Public Service at DePaul University and Chair of The Civic Federation Research Committee, who also authored several chapters and provided invaluable technical assistance; and Dr. Roland Calia, The Civic Federation Director of Research, who administered the Financial Indicators Project, edited the Project Report and authored or co-authored all six county chapters.

This report would not have been possible without the expert editorial comments provided by Richard Ciccarone, Cameron Clark, and Hyman Grossman. We would also like to thank the staffs of the six county Finance Departments for providing additional information during the research process.

The Civic Federation is indebted to the generosity of the Arthur Rubloff Residuary Trust for funding this publication.



John F. Ward, Jr.
Chairman



Lance Pressl, Ph.D.
President

About The Civic Federation

The Civic Federation is a nonpartisan government and fiscal watchdog and research organization founded in 1894. The Federation provides three primary services. First, it promotes efficiency and economy in the organization and management of public business. Second, it guards against excessive taxation and wasteful expenditure of public funds. Finally, the organization serves as a technical resource providing objective information regarding state and local governmental revenues and expenditures.

The Civic Federation fulfills its mission by analyzing public finance and government service delivery through research reports and public commentary. Recent research reports have assessed the impact of tax increment finance in northeastern Illinois, evaluated the status of major local pension funds and analyzed Cook County property tax trends.

The Federation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is incorporated as a nonprofit Illinois corporation. For more information, please contact The Civic Federation at (312) 341-9603.

About The Co-Directors

The Financial Indicators Project was prepared under the co-direction of Dr. Woods Bowman of DePaul University and Dr. Roland Calia of The Civic Federation.

Dr. Woods Bowman is an assistant professor of Public Service Management at DePaul University in Chicago. Prior to joining the DePaul faculty, Dr. Bowman served as the Chief Financial Officer of Cook County (1990–1994), where he was responsible for the general financial management of an annual budget of \$2.1 billion; as a member of the Illinois House of Representatives (1977–1990), where he served as Chair of the Appropriations II Committee (1983–1990); as Assistant Professor of Economics at the University of Illinois at Chicago; and as a Research Economist at the Federal Reserve Bank of Chicago. Dr. Bowman received a Ph.D. in Economics from Syracuse University, a master's degree in Public Administration from Syracuse University and a bachelor of science degree in Physics and Economics, Politics and Science from the Massachusetts Institute of Technology.

Dr. Roland Calia is the Director of Research for The Civic Federation. His primary areas of research are property taxes and local government finance. He also coordinates the Federation's legislative activities and analyzes the finances of Cook County. Prior to joining The Civic Federation, Dr. Calia was Issues Director for the Democratic Party of Illinois and a research associate for Bennett & Kahnweiler (a corporate real estate firm). He received a Ph.D. in Political Science from the University of Chicago, a master's degree in Government from the Claremont Graduate School and a bachelor's degree in Political Science & History from the University of Redlands.

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Introduction¹

The purpose of the Financial Indicators Project is to develop a summary list of financial indicators which present the essential characteristics of government's financial condition. To achieve this goal, The Civic Federation has organized indicators around six areas: 1) quality of reporting; 2) liquidity; 3) cash solvency; 4) budgetary solvency; 5) financial stability; and 6) risk factors. In order to place the information in a broader framework, socioeconomic data is also included for each county to provide fiscal context. Other studies have fashioned analytical tools to assist government financial managers. However, this is the first effort aimed at assisting taxpayers to better understand the financial condition of local governments.

This report focuses on the financial condition of the six county governments of Northeastern Illinois. Future reports will examine the financial condition of selected municipalities, school districts and other special districts in the region. The intent of this report is to spur discussion of the financial operations and policies of county government and to evaluate these practices in a comparative context. Its purpose is not to indict local governments for their financial practices and activities. In many cases, there may be good and sufficient reasons for financial behavior falling outside the norms. For example, a government may have an abnormally high debt per capita but this may be warranted if it had underinvested in infrastructure for an extended period. However, raising the question and discussing the reasons for such a phenomenon is the object of legitimate public discourse.

The existing literature on urban fiscal condition can be classified into *fiscal* studies, which focus on underlying economic, social and political factors, and *financial* studies, which take underlying supply-demand factors for granted and focus instead on a government's financial statements.

Fiscal studies have a national perspective and measure the ability of local governments to meet ever expanding needs with limited resources. They are concerned with equity in resource allocation among areas. Financial studies usually consider a national sample of local governments (usually cities) and usually define the problem in terms of the ability of governments to pay their bills which gives their conclusions a distinctly local relevance.

One publication that includes considerations of both financial and fiscal health that is popular with managers of small to medium-sized local governments is the International City/County Management Association's (ICMA) workbook.² Its 36 indicators were selected in a survey of practitioners. Instead of providing managers with norms it offers a set of probing questions about each indicator and stresses the importance of trends. Unfortunately, there are too many items in the ICMA check list to permit a clear view of over-all fiscal and financial performance. The length of the list also precludes reproducing it here.

Measuring Urban Financial Condition: Current Approaches

¹ Chapter co-authored by Dr. Woods Bowman, Assistant Professor, Graduate Program in Public Service, DePaul University, and Dr. Roland Calia, Director of Research, The Civic Federation.

² Sanford M. Groves and Maureen Godsey Valente. *Evaluating Financial Condition: A Handbook for Local Government* (Washington, DC: International City/County Management Association, 1994). [An earlier version was published in 1980.]

Measuring Urban Financial Condition: The Civic Federation Approach

The various approaches to measuring urban fiscal conditions have enriched our perspective. Unfortunately, however, none of these approaches outlined above meets a critical need: evaluating urban fiscal conditions based on actual financial information that can be used by taxpayers. This is the void The Civic Federation seeks to fill with its Financial Indicators Project.

Dearborn has pointed out that government managers are also in need of good evaluations of urban fiscal condition.³ However, there are two subtle differences between the information needs of taxpayers and government managers. First, in a system of fragmented local government, managers cannot be faulted for focusing on the discrete unit entrusted to them but, from a taxpayer's point of view, the combined effect of related governmental entities is very important. Second, while managers cannot be faulted if they are more concerned about a government having too little money than too much, taxpayers may want to take a closer look at a flush local government.

Another note of caution is in order. It is certainly laudable for government to emulate private sector accounting and efficiency standards. However, there are good reasons why standards of private business do not universally apply to government:

1. In the private sector increasing shareholder value is the primary goal. But, because government makes use of compulsory taxation, increasing the value of a public organization may involve high taxation. There is a need for prudent financial reserves but a government may cross the line and tax excessively.
2. A private sector manager suddenly thrust into the public sector would be perplexed because there is no single measure of the "bottom line." Several possible measures have been evaluated, including some which make use of common financing techniques such as using prior year surpluses or borrowing to finance current needs.⁴
3. In the private sector, relationships among firms are easier to sort out. If one firm owns a portion of another firm's stock, its degree of ownership is simple to calculate. However in the public sector there are legally separate units of government with coordinated policies. Financial problems of one may create a political problem for another. For example, public employee pension boards are usually independent but, if they are inadequately funded, the employer-government must answer for it.

³ Philip M. Dearborn, "Fiscal Conditions in Large American Cities, 1971–1984," in Michael H. McGeary and Lawrence E. Lynn, Jr (eds.), *Urban Change and Poverty* (Washington, D.C.: National Academy Press, 1988) 255–83.

⁴ James L. Chan, "Governmental Financial Statement Analysis: Ten Questions and Some Answers," in Terry Nichols Clark, ed. *Monitoring Local Governments: How Personal Computers Can Help Systematize Municipal Financial Analysis* (Dubuque, IA: Kendall/Hunt Publishing Co., 1990) 166–77.

Methodology

The indicators in this report are based primarily upon data collected from county Annual Financial Reports or Comprehensive Annual Financial Reports dated November 30 for each of the six fiscal years between 1990 and 1995. For organizational purposes, the various indicators measured have been grouped into three broad categories: 1) Quality of Reporting; 2) Financial Indicators; and 3) Fiscal Context.

A. Quality of Reporting

The following tests were applied to evaluate the quality of reporting, evaluating government financial reports on a five point scale based on fulfilling the following criteria:

1. Does the government use Generally Accepted Accounting Principles (GAAP) for financial statements?
2. Is the Comprehensive Annual Financial Report (CAFR) format used?
3. Is there an unqualified audit opinion?⁵
4. Is the information timely? That is, is the CAFR released no more than six months following the end of the fiscal year?⁶
5. Does the government use GAAP for its budget?

B. Financial Indicators

The following financial indicators were used to provide benchmarks of a county's financial condition:

1. **Liquidity** ratios measure a government's ability to pay its bills on time by measuring the ready availability of cash. For this indicator, General, Special Revenue, and Proprietary funds are grouped together. A liquidity ratio of one or greater suggests that a government has sufficient cash to pay its bills as they come due. It is calculated according to the formula below:

$$\text{Liquidity} = \text{Cash \& Short-Term Investments} \div \text{Accounts Payable.}$$

2. **Solvency indicators** measure a government's ability to meet its obligations over an indefinite period. We employed two types of solvency indicator: cash solvency and budgetary solvency:

- a. **Cash solvency** measures the ability of a government to meet its financial obligations over an indefinite period, long enough to convert illiquid assets to cash. This concept applies to the General and Special Revenue Funds and includes some measures of liquidity that go beyond cash and payables.

The *Current Fund Balance Ratio* measures cash solvency in the General and Special Revenue Funds. The General Fund accounts for all funds not required to be accounted for in other funds. The Special Revenue Funds are legally or administratively earmarked for operations supported by dedicated taxes and fees. The Current Fund Balance Ratio is calculated according to the formula on the following page:

⁵ Under the Government Accounting Standards Board's new rule number 14, failure to include all appropriate entities will result in a qualified opinion.

⁶ The Government Finance Officers Association awards a Certificate of Achievement which includes the first four bullet points.

Methodology, continued

Current Fund Balance Ratio = (Unreserved GF and SRF Fund Balance + that portion of the reserved fund balance earmarked for encumbrances) ÷ combined GF and SRF Operating Expenditures.⁷

- If the Current Fund Balance Ratio is less than 10%, the government can be said to have *Low Cash Solvency*.
- If the Current Fund Balance Ratio is at least 10% but less than 25% of spending, it can be said to have *Adequate Cash Solvency*.
- If the Current Fund Balance Ratio is greater than 25% but less than 50%, it can be said to have *Substantial Cash Solvency*.
- If the Current Fund Balance Ratio is greater than 50%, it can be said to have *High Cash Solvency*.

b. Budgetary Solvency measures a government's ability to generate enough revenue to meet its expenditures. Three different measures of budgetary solvency were used:

- A trend analysis of General and Special Revenue Fund *Surpluses and Deficits*; Recurring deficits in these funds suggests fiscal stress. Conversely, however, a trend of growing surpluses may become associated in the taxpayer's mind with excessive fees and taxes;
- *A Stress Test* which measures the how fast the General Fund Balance has grown in relation to operating expenditures.

If General Fund expenditures are **growing** and the Stress Test is equal to or less than 1.0, a government's assets are being consumed relative to expenditures. It can be said to be *stressed* if revenues have been insufficient to allow it to build assets. If the Stress Test is greater than 1.0, the government is *resilient* because revenues have been sufficient to build assets despite increases in operating expenditures.

If expenditures are **declining**, the algebraic signs are reversed. Therefore, if the Stress Test is equal to or less than 1.0, its assets are being built relative to expenditures. The government is said to be *resilient* because its revenues have been sufficient to allow it to build assets. If the Stress Test is greater than 1.0, the government is *stressed* because revenue is insufficient to build assets despite decreases in operating expenditures.

Stress Test = percent change in GF Fund Balance ÷ percent change in GF Operating Expenditures.

- A trend analysis of *short-term debt*. An increasing trend in short-term debt is considered by some experts to be the *best single warning indicator* of coming financial problems.⁸

⁷ This is called the Ending Balance Index by Pagano (1993) except he restricts it to the general fund. See Michael A. Pagano, "Balancing Cities' Books in 1992: An Assessment of City Fiscal Conditions," in *Public Budgeting & Finance* (Spring 1993) 19–39.

⁸ Aronson, J. R. and A. E. King. "Is There a Fiscal Crisis Outside of New York?" *National Tax Journal* 31 (1978): 135–155.

3. **Financial Stability** is the ability of a government to maintain its current fiscal policies. Indicators include: 1) credit ratings; 2) long-term debt per capita trends, and 3) pension funding ratios. In these cases, declining credit ratings, marked increases over time in long-term debt, and rising unfunded pension liabilities may be warning signs of a government's growing fiscal stress.
4. **Risk Factors:** Risk factors present information about two different types of financial risks faced by local governments: 1) exposure to risk from relying too heavily on potentially unstable sources of revenue, and 2) the possibility of property tax increases due to rising expenditures or tax leverage.
- **Risk Exposure Factor:** Risk exposure factor ratios measure the percentage by which a government will have to increase property taxes to cover a 1% shortfall in risky revenue sources, such as intergovernmental revenues, if other revenue sources are not available.

$$\text{Risk Exposure Factor} = (\text{Investment Revenue} + \text{Intergovernmental Revenue} + \text{Transfers In}) \div \text{Property Tax Revenue.}$$

- **Tax Leverage Factor:** Tax leverage factor ratios measure how much a government will have to increase its own source taxes (i.e. primarily property taxes) to cover a prospective budgetary increase of 1%, if no other revenues are available.

$$\text{Tax Leverage Factor} = \text{Total Operating Expenditures} \div \text{Property Tax Revenue.}$$

C. Fiscal Context

These indicators were used to place the county's financial situation in a broader socioeconomic context. The indicators employed include: 1) Population and Population Growth; 2) Serious Crimes Per 100,000 Persons; 3) Estimated Property Value Per Capita; and 4) Private Employment Per Household.

Summary of Findings

The following figures provide a summary of select findings of the Financial Indicators Project. They are based upon data from financial reports for Fiscal Year 1995, the last year for which full financial information is available for all six counties.

The indicators summarized in this chapter include:

- Quality of Reporting;
- Liquidity;
- Solvency Ratios:
 - Cash Solvency: Current Fund Balance Ratio;
 - Budgetary Solvency: Stress Test;
- Financial Stability: Pension Funding Ratios;
- Risk Factors:
 - Risk Exposure Factors; and
 - Tax Leverage Factors.

Comparative charts on various fiscal context indicators such as Serious Crimes Per 100,000 Persons; Estimated Property Value Per Capita; and Private Employment Per Household are presented in the appendix.

Summary of Findings, continued

Quality of Reporting

Figure 1 presents ratings of the quality of financial reporting for the six county governments for FY95. Fulfilling all criteria, DuPage and Kane Counties both earned ratings of 5/5. Lake and Will Counties earned 4/5 ratings because they did not receive unqualified audit opinions. This was due to these counties' failure to include financial information about component units of government, as required by the Governmental Accounting Standards Board (GASB) since 1994. McHenry County's failure to produce a Comprehensive Annual Financial Report (CAFR) earned it a 4/5 rating. Finally, Cook County earned a 3/5 rating because it did not use GAAP for budget documents and failed to produce a CAFR six months after the close of its fiscal year.

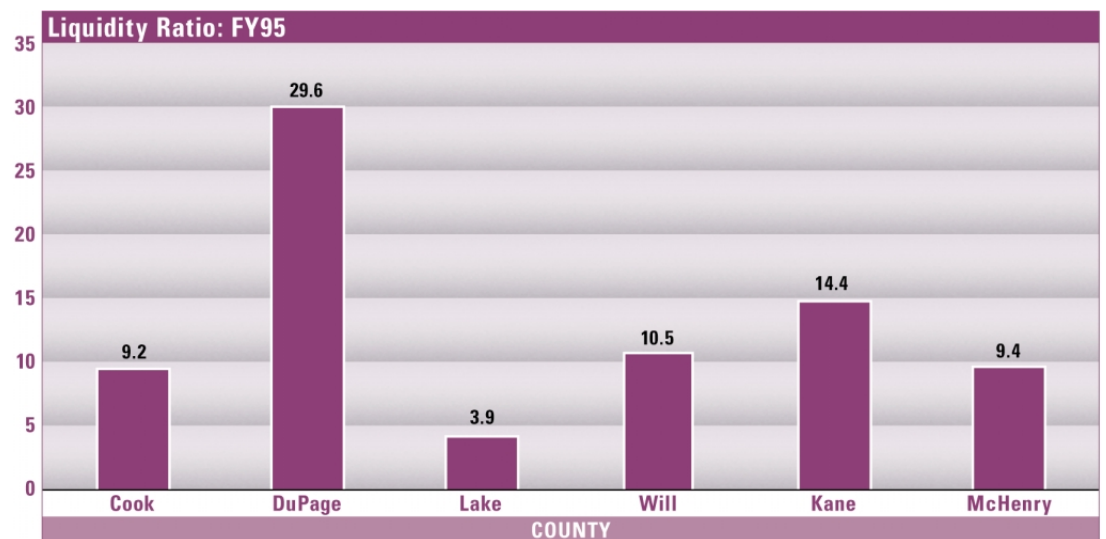
Figure 1:
Quality of Reporting: FY95

County	CAFR Format	GAAP Used For Financial Statements	Unqualified Audit Opinion	Financial Reports Released Within 6 Mos.	GAAP Used For Budget	Rating
Cook	Yes	Yes	Yes	No	No	3/5
DuPage	Yes	Yes	Yes	Yes	Yes	5/5
Lake	Yes	Yes	No	Yes	Yes	4/5
Will	Yes	Yes	No	Yes	Yes	4/5
Kane	Yes	Yes	Yes	Yes	Yes	5/5
McHenry	No	Yes	Yes	Yes	Yes	4/5

Liquidity Ratio

Figure 2 shows that all six counties in Northeastern Illinois had more than sufficient cash reserves to pay their bills in FY95. However, there were wide variations among the counties, ranging from a high liquidity ratio of 29.6 for DuPage County to a low of 6.0 for Lake County. The average liquidity ratio for all six counties in FY95 was 13.2.

Figure 2

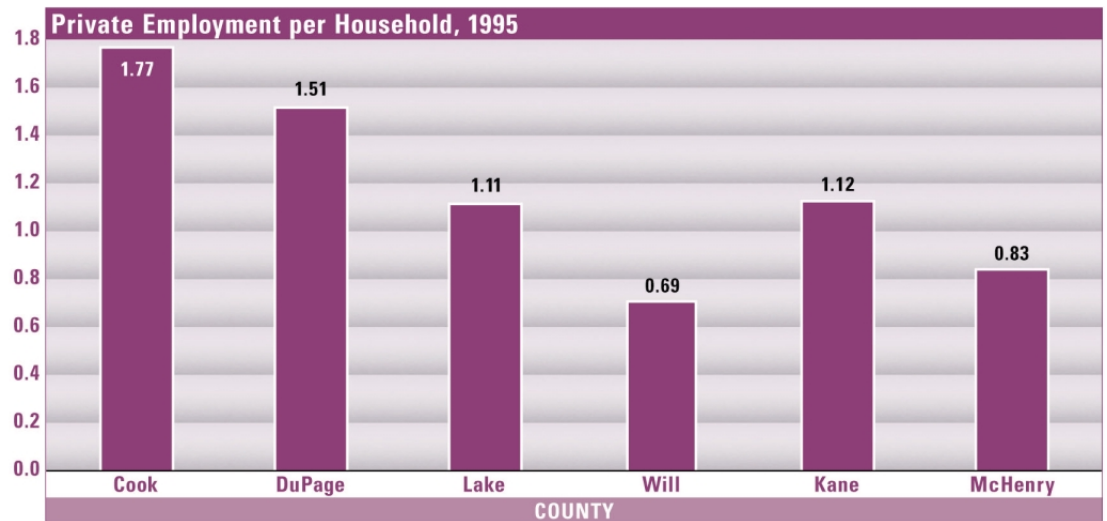


Solvency Indicators: Cash Solvency

- A. Current Fund Balance Ratio: General and Special Revenue Funds.** Whenever Cash Solvency ratings begin to reach high levels, the government should consider shifting toward longer term asset holdings, retiring debt or adjusting the income streams feeding the funds to bring income in line with current spending requirements.

As Figure 3 shows, no county could be placed in the “Low” Cash Solvency category in FY95. Cook County’s current fund ratio was ranked as “Adequate,” Will County was rated “Substantial,” and McHenry, Kane, Lake and DuPage Counties were placed in the “High” category. The average current fund balance ratio for all six counties was 64%, in the “High” category.

Figure 3



- B. Budgetary Solvency: Stress Test.** Figure 4 shows stress test ratios for each of the six counties between FY90 and FY95. DuPage, Lake, Kane and McHenry Counties earned ratings of “Resilient.” In these cases, revenues grew at faster rate than expenditures. In Will County, expenditures actually fell while revenues rose, earning that county a “Resilient” rating. Cook County was rated “Stressed” because revenues over time failed to keep pace with expenditures.

Figure 4:
Stress Test Ratios: FY90–95

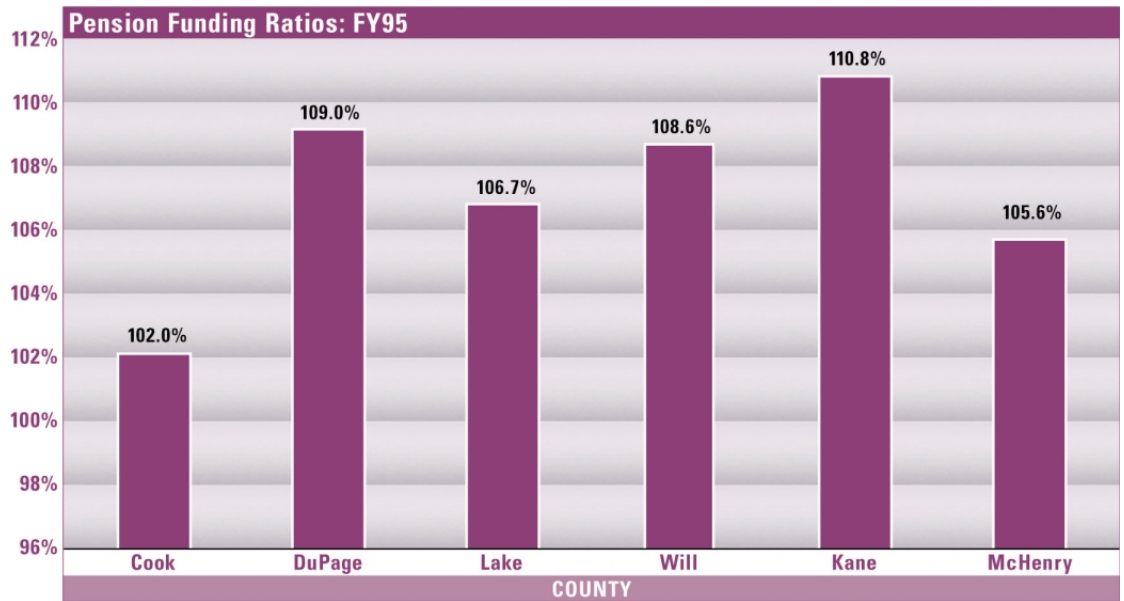
County	Stress Test Ratio	Rating
Cook	(2.6)	Stressed
DuPage	1.1	Resilient
Lake	1.2	Resilient
Will	(282.0)	Resilient
Kane	1.4	Resilient
McHenry	1.7	Resilient

Summary of Findings, continued

Financial Stability: Pension Funding Ratios

Growth in unfunded pension liabilities suggests a policy trade-off in favor of keeping current taxes low. Such a policy is a gamble that future cash flow will remain adequate to cover pension outlays without exerting pressure on taxes. The pension funds of all six counties studied were well funded, with an overall average projected unit funding credit rate of 107% in FY95. Thus, pensioners' benefits were very secure in all six counties.

Figure 5

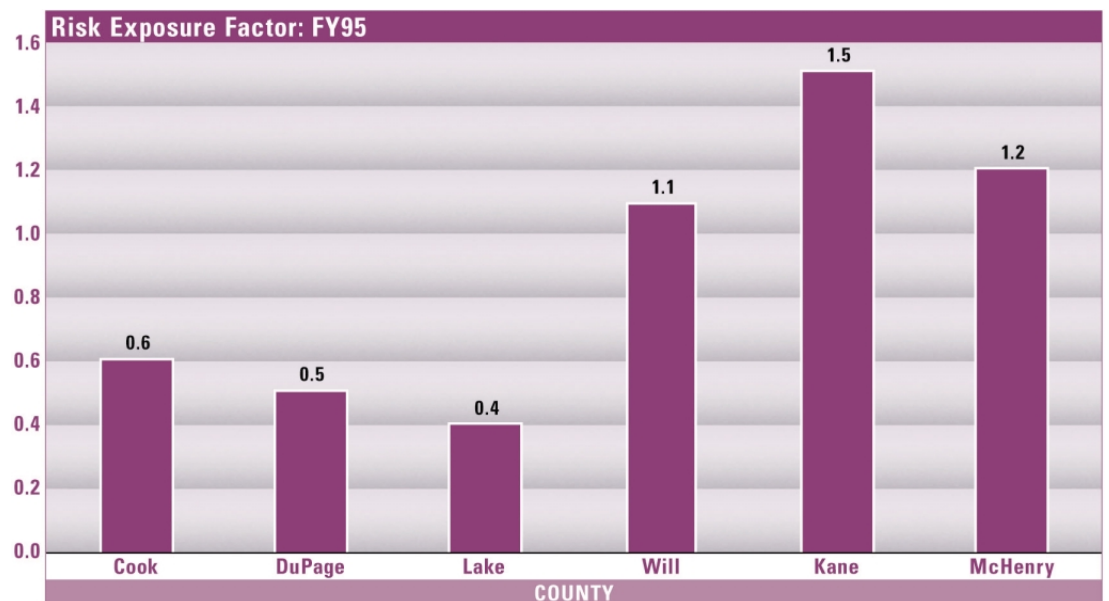


Risk Factors

A. Risk Exposure Factor. Figure 6 shows that in FY95, the six counties avoided too heavy a reliance on relatively risky revenue sources such as intergovernmental revenues. Their risk exposure factor ratios range from a low of 0.4% for Lake County to a high of 1.5% for Kane County.

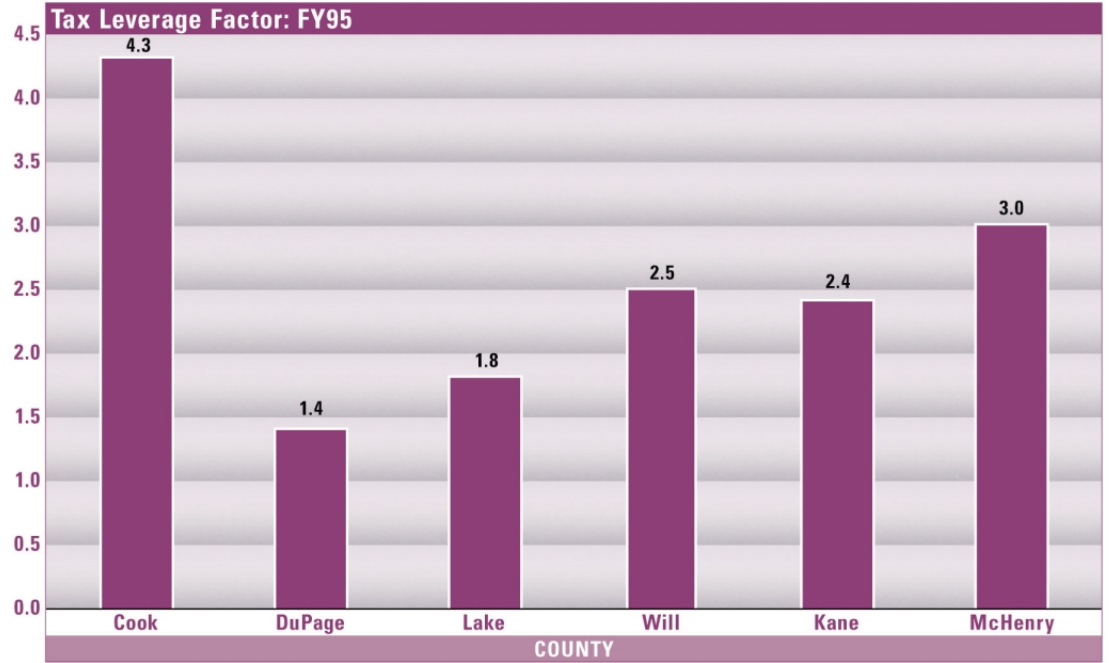
The risk exposure for all six counties averaged 0.9%.

Figure 6



B. Tax Leverage Factor. According to this indicator, Cook County, with a tax leverage factor ratio of 4.2%, was most at risk of having to increase own source taxes in FY95 if budgetary increases had been forthcoming.

Figure 7



The Counties of Northeastern Illinois and Similarly Situated U.S. Counties: A Comparative Analysis⁹

Compared with similarly-sized counties, the five Collar Counties have more liquid assets, larger budget surpluses, a larger property tax base and depend less on property tax dollars. While Cook County's financial picture is less robust than its neighbors, it is solidly near the median of similar counties. The data used for this comparison is for 1994, the last year for which data are available.

Many large U.S. counties like Cook County are miniature metropolitan areas, complete with a central city. The collar counties, however, are almost entirely suburban. In particular, they have lower poverty and crime rates than do those with central cities, which helps their finances since counties typically have the primary responsibility for courts, jails, indigent health care and related programs. This chapter compares Cook County to counties of at least one million population. DuPage, Lake, Will and Kane and compared to the average county between 250,000 and one million, and McHenry is compared to the average county between 100,000 and 249,999.

While these comparisons are valuable, they have important limitations:

- The comparison group consists of the 343 counties receiving a Certificate of Achievement for exemplary financial reporting from the Government Finance Officers Association (GFOA) in 1994, the most recent data available. Although this comparison group is not a random sample, it includes a wide range of counties, including some with deficits.¹⁰ Earning the certificate does not require solid financial condition or even good financial management. It only requires compliance with financial reporting requirements. Counties with a Certificate of Achievement automatically meet 4 out of 5 financial reporting criteria established for this study.
- This chapter does not make comparisons with all of the indicators employed by the Financial Indicators Project because GFOA only compiles data on some of the variables used in this study. Nevertheless a consistent pattern does emerge from these limited data.
- More is not necessarily better, and less is not necessarily worse. Being in the top quarter does not always indicate financial strength. While high cash solvency is desirable, an extremely high cash solvency may mean that the county collects too much cash. While comparative statistics are useful, whether a particular value is “too high” or is “too low” depends on the overall financial condition.
- Comparative statistics are not the same as absolute standards. If counties have overinvested in some activity, then being in the bottom quarter does not mean efficiency, and vice versa.

⁹ Chapter authored by Dr. Stephen Andes, Assistant Professor, Graduate Program in Public Service, DePaul University, Chicago, IL.

¹⁰ 343 is approximately 10 percent of U. S. counties in 1993.

Methodology

Data was obtained from the 1994 GFOA database. 1994 was the last year for which comparative data on all U.S. counties were available. In computing the comparison statistics, counties were excluded with incomplete data or, in a few cases, suspect data. The following comparison statistics were computed: mean, median, top quarter and bottom quarter. While both the mean and the median measure the “typical” value, the median is more commonly used to compare financial ratios because it is less influenced by a few extreme values.

Results

I. General Fund Cash Solvency

All the counties studied are solvent. Except for McHenry County, all the collar counties are in the top quartile. Cook County is in the fourth quartile. DuPage County is in the top 1% of all counties in its population class. While this analysis excludes special funds, these funds are less important than the general fund.

Table 1:
General Fund Cash Solvency 1994 (Percent)

County	Actual	Average	Median	Top Quartile	Bottom Quartile	Rank
Cook	7	13	14	18	8	4
DuPage	82	24	18	30	10	1
Lake	56	24	18	30	10	1
Will	31	24	18	30	10	1
Kane	27	24	18	30	10	1
McHenry	39	30	29	41	16	2

II. Budgetary Solvency—General and Special Revenue Funds

Cook County is in the second quartile and DuPage County is in the top 10%. Cook County’s strong position is especially noteworthy because over 25% of the counties in its population group face a budgetary deficit. On the other hand, Lake and Will Counties are in the third quartile, and Kane and McHenry are in the bottom quartile. McHenry County is in the lowest 15%. These ratings should not be over-emphasized, however. All the counties generate enough revenue to meet current obligations. Lake, Will and Kane Counties still generate 5%, 8%, and 3% respectively more in revenues than required to meet expenses. While these margins are smaller than similar counties, they are still reasonably large. Only McHenry County’s margin of 1% is small enough to make it vulnerable to a potential revenue shortfall.

Table 2:
Budgetary Solvency—General and Special Revenue Funds 1994

County	Actual	Average	Median	Top Quartile	Bottom Quartile	Rank
Cook	0.07	0.05	0.03	0.10	-0.01	2
DuPage	0.31	0.13	0.07	0.12	0.03	1
Lake	0.05	0.13	0.07	0.12	0.03	3
Will	0.08	0.13	0.07	0.12	0.03	3
Kane	0.03	0.13	0.07	0.12	0.03	4
McHenry	0.01	0.15	0.06	0.14	0.02	4

III. Long-Term Debt

A. Long-Term General Obligation Debt Per Capita. The methodology adopted for this project takes a broad view of long-term debt and includes such forms of debt as long-term leases. Lack of data on many forms of long-term debt requires this project to use only General Obligation debt for comparative purposes. Compared with counties reporting any long-term debt per capita, Cook and the collar counties are in a strong position. Lake and Will Counties are in the fourth quartile, Cook and McHenry are in the third, and DuPage, which, carries the greatest amount of long-term debt per capita of any of the six counties, is still in the second quartile. However these comparisons may be tentative because of the large amount of missing GFOA data. Approximately 20% of these counties reported either no data or that they had no long-term debt.

Table 3a:
Direct Long-Term General Obligation Debt Per Capita 1994
(Counties With Any Long-Term Debt)

County	Actual	Average	Median	Top Quartile	Bottom Quartile	Rank
Cook	\$276	\$473	\$302	\$438	\$154	3
DuPage	379	374	224	479	115	2
Lake	47	374	224	479	115	4
Will	50	374	224	479	115	4
Kane	0	374	224	479	115	N/A
McHenry	170	301	173	405	56	3

B. Estimated Unfunded Pension Liabilities. All the study counties have a higher pension funding ratio than do similar counties. However, in absolute terms and especially compared with many private businesses, none of the counties faces a serious problem in unfunded pension liabilities. In addition, comparisons between these counties and those in the GFOA data base are tentative for two reasons. First, they are based on small samples due to the fact that many communities reported no pension data. Second, unfunded pension liabilities can change rapidly because they are based on estimates of future salaries and turnover rates. Future pension obligations may increase in the collar counties as their growth demands more highly skilled professionals. But, they may decrease due to outsourcing and shifting employees to Social Security.

Table 3b:
Percent of Pension Obligations Currently Funded 1994
(Counties Reporting Pension Liabilities)

County	Actual	Average	Median	Top Quartile	Bottom Quartile	Rank
Cook	98%	103%	99%	108%	96%	3
DuPage	94	101	96	108	87	3
Lake	89	101	96	108	87	3
Will	94	101	96	108	87	3
Kane	93	101	96	108	87	3
McHenry	91	126	107	125	92	4

Results, continued

IV. Risk Factors

A. Revenues From “Risky” or Uncertain Sources. Except for Cook County, the study counties rely more on revenues from intergovernmental revenues and transfers than do other similar counties. Lake is in the second quartile, and DuPage, Will, Kane and McHenry are in the top quartile. McHenry is in the top 4%. The term “risk” here is used only in its technical sense to mean these sources are less certain than property taxes. Investment income is another “risky” source that may be much less certain than intergovernmental revenues and transfers, and more subject to bad decision making by government officials. However, the GFOA data base does not report investment income separately, so it is impossible to know how important it is for these counties.

Table 4a:
Risk Exposure 1994
(Intergovernmental Revenues Only)

County	Actual	Average	Median	Top Quartile	Bottom Quartile	Rank
Cook	0.7	1.4	0.4	2.1	0.3	2
DuPage	0.6	0.6	0.3	0.5	0.2	1
Lake	0.4	0.6	0.3	0.5	0.2	2
Will	1.1	0.6	0.3	0.5	0.2	1
Kane	1.2	0.6	0.3	0.5	0.2	1
McHenry	1.2	0.4	0.3	0.5	0.2	1

B. Property Tax Leverage. A high proportion of the revenues of all Northeastern Illinois counties comes from the property tax. Each county is in the top quartile; Will, Kane and McHenry Counties are in the top 10%. Cook County is in the top 15%. In all the counties a 1% increase in total spending will require more than a 1% increase in property taxes. This possibility becomes more likely as counties assume additional responsibilities while other units of government reduce revenue sharing.

Table 4b:
Tax Leverage 1994

County	Actual	Average	Median	Top Quartile	Bottom Quartile	Rank
Cook	4.2	2.4	1.8	2.3	1.5	1
DuPage	2.2	1.7	1.4	1.7	1.2	1
Lake	1.9	1.7	1.4	1.7	1.2	1
Will	2.5	1.7	1.4	1.7	1.2	1
Kane	2.7	1.7	1.4	1.7	1.2	1
McHenry	2.7	1.7	1.5	1.8	1.2	1

V. Context

Each of the study counties has a strong property tax base. Table 5a shows estimated property value per capita, a measure of the full market value of property in a jurisdiction.

All are in the top half, and DuPage, Lake and McHenry are in the top quartile. Will and Kane may move into the top quartile as the Chicago metropolitan area expands.

Table 5a:
Estimated Property Value Per Capita 1994

County	Actual	Average	Median	Top Quartile	Bottom Quartile	Rank
Cook	\$45,624	\$41,636	\$45,053	\$55,047	\$26,430	2
DuPage	62,135	39,196	38,878	48,187	29,021	1
Lake	60,079	39,196	38,878	48,187	29,021	1
Will	45,833	39,196	38,878	48,187	29,021	2
Kane	44,843	39,196	38,878	48,187	29,021	2
McHenry	55,104	36,120	31,753	43,347	25,504	1

Although the study counties rely heavily on the property tax, their strong property tax bases cause per capita property taxes to be low compared to similar counties. All are below the median, and all but McHenry County are in the bottom quarter. However, it is important to note that this refers only to the county's portion of the total property tax.

Table 5b:
Property Tax Levy Per Capita 1994

County	Actual	Average	Median	Top Quartile	Bottom Quartile	Rank
Cook	\$139.15	\$353.03	\$207.39	\$589.01	\$143.38	4
DuPage	85.83	353.71	215.96	501.37	122.75	4
Lake	103.94	353.71	215.96	501.37	122.75	4
Will	96.51	353.71	215.96	501.37	122.75	4
Kane	74.46	353.71	215.96	501.37	122.75	4
McHenry	125.47	332.62	189.24	538.68	94.18	3

Results, continued

VI. Summary

In summary, as shown in the table below, all the counties are financially strong on several dimensions. They are solvent in terms of cash, they have a large tax base, and rely less on property tax revenues than do similar counties. They also have relatively low levels of long-term debt and impose lower property taxes per capita than do similar counties.

**Table 6:
Summary**

Dimension	Cook	DuPage	Lake	Will	Kane	McHenry
General Fund Cash Solvency	4	1	1	1	1	1
Budgetary Solvency	2	1	3	3	4	4
Long-Term Debt/Capita	3	2	4	4	N/A	3
Pension Funding Ratio	3	3	3	3	3	4
Risk Exposure	3	1	2	1	1	1
Tax Leverage	1	1	1	1	1	1
Context						
<i>Est. prop. value/capita</i>	2	1	1	2	2	1
<i>Prop. tax levy/capita</i>	4	4	4	4	4	3

Cook County

Financial indicators for Cook County are based upon data from the Comptroller's Report in FY90 and Comprehensive Annual Financial Reports dated November 30 for each of the five fiscal years between 1991 and 1995.

Quality of Reporting

The financial reporting of Cook County received a rating of 3/5 in FY95 for satisfying three of the five conditions established by The Civic Federation for sound financial reporting including issuing a Comprehensive Annual Financial Report (CAFR), using Generally Accepted Accounting Principles (GAAP) for the financial statements and obtaining an unqualified auditor's opinion. The conditions not satisfied were failure to use GAAP for budget documents and failure to produce a CAFR six months after the close of a fiscal year. This represents a marked improvement from FY90, when Cook County only fulfilled one of the five requirements.

In FY91 through FY95 all component entities were included in Cook County's financial documents: the Forest Preserve District, the Cook County Health Facilities Fund, the various County fee offices, and the two County Annuity and Benefit Funds. In FY90, the Cook County Health Facilities Fund was excluded from financial reports.

Financial Indicators

The following section presents a series of indicators that are designed to provide benchmarks of the financial condition of Cook County government.

1. Liquidity

The liquidity ratio measures the ready availability of cash, grouping together General, Special Revenue, and Proprietary funds. A liquidity ratio of one or greater suggests that a government has sufficient cash to pay its bills as they come due. Cook County averaged 8.1 over the six year period studied. In FY95, the liquidity ratio was 9.2.

2. Cash Solvency: Current Fund Balance Ratio

Cash solvency is a measure of a government's ability to meet its financial obligations over an indefinite period, long enough to convert illiquid assets to cash. Cash solvency is measured by means of the current fund balance ratio.

The current fund balance ratio for the General and Special Revenue Funds averaged 4.6% between FY90 and FY95. Since the average fund balance ratio fell below 10%, it earned a rating of "Low." It is important to note, however, that Cook County's current fund balance ratio rose significantly between FY90 and FY95, as its financial condition substantially improved. In FY90, the current fund balance ratio was -3.9%, reflecting recurring deficits in the General Fund. The deficits in the GF persisted until FY92, with the ratio rising to -9.4%. Five years later, however, the situation had been successfully reversed and the ratio stood at over 18%. The ratio for FY95 was 17.4%.

Financial Indicators, continued

3. Budgetary Solvency

Budgetary solvency measures a government's ability to generate enough revenue over the course of its normal budgetary period to meet its expenditures. Three measures of budgetary solvency were used: 1) a trend analysis of surpluses and deficits; 2) a stress test; and 3) a trend analysis of short-term debt.

- a. *Surpluses or Deficits.* Cook County's Special Revenue, Debt Service and Capital Projects Funds all reported surpluses between FY90 and FY95. However, the General Fund reported large operating deficits that far exceeded 1% of total operating revenues for FY90 through FY93. In FY92, the GF deficit was 21% of total operating revenues for the four funds, or \$178 million. This meant that Cook County was not generating sufficient revenue in its General Fund to meet expenditures for four of the six years analyzed in this study. Deficits were reduced substantially after the imposition of County sales tax in FY92. By FY95, the General Fund posted a surplus of \$45 million.
- b. *Stress Test.* The stress test measures how fast the General Fund Balance has grown in relation to operating expenditures. For FY90–FY95, Cook County has a stress test ratio of –2.56, well below the threshold of 1.0, indicating that assets are being used up as the budget grows. While it is important to note that the County has erased General Fund deficits and improved its financial situation in recent years, historically this has not been the case. Since Cook County's revenue stream was insufficient to meet its General Fund expenditures, it was forced to consume assets and thus can be classified as “**Stressed.**”
- c. *Short-Term Debt Trends.* Steady increases in short-term debt are a sign of impending fiscal stress. Between FY90 and FY95, Cook County short-term debt declined by 30%, from \$487 million to approximately \$341 million over the period of this study. However, between FY90 and FY92, Cook County's short-term debt jumped by 29%, due in part to an increasing reliance on the use of tax anticipation notes (TANs) and failure to retire working cash debt incurred each year at the conclusion of that year. In FY93, the County acted to phase out the use of TANs and retire its outstanding working cash debt. This helped contribute to a 46% decline in short-term debt from FY92 to FY95.

In its 1993 County budget testimony, The Civic Federation strongly endorsed the elimination of TAN borrowing and the retirement of outstanding working cash fund debt as prudent fiscal policies that would substantially reduce Cook County's debt load.

Working cash loans are intended to provide governments with sufficient funds to deal with month to month fluctuations in the revenue stream. They should not be used to pay operating costs and should be repaid within a single fiscal year. However, for several years the County had violated both precepts, rolling over working cash debt into succeeding years and using working cash funds to pay operating expenses without reimbursing them. Eliminating the working cash deficit was a sound fiscal decision vigorously applauded by The Civic Federation.

TANs had been used by the County for over 50 years to cover the gap between the one year gap between the time property tax revenues are spent and the time they are collected. As a result, taxpayers were forced to pay millions of dollars in interest annually. Paying off outstanding TAN debt and budgeting incoming revenues to meet annual operating costs was a much more efficient, cost effective course of action.

4. Financial Stability

Financial Stability is the ability of a government to maintain its current fiscal policies. Indicators of financial stability include: credit ratings, levels of long-term debt per capita, and unfunded pension liabilities.

- a. *Credit Rating.* Moody's Investor Services has given Cook County's general obligation bonds an A1 rating for FY90 and A1/A+ for FY91 through FY95. This means that the County's debt issues offered solid investment potential.
- b. *Long-Term Debt Per Capita.* Long-term debt per capita assumed by the County has risen by 90% over the period of this study, from \$152 to \$289. For purposes of comparison, Cook County was far below the \$415 median for direct net debt per capita in FY95 for counties with populations over 1,000,000.
- c. *Pension Funding Ratios.* Cook County's pension fund was well above the 60% funded ratio deemed healthy by actuaries for every year analyzed. The funded ratio averaged 103.7% between FY90 and FY95.

5. Risk Factors

This following section presents information about two different types of financial risks faced by local governments: 1) exposure to risk from relying too heavily on potentially unstable sources of revenue, and 2) the possibility of property tax increases due to rising expenditures.

- a. *Risk Exposure Factor.* The risk exposure factor ratio measures how much in percentage terms a government will have to increase property taxes to cover a 1% shortfall in risky revenue sources, such as investment income and intergovernmental revenues. Between FY90 and FY95, Cook County's risk exposure factor ratio was 0.5. Thus, property taxes would have increased by an average of 0.5% between FY90 and FY94 to cover a 1% shortfall in revenues, if no other revenue sources were available. The risk exposure ratio for FY95 was 0.6.
- b. *Tax Leverage Factor.* The tax leverage factor ratio measures how much in percentage terms a government will have to increase taxes to cover a budgetary increase of 1%, if no other revenues are available. Between FY90 and FY95, Cook County's tax leverage factor ratio was 3.4. This means that property taxes would have increased by an average of 3.4% between FY90 and FY95 to cover a 1% shortfall in revenues, if no other revenue sources were available. The tax leverage factor ratio for FY95 was 4.2.

Fiscal Context

The indicators below place Cook County's financial situation in a broader socioeconomic context.

1. Population and Population Growth

Between 1980 and 1992, the County's population declined 2.2%. That translates into an annual decline of approximately 0.18%.

2. Serious Crimes Per 100,000 Persons.

In 1990, the rate of serious crimes per 100,000 persons in Cook County was 8,674, according to *Crime in Illinois*. Four years later, it had declined to 7,751 per 100,000 population. This represents the highest rate in the six county region.

3. Estimated Property Value Per Capita.

Estimated Property Value (EPV) per capita is a measure of a jurisdiction's taxable wealth based on an estimate of real property's market value. In Cook County, EPV per capita rose by 24% between tax years 1990 and 1995, from \$38,162 to \$47,346. EPV averaged \$43,441 during the period of this study.

4. Private Employment Per Household.

Private employment per capita is a measure of income relative to demand. Private employment per household in Cook County remained fairly steady from 1992 to 1995, rising from 1.70 to 1.77.

DuPage County

Financial indicators for DuPage County, Illinois are based upon the Comprehensive Annual Financial Reports dated November 30 for each of the six financial years between 1990 and 1995.

Quality of Reporting

The financial reporting for DuPage County in FY95 receives a rating of 5/5 for satisfying all five reporting conditions. All reporting entities were included in the financial reports: the DuPage County Health Department, the DuPage County Emergency Telephone System Board, the DuPage County Forest Preserve District and the DuPage County Water and Sewerage System. The DuPage Airport Authority was added as a component unit in 1995 due to changes in legislation.

In years prior to 1994, the financial statements and Comprehensive Annual Financial Reports excluded the DuPage Forest Preserve District. While the Forest Preserve has relatively minor operating expenses, it has substantial debt and related debt service needs. Financial reporting for the District prior to 1994 receives a rating of 4/5.

Financial Indicators

The following sections presents indicators that provide benchmarks of the financial condition of DuPage County.

1. Liquidity

The liquidity ratio measures a government's ready availability of cash, dividing the amount of cash and short-term investments in the General, Special Revenue and Proprietary Funds by accounts payable in those same funds. If a government has enough cash to pay its bills as they come due, its liquidity ratio should be at least one. DuPage County's liquidity ratio averaged 21.9 between FY90 and FY95, far in excess of one. In 1995, the liquidity ratio was 29.6.

2. Cash Solvency: Current Fund Balance Ratio

Cash solvency is a measure of a government's ability to generate cash in the short-term to pay its bills. Cash solvency in the General and Special Revenue Funds was measured by means of the Current Fund Balance Ratio.

The General Fund provides for most traditional governmental services, while special revenue funds are legally or administratively earmarked for operations supported by dedicated taxes and fees. DuPage County maintained and expanded a Current Fund Balance Ratio well in excess of the 50% level which, by the standards of this study, warrants a label of "**High**." At 11/30/95, this ratio stood at an all-time high of 130.6%. This indicates that the General and Special Revenue Funds of the County have very high levels of liquidity. The tax rate, however, actually declined over the last decade. Nevertheless, conservative budgeting and the explosive increase in the tax base produced substantial cash surpluses.

Financial Indicators, continued

3. Budgetary Solvency

Budgetary solvency measures a government's ability to generate enough revenue over the course of its normal budgetary period to meet its expenditures. We have used three measures of budgetary solvency: a trend analysis of surpluses and deficits, a stress test, and a trend analysis of short-term debt.

- a. *Surpluses or Deficits.* DuPage County enjoyed positive Governmental Fund Group balances between FY90 and FY95. During this period, the General Fund balance rose by 27%, from \$51 million to \$65 million, while the Special Revenue Fund balance jumped 148%, from \$107 million to \$266 million. Both the Debt Service and Capital Projects Fund balances declined during this same period, with the Capital Projects Fund balance dropping by 17%, from \$103 million to \$85 million.
- b. *Stress Test.* The stress test measures how fast the Fund Balance has grown in relation to operating expenditures. Between FY90 and FY95, the County was found to be "**Resilient**," with a stress test ratio of 1.06. This indicated that governmental revenues are sufficient to avoid consuming the government's assets.

The County experienced especially strong revenue growth which has made tight budgeting difficult. For example, in fiscal year 1995, actual performance by nearly every revenue source exceeded very optimistically budgeted numbers.

- c. *Short-Term Debt.* Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt is an important warning sign of coming financial difficulties. DuPage County's short-term debt load rose substantially between FY90 and FY95, increasing from \$16.2 million to \$32.6 million, a jump of 101%. However, these figures represent a relatively small portion of the entire county budget.

4. Financial Stability

Financial stability is the ability of a government to maintain its current financial policies. The following section sets forth some general indicators of financial stability for DuPage County. They include general obligation debt credit ratings, long-term debt per capita and pension funding ratios.

- a. *Credit Rating.* The County's General Obligation debt is rated AAA by Standard and Poor's and Aaa by Moody's. These credit ratings indicate that bond financing should be available on the most favorable possible terms in the future. Tax limitations which limit incremental debt service levies, however, may preclude accessing the capital markets on a General Obligation basis.
- b. *Long-Term General Obligation Debt Per Capita.* Long-Term General Obligation Debt per capita increased 21% between FY90 and FY95, from \$287.89 to nearly \$350. This is slightly above the \$338 national median direct net debt per capita figure reported by Moody's Investors Service in 1995 for counties with populations between 250,000 and 999,000.¹¹
- c. *Pension Funding Ratios.* DuPage County's pension fund was well above the 60% funded ratio deemed healthy by actuaries for every year analyzed. The funded ratio averaged 89.7% between FY90 and FY95.

¹¹ Moody's Investors Service. 1995 Medians: Selected Indicators of Municipal Performance

5. Risk Factors

This following section presents information about two different types of financial risks faced by local governments: 1) exposure to risk from relying too heavily on potentially unstable sources of revenue, and 2) the possibility of property tax increases due to rising expenditures.

- a. *Risk Exposure Factor*: Risk Exposure Factor ratios measure the percentage by which a government will have to increase property taxes to cover a 1% shortfall in risky revenue sources, such as inter-governmental revenues, if other revenue sources are not available.

DuPage County Risk Exposure Factor Ratios

FY95	0.5
Average FY90–95	0.5

An average risk exposure ratio of 0.5 means that DuPage County would have had to raise property taxes by 0.5% to cover a 1% shortfall in revenues, if no other revenue sources were available.

- b. *Tax Leverage Factor*: Tax leverage measures how much a government will have to increase its own source taxes to cover a budgetary increase of 1%, if no other revenues are available.

DuPage County Tax Leverage Factor Ratios

FY95	1.4
Average FY90–95	1.4

An average tax leverage factor ratio in DuPage County of 1.4 means that a 1% increase in the County budget would have translated into a 1.4% increase in taxes.

Fiscal Context

The indicators below are designed to place DuPage County's financial situation in a broader socio-economic context.

1. Population and Population Growth

DuPage County enjoyed dramatic population growth over the past few decades, jumping by nearly 30% between 1980 and 1995. Between 1990 and 1995, population rose by 9%, from approximately 781,000 to over 853,000.

2. Serious Crimes Per 100,000 Persons

DuPage County has one of the lowest rates of serious crime in the region and the rate has been falling. In 1990, the 29,708 reported serious crimes represented a low 3,640 per 100,000 population as reported by the *1994 City and County Data Book*. By 1994, as estimated in *Crime in Illinois*, the rate in DuPage had fallen to 3,042 per 100,000 population.

3. Estimated Property Value Per Capita

Estimated Property Value (EPV) per capita is a measure of taxable wealth. In DuPage County, EPV per capita rose by 24% between tax years 1990 and 1995, from \$52,254 to \$64,628.

4. Private Sector Employment Per Capita

Private sector employment per capita is a measure of income relative to demand. Employment levels in DuPage County are high, reflecting a rate of unemployment that has consistently remained below state and national averages. Between 1992 and 1995, employment per household figures remained steady, averaging 1.5.

Kane County¹²

Financial indicators for Kane County are based upon Comprehensive Annual Financial Reports (CAFR's) dated November 30 for each of the three fiscal years between 1992 and 1995 and Annual Financial Reports dated November 30 for FY90 and FY91.

Quality of Reporting

The financial reporting of Kane County received a rating of 5/5 in FY95 for satisfying all five conditions established by The Civic Federation for good financial reporting. No entities were excluded from reporting in either FY94 and FY95. This is an improvement from FY90 and FY91, when the County failed to produce a CAFR and the documents received a rating of 4/5.

In FY94 and FY95 all component entities were included in Kane County's financial documents: the Forest Preserve District, the Health Department and KDK Training, Employment and Business Search. For FY90 through FY93, the Forest Preserve District was excluded from financial reports.

Financial Indicators

The following section presents a series of indicators that are designed to provide benchmarks of the financial condition of Kane County government.

1. Liquidity

The liquidity ratio measures the ready availability of cash, grouping together general, special revenue, and proprietary funds. If a government has enough cash to pay its bills as they come due, the liquidity ratio should be at least one. Kane County's liquidity ratio averaged 10.0 for the six years analyzed, far in excess of one. The liquidity ratio for FY95 was 14.4.

2. Cash Solvency: Current Fund Balance Ratio

Cash solvency is a measure of a government's ability to meet its financial obligations over an indefinite period, long enough to convert illiquid assets to cash. Cash solvency for the General and Special Revenue Funds is measured by means of the Current Fund Balance Ratio.

Special Revenue Funds are legally or administratively earmarked for operations supported by dedicated taxes and fees while the General Fund accounts for all funds not required to be accounted for in other funds. Between FY90 and FY95, the current fund balance ratio for the General and Special Revenue Funds averaged 46.6%. As the average fund balance fell between the range of 25% and 50%, this earned the General and Special Revenue Funds a rating of "Substantial."

Financial Indicators, continued

3. Budgetary Solvency

Budgetary solvency measures a government's ability to generate enough revenue over the course of its normal budgetary period to meet its expenditures. We have used three measures of budgetary solvency: a trend analysis of surpluses and deficits, a stress test, and a trend analysis of short-term debt trends.

- a. *Surpluses or Deficits.* Kane County's General Funds enjoyed healthy surpluses from FY90 through FY95. During this period, GF balances grew by 55%, from \$4.7 million to \$7.3 million, while special revenue fund balances increased by 173%, from \$10.9 million to \$29.8 million. Debt service or capital projects funds were not established until FY94, indicating that capital projects were funded on a pay-as-you-go basis.
- b. *Stress Test.* The stress test measures how fast the General Fund Balance has grown in relation to operating expenditures. Kane County has a stress test ratio of 1.39. The high positive ratio indicates that the County can be classified as "**Resilient.**"
- c. *Short-Term Debt Trends.* An increasing trend in short-term debt in the General and Special Revenue Funds can be an important warning sign of coming financial distress. The total amount of short-term debt in Kane County increased by 64% between FY90 and FY95, from just over \$5 million to \$8.3 million. However, it is important to note that these figures represent only a small portion of the entire county budget.

4. Financial Stability

Financial stability is the ability of a government to maintain its current financial policies. The following section sets forth some general indicators of financial stability for Kane County.

- a. *Credit Rating.* Kane County did not issue any general obligation bonds between 1990 and 1994. In 1995, an \$11.6 million alternative revenue bond was issued, receiving a Moody's rating of Aa. The Kane County Building Commission issued \$35.7 million in Public Building Revenue bonds in 1990 through 1992, which Moody's rated as Aa. Moody's also awarded an A rating to the county's Motor Fuel Tax Revenue bonds.
- b. *Long-Term Debt Per Capita.* Total long-term debt per capita has grown by 179% between FY90 and FY95, from nearly \$56 to over \$155. This is far below the \$338 national median direct net debt per capita figure for counties with populations between 250,000 and 999,000, as reported by Moody's in 1995.¹³
- c. *Pension Funding Ratios.* Kane County's pension fund was well above the 60% funded ratio deemed healthy by actuaries for every year analyzed. The funded ratio averaged 89% between FY90 and FY95.

5. Risk Factors

This following section presents information about two different types of financial risks faced by local governments: 1) exposure to risk from relying too heavily on potentially unstable sources of revenue, and 2) the possibility of property tax increases due to rising expenditures.

- a. *Risk Exposure Factor*: The risk exposure factor ratio measures how much a government will have to increase own source taxes to cover a 1% shortfall in risky revenue sources, such as investment income and intergovernmental revenues.

Kane County Risk Exposure Factor Ratio

FY95	1.5
Average FY90–95	1.3

An average risk exposure factor ratio of 1.3 means that Kane County would have had to raise taxes by 1.3% to cover a 1% shortfall in revenues, if no other revenue sources were available.

- b. *Tax Leverage Factor*: The tax leverage factor ratio measures how much a government will have to increase taxes to cover a budgetary increase of 1%, if no other revenues are available.

Kane County Tax Leverage Factor Ratio

FY95	2.4
Average FY90–95	2.4

An average tax leverage ratio in Kane County of 2.4 means that a 1% increase in the County budget would have translated into a 2.4% increase in taxes.

Fiscal Context

The indicators below place Kane County's financial situation in a broader socioeconomic context.

1. Population and Population Growth

Kane County's population grew rapidly over the past two decades, jumping by nearly 33% between 1970 and 1992. From 1980 to 1995, population grew by approximately 25%, from just over 278,000 to 348,600.

2. Serious Crimes Per 100,000 Persons

Kane County had the second highest serious crime rate in the region in the 1990s, ranking far below Cook County. In 1990, the 16,721 reported crimes represented a mid-level rating of 5,010 per 100,000 population, as reported by the *1994 City and County Data Book*. In 1994, according to *Crime in Illinois*, the serious crime rate increased slightly to 5,041 per 100,000 population.

3. Estimated Property Value Per Capita

Estimated Property Value (EPV) per capita is a measure of a jurisdiction's taxable wealth. In Kane County, EPV per capita rose from about \$32,739 in tax year 1990 to \$47,679 in tax year 1995. This represents a 46% increase.

4. Private Sector Employment Per Capita

Private employment is a measure of income relative to demand. Kane County private employment levels increased steadily between 1992 and 1995, from 119,238 to 134,320. Per capita private employment rose from 1.07 in FY92 to 1.12 in FY95.

Lake County

Financial indicators for Lake County are based on Comprehensive Annual Financial Reports (CAFRs) dated November 30 for each of the six fiscal years between 1990–1995.

Quality of Reporting

Lake County's financial reporting received a rating of 4/5 in FY95 for satisfying three of the five conditions established by The Civic Federation for good financial reporting. The County did not receive a 5/5 rating because of the failure to include information about two component jurisdictions, the Forest Preserve District and the Public Building Commission, as required by GASB Rule Number 14. The Lake County CAFR had included both components in FY90 through FY93, thus rating a 5/5 rating for those years.

Financial Indicators

The following sections presents indicators that provide benchmarks of the financial condition of Lake County.

1. Liquidity

The liquidity ratio measures a government's ready availability of cash, dividing the amount of cash and short-term investments in the general, special revenue and proprietary funds by accounts payable in those same funds. If a government has enough cash to pay its bills as they come due, its liquidity ratio should be at least one. Lake County's liquidity ratio averaged 6.0 between FY90 and FY95, far in excess of one. In FY95, the ratio was 6.0.

2. Cash Solvency: Current Fund Balance Ratio

Cash solvency is a measure of a government's ability to generate cash in the short-term to pay its bills. Cash solvency for the General and Special Revenue Funds was measured by means of the Current Fund Balance Ratio.

The General Fund provides for most traditional governmental services, while special revenue funds are legally or administratively earmarked for operations supported by dedicated taxes and fees. Between FY90 and FY95, Lake County maintained a Current Fund Balance Ratio which ranged between 47% and 59%, with a six year average of 54%. In FY95, this ratio stood at 69%. Because the Current Fund Balance ratio average was greater than 50% over the period of this study, these General and Special Revenue Funds warranted a rating of "High."

Financial Indicators, continued

3. Budgetary Solvency

Budgetary solvency measures a government's ability to generate enough revenue over the course of its normal budgetary period to meet its expenditures. We have used three measures of budgetary solvency: a trend analysis of surpluses and deficits, a stress test, and a trend analysis of short-term debt.

- a. *Surpluses or Deficits.* Lake County's General Funds enjoyed healthy surpluses from FY90 through FY95. During this period, GF balances grew by 55%, from \$4.7 million to \$7.3 million, while special revenue fund balances increased by 173%, from \$10.9 million to \$29.8 million. Debt service or capital projects funds were not established until FY94, indicating that capital projects were funded on a pay-as-you-go basis.
- b. *Stress Test.* The stress test measures how fast the General Fund Balance has grown in relation to operating expenditures. Lake County had a stress test ratio of 1.16. The high positive ratio indicates that the County can be classified as "**Resilient.**"
- c. *Short-Term Debt Trends.* Short-term debt is a financial obligation that must be satisfied within one year. Lake County's short-term debt increased dramatically between FY90 and FY95, rising by 143%, from \$10 million to \$25 million.

4. Financial Stability

Financial stability is the ability of a government to maintain its current financial policies. The following section sets forth some general indicators of financial stability for Lake County. They include general obligation debt credit ratings, long-term debt per capita and pension funding ratios.

- a. *Credit Rating.* Lake County's general long-term debt has maintained high ratings from major credit agencies. Moody's Investors Service applied its highest rating, AAA to County debt in 1995.
- b. *General Long-Term Debt Per Capita.* Lake County's total general long-term debt per capita averaged \$70.02 between FY90 and FY95. It grew by 10% between FY90 and FY95, from \$74.86 to \$82.67. This is far below the \$338 national median direct net debt per capita figure for counties with populations between 250,000 and 999,000, as reported by Moody's in 1995.¹⁴
- c. *Pension Funding Ratios.* Lake County's pension fund was well above the 60% funded ratio deemed healthy by actuaries for every year analyzed. The funded ratio averaged 86% between FY90 and FY95.

5. Risk Factors

- a. *Risk Exposure Factor*. The risk exposure factor ratio measures how much a government will have to increase own source (i.e. property) taxes to cover a 1% shortfall in risky revenue sources, such as investment income and intergovernmental revenues.

Lake County Risk Exposure Factor Ratio

FY95	0.4
Average FY90–FY95	0.5

An average risk exposure factor ratio of 0.5 means that Lake County would have had to raise property taxes by 0.5% to cover a 1% shortfall in revenues, assuming no other revenue sources were available.

- b. *Tax Leverage Factor*. The tax leverage factor ratio measures how much a government will have to increase taxes to cover a budgetary increase of 1%, if no other revenues are available.

Lake County Tax Leverage Factor Ratio

FY95	1.8
Average FY90–95	1.8

An average tax leverage factor ratio in Lake County of 1.8% means that a 1% increase in the County budget would have translated into a 1.8% increase in taxes.

Fiscal Context

The indicators below place Lake County's financial situation in a broader socioeconomic context.

1. Population and Population Growth

Population growth in Lake County has been strong, increasing by 48% between 1970 and 1995. During the six years covered in this study, the County's population grew 9%, from approximately just over 516,000 to approximately 564,000. These growth rates were well above the regional average of about 4%.

2. Serious Crimes Per 100,000 Persons

Lake County had one of the lower crime rates in the six-county area, with a serious crime rate that ranked well below similarly sized counties across the country. Lake County reported 3,333 serious crimes per 100,000 people in 1994, according to *Crime in Illinois*. In Cook County, the corresponding rate was 7,751 serious crimes per 100,000 persons.

3. Estimated Property Value Per Capita

Estimated Property Value (EPV) per capita is a measure of a jurisdiction's taxable wealth based on an estimate of real property's market value. In Lake County, EPV per capita rose by 46% between tax years 1990 and 1995, from \$43,470 to \$63,468.

4. Private Employment Per Household

Private employment per household is a measure of income relative to demand. Lake County has maintained a strong rate of employment from 1992 to 1995, with the ratio of private employment per household growing steadily, from 1.04 to 1.11.

McHenry County

Financial indicators for McHenry County are based on the *Annual Financial Report Dated November 30* for each of the six fiscal years between 1990 and 1995.

Quality of Reporting

The County of McHenry received a FY95 rating of 4/5 for satisfying four of the five conditions established by The Civic Federation for good financial reporting. The County did not receive a 5/5 rating because it lacks a Comprehensive Annual Financial Report (CAFR) format, a standard format for government disclosure of finances. This rating, however, is an improvement over reporting previous to 1994 where the County did not account for “general fixed assets” and therefore received a qualified audit opinion. The *Annual Financial Report* includes the County government, which includes its core departments and services, as well as the McHenry County Public Building Commission. No other related government entities are excluded.

Financial Indicators

The following sections presents indicators that provide benchmarks of the financial condition of McHenry County.

1. Liquidity

The liquidity ratio measures the ready availability of cash, grouping together General, Special Revenue, and Proprietary funds. If a government has enough cash to pay its bills as they come due, the liquidity ratio should be at least one. McHenry County's liquidity ratio averaged 8.6 for the six years analyzed, far in excess of one. In FY95, the liquidity ratio was 9.4.

2. Cash Solvency: Current Fund Balance Ratio

Cash solvency is a measure of a government's ability to generate cash in the short-term to pay its bills. Cash solvency for the General and Special Revenue Funds is measured by means of the Current Fund Balance Ratio.

Special revenue funds are legally or administratively earmarked for operations supported by dedicated taxes and fees while the general fund accounts for all funds not required to be accounted for in other funds. The “Current Fund Balance Ratio,” a measurement of cash solvency, for McHenry's General and Special Revenue funds averaged 56.7% between FY90 and FY95. This earned the General and Special Revenue Fund a rating of “**High.**”

Financial Indicators, continued

3. Budgetary Solvency

Budgetary solvency measures a government's ability to generate enough revenue over the course of its normal budgetary period to meet its expenditures. The Civic Federation has used three measures of budgetary solvency: a trend analysis of surpluses and deficits, a stress test, and a trend analysis of short-term debt.

- a. *Surpluses or Deficit.* McHenry County's Special Revenue, Debt Service and Capital Projects Funds all reported surpluses between FY90 and FY95, indicating a healthy budgetary solvency, i.e., the County can easily pay its bills over the long run.
- b. *Stress Test.* The stress test measures how fast the General Fund Balance has grown in relation to General Fund operating expenditures. A stress test of 1.0 indicates that assets are keeping pace with liabilities. For FY90–FY95, McHenry County has a stress test ratio of 1.72, well above the threshold of 1.0. Therefore, assets are more than sufficient to cover liabilities and McHenry County receives a stress test rating of “**Resilient.**”
- c. *Short-Term Debt Trends.* A trend of increasingly larger short-term debt loads may be a warning sign of future financial difficulties. From FY90 to FY95, McHenry County has carried a sharply increasing amount of short-term debt, rising from \$1.89 million to \$25.2 million. The largest single increase came between FY94 and FY95, when the short-term debt load rose by 123%, from \$10.9 million to \$24.8 million.

4. Financial Stability

Financial stability is the ability of a government to maintain its current financial policies. The following section sets forth some general indicators of financial stability for McHenry County.

- a. *Credit Rating.* McHenry County general obligation and revenue bond issues have received a rating of Aa from Moody's Investor's Services.
- b. *Long-Term Debt Per Capita.* In FY95, McHenry's total long-term debt per capita was \$161.48, far below the \$218 national median direct net debt per capita figure for counties with populations between 100,00 and 249,999, as reported by Moody's in 1995.¹⁵ Overall, McHenry County's total general long-term debt per capita averaged \$183.89 over the 6 years period studied. It declined by 27% between FY90 and FY95, from \$220.20 to \$161.48.
- c. *Pension Funding Ratios.* McHenry County's pension fund was well above the 60% funded ratio deemed healthy by actuaries for every year analyzed. The funded ratio averaged 88.7% between FY90 and FY95.

5. Risk Factors

This following section presents information about two different types of financial risks faced by local governments: 1) exposure to risk from relying too heavily on potentially unstable sources of revenue, and 2) the possibility of property tax increases due to rising expenditures.

- a. *Risk Exposure Factor*: Risk exposure measures how much a government will have to increase own source taxes to cover a 1% shortfall in risky revenue sources, such as intergovernmental revenues.

McHenry County Risk Exposure Factor Ratio	
FY95	1.2
Average FY90–95	1.2

This means that in FY95, for every 1% that the County loses from non-county revenues, such as state and federal revenues, the County would have to raise its own taxes by 1.2%.

- b. *Tax Leverage Factor*: The tax leverage factor ratio measures how much a government will have to increase own source taxes to cover a budgetary increase of 1%, assuming no other sources of revenue are available.

McHenry County Tax Leverage Factor Ratio	
FY95	3.0
Average FY90–95	2.7

This means that in 1995, for every 1% that the County's expenditures increase, the County would have to raise its own taxes by 3.0%.

Fiscal Context

The indicators presented below are intended to place McHenry County's financial condition in a broader socioeconomic context.

1. Population and Population Growth

McHenry is the fastest growing county in the Northeastern Illinois region, growing 35% (to about 200,000) from 1980 through 1992 while the region only grew by 4%.

2. Serious Crimes Per 100,000 Persons

According to *Crime in Illinois*, McHenry County has the lowest crime rate in the region, with only 2,550 serious crimes for every 100,000 people. This is significantly lower than the 4,800 serious crimes per 100,000 national average for counties the same size as McHenry and the regional average of 4,830 serious crimes per 100,000 persons.

3. Estimated Property Value Per Capita

Estimated Property Value (EPV) per capita is a measure of taxable wealth in a jurisdiction based on an estimate of the market value of real property. In McHenry County, EPV per capita rose by 53%, from about \$42,000 in tax year 1990 to approximately \$64,000 in tax year 1995.

4. Private Employment Per Household

Private employment per household is a measure of income relative to demand. McHenry County's ratio of private employment per household averaged 0.81 between 1992 and 1995, rising from 0.78 to 0.83.

Will County

Financial indicators for Will County are based upon Comprehensive Annual Financial Reports (CAFR's) dated November 30 for each of the six fiscal years between 1990 and 1995.

Quality of Reporting

The financial reporting of Will County received a rating of 4/5 in FY95 for satisfying four of the five conditions established by The Civic Federation for good financial reporting. This rating represents a decline from FY93, when the County received a 5/5 rating. The decline is due to the County's failure to receive a unqualified audit opinion because of the exclusion of financial statements of the Will County Forest Preserve District, as required by Statement Number 14 of the Governmental Standards Accounting Board since 1994.

Financial Indicators

The following section presents a series of indicators that are intended to provide benchmarks of the financial condition of Will County.

1. Liquidity

Liquidity is the ready availability of cash, grouping together the General, Special Revenue, and Proprietary Funds. If a government has sufficient cash to pay its bills as they come due, the liquidity ratio should be at least one. Will County's liquidity ratio has ranked far in excess of 1.0 for each year between FY90 and FY95, averaging 7.5. The liquidity ratio for FY95 was 10.5. This means that Will County has maintained adequate funds to pay its bills as they come due for each fiscal year studied.

2. Cash Solvency Current Fund Balance Ratio

Cash solvency is a measure of a government's ability to generate cash in the short-term to pay its bills. Cash solvency for the General and Special Revenue Funds is measured by means of the Current Fund Balance Ratio.

The General Fund accounts for all funds not required to be accounted for in other funds. Special revenue funds are legally or administratively earmarked for operations supported by dedicated taxes and fees. The total fund balance as a percentage of general operating expenditures, or current fund balance ratio, averaged 31.6% between FY90 and FY95. During this period, ratio has increased from to 16.9% to 47.0%. As the current fund balance ratio for the General and Special Revenue Funds fell between the range of 25% and 50%, this earned the funds a rating of "Substantial" cash solvency.

3. Budgetary Solvency

Budgetary solvency measures a government's ability to generate enough revenue over the course of its normal budgetary period to meet its expenditures. To calculate budgetary solvency, we have used three measures: a trend analysis of Governmental Fund Group fund balances, a stress test, and a trend analysis of short-term debt.

- a. *Surpluses or Deficits.* All Will County Governmental Fund Group Funds reported surpluses in each year studied. The General and Special Revenue Funds experienced the greatest growth, increasing 313% and 206% respectively.
- b. *Stress Test.* The stress test measures how fast the fund balance has grown in relation to operating expenditures. According to the stress test, Will County has a budgetary solvency ratio of -282.03. The negative ratio is due to the fact that between FY90 and FY95, the County's General and Special Revenue Fund balances rose by 312%—from \$3.3 million to \$13.7 million—while General and Special Revenue Operating Expenditures fell by 1.1%. The extremely high negative ratio indicates the County can be classified as “**Resilient.**”
- c. *Short-Term Debt.* From FY90 to FY95, Will County's short-term debt load rose by 21%, from \$36.8 million to \$44.5 million. Over the 6 year period examined, Will County's total short-term debt averaged just over \$41 million per year.

4. Financial Stability

Financial Stability is the ability of a government to maintain its current fiscal policies. Indicators of financial stability include: credit ratings, levels of long-term debt per capita, and pension funding ratios.

- a. *Credit Rating.* Will County Public Building Commission insured general obligation issues were rated Aaa by Moody's Investor's Services.
- b. *Long-Term Debt Per Capita.* Long-term debt per capita in Will County fell from \$68 to \$62 between FY90 and FY95. The County's level of net direct debt per capita is substantially below Moody's 1995 median of \$338 for counties with populations between 250,000 and 999,999.¹⁶
- c. *Pension Funding Ratios.* Will County participates in the Illinois Municipal Retirement Fund. The County's projected unit funding credit ratio increased dramatically during the years analyzed, from 76.4% to 108.6%, averaging nearly 91% over the course of this study. Thus, Will County pensioners' benefits are relatively secure.

5. Risk Factors

This following section presents information about two different types of financial risks faced by local governments: 1) exposure to risk from relying too heavily on potentially unstable sources of revenue, and 2) the possibility of property tax increases due to rising expenditures.

- a. *Risk Exposure Factor.* Risk exposure measures how much a government will have to increase property taxes to cover a 1% shortfall in risky revenue sources, such as investment income, intergovernmental revenues, and net operating transfers in from other funds assuming no other resources are available.

Will County Risk Exposure Factor Ratios

FY 95	1.1
Average FY 90–95	1.1

An average risk exposure factor ratio of 1.1 means that Will County would have to raise property taxes by 1.1% to cover a 1% shortfall in revenue from investments, other governments, and net operating transfers from other funds.

- b. *Tax Leverage Ratio.* The tax leverage factor ratio measures how much a government will have to increase property taxes to cover a budgetary increase of 1% if no other revenues are available.

Will County Tax Leverage Factor Ratio

FY 95	2.5
Average FY 90–95	2.6

A tax leverage factor ratio of 2.5 for fiscal year 1995 means that a 1% increase in the County budget would require a 2.5% increase in the property tax levy, assuming that there would be no increase in other revenue sources.

Fiscal Context

The indicators described below place Will County's financial situation in a broader socioeconomic context.

1. Population and Population Growth

Will County's population grew rapidly over the past fourteen years, rising 27% between 1980 and 1995, from 324,460 to 413,379.

2. Serious Crimes Per 100,000 Persons

Will County had the third lowest serious crime rate in the six-county region in the 1990's, ranking far below Kane and Cook Counties. In 1994, the 4,314 serious crimes per 100,000 population were reported, according to *Crime in Illinois 1994*.

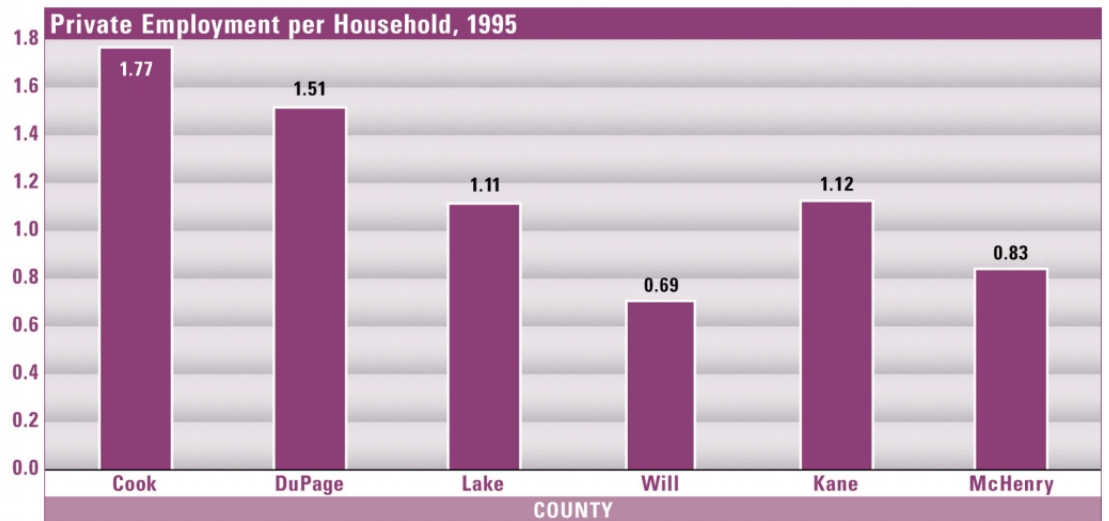
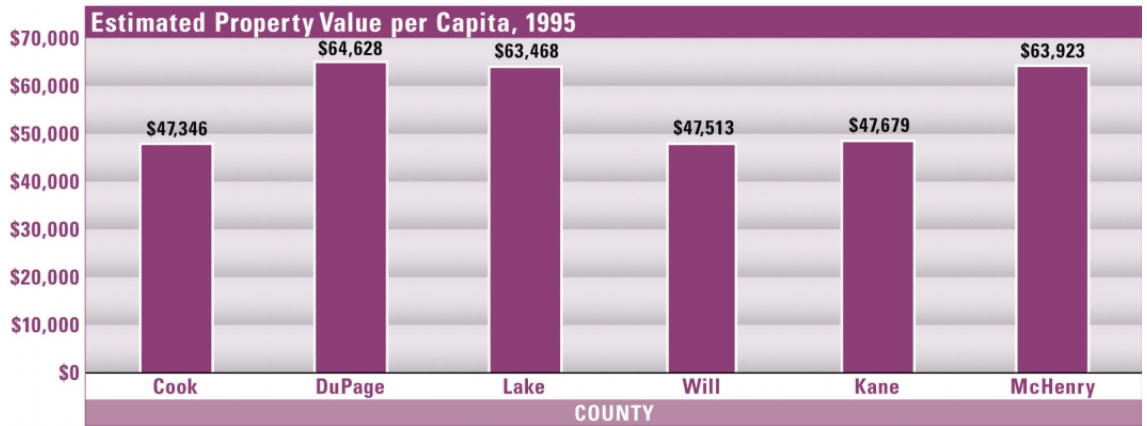
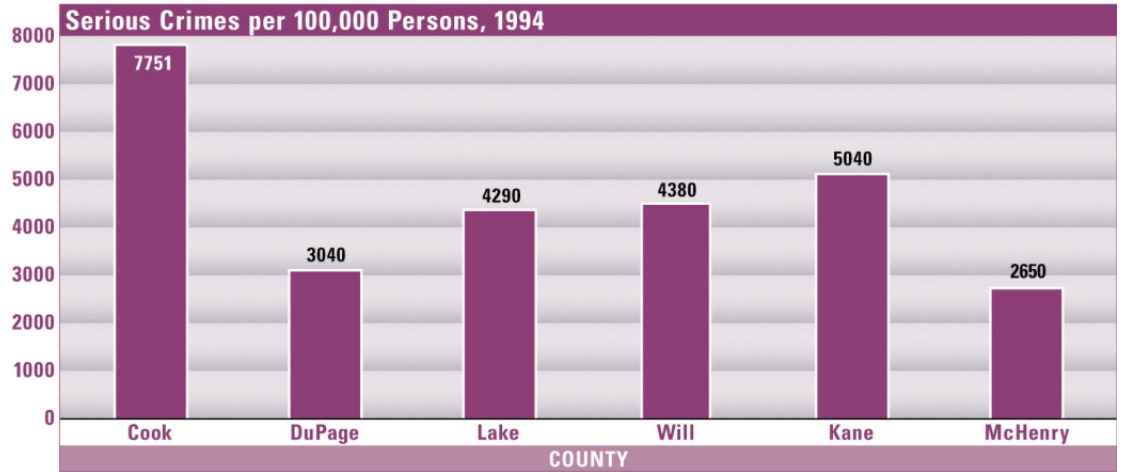
3. Estimated Property Value Per Capita

Estimated Property Value (EPV) per capita is a measure of taxable wealth in a jurisdiction. EPV in Will County per capita rose steadily, by approximately 24% over the period of this study. This represents an increase from \$38,345 to \$47,513.

4. Private Employment Per Household

Private employment is a measure of income relative to demand. Will County private employment per household figures have risen from 0.66 to 0.69 between 1992 and 1995, a modest gain. During that period, private employment per household averaged 0.68.

Appendix: Comparative Context Data



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