

STATEMENT MADE AT THE PUBLIC HEARING ON THE PROPOSED FY2003 COOK COUNTY BUDGET, NOVEMBER 8, 2002

The Civic Federation would like to thank President Stroger, Finance Chairman Daley, and the members of the Board of Commissioners for this opportunity to comment on the proposed FY2003 Cook County budget. We would also like to cite the County's financial management team for their efforts in preparing this budget.

As a government tax and fiscal research organization, the Civic Federation has closely monitored and commented on the fiscal health of local area governments since 1894 and greatly appreciates the cooperation we have received from the County budget and finance office staff.

OVERVIEW OF TESTIMONY

The Civic Federation recently concluded an analysis of financial issues related to Cook County's proposed FY2003 budget. Based upon that review, we would like to offer the following comments. The full text of our analysis follows this summary and is also available on our Web site at www.civicrofederation.org. The analysis includes sections on FY2003 Budget Highlights, Financial Issues and Trends, Budget Management and Process Improvements and Civic Federation Concerns and Recommendations.

As a business supported organization, the Civic Federation commends President Stroger for proposing a \$2.9 billion budget that is balanced with no broad based tax increases and, in fact, continues a trend toward reducing reliance on property taxes. In our view, the County has taken a fair and balanced approach in preparing this budget. That includes reducing headcount by 357 positions from a total of 27,007 last year to 26,650 and up to \$3.8 million in savings from implementing recommendations of the County Operations Review Team (CORT) report.

The Federation also commends President Stroger and Chief Financial Officer Tom Glaser on the County's bond upgrade this year. Obtaining an upgrade in the midst of a recession is a notable achievement and a testament to the implementation of sound financial management strategies by the County.

In addition, the Civic Federation would also like to applaud Assessor Jim Houlihan and Finance Committee Chairman John Daley for their leadership on the successful reduction of assessment levels on multifamily properties from 33% of market value to 26% by tax year 2004. The Civic Federation strongly supported this effort as an effective means to stimulate sorely needed development of multifamily housing in the County.

One other area of cooperation the Civic Federation like to mention is the great cooperation we have received from the County's finance and purchasing staff in the area of joint purchasing with other local governments including the City of Chicago. This effort has most immediately focused on the combined purchase of employee prescription drugs and is poised to move forward on an agreement for the joint purchasing of health insurance. A recent Civic Federation study found that forming such an agreement consisting of the employees of the City of Chicago, Cook County, Chicago Park District, Chicago Transit Authority, the City Colleges of Chicago, the Chicago Public Schools and the Chicago Housing Authority could yield projected taxpayer savings of \$40.1 million. Cook County government could directly save as much as \$22.5 million of this amount.

Finally, the Civic Federation again urges the County to consider streamlining its procurement process to increase the efficiency and effectiveness of County operations. Our 2001 study of Cook County operations found that the County's purchasing and procurement process is both complicated and burdensome. We urge the County Board of Commissioners to consider reforms such as increasing the County's threshold requirement for bids for small order transactions for departments from \$250 to a figure closer to the national state and county average of \$3,287.

FY2003 BUDGET HIGHLIGHTS

Cook County's \$2.87 billion FY2003 budget freezes the property tax levy at its FY2002 level of \$720 million and contains no other tax increases. The FY2003 budget includes a number of cost saving measures including:

- The elimination of 357 positions. Most of the positions eliminated are from offices under the President, although some reductions were also made in the Offices of the Treasurer and the Recorder of Deeds.
- Offering early retirement to 3,600 eligible County employees is projected to save up to \$7 million.
- \$3 million in savings from refunds and credits is projected due to utility audits.
- \$500,000 in savings is anticipated from locking in natural gas costs.
- Up to \$300,000 in savings is projected from the consolidation of birth and death certificate issuance under the County Clerk's Office.

The County also anticipates substantial fee revenue increases of \$6.3 million in court fees due to increases in fee schedules and an additional \$78 million in patient fees at Cook County Hospital.

FINANCIAL ISSUES AND TRENDS

This section provides summaries of key expenditure and revenue issues and trends likely to impact the County's financial situation in FY2003.

All Fund Appropriations: 5%, \$125 Million Increase from FY2002

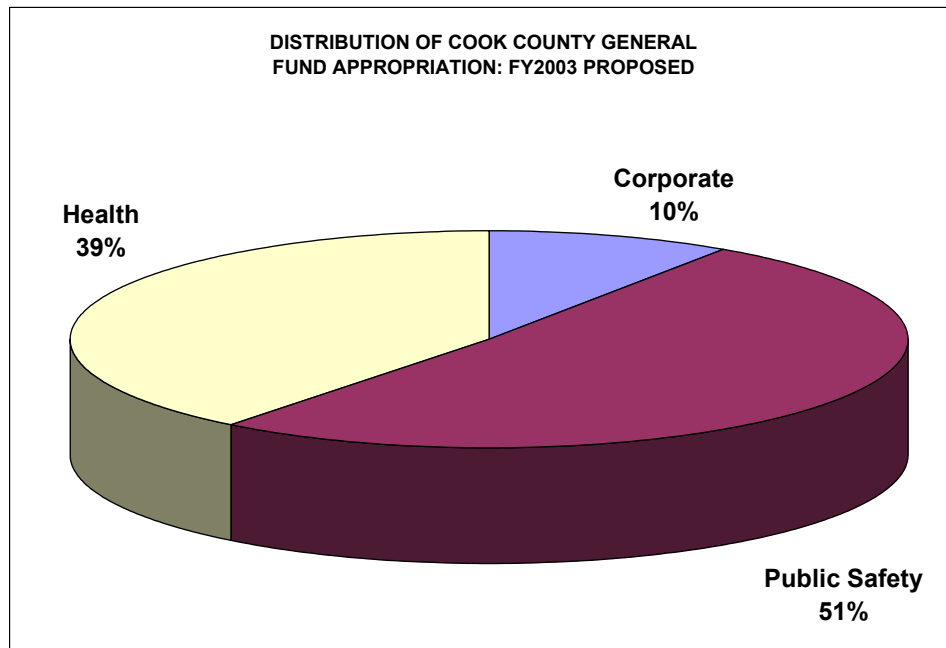
The FY2003 budget proposes an appropriation (all funds) of \$2.87 billion. This a \$125 million or 5% increase from the FY2002 appropriation. Between FY1999 and FY2003, appropriations

are projected to increase by 18%. The largest increases in that 5-year period came in the Public Safety and Health Funds, each of which reported 20% increases.

COOK COUNTY APPROPRIATIONS			
ALL FUNDS: FY99 & FY03			
	FY1999	FY2003	% Change
Corporate	\$ 159,415,899	\$ 188,334,591	18%
Public Safety	\$ 844,252,516	\$ 1,011,967,533	20%
Health	\$ 650,061,023	\$ 781,462,938	20%
Special Purposes	\$ 530,493,917	\$ 621,451,314	17%
Capital Improvements	\$ 249,786,594	\$ 266,749,560	7%
TOTAL	\$ 2,434,009,949	\$ 2,869,965,936	18%

Source: Cook County FY1999 and FY2003 Budgets

The next exhibit presents the distribution of General Fund appropriations by fund in the proposed FY2003 budget. The Public Safety Fund will consume 51% of all appropriations, the Health Fund approximately 39% and the Corporate Fund the remaining 10%. These percentages remain unchanged from FY2002.

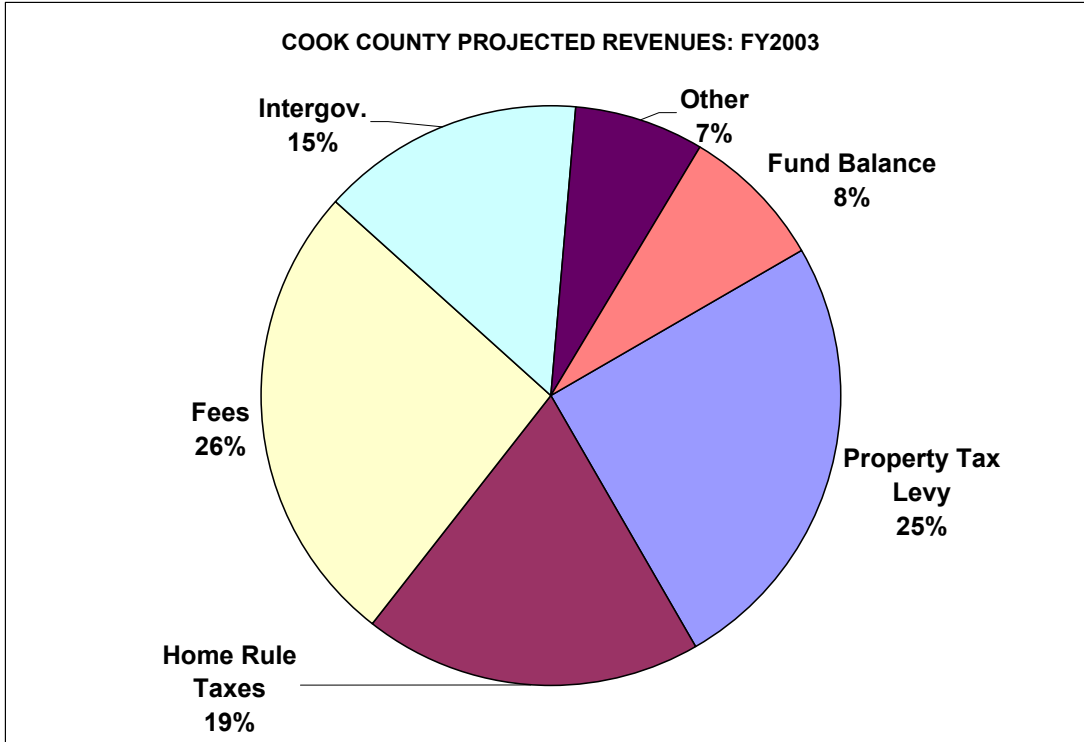


The next exhibit provides a 5-year summary of General Fund appropriations by control officer. Appropriations for offices under the control of the President, which includes the Bureau of Health and Cook County Hospital, rose by 18% between FY1999 and FY2003. In that same time period, appropriations for the offices under the County's numerous elected officials rose by 23%.

COOK COUNTY GENERAL FUND APPROPRIATIONS BY CONTROL OFFICER: FY1999 & FY2003			
Office	FY1999	FY2003	
Bureau of Public Safety	\$ 75,850,630	\$ 92,120,196	21%
Bureau of Health	\$ 683,225,682	\$ 823,316,318	21%
Other Offices Under the President	\$ 177,318,188	\$ 186,043,713	5%
Subtotal Offices Under the President	\$ 936,394,500	\$ 1,101,480,227	18%
Board of Commissioners	\$ 6,605,503	\$ 8,331,664	26%
Assessor	\$ 24,486,793	\$ 30,575,468	25%
Board of Review	\$ 7,578,876	\$ 8,544,899	13%
Treasurer	\$ 11,491,108	\$ 13,816,257	20%
Recorder of Deeds	\$ 10,176,880	\$ 12,626,631	24%
State's Attorney	\$ 88,895,908	\$ 105,508,026	19%
Clerk	\$ 11,034,974	\$ 13,681,407	24%
Sheriff	\$ 326,846,009	\$ 405,081,538	24%
Chief Judge	\$ 155,674,954	\$ 182,709,895	17%
Circuit Clerk	\$ 73,305,623	\$ 97,933,756	34%
Other Elected Officials	\$ 1,238,321	\$ 1,475,294	19%
Subtotal Elected Officials	\$ 717,334,949	\$ 880,284,835	23%
GRAND TOTAL	\$ 1,653,729,449	\$ 1,981,765,062	40%

Revenue Sources and Trends

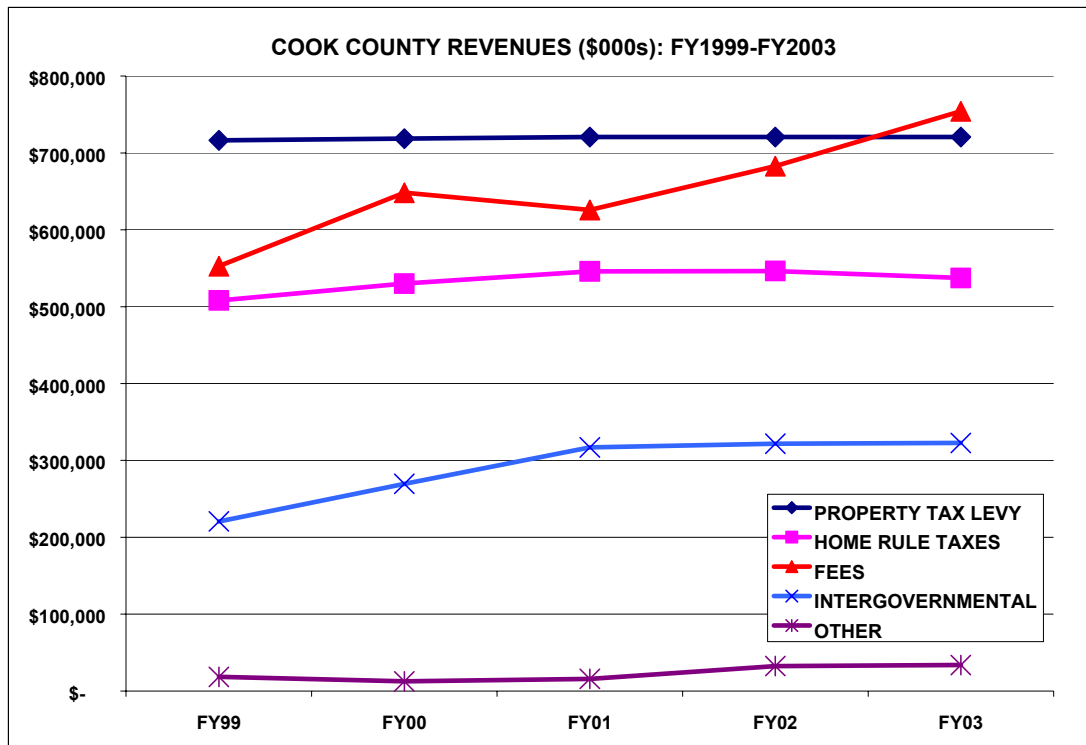
Cook County revenues derive from four major sources: property taxes, fees, home rule taxes, intergovernmental revenues and home rule taxes. Home rule taxes include sales, alcoholic beverage, cigarette, parking lot, amusement, gas, wheel, and retail sale of motor vehicle taxes. Fees are projected to be the single largest source of revenue in FY2003 at \$754 million or 26% of total revenues. The second largest revenue source is the property tax levy (25% of the total) followed by home rule taxes at \$537 million or 19% of total revenues.



Cook County revenues are projected to rise by 2.8% in FY2003 from the previous year. The County is projecting a 10% or \$71 million increase in fees. This increase is largely due to an infusion of federal Medicaid funds. Home rule taxes are projected to decline by almost 2%, from \$546 million to \$537 million. Intergovernmental revenues will increase slightly, by 0.4%. Sales tax and income tax receipts, which are included in this category, are expected to be almost the same as in FY2002, while revenues from the personal property replacement tax (PPRT) are expected to decline by over \$1 million.

COOK COUNTY REVENUES: FY2002 & FY2003			
	FY02	FY03	% Change
PROPERTY TAX LEVY	\$ 720,483	\$ 720,483	0.0%
HOME RULE TAXES	\$ 546,400	\$ 537,300	-1.7%
FEES	\$ 682,764	\$ 754,086	10.4%
INTERGOVERNMENTAL	\$ 321,645	\$ 322,771	0.4%
OTHER	\$ 32,644	\$ 33,722	3.3%
TOTAL	\$ 2,303,936	\$ 2,368,362	2.8%

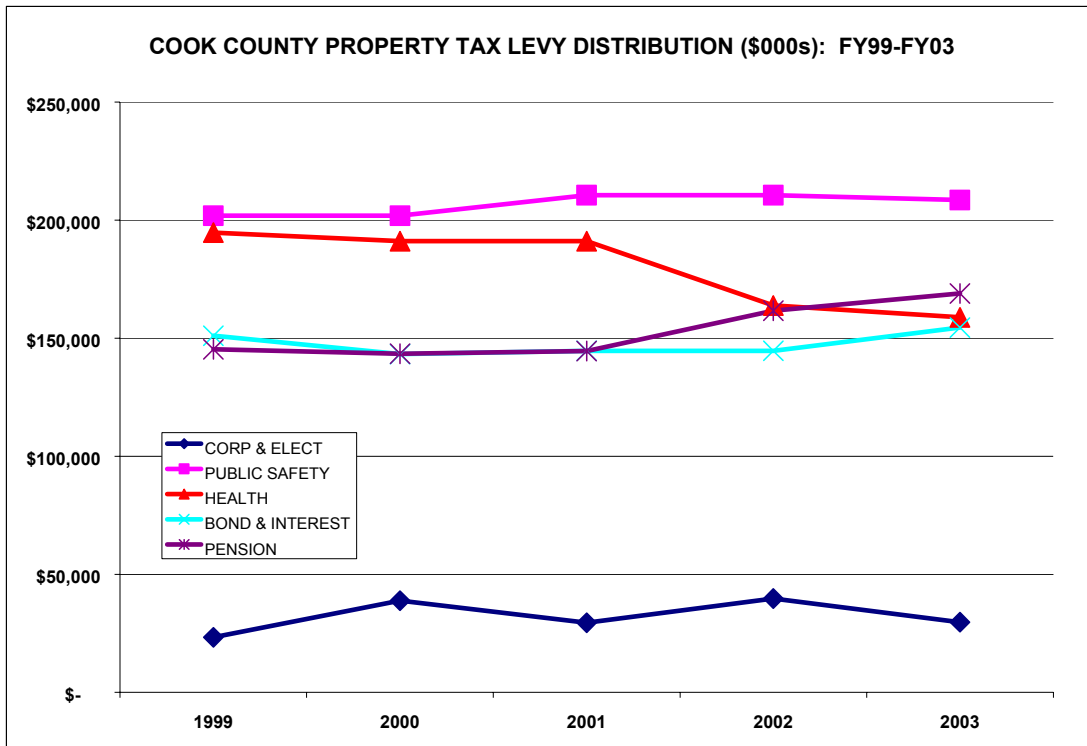
As the following exhibit shows, fees will replace property taxes as the number one revenue source for Cook County revenues by 2003. In 1999, property taxes were 36% of all revenues. Five years later, they percentage had dropped to 30%. Fees rose from 27% of all revenues to 32% during the same time period.



Property Tax Levy: Levy Held Constant For 2nd Year at \$720 Million

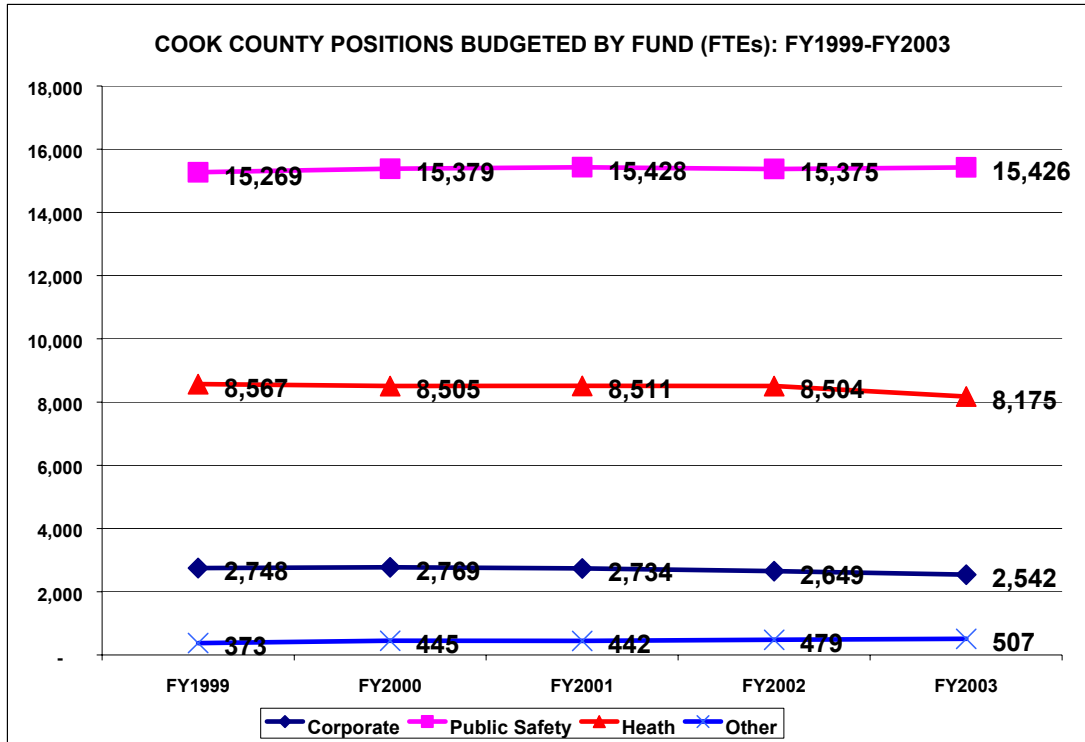
The Cook County property tax levy will be held constant in FY2003, at \$720.4 million. Since FY1999, the levy has risen by 0.6%, from \$716 million. The levy is the County’s single largest revenue source.

Property tax revenues are distributed to six major funds: Corporate, Elections, Public Safety, Health, Bond and Interest, and Pensions Annuity and Benefit Fund. The exhibit below shows how distribution of the levy has changed from FY1999 to FY2003. Because the Corporate and Election Funds receive such a small portion of property tax revenues, approximately 4% of the projected total in FY2003, they have been combined into a single category. The Public Safety Fund will consume the largest single portion of the levy - \$208 million or 29% of the total. This is a slight decrease of \$2.1 million from FY2002. The pension fund’s share of the levy has risen from 20% of the total in FY1999 to 23% five years later. Property tax revenues earmarked for the Health Fund are projected to decline by approximately \$36 million or 18% during the 5-year period analyzed.



Personnel Trends: Full Time Equivalents Down by 357 Positions in FY2003

The next exhibit shows the number of full time equivalent (FTE) positions budgeted over the past five years. The number of FTEs for FY2003 is projected to decline by 357 positions, or 1%, from FY2002. FTEs have declined by 307 positions since FY1999, from 26,957 to 26,650. In FY2002, 58% of all FTES were budgeted to the Public Safety Fund, which includes the Offices of Sheriff, Clerk of the Circuit Court, Chief Judge and State’s Attorney. 31% of all FTEs were located in the Health Fund, 10% in the Corporate Fund and the remaining 2% in “other” which includes certain special revenue funds and the Election Fund. Over the 5-year period, the number of Corporate Fund FTEs has declined by 7%, from 2748 to 2542. The number of Health Fund positions budgeted has dropped by 5%, while Public Safety Fund positions have increased slightly, by 1% or 157 FTEs.



Debt Trends

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

Short-Term Debt Trends

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits

Short-term debt in the General and Special Revenue Funds includes obligations such as accounts payable, contracts payable, deposits, interest payable, interest, due to other funds, and liabilities from restricted assets. In sum, it includes all liabilities except accrued salaries and wages, accrued payroll, compensated absences and long-term debt.

The exhibit below presents Cook County short-term debt trends for Fiscal Years 1997 through 2001. It shows that Cook County's short-term debt obligations grew by 66% in that 5-year period, a substantial sum. Much of the increase came between FY97 and FY98, when short-term obligations rose sharply by over \$154 million, a 42% increase. Since FY98, the amount of short-term debt has increased by 17%, a much more slower rate of growth.

COOK COUNTY SHORT-TERM DEBT TRENDS: FY97-FY01

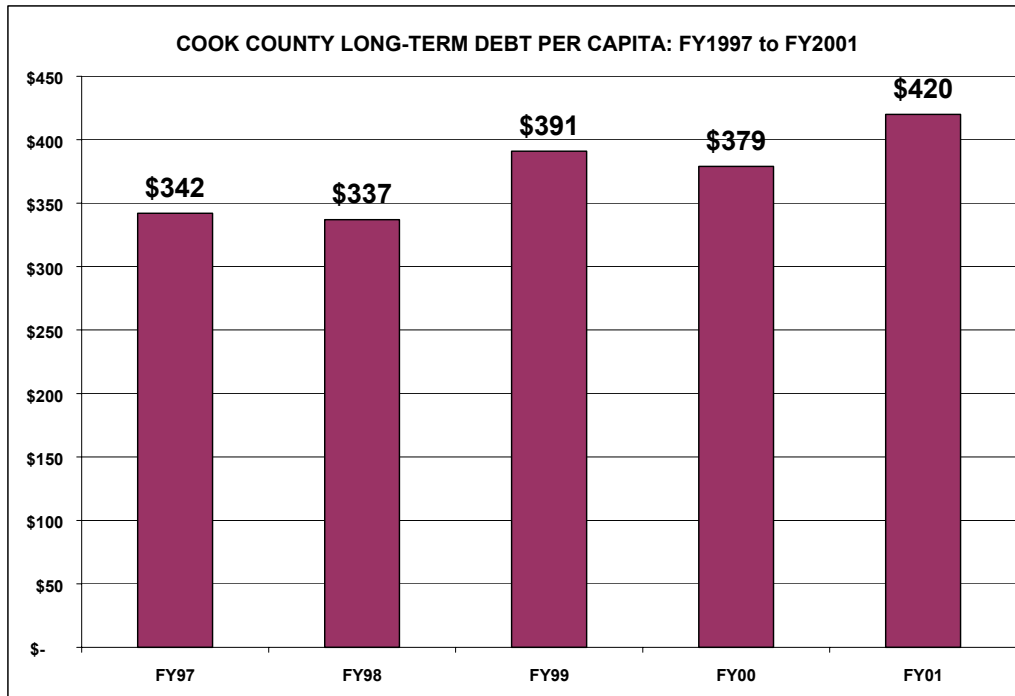
Fiscal Year	Total Short-Term Debt	% Annual Increase
1997	\$ 366,404,925	
1998	\$ 520,520,676	42.1%
1999	\$ 532,059,799	2.2%
2000	\$ 536,619,098	0.9%
2001	\$ 609,166,465	13.5%

Source: Cook County Comprehensive Annual Reports, FY97-FY01

Long-Term Debt Per Capita

Long-term debt per capita is a measure of a government’s ability to maintain its current financial policies. This long-term debt analysis takes the total liabilities in the General Long-Term Obligations Account Group and divides them by population. Cook County’s long-term debt includes general obligation bonds payable, general obligation variable rate demand bonds payable, property tax objections, and compensated absences. Any increases bear watching as a potential sign of increasing financial risk.

Long-term debt per capita increased by 23% between FY1997 and FY2001, rising from \$342 to \$420. Cook County’s total long-term debt increased from \$1.6 billion to \$2.1 billion. Between FY2000 and FY2001, long-term debt per capita rose by 11% after declining the previous year. The County’s long-term debt load is moderate and not a cause for concern.



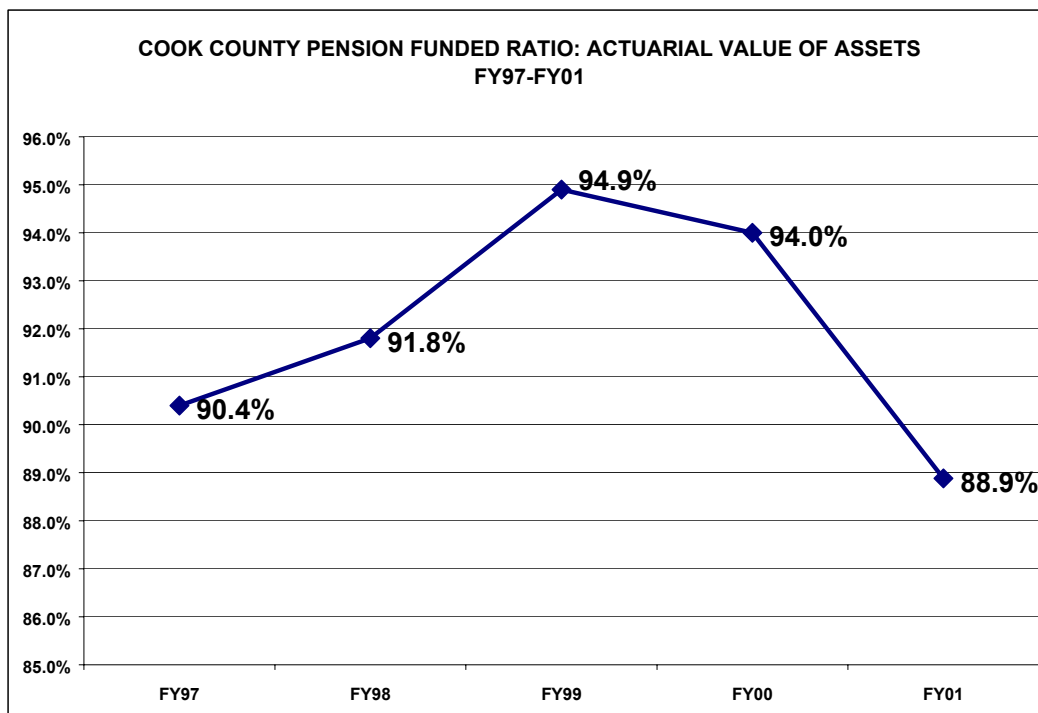
Pension Trends

The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of Cook County's pension fund: funded ratios, the investment rate of return and the value of unfunded liabilities.¹

Funded Ratios – Actuarial Value of Assets

The following exhibit shows the funded ratio for Cook County's pension fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations.

The funded ratio for Cook County's pension fund averaged 92% between FY1997 and FY2001. While the funded ratio declined from 94% to 88.9% between FY2000 and FY2001, the high funded ratio indicates that Cook County had more than sufficient assets to cover pension liabilities in the long term.



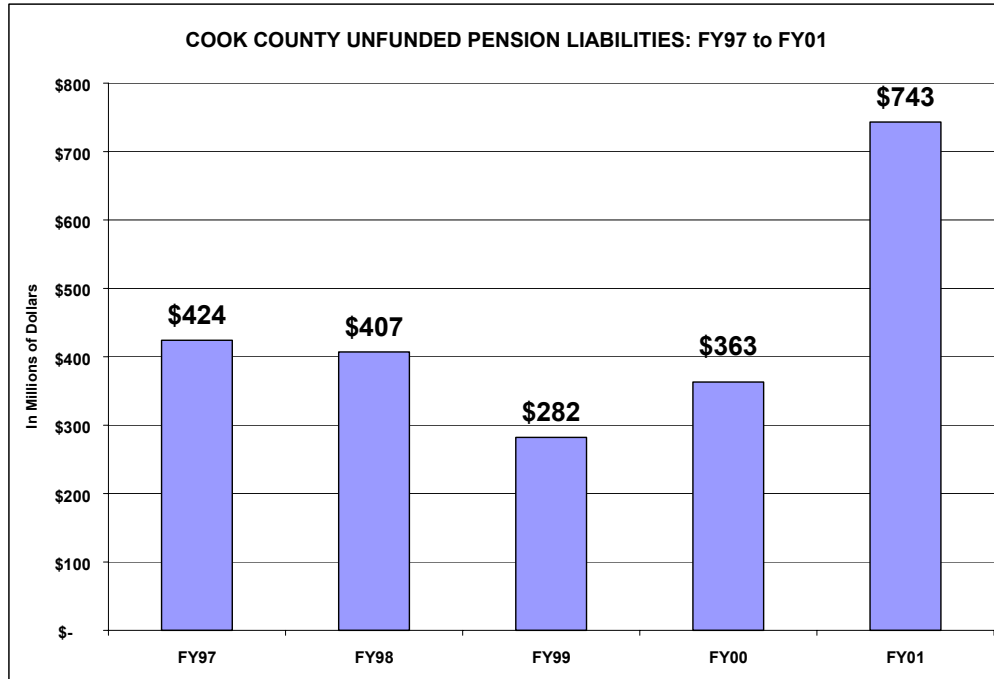
Unfunded Pension Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for Cook County's pension fund totaled approximately \$743 million in FY2001. There was a steep 105%, or \$380 million increase in unfunded liabilities in FY2001 from the previous year. In part this is due to a \$379 million increase in

¹ The discussion of Cook County's pension fund trends is drawn from Scott Metcalf. *Status of Local Pension Funding* (Chicago: Civic Federation, 2002).

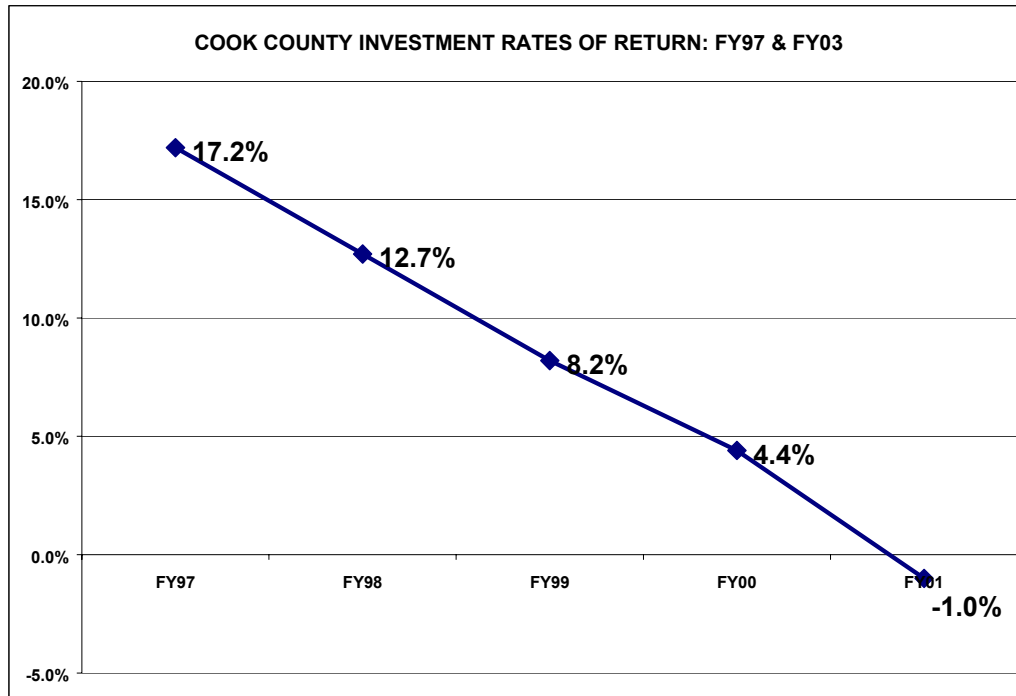
Cook County's unfunded liabilities due in large part to an increase in the retiree health care cost of living factor to 10%. This change in assumptions added \$281 million to the County's unfunded liability."

Over the 5-year period of this analysis, unfunded liabilities rose by 75%, from \$424 million to \$743 million.



Investment Rates of Return

Investment income typically provides a significant portion (over 50%) of the funding for pension funds. Thus, declines over a period of time can have a negative impact on pension assets. Since FY1997, Cook County investment rates of return have dropped from 17.2% to -1.0%. Between FY2000 and FY2001, the rate of return fell from 4.4%. Because the pension fund remains well funded, this is not yet a cause for concern.



CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation has two recommendations regarding ways to improve Cook County's financial management.

Implement Joint Purchasing of Prescription Drugs and Employee Health Insurance

The national recession will doubtless continue in FY2003. Thus, it is important that the County implement measures that can generate additional budgetary savings. To that point, we are pleased that the County's financial management team is actively working with Civic Federation staff and other local governments in pursuit of joint purchasing of employee prescription drugs. Hopefully, in the near future, the group will finalize an agreement for the joint purchasing of health insurance. A recent Civic Federation study found that forming such an agreement consisting of the employees of seven major local governments including Cook County could yield projected savings of \$40.1 million for all the governments in the first year or \$222 million over a 5-year period. Cook County could directly save as much as \$22.5 million over a 5-year period.²

² The Civic Federation. *Feasibility Study of Consolidated Purchasing: Chicago Public Employers*. A Study Conducted by the Segal Company. February 23, 2001.

Implement Procurement Reforms

The Civic Federation found in its 2001 study of Cook County operations that the County's purchasing and procurement process is overly complicated and burdensome to County employees.³ The review procedure currently in place focuses on details and operating procedures that do not guarantee the procurement of the best product or service at competitive prices.

One example of the cumbersome procedures currently in place is the County's threshold requirement going out to bid of \$250. The Board reviews all procurements over \$10,000. In comparison, according to the Center for Advanced Purchasing Studies (CAPS), the average state and county government sets the dollar limit for small order transactions (allowing departments to make independent purchases) at \$3,287. The State of Illinois' limit is \$10,000⁴ and a proposed amendment to the State Procurement code seeks to raise that limit to \$25,000.⁵

Another example involves multiple reviews of purchases. The County Board reviews items (in excess of \$10,000) to be procured several times. The Board:

- Approves the procurement in the budget,
- Gives permission to advertise,
- Approves the bid and,
- Approves payment to the vendor—even though the County had previously approved the contract and received the goods or services and is therefore legally obligated to pay.

This process is time-consuming and costly. Significant time, effort and expense are devoted to preparing and distributing copies of each individual transaction and the process consumes a great deal of paper.

The Civic Federation urges the County Board of Commissioners to undertake steps needed to streamline its procurement process. We urge the Board to consider reforms such as increasing the County's threshold requirement for small order transactions for departments from \$250 to a figure closer to the national state and county average of \$3,287. Adopting reforms such as this would help the County focus on achieving key purchasing goal of timeliness, efficiency, cost-effectiveness, quality and service.

³ The Civic Federation. *Report of the Cook County Cost Control Task Force*. June 2001.

⁴ Illinois Procurement Code. H.B. 1633 Enrolled. Public Act 90-572. Section 20-20.

⁵ *Capital Assets*. The Government Relations Newsletter of the Illinois CPA Society. Vol. 11, No. 5, April 1999, p. 13.