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For more information, please contact
Laurence Msall at (312) 201-9044

CHICAGO'S CIVIC FEDERATION EXPANDS TO DUPAGE COUNTY, SUPPORTS PROPOSED \$482.8 MILLION BUDGET FOR FY2006

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In its first annual analysis of DuPage County's budget and fiscal policies, the Civic Federation of Chicago Monday announced **support** of the County's proposed \$482.8 million budget for FY2006.

Although this proposed budget includes a \$2.5 million property tax increase, the maximum allowed under the tax cap law, the Civic Federation considers this property tax increase to be justified by the County's record of thoughtful financial management. DuPage County Government has kept property taxes level for the past 10 years, by cutting spending, drawing down the surplus in its Corporate Fund balance, and reducing headcount.

By embarking upon the annual analysis of the DuPage County budget, the Civic Federation underscores the county's importance to the regional economy as a whole. In 2004, the U.S. Census Bureau estimated DuPage County's population at 928,718; one in every 14 Illinois residents lives in DuPage County. The county is home to a number of major corporate headquarters. As a result, the tax policies of DuPage County Government have an increasing impact on the region's business climate. "The city vs. suburb distinction is irrelevant when considering the economy of Northeastern Illinois," said Laurence Msall, the organization's president. "Clearly, DuPage County presents an important opportunity for the Civic Federation to fulfill our mission by working with elected officials to effect positive changes in government tax and fiscal policy."

The Civic Federation notes that the FY2006 budget calls for a total appropriation of \$482.8 million. Although this represents an increase of \$8.3 million, or 1.7%, above the FY2005 appropriation, the Federation **commends** DuPage County for reducing its appropriation by 20.2% from the FY2002 budget of \$605 million. The Federation also notes with approval the proposed employee headcount of 2,475, which represents a reduction of 175 full-time equivalent positions from the FY2003 headcount.

The Civic Federation is further **encouraged** that DuPage County is beginning a long-term strategic planning process to develop mission statements and set goals for County programs, as a necessary step toward establishing programmatic and financial priorities for the next 10 to 20 years. The Federation considers long-term planning to be a crucial component of any governmental budgeting process, which must balance current fiscal needs with future priorities and expected revenues.

While the Federation's overall response to this proposed budget is positive, it **cautions** that DuPage County faces some critical financial challenges in the coming years. Despite headcount reductions and limited wage increases, personnel costs for County Government excluding the Health Department have risen by 14.9%, or \$22.9 million, between FY2003 and FY2006. During that same four-year period, Health Department appropriations have risen by 25.1%, from \$43 million to \$53.8 million. On the revenue side, areas of concern include flattening of fee revenues and the 2007 sunset of the \$15 million intergovernmental transfer from the DuPage Water Commission. Clearly, as DuPage County government embarks on its new strategic planning process, county officials must take a hard-nosed look at operations and revenues as they outline future priorities and how to pay for them.

The full text of the Civic Federation's analysis of the DuPage County FY2006 Budget is available on-line at www.civicfed.org.

The Civic Federation is a 112-year-old nonpartisan independent government research organization whose members include business leaders from the region's largest corporations, service firms and institutions.



DUPAGE COUNTY
FY2006 PROPOSED BUDGET
Analysis and Recommendations

Prepared By
The Civic Federation
November 22, 2005

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EXECUTIVE SUMMARY

DuPage County has proposed a \$482.8 million budget for FY2006, a 1.7% increase from the previous year. The budget includes a \$2.5 million property tax increase, the maximum amount allowed under the tax cap law.

The Civic Federation **supports** this budget. We believe this property tax increase is justified by the County's record of thoughtful financial management. The County Government has kept property taxes level for the past 10 years, and has cut spending, drawn down its excessive Corporate Fund balance to a more reasonable level, and reduced headcount. However, we strongly caution against any future policy of relying on property tax increases as the first line of attack for balancing the budget. Property tax hikes should always be viewed as a last resort, after every effort has been made to cut costs and increase efficiency.

FY2006 Budget Highlights

- The FY2006 budget of \$482.8 million represents an increase of \$8.3 million, or 1.7%, above the FY2005 appropriation of \$474.5 million.
- Corporate Fund appropriations will increase to \$140.6 million, up \$5.7 million, or 4.3%, from last year's \$134.8 million. That increase includes a rise in personnel costs of nearly \$3 million.
- The total DuPage County property tax levy, including the Health Department levy, is expected to increase to \$62.2 million, up \$2.5 million, or 4.2%, over last year's levy of \$59.7 million. This represents the maximum increase allowed under the State's tax cap law.
- The County is proposing its first property tax increase in 10 years.
- Full-time headcount (excluding the Health Department) will rise by 10 positions, from 2,465 to 2,475.

Civic Federation Position

The Civic Federation **supports** the FY2006 DuPage County budget for the following reasons:

- DuPage County has shown restraint in its spending, cutting appropriations from \$605.0 million in FY2002 to \$482.8 million in FY2006. This represents a decrease of 20.2%.
- The proposed full-time headcount of 2,475 represents a reduction of 175 positions, or 6.5%, from FY2003.
- DuPage County has not increased its property tax levy in 10 years. We applaud the County administration for its record of balancing the budget without the reflexive reliance on property tax increase exhibited by so many other governments in the region. Given DuPage County's admirable history of balancing its budget without resorting to an increase in the property tax levy, we consider this proposed increase reasonable and we support it.
- The Civic Federation is **encouraged** that DuPage County is beginning a **long-term strategic planning process** to develop mission statements and set goals for County programs, as a necessary step toward establishing programmatic and financial priorities for the next 10 to 20 years. The Civic Federation considers long-term planning to be a crucial component of any governmental budgeting process, which must balance current fiscal needs with future priorities and expected revenues.

Civic Federation Recommendations

- The DuPage County budget format needs substantial improvement to provide a more transparent and comprehensible explanation of its spending plan. The Budget Book should be organized by department or program area, and should include a transmittal letter and a concise Executive Summary offering complete, comprehensive trend information on all revenues, all spending, and all personnel data.
- The County should develop and implement a program to monitor, measure and evaluate departmental and program performance over time.
- Formal financial policies to guide budget development should be adopted and published in the Budget Book.

OVERVIEW

The Civic Federation is a 112-year-old nonpartisan independent government research organization whose members include business leaders from the region's largest corporations, service firms and institutions.

Initially, the Civic Federation focused solely on better governance in the City of Chicago. Over the decades, as we have worked to maximize the quality and cost-effectiveness of government services, we have responded to the increasingly regional nature of the Chicago-area economy by expanding our purview to include the governments of Cook County and the State of Illinois.

In embarking upon the annual analysis of the DuPage County budget, the Civic Federation underscores the county's importance to the regional economy as a whole. In 2004, the U.S. Census Bureau estimated DuPage County's population at 928,718; one in every 14 Illinois residents lives in DuPage County, including many members of the Civic Federation. The county is home to a number of major corporate headquarters. As a result, the tax policies of DuPage County Government have an increasing impact on the region's business climate. DuPage County thus presents an appropriate opportunity for the Civic Federation to fulfill its mission by working with elected officials to effect positive changes in government policy.

The Civic Federation **supports** this budget. We believe this property tax increase is justified by the County's record of thoughtful financial management. The County Government has kept property taxes level for the past 10 years, and has cut spending, drawn down its excessive Corporate Fund balance to a more reasonable level, and reduced headcount. We believe the County's success in keeping the property tax levy flat for a decade represents a significant and impressive achievement. However, we strongly caution against any future policy of relying on property tax increases as the first line of attack for balancing the budget. Property tax hikes should always be viewed as a last resort, after every effort has been made to cut costs and increase efficiency.

In future years, however, DuPage County faces some critical financial challenges. Despite headcount reductions and limited wage increases, personnel costs for County Government excluding the Health Department have risen by 14.9%, or \$22.9 million, between FY2003 and FY2006. During that same four-year period, Health Department appropriations have risen by 25.1%, from \$43 million to \$53.8 million. On the revenue side, areas of concern include flattening of fee revenues, and the 2007 sunset of the \$15 million intergovernmental transfer from the DuPage Water Commission. Clearly, as DuPage County government embarks on its new strategic planning process, county officials must take a hard-nosed look at operations and revenues as they outline future priorities and how to pay for them.

The full text of our analysis is available on our Web site at www.civicfed.org.

Reasons for Civic Federation Support of FY2006 Budget

The Civic Federation **supports** the proposed FY2006 DuPage County budget for the following reasons:

Exercising Expenditure Restraint

DuPage County has dramatically reduced its appropriations over time. The County's proposed FY2006 appropriations (excluding the Health Department, which has a separate governance structure) total \$482.8 million – down 20.2% from FY2002's appropriation of \$605 million. While much of that decrease reflects the completion of capital projects, it nevertheless indicates a laudable management emphasis on cost containment.

Reducing Full-Time Headcount

Personnel costs, including wages and benefits, typically represent a major component of government budget, and usually act as one of the largest drivers of annual cost increases. In the proposed budget, nearly 65% of Corporate Fund appropriations, and 36.8% of all non-health related appropriations, are earmarked for personnel costs.

It should be noted that DuPage County has moved to contain personnel costs over time by reducing headcount. Since FY2003, the County has eliminated 175 positions, or 6.5% of the full-time workforce. Just as many private sector firms have reduced their workforce in recent years because of improved employee work processes, technological advancements and increased competition, so too must the public sector embrace modernization and improved efficiencies if it is to be fiscally responsible and operate within a rational tax environment. Trimming the workforce is an essential step in this direction.

No Property Tax Levy Increases for 10 Years

For the first time in a decade, the Schillerstrom administration proposes to increase the property tax levy, from \$59.7 million to \$62.2 million. This \$2.5 million increase represents a 4.2% increase over last year's levy, the maximum amount permissible under state law. Any increase in property tax prompts serious concerns, given the regressive nature of the tax. However, it should be noted that, if DuPage County had increased its levy by the legal maximum each year between FY1997 and FY2005, the levy would now stand at \$72.4 million, up 20.2%.¹

DuPage County has managed to avoid property tax increases over the past decade thanks to a combination of steadily increasing fee revenues and prudent management strategies, including restrained spending, reduced headcount, draw-down of an excessive Corporate Fund balance and a short-term transfer of revenues from the DuPage Water Commission. We applaud the County administration for its lengthy record of avoiding the automatic annual property tax hikes favored

¹ This is an approximation. It does not take into account increased revenues resulting from new property, which is exempt from the tax cap. Therefore, the figure is, at best, an underestimate of what the actual amount would have been.

by so many other governments in the region, and its success in finding alternative revenue sources.

In our view, it is reasonable for government administrators to review, adjust and even increase taxes, provided that those increases are linked to a strategic planning process and prompted by demonstrated need. Given DuPage County's 10-year history of restraint in expanding its property tax levy, we consider it acceptable to support the proposed increase this year.

However, it is our hope that this planned expansion of the property tax levy does not portend a policy shift to annual increases in the levy to the maximum allowable under law. In future, property tax increases should be considered only as a last resort, after cost-cutting measures and increased efficiencies have been implemented.

Beginning a Strategic Planning Process

The Civic Federation is **encouraged** that DuPage County is beginning a **long-term strategic planning process** with the assistance of Northern Illinois University. A committee will be appointed by the Chairman Schillerstrom to develop mission statements and set goals for County programs, as a necessary step toward establishing programmatic and financial priorities for the next 10 to 20 years. The Civic Federation considers long-term planning to be a crucial component of any governmental budgeting process, which must balance current fiscal needs with future priorities and expected revenues. It is our hope that one of the end products of this process will be the development of a **formal long-term financial plan** that is developed with the active participation of key stakeholders.

By effectively linking policy and program priorities to the financial resources available now and in the near future, a long-term financial plan can provide governments with the insights and information they need to establish sound financial and operations policies and maintain good fiscal health over time.

Both the National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) recommend that all governments develop and formally adopt long-term financial plans as key components of a sound budget process.² Increasing numbers of jurisdictions around the nation are following that advice. We urge DuPage County to join them.

Civic Federation Recommendations

The Civic Federation offers several **recommendations** on ways to improve the County's financial management processes. We believe that implementing these recommendations will significantly improve the transparency of County financial documents and increase the County's ability to manage its resources more effectively.

² See National Advisory Council on State and Local Budgeting, and Government Finance Officers Association.

Improve Budget Transparency

The Civic Federation regularly comments on the transparency of local government budgets, because taxpayers are entitled to a clear, plain understanding of how their governments spend their money. In recent years, many governments, including the City of Chicago and the State of Illinois, have substantially improved the format of their proposed budgets to make them more user-friendly. It is our hope that DuPage County will follow their example.

The format of the DuPage County budget improved substantially in FY2005 and FY2006 and we congratulate the County's financial management team for developing a better budget document. The FY2006 Budget Book contains many important features, including a brief summary description of the entire budget, a presentation of the distribution of the property tax levy, a budget calendar and a glossary. It also contains useful information about the Corporate Fund, such as a "walk-up" showing the allocation of funding adjustments from the previous fiscal year, a breakout of appropriations by category and by function, and four years of revenue history. However, less information is provided for the other County funds, even though they constitute more than 70% of the budget. Also, because the budget is organized by fund rather than by department or program, it fails to convey a complete and accurate picture of the County's actual fiscal position. Thus, the current budget format makes it difficult to gain a good understanding of the County's structure, operations and fiscal history.

The Civic Federation believes the DuPage County budget format should be substantially improved by organizing the Budget Book by department or program area, and by including the following features:

- A transmittal letter from the County Board Chairman outlining his priorities;
- An organizational chart of County government;
- A concise Executive Summary offering complete and comprehensive information on all revenues and all spending. The Executive Summary should include:
 - A brief narrative discussion of new issues, programs and initiatives;
 - A "walk-up" that describes the sources of the current fiscal year budget deficit;
 - A "walk-down" that clearly identifies steps taken to eliminate the budget deficit;
 - Appropriations and Expenditures by Object for each Department and each of the Fund groups, and
 - Three to five years of summary financial information for all funds, including:
 - Appropriations and Expenditures for each Department and each of the Fund groups;
 - Revenues by Fund
 - Five years of comparable personnel information that shows Positions by Fund and by Department
- In addition, the budget should be placed on the DuPage County website as soon as it is publicly released.

In crafting a user-friendly budget, DuPage could find a useful template the City of Chicago's FY2006 *Budget Overview and Revenue Estimates*. This document incorporates many of the guidelines of the Government Finance Officers Association Distinguished Budget Awards

Program, as well as previous suggestions made by the Civic Federation. It provides readers with a concise and informative summary of trends, programs and budget processes, including seven years of trend information for revenues, as well as a useful guide on how to read and understand the revenue estimates and two years of concise information on budgeted positions.

Develop and Implement a Performance Measurement System

The FY2006 DuPage County Financial Plan document includes for each agency or fund a mission statement, a list of accomplishments from the prior fiscal year, and short-term and long-term goals. While these features do present some information regarding the activities, services and functions carried out by organizational units, the budget provides no mechanism to evaluate program performance using either quantitative or qualitative measures.

Given the current administration's stated intention of improving management efficiency over the long term, the Civic Federation believes a performance measurement program would prove a useful tool for DuPage County Government. By evaluating and reporting program results, the County can keep policymakers and taxpayers informed about actual results as compared with expectations.³

It is both expensive and inefficient to produce reams of measures that are developed without the involvement of management and staff, or that are unconnected to program goals and objectives. However, a few well-chosen measures of efficiency and effectiveness, implemented consistently and utilized to inform management decisions, could prove valuable as DuPage County seeks to improve its management and operations.

Adopt Formal Financial Policies

The Civic Federation recommends that DuPage County adopt written financial policies to guide the development of its annual budget, and publish those policies in its Budget Book. Formal financial policies provide policymakers and financial managers with a long-range, comprehensive perspective, enabling them to craft acceptable policy options within a limited range of resources. The process of developing a particular policy requires a government's elected officials and financial management team to focus on a jurisdiction's overall financial condition, as opposed to individual, ad hoc issues. Because they demand a long-term perspective, formal financial policies also help governments to prepare for contingencies and avoid reliance on short-term, stopgap measures.⁴

ACKNOWLEDGMENTS

³ See Recommended Practice 11.1 "Monitor, Measure, and Evaluate Program Performance," in National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998).

⁴ W. Maureen Godsey, "Establishing Financial Policies: What, Why and How," in John Matzer, Jr, editor. *Practical Financial Management: New Techniques for Local Government* (Washington, D.C.: ICMA 1984), p. 28-29.

The Civic Federation would like to express its appreciation to DuPage County Chief Financial Officer Fred Backfield and the County's budget and finance staff for their hard work in preparing this budget and their willingness to answer many of our questions.

APPROPRIATIONS

This section of the analysis presents an overview of DuPage County government appropriation trends. It includes discussions of appropriations of the County Government by itself as well as the County Government and the Health Department together.

County Government Appropriations FY2005-FY2006

DuPage County Government proposes a FY2006 budget of \$482.8 million. This is a 1.7% or approximately \$8.3 million increase from the previous year. These figures exclude financial information from the DuPage County Health Department, which has a separate governance structure. Information about all County government operations including the Health Department are provided in a separate section below.

In FY2006, there will be projected increases in the Corporate and Special Revenue Funds, as well as for grant funds. Decreases are projected in the Capital Projects and Debt Service Funds as major construction projects funded by bonds near completion.

Corporate Fund appropriations will increase by \$5.7 million or 4.3%, from \$134.8 million to \$140.6 million. Of that amount, nearly \$3 million is related to increases in personnel costs, including \$2.3 million earmarked for salary increases, \$290,000 for increases in health and dental insurance and \$400,000 in salaries for new staff.⁵ Approximately \$2 million will be transferred from the Corporate Fund to the Convalescent Center operating budget and \$280,000 will be transferred to the Historical Museum to support operations as it continues its transition to becoming a self supporting entity.⁶ A \$2.1 million decrease in Corporate Fund subsidies to the County's portion of the Illinois Municipal Retirement Fund (IMRF) is being compensated for with a corresponding increase in the property tax levy.

Grant appropriations will rise by 1.9%, from \$54.0 million to \$55.1 million. Grant appropriations are only for those grants active and continuing as of December 1, 2005. Grants are received throughout the course of the fiscal year, but the amounts to be received are often unknown at the onset of the fiscal year. Therefore, the amount for grants is likely to change during the course of FY2006.⁷

Appropriations for the Special Revenue Funds will rise by 17.3%; this is a \$37.6 million increase from \$217.7 million to approximately \$255.4 million. Much of the increase in Special Revenue Fund appropriations (approximately \$29 million of the total) is due to increases in three funds:

⁵ *DuPage County FY2006 Financial Plan*, p. 17.

⁶ The Convalescent Center is funded primarily from Special Revenue Fund revenues; the proposed FY2006 budget will be approximately \$32.7 million. See *DuPage County FY2006 Financial Plan*, pp. 17 and 272.

⁷ *DuPage County FY2006 Financial Plan*, p. 1.

the Local Gasoline Tax Operations Fund, the Highway Motor Fuel Tax Fund and the Illinois Municipal Retirement Fund (IMRF).

The Highway Motor Fuel Tax Fund receives County's share of State motor fuel taxes and provides funding for the Department of Transportation. The increase, from \$23.6 million to \$33.6 million is designated for capital outlay and contractual services for road and signal construction.⁸ The Local Gasoline Tax Operations Fund also funds the DuPage County Department of Transportation; it accounts for monies received by the County Local gas tax of 4 cents per gallon. The increase in this fund from \$46.8 million to \$60.9 million will primarily fund various construction projects. The third major increase, from \$11.7 million originally proposed in FY2005 to \$16.6 proposed in FY2006, is designated for an increase in required contributions for the County's retirement system

DUPAGE COUNTY APPROPRIATIONS: FY2005 & FY2006*				
FUND	FY2005	FY2006	\$ CHG	% CHG
Corporate Fund	\$ 134,845,207	\$ 140,618,308	\$ 5,773,101	4.3%
Special Revenue Funds	\$ 217,712,483	\$ 255,395,780	\$ 37,683,297	17.3%
Capital Projects Fund	\$ 54,503,568	\$ 29,637,407	\$ (24,866,161)	-45.6%
Debt Service Fund	\$ 13,398,696	\$ 2,074,000	\$ (11,324,696)	-84.5%
Grants	\$ 54,094,966	\$ 55,111,971	\$ 1,017,005	1.9%
Grand Total	\$ 474,554,920	\$ 482,837,466	\$ 8,282,546	1.7%

* Excluding DuPage County Health Department

Source: DuPage County FY2006 Financial Plans

County Government Appropriations: Five Year Trend

From FY2002 to FY2006, the DuPage County Government's budget appropriations are projected to decrease by 20.2%, falling from \$605.0 million to \$482.8 million. This is a \$122.1 million decrease. During this 5-year time period Corporate Fund appropriations will increase slightly, by 0.4%, or from \$140.0 million to \$140.6 million. The largest increase comes in the Special Revenue Fund appropriations, which will rise by 27.7%, or by \$55.3 million.

TOTAL DUPAGE COUNTY APPROPRIATIONS: ALL FUNDS FY2002-FY2006						
	Corporate	Special Revenue	Capital Projects	Debt Service	Grants	TOTAL
FY2002	\$ 140,048,824	\$ 200,011,445	\$ 208,603,959	\$ 5,676,753	\$ 50,665,528	\$ 605,006,509
FY2003	\$ 151,451,393	\$ 240,050,066	\$ 176,165,972	\$ 7,928,443	\$ 56,090,916	\$ 631,686,790
FY2004	\$ 134,187,302	\$ 227,605,779	\$ 92,162,011	\$ 2,061,543	\$ 57,678,345	\$ 513,694,980
FY2005	\$ 134,845,207	\$ 217,712,483	\$ 54,503,568	\$ 13,398,696	\$ 54,094,966	\$ 474,554,920
FY2006	\$ 140,618,308	\$ 255,395,780	\$ 29,637,407	\$ 2,074,000	\$ 55,111,971	\$ 482,837,466
5-YR \$ CHG	\$569,484	\$55,384,335	(\$178,966,552)	(\$3,602,753)	\$4,446,443	(\$122,169,043)
5-YR % CHG	0.4%	27.7%	-85.8%	-63.5%	8.8%	-20.2%

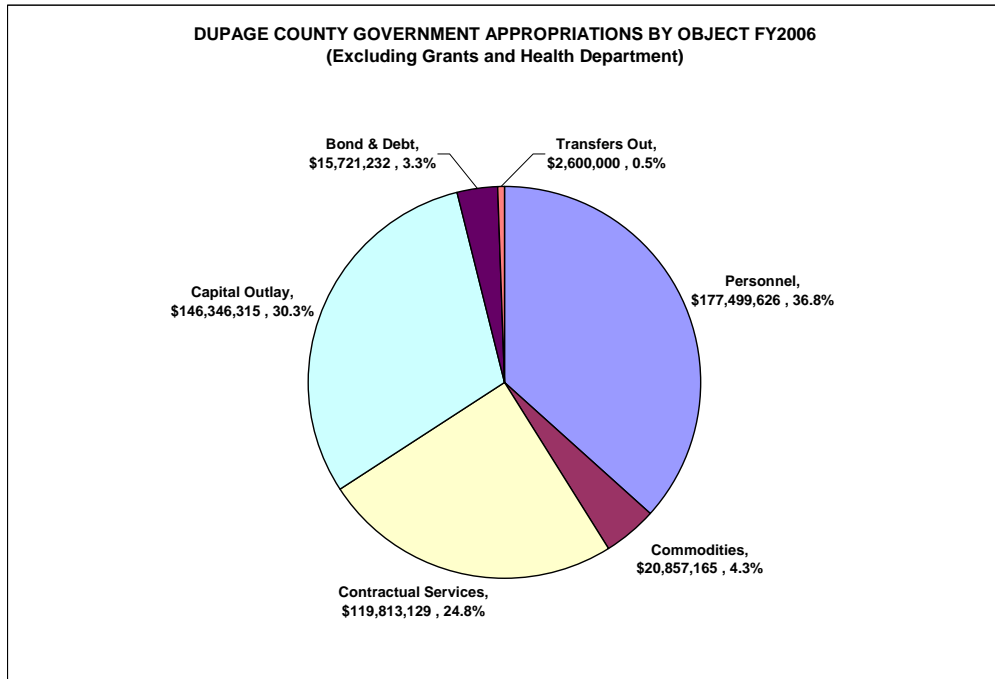
* Excluding DuPage County Health Department

Sources: DuPage County Financial Plans, FY2002-FY2006

⁸ Local governments receive 54.4% of State motor fuel tax collections after certain designated funds are distributed to specific purposes. The Civic Federation, *A Desktop Guide to State Revenue Sources* (Chicago: 2003), p 27.

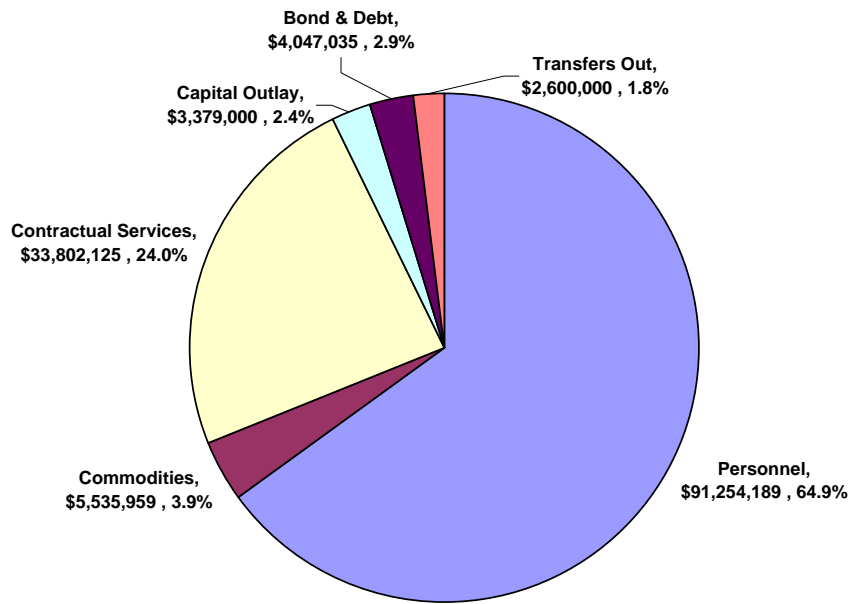
FY2006 County Government Appropriations by Object

The single largest object of appropriation for DuPage County government in FY2006 will be Personnel, which is expected to consume 36.8% of non-grant expenditures. Capital outlay will total \$146.3 million, or 30.3% of total appropriations. Contractual services are projected to be the third largest object of appropriation, consuming \$119.8 million or 24.8% of total appropriations.



The next exhibit shows FY2006 Corporate Fund appropriations by object. Personnel appropriations constitute the overwhelming majority of these appropriations, with 64.9% of the total or \$91.2 million.

DUPAGE CORPORATE FUND APPROPRIATIONS BY OBJECT FY2006 (Excluding Grants)



Appropriations for County Government & Health Department

The DuPage County Health Department has a separate governance structure, overseen by an 11-member Board of Directors appointed by the County Board Chair.⁹ The County Board of Commissioners appropriates for the Health Department Fund, while the County Board Chair has the power to veto or reduce line items in the Department's appropriation ordinance.¹⁰

The FY2006 budget proposes a \$1.8 million increase for the Health Department. This will raise the amount budgeted for the Department to approximately \$53.8 million, up from \$51.9 million in FY2005. Overall, the total DuPage County budget including the Health Department will rise by 1.9%. This is a \$10.1 million rise from \$526.5 million to \$536.6 million.

⁹ The DuPage County Health Department was established through a referendum vote in November of 1944 and began operations in the old courthouse in Wheaton in March of 1945. See www.dupagehealth.org.

¹⁰ See 55 ILCS 5/5-25010.

DUPAGE COUNTY APPROPRIATIONS WITH HEALTH DEPARTMENT: FY2005 & FY2006				
FUND	FY2005	FY2006	\$ CHG	% CHG
Corporate Fund	\$ 134,845,207	\$ 140,618,308	\$ 5,773,101	4.3%
Special Revenue Funds	\$ 217,712,483	\$ 255,395,780	\$ 37,683,297	17.3%
Capital Projects Fund	\$ 54,503,568	\$ 29,637,407	\$(24,866,161)	-45.6%
Debt Service Fund	\$ 13,398,696	\$ 2,074,000	\$(11,324,696)	-84.5%
Grants	\$ 54,094,966	\$ 55,111,971	\$ 1,017,005	1.9%
Subtotal County	\$ 474,554,920	\$ 482,837,466	\$ 8,282,546	1.7%
Health Department	\$ 51,980,487	\$ 53,800,000	\$ 1,819,513	3.5%
Grand Total	\$ 526,535,407	\$ 536,637,466	\$ 10,102,059	1.9%

Source: DuPage County FY2006 Financial Plan

FY2006 Health Department Appropriation is an estimate provide by the Finance Department

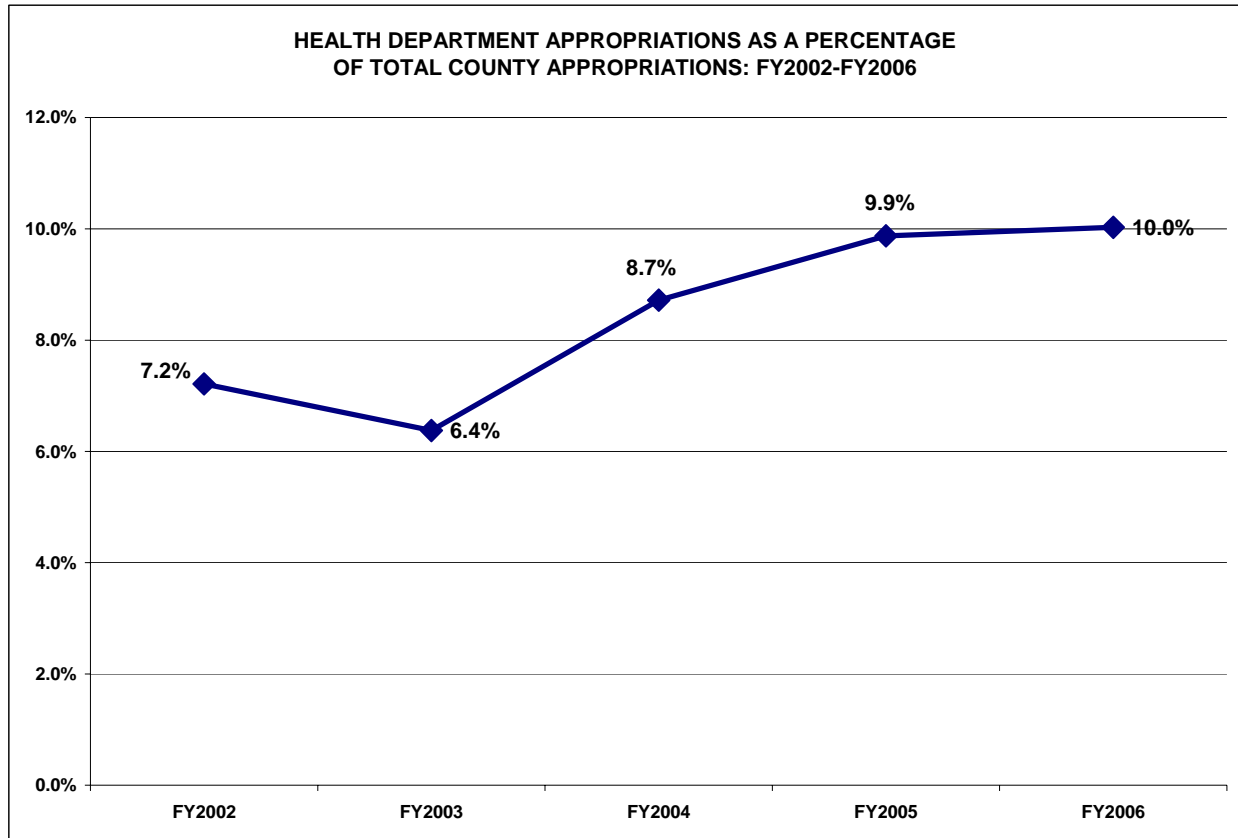
Over a 5-year period, DuPage County appropriations including appropriations for the Health Department are projected to have declined by 17.7%, falling from \$652.0 million to \$536.6 million. However, while appropriations for the County Government will have fallen by 20.2% during that time period, appropriations for the Health Department are projected to increase by 14.4%, from \$47.0 million to approximately \$53.8 million.

DUPAGE COUNTY APPROPRIATIONS WITH HEALTH DEPARTMENT: FY2002 & FY2006				
FUND	FY2002	FY2006	\$ CHG	% CHG
Corporate Fund	\$ 140,048,824	\$ 140,618,308	\$ 569,484	0.4%
Special Revenue Funds	\$ 200,011,445	\$ 255,395,780	\$ 55,384,335	27.7%
Capital Projects Fund	\$ 208,603,959	\$ 29,637,407	\$(178,966,552)	-85.8%
Debt Service Fund	\$ 5,676,753	\$ 2,074,000	\$ (3,602,753)	-63.5%
Grants	\$ 50,665,528	\$ 55,111,971	\$ 4,446,443	8.8%
Subtotal County	\$ 605,006,509	\$ 482,837,466	\$ (122,169,043)	-20.2%
Health Department	\$ 47,016,222	\$ 53,800,000	\$ 6,783,778	14.4%
Grand Total	\$ 652,022,731	\$ 536,637,466	\$ (115,385,265)	-17.7%

Source: DuPage County FY2006 Financial Plan

FY2006 Health Department Appropriation is an estimate provide by the Finance Department

The Health Department over time is consuming a greater percentage of all DuPage County appropriations, as the exhibit below demonstrates. In FY2002, the Department's appropriation represented 7.2% of all appropriations. Five years later, the percentage is projected to rise to 10.0%.



REVENUES

This section presents information about Corporate Fund revenues and the property tax levy. Because of budget format changes in FY2005, comparable information for all fund revenues could not be calculated.

Corporate Fund Revenues

Total Corporate Fund revenues are projected to increase by 4.3% in FY2006, increasing from \$134.8 million to \$140.6 million. Economically sensitive revenues are expected to increase because of the improving Illinois economy, while the County's property tax hike will generate \$2.2 million in increased property tax revenues.

Sales tax revenues are expected to grow at a 5.5% rate. Sales tax receipts include the portion of the State sales tax remitted to the County equaling 1% of the 6.25% rate and the Countywide sales tax of 0.25% levied on purchases of general merchandise made within the County. Fueled in large part by projected increases in corporate income tax revenues, income tax revenues are expected to register a double digit increase of 13.7%.

Fee revenues, derived from fees charged by the Recorder of Deeds, Circuit Clerk, the Sheriff, the County Clerk and the County Jail, are expected to decrease slightly, or by 0.8% in FY2006. This represents a \$257,500 reduction in revenue.

The intergovernmental revenue amount, which reflects a transfer from the DuPage Water Commission, will remain fixed at approximately \$15.2 million. State legislation approved in 2003 allowed DuPage County to receive an annual transfer of \$15 million per year through 2007 from the Commission.¹¹

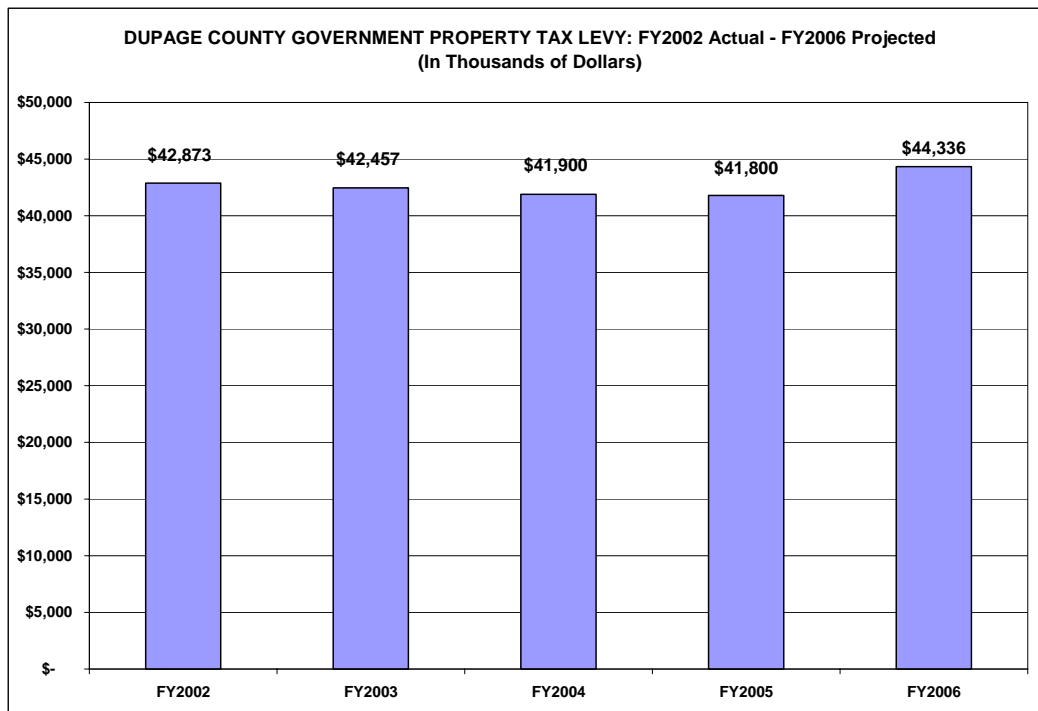
Other revenues, which include interest earned on investments and other revenues not classified elsewhere are expected to increase by 1.8%, or from \$18.4 million to \$18.7 million.

DUPAGE COUNTY CORPORATE FUND REVENUES: FY2005 & FY2006				
Revenue	FY2005	FY2006	\$ CHG	% CHG
Sales Taxes	\$ 39,900,000	\$ 42,113,500	\$ 2,213,500	5.5%
Property Tax	\$ 20,800,000	\$ 23,400,000	\$ 2,600,000	12.5%
Fee Offices/Elected Officials	\$ 33,639,520	\$ 33,382,020	\$ (257,500)	-0.8%
Income Tax	\$ 6,800,000	\$ 7,733,000	\$ 933,000	13.7%
Intergovernmental Revenues	\$ 15,250,000	\$ 15,210,000	\$ (40,000)	-0.3%
Other	\$ 18,455,687	\$ 18,779,788	\$ 324,101	1.8%
TOTAL	\$ 134,845,207	\$ 140,618,308	\$ 5,773,101	4.3%

Source: DuPage County FY2005 Financial Plan, p. 42 and FY2006 Financial Plan, p. 18.

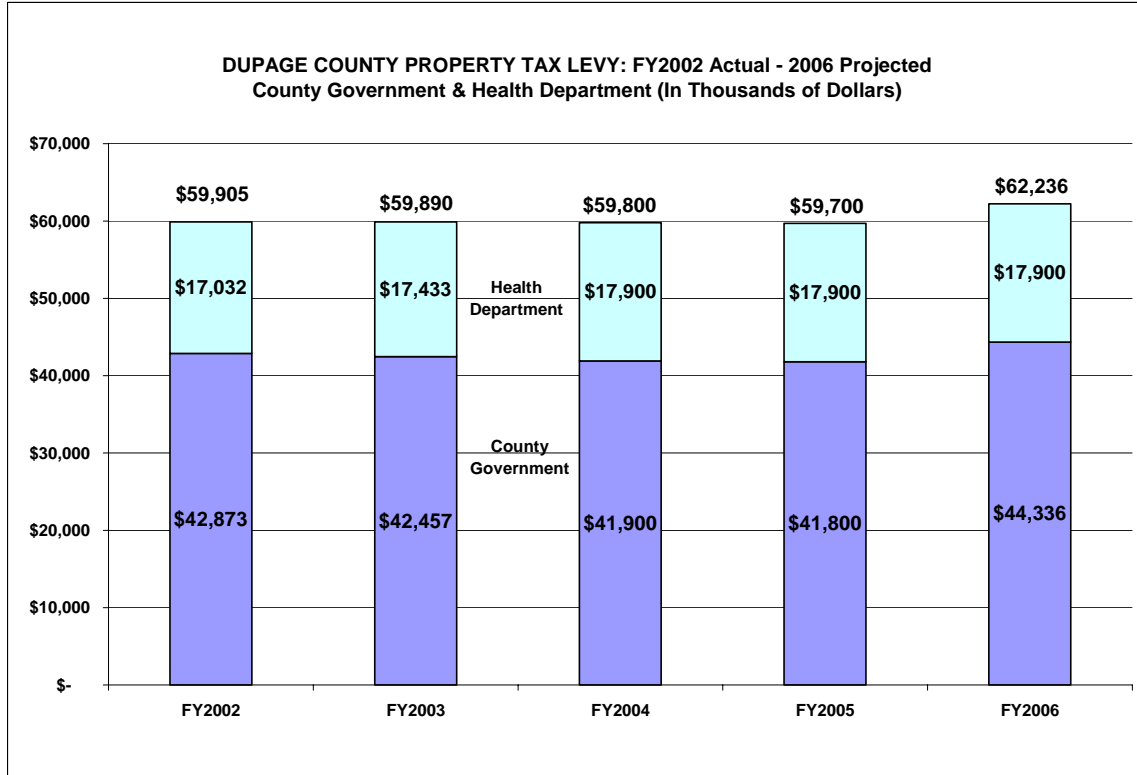
Property Tax Levy

The property tax levy for DuPage County Government excluding the Health Department levy is projected to rise by \$2.5 million to a total of \$44.3 million, the maximum amount allowed under the tax cap law. This is a 6.1% increase. Since FY2002, the levy has increased by 3.4% or \$1.4 million.

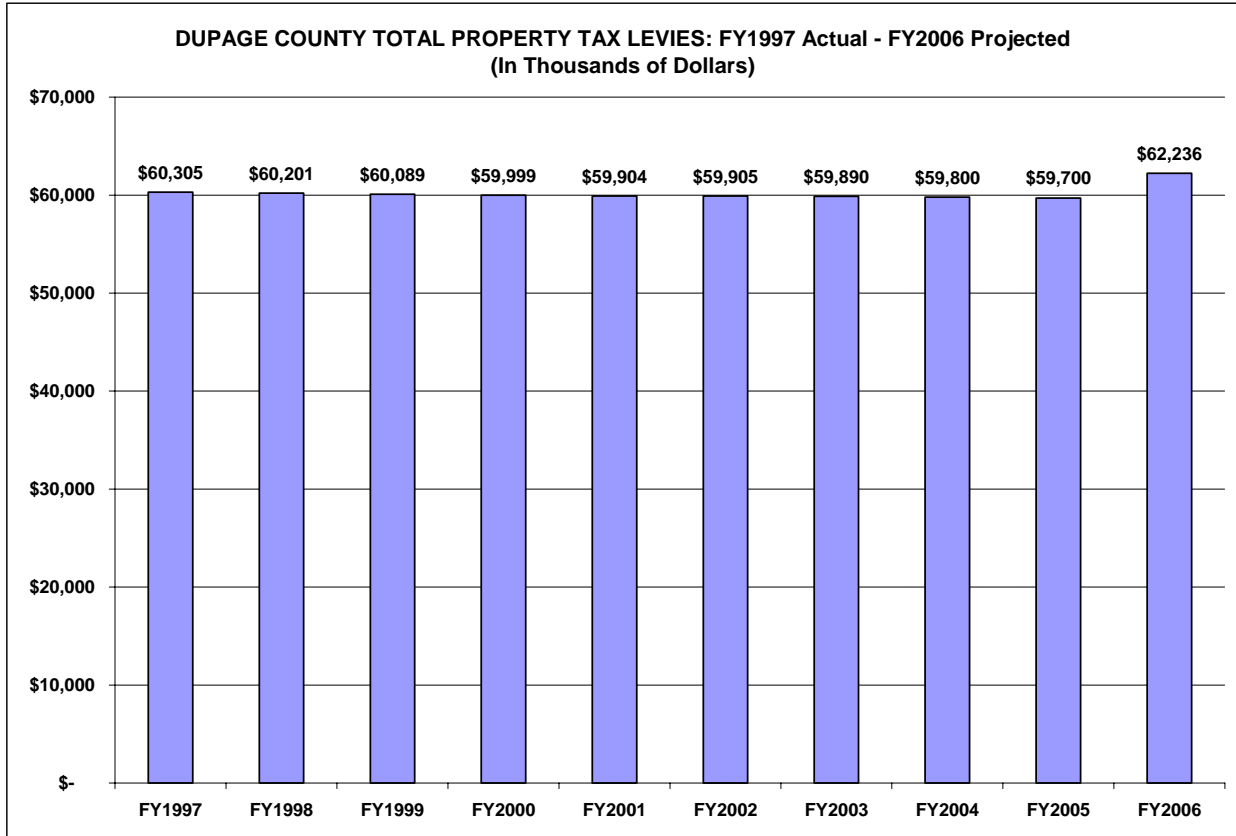


¹¹ DuPage County FY2005 Financial Plan, p. 2.

In FY2006, the total DuPage County levy, including the Health Department levy, is expected to increase by 4.2%, or a \$2.5 million increase from \$59.7 million to \$62.2 million. Between FY2002 and FY2006, the levy rose 3.9%, a \$2.3 million increase.

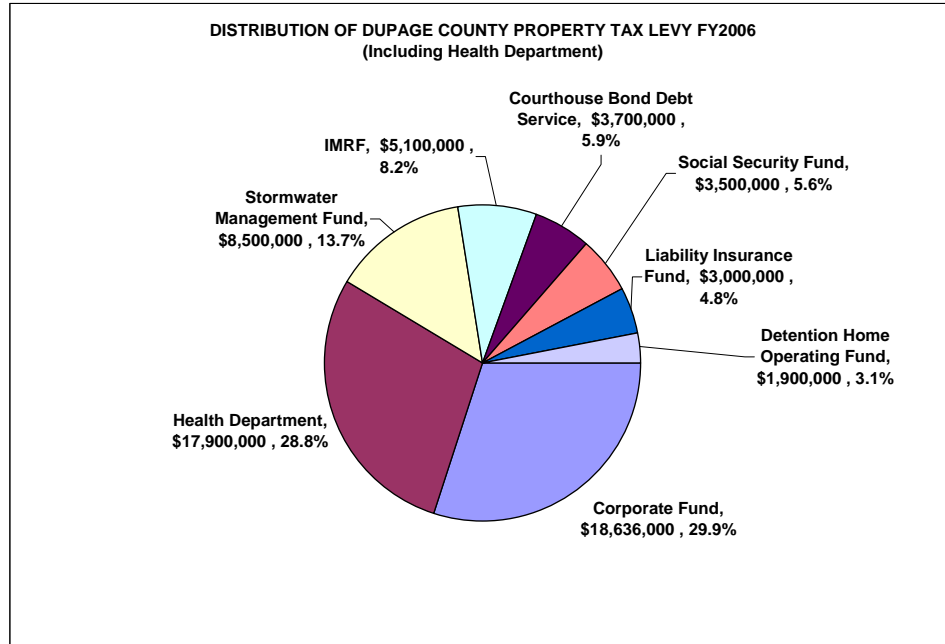


The next exhibit shows the total DuPage County levy (including the Health Department) over a 10-year period, from FY1997 to FY2006. During the 9 years between FY1997 and FY2005, the levy was essentially held constant, dropping slightly by 1.0% or from \$60.3 million to \$59.7 million.

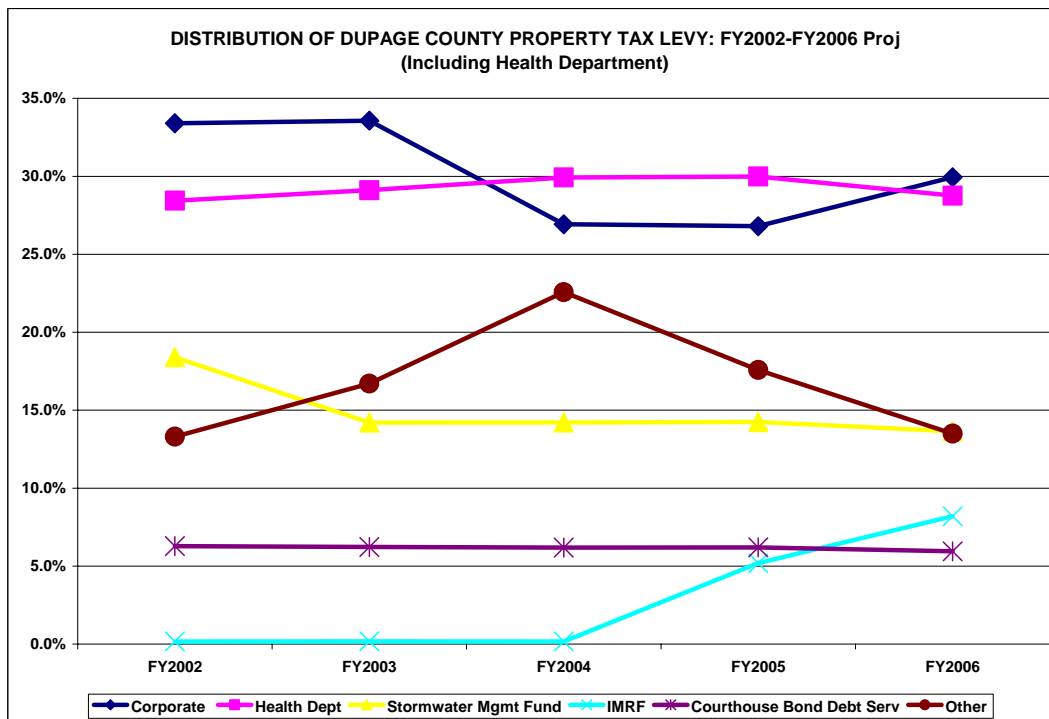


Distribution of the Property Tax Levy

The Corporate Fund will be the single largest recipient of property tax dollars in FY2006, receiving an estimated \$18.6 million or 29.9% of the total. The Health Department levy will be \$17.9 million, or 28.8% of the total levy. The next biggest share of the levy, or 13.7%, will be earmarked for the Stormwater Management Fund.



Between FY2002 and FY2006, the share of the levy earmarked for the Corporate Fund has declined from 33.4% to 29.9%. During the same time period, the IMRF (pension) levy has jumped from just 0.2% or \$100,000 to 8.2% of the total or \$5.1 million. Much of the increase in IMRF funding from the levy is due to a shifting of funding away from subsidies from other funds.



PERSONNEL

In FY2006, full-time headcount for DuPage County government excluding the Health Department will rise by 10 positions or from 2,465 to 2,475. Six new positions will be funded from the Corporate Fund and 6 from the Non-Corporate Funds. The number of grants-funded positions will decline by two to 141.

DUPAGE COUNTY FULL-TIME HEADCOUNT: FY2005-FY2006 Proj				
	FY2005	FY2006	CHG	% CHG
Corporate	1578	1584	6	0.4%
Non-Corporate	744	750	6	0.8%
Grants	143	141	-2	-1.4%
TOTAL	2465	2475	10	0.4%

Source: DuPage County FY2006 Financial Plan, p. 2.

Since FY2003, full-time headcount has declined by 6.6%, falling from 2,650 to 2,475. This is a decrease of 175 positions. Of that amount, 78 full-time positions have been cut from the Corporate Fund and 109 from the other funds. A total of 12 grant-funded full-time positions have been added during this 5-year period.

DUPAGE COUNTY FULL-TIME HEADCOUNT: FY2003-FY2006				
	Corporate	Non Corporate	Grants	Total
FY2003	1662	859	129	2650
FY2004	1652	786	138	2576
FY2005	1578	744	143	2465
FY2006	1584	750	141	2475
CHG	-78	-109	12	-175
% CHG	-4.7%	-12.7%	9.3%	-6.6%

Source: DuPage County FY2006 Financial Plan, p. 2.

In FY2006, personnel costs are projected to increase by 13.4%, or from the FY2005 appropriation of \$156.5 million to \$177.5 million in FY2006. Since FY2003, personnel costs have increased by 14.9%. This represents a \$22.9 million increase from the FY2003 appropriation of \$154.5 million.¹² The FY2006 budget proposes a 1.5% cost of living increase effective for the first payroll in December 2005 and a 2.5% performance-based merit increase beginning with the first payroll in June 2006.¹³

¹² DuPage County FY2003 Financial Plan, pp. 1-3-1.41 and *DuPage County FY2005 Financial Plan*, pp. 13-41.

¹³ *DuPage County FY2005 Financial Plan*, p. 4.

UNRESERVED, UNDESIGNATED GENERAL FUND BALANCE

Between FY2000 and FY2004, the amount of unreserved, undesignated fund balance in the DuPage County Corporate Fund increased from 16.2% to 27.1% of operating expenditures in that fund. In dollar amounts, the fund balance rose from \$20.1 million to \$31.6 million. In all five years examined, the ratio was well above the 5% to 15% minimum recommended by the Government Finance Officers Association for a healthy fund balance.

DUPAGE COUNTY UNRESERVED, UNDESIGNATED FUND BALANCE RATIO			
	Unreserved, Undesignated Fund Balance	Operating Expenditures	Ratio
FY2000	\$ 20,147,881	\$ 124,519,191	16.2%
FY2001	\$ 31,289,077	\$ 123,731,784	25.3%
FY2002	\$ 28,942,906	\$ 123,477,555	23.4%
FY2003	\$ 27,436,575	\$ 134,220,862	20.4%
FY2004	\$ 31,616,190	\$ 116,695,755	27.1%

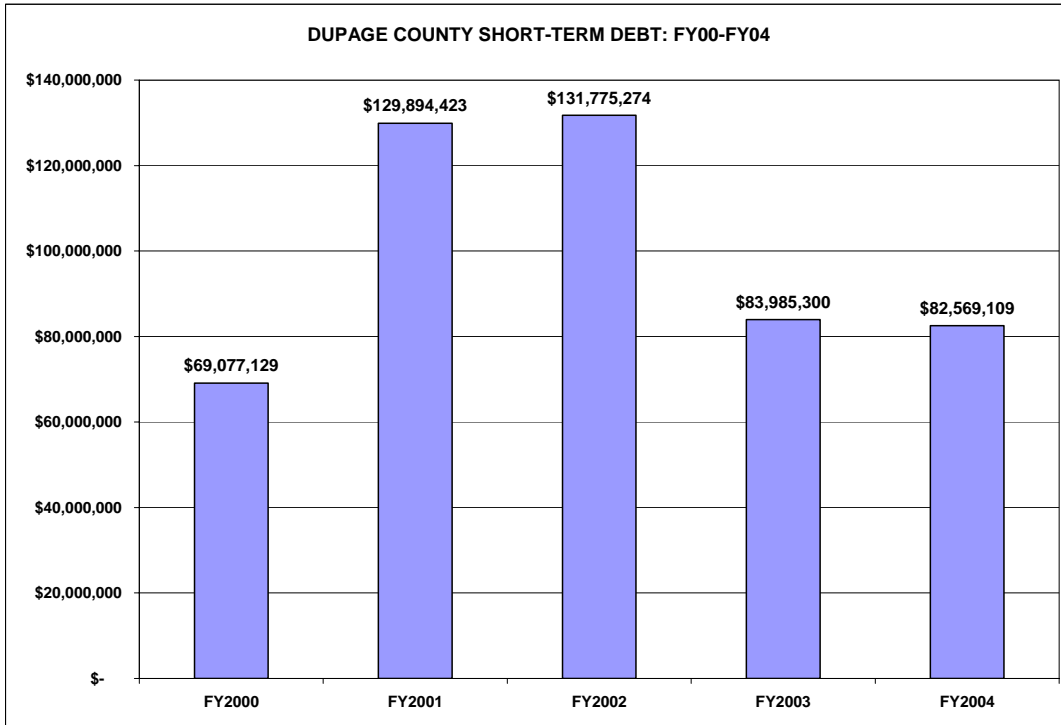
Source: DuPage County Comprehensive Annual Financial Reports

In FY2006, DuPage County proposes a \$27.3 million Corporate Fund beginning and ending cash balance. This is 19.4% of projected Corporate Fund appropriations of \$140.6 million.¹⁴

SHORT-TERM DEBT TRENDS

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. For purposes of this analysis, short-term debt in the Governmental Funds includes obligations such as accounts payable, claims payable, refundable deposits, amounts due to other governments, advances payable, liabilities payable and deferred revenue. The exhibit below presents DuPage County short-term debt trends for Fiscal Years 2000 through 2004. During that 5-year period, short-term debt obligations increased by 19.5% or by approximately \$13.5 million. However, short-term debt has fallen by 37.3% since FY2002 after big increases between FY2000 and FY2002. This represents a \$49.2 million drop from \$131.7 million to \$82.5 million. The decrease since FY2002 is a positive sign.

¹⁴ DuPage County FY2006 Financial Plan, p. 1.



LONG-TERM OBLIGATIONS

This section presents information about long-term debt trends of DuPage County. It includes information about long-term debt per capita, overlapping debt and bond ratings.

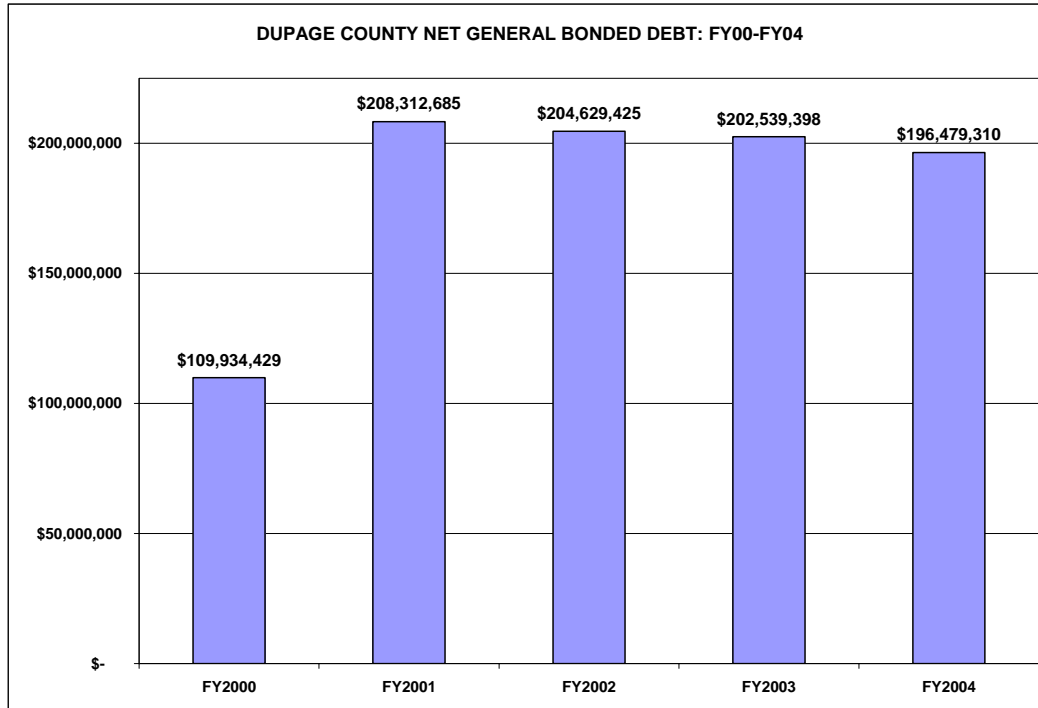
Long-Term Debt Trends

This section presents information about trends for net general bonded debt, debt per capita trends, overlapping debt and bond ratings.

Total Net General Bonded Debt: \$196.5 Million in FY2004

Between FY2000 and FY2004, the net general bonded burden of DuPage County increased by from \$109.9 million to \$196.5 million.¹⁵ This is an \$86.5 million, 78.7% increase. However, the net general bonded debt burden peaked in FY2001 and has since declined by 5.7% or \$11.8 million.

¹⁵ Net general bonded debt is gross general debt less debt service payments.



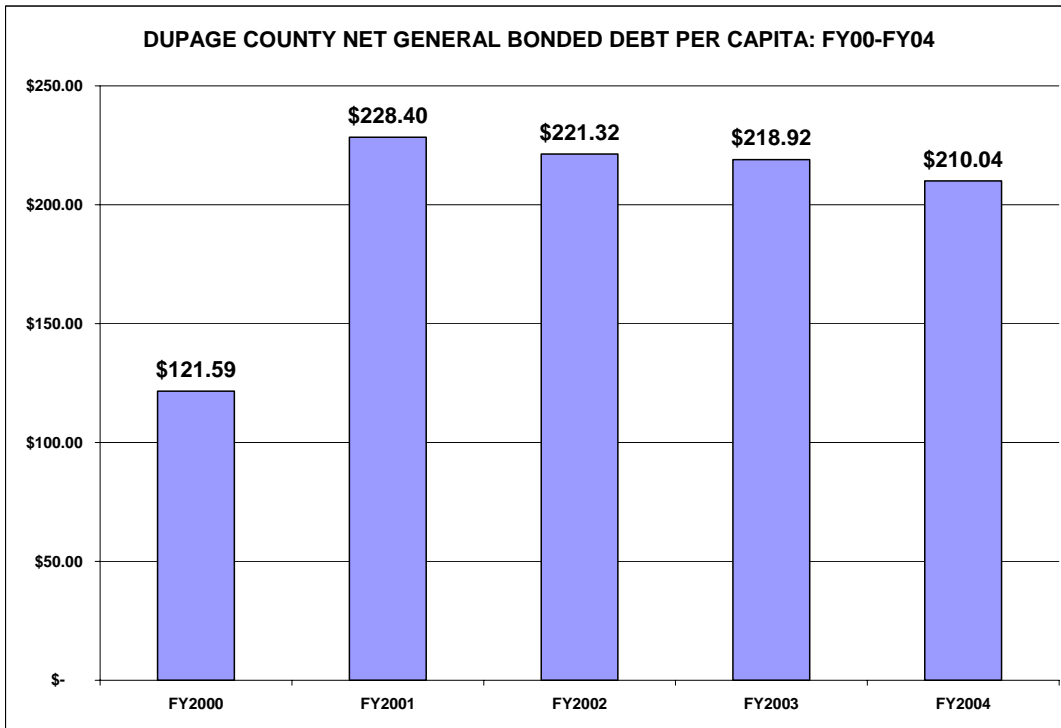
Net General Bonded Debt Per Capita

The next exhibit presents historic DuPage County net general bonded debt per capita figures. Steady increases in long-term debt bear watching as a potential sign of increasing financial risk. Debt per capita is a measure of a government's ability to maintain its current financial policies. This analysis takes DuPage County's total net general bonded debt amount per year and divides it by population. It excludes other long-term obligations such as accrued pension obligations, accrued sick pay benefits, tort liabilities and accrued workers' compensation claims. In DuPage County, long-term debt includes the following issues:

- Series 1993 Jail Expansion Project Bonds – Alternate Revenue Bonds;
- Series 1993 Stormwater Project Bonds – Alternate Revenue Bonds;
- Series 2001 Drainage Project Alternate Revenue Bonds;
- Series 2001 Courthouse Annex General Obligation Limited Tax Bonds;
- Series 2001 Stormwater Project - Alternate Revenue Bonds;
- Series 2002 Jail Project – Alternate Revenue Refunding Bonds;
- Series 2002 Refinancing Stormwater Bonds – Alternate Revenue Refunding Bonds;
- Special Service Area Bonds.¹⁶

DuPage County net general bonded debt per capita increased by 72.7% between FY2000 and FY2004, from \$121.59 to \$210.44. Between FY2000 and FY2001, debt per capita rose sharply, by 87.8%, or from \$121.59 to \$228.40. However, since FY2001, debt per capita has declined, falling by 8.0%.

¹⁶ FY2004 DuPage County Comprehensive Annual Financial Report, p. 291.



DuPage Long-Term Debt Compared to Overlapping Debt

The following two exhibits compare total long-term debt issued by the various local governments in DuPage County with debt issued by DuPage County government. Rating agencies and other financial analysts commonly monitor overlapping debt trends as an affordability or capacity indicator when governments consider debt issuance.

DuPage County government issued approximately 2.3% of the \$9.3 billion long-term debt issued by the various governments with boundaries wholly or partially within the County in FY2004. Municipalities issued the largest share of all long-term debt, or \$6.1 billion, which represented 65.3% of all local debt. Unit school districts were responsible for the next largest amount of the overlapping debt, or 12.1% of the total.

DUPAGE COUNTY OVERLAPPING DEBT FY2004			
	Total Debt Outstanding	% Applicable to DuPage County	% of Total Debt
Government			
DuPage County*	\$ 204,155,000	100.00%	2.27%
Subtotal County	\$ 204,155,000		
Cities & Villages	\$ 6,123,829,812	9.89%	65.36%
Unit Schools	\$ 1,131,825,788	53.82%	12.08%
Parks	\$ 799,347,746	24.40%	8.53%
Grade Schools	\$ 384,934,425	92.52%	4.11%
High Schools	\$ 229,708,243	98.67%	2.45%
Forest Preserve District	\$ 194,996,835	100.00%	2.08%
Community Colleges	\$ 135,570,956	5.47%	1.45%
Water Commission	\$ 94,950,000	98.41%	1.01%
Library	\$ 24,995,000	57.29%	0.27%
Fire Protection	\$ 20,900,000	87.25%	0.22%
Airport	\$ 17,900,000	93.57%	0.19%
Special Service	\$ 5,485,525	100.00%	0.06%
Townships	\$ 495,000	100.00%	0.01%
Subtotal Overlapping	\$ 9,164,939,330		97.82%
GRAND TOTAL	\$ 9,369,094,330		100.00%

* Includes City of Chicago for which a portion overlaps into DuPage County

Source: FY2004 DuPage County Comprehensive Annual Financial Report, p. 294.

The rate of growth for the various overlapping governments was 76.0% during the 5-year period between FY2000 and FY2004. This was higher than the 65.2% rate of growth reported by DuPage County government.

DuPage County Government vs. Overlapping Governments' Debt FY2000 to FY2004			
	DuPage County Government	Overlapping Governments	Total
FY2000	\$ 123,550,000	\$ 5,206,874,911	\$ 5,330,424,911
FY2001	\$ 227,140,000	\$ 5,206,874,911	\$ 5,434,014,911
FY2002	\$ 223,590,000	\$ 8,648,748,010	\$ 8,872,338,010
FY2003	\$ 217,806,000	\$ 8,788,858,487	\$ 9,006,664,487
FY2004	\$ 204,155,000	\$ 9,164,939,330	\$ 9,369,094,330
\$ Change	\$ 80,605,000	\$ 3,958,064,419	\$ 4,038,669,419
% Change	65.2%	76.0%	75.8%

Source: DuPage County Comprehensive Annual Financial Reports

Current DuPage County Bond Ratings

DuPage County has a bond rating of AAA from the Moody's, Standard & Poor's and Fitch rating agencies. That rating was most recently reaffirmed in the rating agencies' rating of the County's FY2005 bond activities.¹⁷

¹⁷ DuPage County FY2006 Financial Plan, p. 185.

PENSION FUNDING

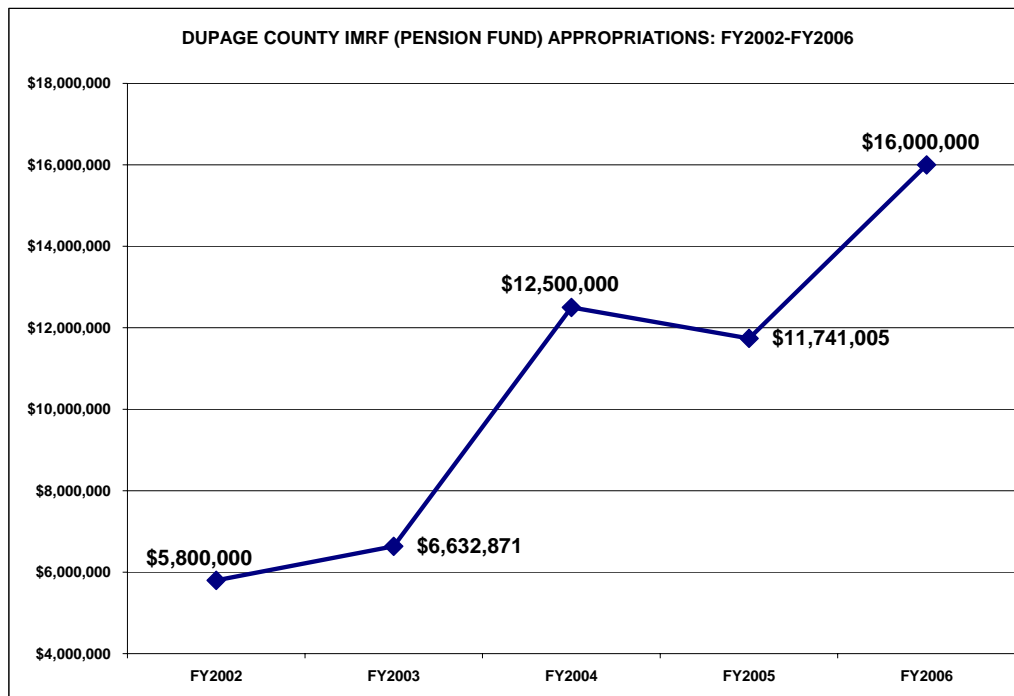
DuPage County employees are enrolled in the Illinois Municipal Retirement Fund (IMRF) in a defined benefit pension plan. In 2004, there were 3,537 active DuPage County members in the IMRF.¹⁸

Three different groups of DuPage County employees are covered in the IMRF: Regular Employees, Elected County Officials and Sheriff's Law Enforcement Personnel. The exhibit below shows employer and employee contribution rates for the three different groups.

Pension Contribution Rates for DuPage County Employees		
	Employee Contribution	Employer 2004 Contribution Rate
Regular County Employees	4.5% of covered salary	9.23% of covered payroll
Elected County Officials	7.5% of covered salary	43.43% of covered payroll
Sheriff's Law Enforcement Personnel	6.5% of covered salary	17.62% of covered payroll

Source: Illinois Municipal Retirement Fund, GASB 27 Footnote Disclosures.

DuPage County government original appropriations for the County's share of contributions to the IMRF are shown below. Since FY2002, appropriations have increased by 175.9%, or from \$5.8 million to \$16.0 million. Between FY2005 and FY2006 alone, they are projected to rise by 36.3%.



¹⁸ Illinois Municipal Retirement Fund FY2004 Comprehensive Annual Financial Report, p. 76.

The Civic Federation used two measures to present a multi-year evaluation of the fiscal health of the DuPage County portion of the Illinois Municipal Retirement pension fund: funded ratios and the value of unfunded liabilities.

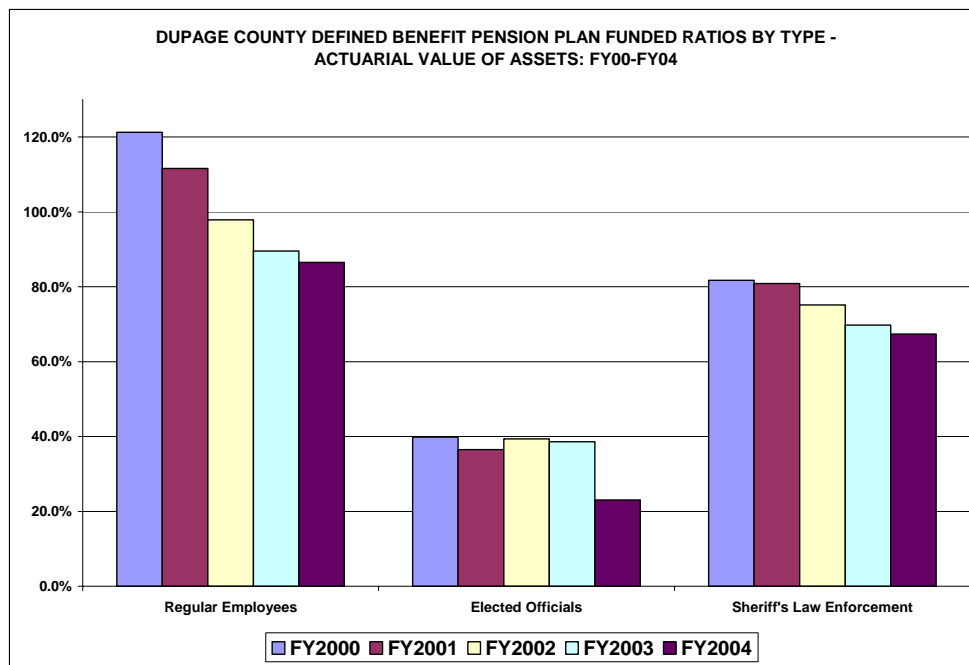
Funded Ratios– Actuarial Value of Assets

The following exhibit shows funded ratios for each of the three employee groups. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations.

The funded ratios of all three DuPage employee pension groups dropped in FY2004:

- The Elected County Officials group funded ratio dropped from 38.6% to only 23.0%;
- The Sheriff’s Law Enforcement Personnel group funded ratio fell from 69.7% to 67.3%;
- The Regular Employees group, which is proportionately the largest of the three, experienced a declined in funded ratio from 89.5% to 86.5%.

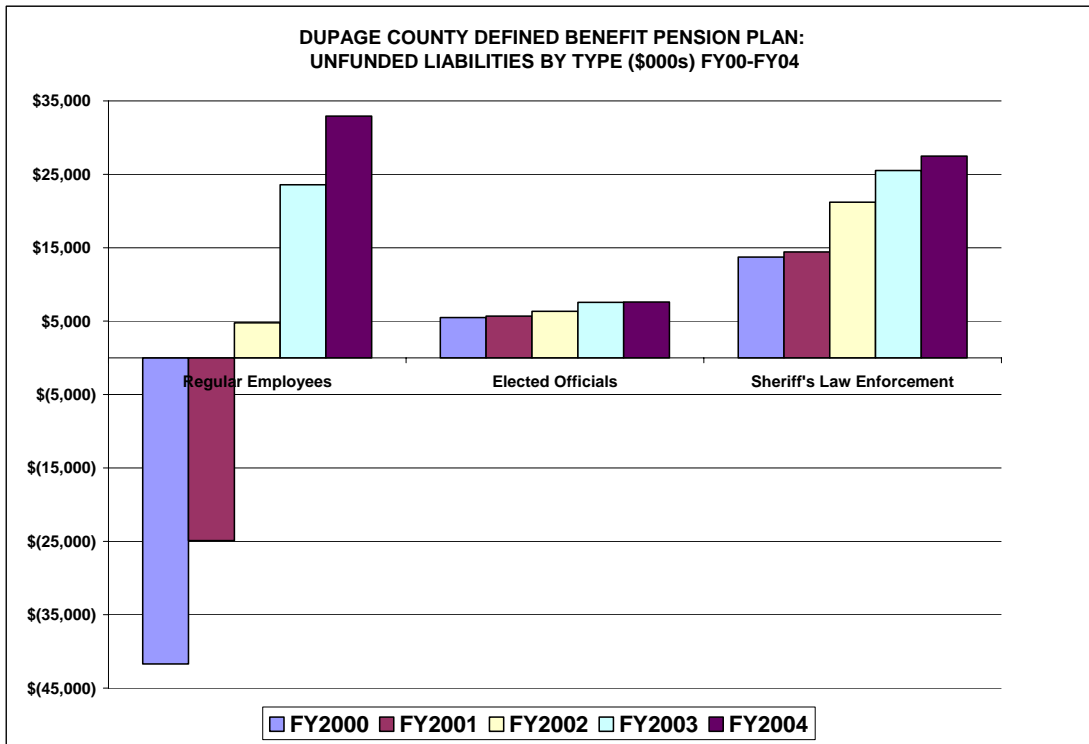
Although its funded ratio has fallen dramatically from 121.2% in FY2000, the Regular Employees group is funded at an amount that would permit it to meet obligations. However, continued declines in the funded ratios of the other two groups are a cause for concern and bear watching.



Unfunded Pension Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities have risen sharply for all three DuPage County employee groups. The increases are the result of investment losses and increasing costs. The

Regular Employees group changed from a \$41.7 million surplus in assets in FY2000 to \$32.9 million in unfunded liabilities five years later. Unfunded liabilities for the Elected Officials group increased by 38.5% between FY2000 and FY2004, or from \$5.5 million to \$7.6 million. Finally, the Sheriff's Law Enforcement group reported an increase in unfunded liabilities of 100.4%. This represented an increase from \$13.7 million to \$27.5 million.



CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation offers the following recommendations regarding ways to improve DuPage County's financial management processes.

Improve Transparency of Budget Documents

In the interest of public information and transparency, the DuPage County budget should contain an executive summary offering complete and comprehensive information on all revenues and spending. The current format, which is organized according to individual funds, fails to convey a complete and accurate picture of the County's actual fiscal position. The Civic Federation urges DuPage County consider organizing the Budget Book by department or program area and to include in it the following features:

- A transmittal letter from the County Board Chairman outlining his priorities;
- An organizational chart of County government;
- A concise Executive Summary offering complete and comprehensive information on all revenues and all spending. The Executive Summary should include:
 - A brief narrative discussion of new issues, programs and initiatives;

- A “walk-up” that describes the sources of the current fiscal year budget deficit;
- A “walk down” that clearly identifies the steps taken to eliminate the budget deficit;
- 3-5 years of summary financial information for all funds, including:
 - Appropriations and Expenditures for each Department and each of the Fund groups;
 - Revenues by Fund;
 - Five years of comparable personnel information that shows Positions by Fund and by Department.

Develop and Implement Performance Measurement System

The FY2006 DuPage County Financial Plan document includes for each agency or fund a mission statement, a list of accomplishments from the prior fiscal year, short-term goals and long-term goals. Thus, there is some information presented regarding the activities, services and functions carried out by organizational units. However, the budget does not include a mechanism to evaluate program performance with quantitative or qualitative performance measures. Given the current administration’s long-term focus on improving management efficiency, the Civic Federation believes that instituting a performance measurement program would be a useful tool in helping DuPage County to monitor, measure and evaluate departmental and program performance over time.

We agree with the International City Management Association (ICMA), the Government Finance Officers Association and the National Advisory Council on State and Local Budgeting (NACSLB) that all governments should evaluate the performance of programs and services they provide. This is the best means available to determine if they are accomplishing intended program goals and making efficient use of resources. Evaluating and reporting on program results helps keep policymakers and taxpayers alike informed about actual results compared to expectations.¹⁹

The Civic Federation is keenly aware that producing reams of measures (particularly workload measures) that are not linked to goals or objectives, utilized to inform management decisions, or developed without the buy-in of management and staff can be costly and have limited efficacy. However, using a few well-chosen measures, particularly those measuring efficiency and effectiveness that are produced consistently and developed with the involvement of staff can be a valuable tool in assisting DuPage County to improve its management and operations.

Adopt Formal Financial Policies

The Civic Federation recommends that DuPage County adopt written financial policies to guide the development of its annual budget. Formal or written financial policies are plans that guide and determine a government's present and future financial operations decision-making. More specifically, their function is to:

¹⁹ See Recommended Practice 11.1 “Monitor, Measure, and Evaluate Program Performance,” in National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998).

- Identify a course of approved actions and detail prohibited activities;
- Establish operating parameters for elected and appointed officials as well as budget and finance staff; and
- Provide the means to set goals and targets for financial operations to permit the ongoing monitoring and evaluation of a government's financial condition and performance.²⁰

The most significant benefit of financial policies is that they provide policymakers and financial managers with a long-range, comprehensive perspective. They enable them to craft acceptable policy options given resource and other environmental limitations. The process of developing a particular policy focuses elected officials and the financial management team on a jurisdiction's total financial condition, not just single or ad hoc issues. Because they take a long-term perspective, financial policies help prepare for contingencies and avoid reliance on short-term, stopgap measures.²¹ Both the NACSLB and the GFOA recommend that all jurisdictions adopt formal written financial policies.²²

²⁰ W. Maureen Godsey, "Establishing Financial Policies: What, Why and How," in John Matzer, Jr, editor. *Practical Financial Management: New Techniques for Local Government* (Washington, D.C.: ICMA 1984), p. 27.

²¹ Godsey, pp. 28-29.

²² See Recommended Practices 4.1 – 4.7 in National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998) and "Adopting Financial Policies," Recommended Practice, Committee on Governmental Budgeting and Management (2001).