



The Civic Federation

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EXCERPTS FROM:

COOK COUNTY MODERNIZATION REPORT:

A Roadmap for Cook County Government

October 25, 2010

For the complete report, please visit

<http://civicfed.org/civic-federation/cookcountymodernization>

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The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

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EXECUTIVE SUMMARY

Cook County government provides three major public services: a comprehensive public health system; a judicial system including law enforcement and the State’s Attorney’s Office; and tax administration and official records including birth, death and marriage. The County’s ability to continue to provide these services in the future is jeopardized by its inefficient operations and outmoded governance structure. Cook County officials have acknowledged that county government is inefficient and that there is significant room for improvement, but previous administrations have failed to act.

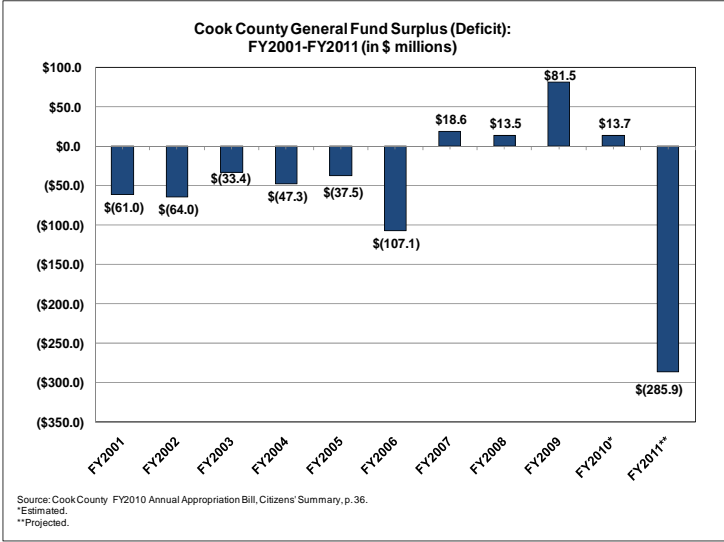
The Civic Federation embarked on the Cook County Modernization Project because it believes these problems must be addressed immediately, when a new President of the Cook County Board of Commissioners takes office in December 2010. The Modernization Project provides a roadmap for creating a government that is more efficient, less costly and more accountable. It contains recommendations that can be implemented in the first 100 days of the new administration, as well as others that will require a sustained, multi-year effort.

The recommendations included in this roadmap are a mixture of new ideas and previously proposed solutions that have not been implemented by previous county administrations. It is our hope that these recommendations will be implemented by the new administration and that policymakers and citizens alike will track progress and demand transparency and accountability. Cooperation among several elected officials and the Board is key to implementing all of the major recommendations contained in this document. It is also their responsibility to manage an efficient County and address the budget deficit.

In its first 100 days the new administration should take actions to stabilize county finances and reorganize county government. The incoming Board President must immediately address two critical issues:

- 1) Eliminating the FY2011 budget deficit; and
- 2) Repealing the remaining portion of the sales tax rate increase of 2008.

The Civic Federation’s recommendations that follow also include a timeline for action and identify the responsible county officials to lead and implement these changes. The Federation will issue a report on the progress made by the new administration after the first 100 days and then annually during its analysis of the county’s budget.



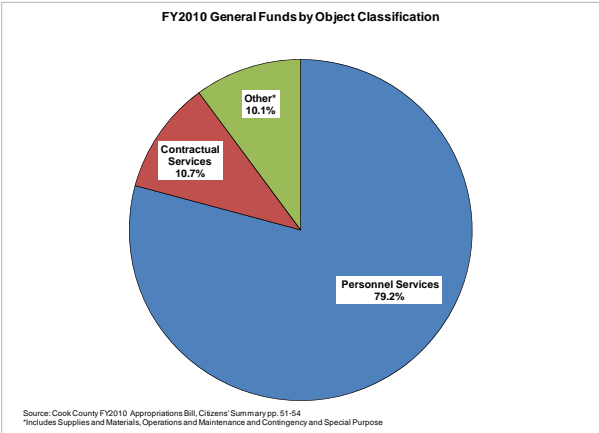
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Repeal the Remaining Half Percentage Point Sales Tax Increase

Cook County should repeal the remaining 0.5% of the 2008 sales tax increase. This will return the County’s sales tax rate to 0.75% and reduce the composite sales tax rate in Chicago from 9.75% to 9.25%. The sales tax increase gave Chicago the highest aggregate sales tax rate in the nation and appears to have hurt retail sales. It also placed a greater proportion of the tax burden on low-income residents.

Close the Budget Deficit

The County faces a budget deficit in FY2011 of more than \$300 million. This amount includes a projected FY2011 deficit of \$285.9 million plus the \$31.7 million of the sales tax rollback that would accrue in FY2011.¹ To close the deficit, the County must focus on reducing expenditures, either through across-the-board cuts or preferably targeted spending reductions. The County will need to significantly decrease personnel expenditures, which comprise 79.2% of General Funds appropriations in FY2010.



Centralize Key Administrative Functions

Cook County should centralize key administrative functions such as information technology, human resources, purchasing, capital planning and financial management across all elected officials to improve operational efficiency. Under this plan, the Board President would appoint a qualified, professional Chief Administrative Officer and administrative departments would be headed by qualified professionals.

Increase Transparency

The Civic Federation recommends that the County make improvements to the transparency of its financial information and general operations. The County has made several improvements to its website, including the Open County Initiative, which includes an online check register, government proceedings information and a building and permitting page. The Federation strongly recommends that the County improve on these efforts by publishing financial policies, releasing budget and financial statements in a timely manner and including all operating expenses of the Health System in the System’s budget.

¹ The FY2011 deficit projection of \$285.9 million comes from the Cook County FY2010 Appropriation Bill, Citizens’ Summary, p. 36. It is clear that county officials have updated this deficit estimate, but the Civic Federation was unable to obtain a more recent estimate. In a September 27, 2010 letter to bureaus and departments, Takashi Reinbold, Director of the Department of Budget and Management Services, stated that the outlook for revenues worsened in the past few months but did not include a revised estimate of the total deficit.

Eliminate Subsidy for Unincorporated Residents

Cook County government currently provides law enforcement, animal control, liquor control and building and zoning services to the 109,300 residents of county unincorporated areas. To reduce costs, the County should either transfer the responsibility for providing unincorporated area services to neighboring municipalities or create Special Service Areas (SSA). An SSA would have the ability to levy taxes on unincorporated areas, requiring them to pay for the services received. In FY2010, the cost for providing these services was approximately \$54.7 million or \$501 per resident of the unincorporated areas.

Reform the Procurement and Information Technology Systems

The County should reform its antiquated procurement systems; the lack of coordination among the administration and elected officials in purchasing encourages duplication and waste. The Federation believes that reforming the procurement process is central to both reducing County expenditures and introducing efficiency into County practices. An effective countywide procurement function may save the County approximately \$50 million on an annual basis.

County operations are also hampered by the use of two major Enterprise Resource Planning (ERP) systems. The County uses an outmoded, unsupported version of a JD Edwards system, while the Health System in June of 2009 entered into a \$34.0 million, five-year contract for the purchase and installation of the Lawson System.² The use of two major ERP systems results in two separate silos of financial and business processes. The County needs to either upgrade its existing system or purchase the Lawson system. It is less expensive to upgrade the JD Edwards system to a version that is both supported by the vendor and able to interface with the Lawson system. However, additional funds would have to be spent to interface the Lawson system with the upgraded version of the JD Edwards system. In addition, comprehensive reporting and data analysis will be easier if the County uses one system.

Appoint a Public Safety Task Force

Addressing Cook County's financial challenges will require a close examination of public safety expenditures and a first step in this process should be the creation of a Cook County Public Safety task force. Some of the greatest areas for cost savings involve larger public policy questions such as how to address non-violent and mentally ill offenders, plus creating a timely adjudication process including a possible role for recognizance bonds and electronic monitoring, diversion programs and juvenile detention alternatives.

Give the Health System More Budgetary Control

The County should require the Health System to reduce its reliance on taxpayer funds but at the same time give the System more independence to manage its own finances. This recommendation is consistent with the County Board's approval in July of 2010 of the System's five-year strategic and financial plan. To carry out the plan, the System needs to manage its budget without line-item control by the County Board or Board President. The County should

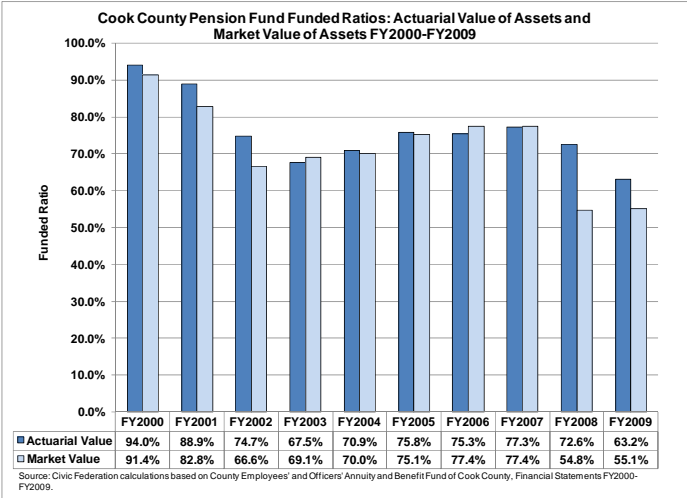
² Cook County Health and Hospitals System, Report of the Meeting of the Board of Directors, June 26, 2009, Attachment #3, p. 28.

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base budgetary reductions for the Health System on the System’s subsidy from the County instead of the System’s budget because it represents the cost paid by taxpayers for the System’s operation. For FY2011, the plan projects a subsidy reduction of roughly \$100 million and we believe that the System should take steps to meet this projection.

Implement Pension Reform

The County must implement major pension reforms.



The Cook County pension fund actuarial value funded ratio has fallen from 94.0% to 63.2% over ten years. The unfunded accrued actuarial liabilities have reached \$4.6 billion, or \$876 per Cook County resident. While the County’s pension fund is not yet in as dire straits as some other state and local pension funds, it soon will be if no action is taken. Major reforms to contributions and benefits will keep the pension fund solvent and distribute the tax burden more fairly by tackling the problem sooner rather than requiring larger service cuts or tax increases later to keep promises made to retirees and employees.

The new Board President and the other elected officials have a formidable job of modernizing services of Cook County. If not undertaken now, with a commitment to meaningful reform, Cook County will experience a continuation of eroding services and increasing tax rates.

INTRODUCTION

The purpose of this report is to provide Cook County leaders with ideas for reshaping county government that will improve service delivery to residents while reducing wasteful spending and decreasing reliance on taxpayer funds.

Cook County has neglected modernizing its operations for years. The report provides trend analysis that identifies the problems caused by this neglect. It then details specific actions the County can take to reduce expenditures, improve service delivery efficiency and reform its governance structure. The Federation's goal in creating a roadmap for Cook County is to provide elected and appointed officials with actionable recommendations for creating a more modern, streamlined unit of government that both serves the needs of the community and reduces the funding burden on all citizens.

The Civic Federation's Cook County Modernization Project comes at a time when a unique opportunity exists to promote reforms. In November 2010 Cook County residents will elect a new President of the Cook County Board of Commissioners. The Health and Hospitals System is about to implement a new strategic plan. In 2009 the County Board voted to roll back a portion of the 2008 sales tax increase, which will result in lower sales tax revenues for the County going forward.

In this report, the Civic Federation proposes numerous evidenced-based reforms that will move Cook County toward becoming a more efficient unit of government. The Civic Federation also believes it is a high priority to roll back the entire one percentage point sales tax increase in the upcoming fiscal year, returning the County's home rule sales tax rate to 0.75% and making the County a more attractive place for businesses and residents. While the report considers all Cook County functions, particular emphasis is paid to improving operational efficiency across Offices under the President, reforming the governance structure and proposing reforms for the Health System.

The report begins with a description of the major problems facing Cook County government. Next it outlines the guiding principles adopted by the Civic Federation to shape its recommendations for the County. The third section of the report contains the data compiled to inform our decisions. The last section contains the Federation's recommendations for modernizing Cook County government. The report is followed by appendices with methodology and supplementary data.

This report focuses on the operations of Offices under the President and the Health System. Despite repeated efforts, the Civic Federation was unable to obtain the cooperation of officials reporting to the current Board President in compiling this report. As a result, most sections of the report rely on the limited information that is readily available. The Health System was responsive to Civic Federation requests for information, facilitating a more detailed analysis of its operations.

Current Problems Facing Cook County

Cook County suffers from several major problems: expenditures that exceed revenues; inefficient operations; and an outmoded governance structure. These findings are not news and have been pointed out in numerous reports over the past decade. The following section details the current state of the County's operations and how each major problem has manifested itself in deficiencies that continue to plague the County.

Expenditures Projected to Exceed Revenues

The most immediate problem the incoming administration must resolve is a significant deficit in its General Funds budget for fiscal year 2011, which begins on December 1, 2010 and ends on November 30, 2011.³ A new Board President will be elected on November 2, 2010 and take office on December 6, 2010. The budget for FY2011 must be approved by February 28, 2011 and must be balanced, pursuant to state statute.⁴

The County's FY2010 Appropriation Bill, approved on November 19, 2009, projected a \$285.9 million budget deficit for FY2011. According to media reports, officials in the administration of Board President Todd Stroger have recently estimated the FY2011 deficit at roughly \$300 million.⁵ One of the candidates for Board President has estimated the deficit at between \$250 million and \$500 million.⁶

The County has a structural deficit, or chronic mismatch between expenditures and revenues. The County's main expense is personnel, which accounts for 79.2% of the FY2010 General Funds budget. Cost-of-living adjustments and other compensation increases drive up per-employee costs, offsetting savings from reducing headcount, according to a report for the County by Electronic Knowledge Interchange (EKI).⁷ The County experiences an annual attrition rate of 8% and replacements are hired at a rate of 6.5% per year. Despite this modest decline in staffing, there is a 4% increase in personnel expenses each year. The cost per employee grew 24% between 2004 and 2010, while headcount fell by 2,700.⁸

In March of 2008, the County attempted to stabilize its finances by increasing its home rule sales tax. The one percentage point sales tax increase, from 0.75% to 1.75%, was effective on July 1, 2008.

³ Under state law (55 ILCS 5/6-24005), Cook County must approve a balanced budget for each fiscal year. General Funds support the regular operating expenses of the County and consist of the Corporate, Public Safety and Health Funds.

⁴ 55 ILCS 5/6-24001.

⁵ Hal Dardick, "Cook County facing a \$300 million hole; Stroger administration forecasts 10% in cuts," *Chicago Tribune*, August 20, 2010. It is clear that county officials have updated their deficit estimate, but the Civic Federation was unable to obtain a more recent estimate. In a September 27, 2010 letter to bureaus and departments, Takashi Reinbold, Director of the Department of Budget and Management Services, stated that the outlook for revenues worsened in the past few months but did not include a revised estimate of the total deficit.

⁶ Fran Spielman, "Preckwinkle: Not so fast on tax break; Budget hole is too deep, County Board hopeful says," *Chicago Sun-Times*, May 20, 2010.

⁷ Electronic Knowledge Interchange, *Transforming Cook County Government: OPTIMA Phase I*, July 8, 2010, p. 112.

⁸ *Ibid*, p. 142

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Tax increases are typically controversial, but the County Board's action triggered particularly intense opposition because of the County's longstanding reputation for wasteful and abusive spending.⁹ In the latest incident, a top aide to the Board President was recently charged with authorizing the expenditure of \$300,000 in county funds for work that was never done, including a contract to her own public relations firm.¹⁰

On November 17, 2009, the County Board passed an ordinance rolling back the sales tax rate by one-half of a percentage point, from 1.75% to 1.25%, as of July 1, 2010. After approving the sales tax rate reduction, the County revised its FY2010 sales tax revenue projection by \$31.5 million from \$661.0 million to \$629.5 million. In FY2011, the first full year of the rollback, sales tax revenues are projected to decline by \$190.0 million.¹¹ This figure represents 8.1% of the \$2.3 billion General Funds operating budget approved for FY2010.

Outmoded Governance Structure and Inefficient Operations

Cook County is a fractured unit of government, with control divided among multiple elected officials and offices. The decentralized governance structure obscures responsibility for decisions, making it difficult for the electorate to hold the appropriate official accountable.

The County's expenditures on information technology (IT) highlight the inefficiencies that have resulted from this decentralized structure. The Bureau of Technology, which is the central IT department for the County, employs only 19% of the County's 709 IT personnel.¹² The County uses five Enterprise Resource Planning (ERP) systems, 64 websites hosted by 27 different web hosts and 3 different networks.¹³ The County spends nearly \$150 million on IT. Spending on IT across the County is 20% above the national average for other state and local governments. According to the EKI report, it is imperative for the County to replace the existing JD Edwards platform.¹⁴ Modern ERP systems include human resources, payroll and procurement platforms, in addition to the financial platform currently used by the County.¹⁵

Purchasing is another area that has suffered from a lack of centralized coordination. According to the consultant's report, the County spends more than \$1 billion annually on purchases from vendors.¹⁶ EKI found that the "lack of coordination among administration and elected officials has created multiple instances of duplication and waste stemming directly from the absence of Countywide coordination in vendor buys."¹⁷ The average time to complete a purchase for the

⁹Editorial, "Mad about the tax grab?" *Chicago Tribune*, March 3, 2008.

¹⁰Maudlyne Ihejirika and Lisa Donovan, "Alleged \$300,000 County ripoff, Top Stroger aide steered job to her firm, Had staffer do work, State's Attorney says," *Chicago Sun-Times*, October 6, 2010.

¹¹Cook County, \$331,895,000 Taxable General Obligation Bonds, *Official Statement*, June 11, 2010, p.17.

¹²Electronic Knowledge Interchange, *Transforming Cook County Government: OPTIMA Phase I*, July 8, 2010, pp. 113, 114 and 135.

¹³An Enterprise Resource Planning system integrates all departments and functions across an organization into a single system that can serve all those different departments' particular needs, including financial analysis, human resources and purchasing.

¹⁴The JD Edwards platform is the current ERP system used by Cook County.

¹⁵Electronic Knowledge Interchange, *Transforming Cook County Government: OPTIMA Phase I*, July 8, 2010, p. 135.

¹⁶Ibid, p. 112.

¹⁷Ibid, p. 112.

County is 4.5 months.¹⁸ As a general rule implementing a strategic plan to manage procurement traditionally yields at least 5% in savings.¹⁹

Civic Federation Principles

In addition to looking for measures to address the overarching problems affecting Cook County government, the Civic Federation used the following principles to guide our roadmap recommendations.

Eliminate Entire Sales Tax Increase

The Civic Federation believes the County should roll back the entire 2008 sales tax increase in FY2011. When the sales tax was increased in 2008, Chicago achieved the highest sales tax rate in the nation. Despite the partial rollback of the sales tax rate increase, resulting in the reduction of the aggregate sales tax rate from 10.25% to 9.75%, Chicago is still tied with Los Angeles for the highest sales tax rate of any major metropolitan area.

The sales tax increase was billed as necessary to support the Health System. Yet the County in FY2009 reduced the Health System's share of the cigarette tax by \$106.5 million, more than offsetting the \$100.5 million increase in sales tax revenues allocated to the Health System. In fact, it has become clear that the sales tax increase was not implemented within the framework of a larger financial plan. It was simply a way to avoid making necessary spending reductions and curbing personnel costs. As a result, structural deficits have quickly reemerged as half of the increase has been eliminated.

The sales tax increase represented questionable public policy because of its potential negative effect on retail sales. Changes in sales tax rates across a metropolitan region can affect consumer purchasing behavior.²⁰ For example, consumers may choose to make purchases online or in a neighboring jurisdiction with lower taxes. By 2008, Cook County's sales tax rate was at least 2.16% higher than the rate in each collar county.²¹

The Chaddick Institute's Regional Sales Analysis Project, which studies the effect of sales taxes on buying behavior, found evidence that Cook County's sales tax rate increase hurt retail sales. The Institute's latest regional sales update reports that the sales tax may have created a one-time downward shift in retail sales.²²

¹⁸ Ibid, p. 114.

¹⁹ Ibid, p. 112.

²⁰ Chaddick Institute for Metropolitan Development, *Sales Tax Rates and Buying Behavior, Evidence from Communities Near Cook County Boundary*, <http://las.depaul.edu/chaddick/ResearchandPublications/index.asp> (last visited on October 5, 2010).

²¹ Ibid.

²² Chaddick Institute for Metropolitan Development, *Regional Sales Analysis Update, December 16, 2009*, <http://las.depaul.edu/chaddick/ResearchandPublications/index.asp> (last visited on October 5, 2010).

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Although the County has a diverse tax base, a 2009 Fitch Ratings analysis stated that a strong reliance on the sales tax has resulted in a “diminished financial flexibility with a high sales tax environment in the current weakened economy.”²³

Furthermore, sales taxes are regressive, meaning the tax liability is a proportionately greater burden on low income residents than on high income residents.²⁴ Lower-income residents pay a higher percentage of their disposable income through the sales tax than higher-income residents. In 2007, Illinois residents in the lowest quintile of income paid 6.9% of their income for sales and excise taxes compared with 2.7% and under for those in the top quintile.²⁵

Properly Fund Pensions

The problem of inadequate funding for state and local pension funds in Illinois has become a crisis. Ideally, a pension fund should hold exactly enough assets to cover all of its actuarial accrued liabilities. Actuarial accrued liabilities represent liabilities for future benefits due to current beneficiaries as well as liabilities for benefits earned to date by current employees. A pension fund is considered 100% funded when its asset level equals the actuarial accrued liabilities. A funding level under 100% means that a fund’s current assets are less than the amount needed to meet all accrued liabilities.

The Cook County pension fund actuarial value funded ratio has fallen from 94.0% to 63.2% over ten years. The unfunded accrued actuarial liabilities have reached \$4.6 billion, or \$876 per Cook County resident.

The County must implement major funding and benefit reforms for its pension fund. While the County’s pension fund is not yet in as dire straits as the City of Chicago’s pension funds, it will be if the status quo is not changed. Major reform will keep the pension fund solvent and distribute the tax burden more fairly by tackling the problem sooner rather than requiring larger service cuts or tax increases later to keep promises made to retirees and employees.

Increase the Independence of the Health System

The Civic Federation supports greater independence for the Health System based on its professional management and sweeping plans for reform. The County Board delegated day-to-day control of the Health System to an independent Board of Directors in 2008 and approved a five-year strategic and financial plan for the System in 2010. To carry out the plan, the System needs to manage its budget without line-item control by the County Board or Board President. At the same time, the Health System must agree to a reasonable limit on its county subsidy.

²³ “Fitch Rates Cook County, Illinois’ GO Bonds ‘AA-’; Outlook Stable,” news release, *Business Wire*, October 21, 2009.

²⁴ United States General Accountability Office, *Understanding the Tax Reform Debate*, September 2005.

²⁵ Institute on Taxation and Economic Policy, *Who Pays? A distributional analysis of the tax systems in all 50 states*, November 2009.

ROADMAP RECOMMENDATIONS FOR MODERNIZING COOK COUNTY GOVERNMENT

This section presents a roadmap for modernizing Cook County based on an analysis of the County's problems, the Civic Federation's principles for County government and a detailed trend analysis of the County's financial data. This roadmap includes short-term and long-term recommendations for reinventing and modernizing Cook County government.

The immediate problem facing Cook County is a projected FY2011 budget deficit of at least \$285.9 million.²⁶ The recommendations for closing this gap focus on personnel expenditures, which represent the largest area of County expenditures. Not all of the short-term solutions are ideal, but they will allow the County to continue to operate without placing an additional tax burden on residents. The longer term solutions will allow the County to streamline operations, deliver services more efficiently and reduce the overall cost of government.

Many of the recommendations that follow are not new and have been proposed in prior reports.²⁷ The Civic Federation believes, however, that the County can no longer afford to ignore these recommendations. Some recommendations are actions that the County can complete on its own, while others will require state legislation. Implementation of all of the recommendations will require the dedication of a strong leader who is committed to changing past practices.

Recommendations for First 100 Days

The following recommendations should be implemented within the first 100 days of the incoming Board President taking office. These recommendations focus on stabilizing the County's finances. The Board President should also reorganize the current executive office structure and appoint well-qualified professionals to both existing and newly created top-level posts. Concurrently, the Board President should lay the groundwork for implementing larger reforms necessary to modernize County government.

1. Roll Back the Remaining Half Percentage Point Sales Tax Increase

Cook County should return its home rule sales tax rate to 0.75% and the incoming Board President should propose an ordinance to this effect within the first 100 days of taking office. The 2008 sales tax increase has been problematic for a number of reasons, including not being tied to a financial plan for use of the revenues and possibly hurting retail sales. Furthermore, the sales tax is a regressive tax that impacts low-income individuals more than higher income individuals. The sales tax increase allowed the elected officials to avoid addressing the underlying cost drivers that made reemergence of the deficit inevitable.

The Federation opposed the sales tax increase in 2008 and urges County leaders to undo the harm done by this poor decision. The spending reduction plans for Year 1 and Year 2 take into account the full rollback of the sales tax increase.²⁸

²⁶ FY2010 Cook County Annual Appropriation Bill, Citizens' Summary, p.36.

²⁷ See Appendix 2: Previous Reports on Reforming Cook County Government, which can be found in the complete report.

²⁸ The plan for Year 1 assumes two months of tax collections at the reduced rate in FY2011.

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- Time Frame for Implementation: 100 Days
- Responsible Official(s): Board President and Board of Commissioners
- Overlapping Official(s): Elected Officials
- Estimated Cost of Implementation: \$190 million
- Potential Cost Savings: Not Applicable

2. Close the FY2011 Budget Deficit

The County must focus on reducing expenditures in FY2011 in order to close its projected deficit. The Civic Federation recommends rolling back the remaining portion of the 2008 sales tax increase in the first year, which complicates the deficit closing process. The following discussion outlines cost-cutting measures that demonstrate the magnitude of the reductions required. It should be noted that the following cost estimates and deficit estimates are extremely tentative due to limitations on publicly available data.²⁹

As shown in the following chart, the FY2010 Appropriation Bill, which contains the latest published data, projected the FY2011 General Funds deficit at \$285.9 million.³⁰ The appropriation bill bases its expenditure projection on an annual growth rate of 2.55% for all expenses including personnel.³¹ In addition, all candidates for Board President have indicated plans to repeal the remaining 0.5 percentage point of the sales tax increase. We estimate that the repeal would affect only two months of revenue collection in FY2011, because of the lag time between adoption and implementation. Lastly, the Health System is expecting to receive roughly \$9.0 million more in Medicaid revenues in FY2011 than was forecast in the County's deficit calculation. The increase stems from Congressional approval in August 2010 of a six-month extension of enhanced Medicaid benefits under the federal stimulus program. The enhanced benefits were scheduled to end on December 31, 2010, but have been extended until June 30, 2011.

²⁹The Civic Federation made numerous requests for information to the Cook County of Bureau of Finance, beginning in June of 2010. As of the publication date, these requests had not been granted.

³⁰ Cook County FY2010 Appropriation Bill, Citizens' Summary, p.36. There have been media reports of differing deficit projections. The Civic Federation was unable to obtain more up-to-date deficit estimates. In a September 27, 2010 letter to bureaus and departments, Takashi Reinbold, Director of the Department of Budget and Management Services, stated that the outlook for revenues worsened in the past few months but did not include a revised estimate of the total deficit.

³¹However, a recent arbitration with Council 31 of the American Federation of State, County and Municipal Employees awarded the following increases that differ from the projected growth in expenditures: 12/01/08 - 2.00%, 12/01/09 -1.50%, 12/01/10 - 2.00%, 12/01/11- 2.00%, 06/01/12 - 1.00%.

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The appropriation deficit estimate is increased by \$31.7 million to reflect two months of reduced sales tax collection and then reduced by \$9.0 million of additional Medicaid revenues, bringing the total projected deficit to \$308.6 million.

Cook County: FY2011 Projected Deficit	
FY2011 Projected Revenues	\$ 2,040,111,000
FY2011 Projected Expenses	\$ 2,326,030,000
FY2011 Deficit	\$ (285,919,000)
2 Months of Sales Tax Rollback	\$ (31,666,667)
Additional Medicaid Revenue	\$ 9,000,000
Total FY2011 Deficit	\$ (308,585,667)

Source: Cook County FY2010 Annual Appropriation Bill, Citizens' Summary, p. 36. Email communication between the Civic Federation and the Cook County Health and Hospitals System, September 21, 2010.

A portion of the deficit can be addressed through the following targeted reductions:

Create Special Service Areas: Cook County government currently provides law enforcement, animal control, liquor control and building and zoning services to the 109,300 residents in county unincorporated areas. Providing services to the unincorporated areas is expensive. In FY2010, the cost for law enforcement, building and zoning, highways and animal control was approximately \$54.7 million³² or \$501 per resident of the unincorporated areas. The County could create special service areas to recover the cost of providing services to the Cook County unincorporated areas. This analysis assumes approximately eight months of savings in FY2011 to allow four months for implementation.

Health System Subsidy Reduction: The Health System has projected savings of approximately \$100 million in its long-term financial plan for FY2011. We recommend that the Health System take the necessary steps to meet this projection.

The steps described above would generate \$135.0 million, reducing the FY2011 deficit to \$174 million.

FY2011 Targeted Recommendations: Adjusted Deficit	
Projected Deficit	\$ (308,585,667)
Create SSAs	\$ 35,000,000
Health System Subsidy Reduction	\$ 100,000,000
Adjusted Deficit	\$ (174,000,000)

The Civic Federation did an analysis to determine the scope of expenditure reductions necessary by examining General Funds appropriations only³³ and excluding Fixed Charges and Special Purpose Appropriations. The Department of Corrections and Juvenile Temporary Detention Center (JTDC) were also excluded from this calculation because they are under court orders.³⁴

³² Data from the FY2010 Cook County Appropriation Bill.
³³ Cook County FY2010 Appropriation Bill, Citizens' Summary, pp. 58-63.
³⁴ Duran v. Sheahan, 74 C 2949 (N.D. Ill.) and Jimmy Doe v. Cook County Juvenile Detention Center, 99 C 3945 (N.D. Ill.).

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This resulting base of expenditures to apply reductions is approximately \$800 million. That base would require an expenditure reduction of nearly 19% in order to close the \$149 million deficit and we could not ascertain what amounts could be reduced from these departments.

Due to the lack of strategic planning, the County will likely rely primarily on across-the-board departmental directives for expenditure reductions instead of targeted cuts to close the FY2011 deficit. Closing the deficit will require the cooperation of all elected officials and departments. Board President Stroger's administration recently asked County departments to develop their FY2011 budgets by cutting FY2010 budgeted spending, excluding professional services, by 11%³⁵; total professional services funding is then expected to be cut by 35%.³⁶ Across-the-board cuts are reluctantly supported by the Civic Federation as necessary to immediately address the FY2011 upcoming deficit.

In the future, a better approach is to utilize financial planning to phase in needed spending adjustments. This practice avoids sudden changes to staffing and service levels, reducing the risk of disrupting necessary services. In the mid- and long-term, the County should address structural deficits by implementing structural changes, prioritizing services including programmatic reductions and modernizing the County as outlined in subsequent recommendations. The County will need to start implementing these strategies immediately because additional expenditure reductions will be necessary in 2012 as the full impact of the sales tax rollback will take effect.

The Civic Federation recognizes that most of the reductions will need to be personnel expenditures, which account for nearly 80% of the General Funds budget. A potentially significant portion of the position reductions could be achieved through elimination of vacancies and management of turnover and attrition.³⁷ Fitch Ratings has said that the County's "financial stability will depend on the County's ability to reduce spending."³⁸

The Federation has provided two examples of reductions that would close the adjusted deficit. The examples utilize combinations of the following reduction items:

- **Full-Time Equivalent Reductions:** The reduction estimates are based on the average total personnel costs³⁹ per full-time equivalent (FTE) position. The calculation excludes personnel from the Department of Corrections and JTDC.
- **Salary Freeze:** The County's projected expenditure growth rate of 2.55%, as noted in its FY2010 appropriation bill, was applied to the FY2010 total salary budget of \$1.6 billion

³⁵ There are a variety possible reasons that the County reduction directive differs from the Civic Federation 19% expenditure reduction including updated data, reductions to expenditures outside the expenditure base examined and the County's targeting of professional services.

³⁶ Cook County Board of Commissioners, Agenda, Meeting of October 5, 2010, p. 16 (letter from Takashi Reinbold, Director, Department of Budget and Management Services to bureaus and departments, September 27, 2010).

³⁷ The Civic Federation was not able to attain vacancy data. However, the Transforming Cook County Government: OPTIMA Phase I report noted the potential for significant savings because the County experiences an annual attrition rate of 8% and hires at a 6.5% replacement rate.

³⁸ "Fitch Rates Cook County, Illinois' GO Bonds 'AA-'; Outlook Stable" Business Wire, October 21, 2009.

³⁹ Cook County FY2010 Annual Appropriation Bill, Citizens' Summary, p. 54.

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to determine a rough estimate of potential savings.⁴⁰ This County projection of revenue and expenditure data served as the basis for this report's deficit estimate, as well as the salary freeze estimate. The total number was adjusted to account for the reduction in FTE positions. The total salary budget includes salaries for both union and non-union employees. The actual growth in county expenses has varied greatly from year to year. A more precise estimate of the impact of a salary freeze would have considered the distribution of personnel costs across union groups as well as existing wage and benefit agreements. There was no access to this data for the calculation.

- **Furlough Days:** Reductions were calculated by further reducing FY2010 budgeted salaries for both union and non-union employees. The total number was adjusted to account for the proposed reduction in FTE positions. A more precise estimate of the impact of salary reductions would have considered the distribution of personnel costs across union groups as well as existing wage and benefit agreements. There was no access to this data for the calculation.
- **Other Expenditures:** These reductions include contractual services, supplies and materials and operations and maintenance.

⁴⁰ Cook County FY2010 Appropriation Bill, Citizens' Summary, pp. 36 and 96.

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The following examples are intended to illustrate the scale of personnel and other reductions that may be necessary to address the adjusted FY2011 deficit. All numbers are rounded to the nearest million to emphasize the lack of precision and tentative nature of the projections that result from severe data limitations.

Other than salary freeze and furloughs, the Health System is not included in countywide reductions. This is in recognition that a large part of the solution to reducing the Health System subsidy lies in increased revenue collection and because there is already a recommended \$100 million targeted reduction that may overlap with these examples. A focus on reducing the subsidy instead of expenses provides an incentive for the Health System to become more self-supporting.

Expenditure Reduction Example 1

This example illustrates the impact of expenditure cuts necessary with a significant reduction in FTEs.

Adjusted Deficit Reduction: Example 1		
Reduction	Impact	Notes
Reduce FTEs by 1,300	\$ 119,000,000	Excludes Health System
Salary Freeze	\$ 38,000,000	Includes Health System
10% Reduction Non-Personnel	\$ 18,000,000	Excludes Health System
Total	\$ 175,000,000	

Source: Civic Federation analysis of data from FY2010 Cook County Appropriation Citizens' Summary p. 36, 57-63, 93, 96.

Expenditure Reduction Example 2

This example illustrates the level of cuts needed if the number of FTE reductions is minimized. Additional reductions in spending are by adding furlough days and increasing the cuts to non-personnel expenses.

Adjusted Deficit Reduction: Example 2		
Reduction	Impact	Notes
Reduce FTEs by 590	\$ 54,000,000	Excludes Health System
Salary Freeze	\$ 39,000,000	Includes Health System
Furloughs Equal to 3.0% of Salaries	\$ 46,000,000	Includes Health System
20% Reduction Non-Personnel	\$ 36,000,000	Excludes Health System
Total	\$ 175,000,000	

Source: Civic Federation analysis of data from FY2010 Cook County Appropriation Citizens' Summary p. 36, 57-63, 93, 96.

- Time Frame for Implementation: 100 days
- Responsible Official(s): Board President
- Overlapping Official(s): Elected Officials, Board of Commissioners
- Estimated Cost of Implementation: There could be costs to implement personnel cuts.
- Potential Cost Savings: \$308.6 million

3. Give Health System More Budgetary Control

As Cook County moves to close the FY2011 deficit, it should require the Health System to reduce its reliance on taxpayer funds but at the same time give the System more independence to manage its own finances. This recommendation is consistent with the County Board's approval in July of 2010 of the System's five-year strategic and financial plan. To carry out the plan, the System needs to manage its budget without line-item control by the County Board or Board President.

The Civic Federation recommends that the County base budgetary reductions for the Health System on the System's subsidy from the County instead of the System's budget. The County should focus on the subsidy, the difference between the Health System's operating revenues and expenses, because it represents the cost paid by taxpayers for the System's operations. For FY2011, the plan projects a subsidy reduction of roughly \$100 million and the System should take steps to meet this projection.

This approach makes sense because the Health System is unique among the components of County government in performing a business-like function and having the ability to significantly grow its revenues. If the Health System is required to reduce its budgeted expenditures, it has no incentive to expand revenues; any revenue increases would accrue to the County.⁴¹ Given the County's approval of the strategic and financial plan, which specifically identifies revenue growth as a major goal, the Health System should be encouraged to expand its revenues.

To protect the County against overoptimistic revenue projections by the Health System, the System should be required to offset any shortfalls in revenue during the year by reducing expenses. The System should also be able to retain unanticipated revenue.

- Time Frame for Implementation: 100 Days
- Responsible Official(s): Board President
- Overlapping Official(s): Health System Officials, Chief Financial Officer, Budget Director
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Not Applicable

4. Appoint a Public Safety Task Force

Public Safety in Cook County encompasses a variety of functions including operation of the second largest judicial system in the nation, two detention centers, the Cook County jail and the Temporary Juvenile Detention Center. Public Safety is the largest area of Cook County expenditures. In the FY2010 adopted budget, Cook County appropriated nearly \$1.2 billion for public safety operating expenditures, which totaled nearly 38.1% of the County's total operating budget. Of the \$1.2 billion in public safety expenditures, over \$1.0 billion was appropriated for personnel services.

⁴¹ See Appendix 3: Basing Health System Reductions on the County Subsidy, which can be found in the complete report.

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Addressing Cook County's financial challenges will require a close examination of public safety expenditures. There are undoubtedly opportunities to address waste and inefficiency in the criminal justice system. In addition, some of the greatest areas for cost savings involve larger public policy questions such as how to address non-violent and mentally ill offenders, the proper adjudication process including the possible role for recognizance bonds and electronic monitoring, diversion programs and juvenile detention alternatives. The time has come to start addressing public safety's operational, financial and policy issues. A first step in this process should be the creation of a Cook County Public Safety task force.

- Time Frame for Implementation: 100 Days
- Responsible Official(s): Board President
- Overlapping Official(s): Cook County Board, Chief Judge of the Circuit Court, the Clerk of the Circuit Court and the Sheriff
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Not Applicable

5. Delay New Hiring Until January 1, 2011

The new Cook County Board President and other newly elected Cook County officials will take office on December 6, 2010 and they are likely to replace senior staff at the County with new employees of their own choosing. The Civic Federation urges the newly elected officials to delay as much non-essential new hiring as possible until January 1, 2011 in order to reduce long-term liabilities of the Cook County pension fund.

Public Act 96-0889, enacted in April 2010, creates a new tier of benefits for many public employees hired on or after January 1, 2011, including members of the Cook County pension fund. The major changes for the Cook County pension fund are the increase in full retirement age from 60 to 67 and early retirement age from 50 to 62; the reduction of final average salary from the highest 4 year average to the highest 8 year average; the \$106,800 cap on final average salary; and the reduction of the automatic COLA from 3% compounded to the lesser of 3% or one half of the increase in Consumer Price Index not compounded.⁴²

The Cook County pension fund was 63.2% funded in FY2009, down from 94.0% in FY2000.⁴³ In FY2009 it had \$4.6 billion in unfunded liabilities, or \$876 per resident of Cook County. While the Cook County pension fund is in better health than some other state and local pension funds in Illinois, its fiscal condition is likely to continue to decline if nothing more is done to reduce benefits or increase contributions.

Those newly elected officials who recognize the precariousness of the pension fund's future will delay hiring non-essential new staff until January 1, 2011, thus placing those new employees in the tier of reduced benefits and making their pension promises more affordable in the long-term.

- Time Frame for Implementation: 100 days
- Responsible Official(s): Board President

⁴² See the Pension section of this report for more detail.

⁴³ This is the actuarial value funded ratio. See the Pension section of this report for more detail.

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- Overlapping Official(s): Elected Officials
- Estimated Cost of Implementation: None
- Potential Cost Savings: No immediate savings, but would result in a long-term reduction in liabilities.

6. Upgrade Existing Enterprise Resource Planning System

Currently the County and the Health System use two different Enterprise Resource Planning (ERP) systems. The County uses an outmoded, unsupported version of a JD Edwards system, while the Health System in June of 2009 entered into a \$34.0 million, five-year contract for the purchase and installation of the Lawson System.⁴⁴

The use of two major ERP systems results in two separate silos of financial and business processes. The County needs to either upgrade its existing system or purchase the Lawson system. It is less expensive to upgrade the JD Edwards system to a version that is both supported by the vendor and able to interface with the Lawson system. However, additional funds would have to be spent to interface the Lawson system with the upgraded version of the JD Edwards system. In addition, comprehensive reporting and data analysis will be easier if the County uses one system.

In the first 100 days the new Board President should resolve the ERP issue, either choosing to upgrade the existing JD Edwards system so it can interface with the Health System's Lawson system or purchasing the Lawson system to be used across the County. The cost of upgrading the JD Edwards system is estimated at between \$10 million and \$15 million. The cost for installing the Lawson system across the County has been estimated at \$35 million.⁴⁵

- Time Frame for Implementation: 100 days
- Responsible Official(s): Board President and Chief Information Officer
- Overlapping Official(s): Elected Officials
- Estimated Cost of Implementation: \$10 million to \$35 million
- Potential Cost Savings: Substantial over time in conjunction with other IT recommendations

7. Centralize Key Administrative Functions

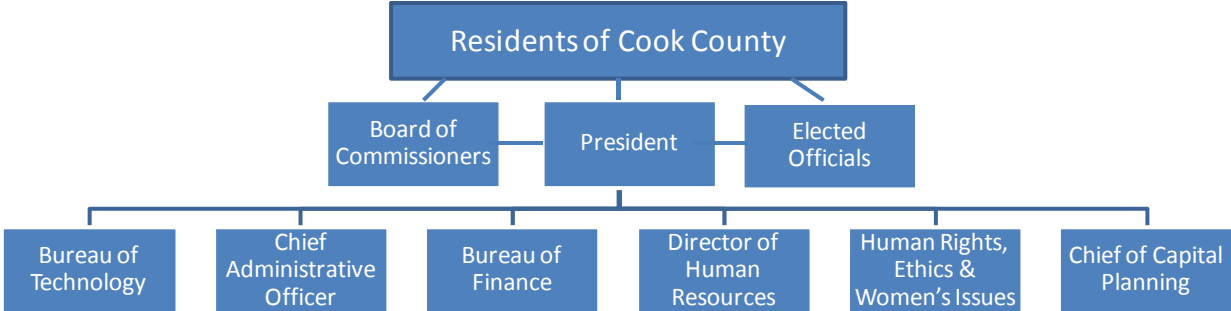
The Cook County administrative structure is antiquated and not well suited to the demands of a large, modern urban government. The President of the Cook County Board of Commissioners directly supervises a small Office of the Board President as well as a number of administrative Bureaus and Departments. Most of the County's elected officials maintain their own finance, human resource, legal and information technology staff. As a result, the administrative functions of the County government are located in a number of different offices and departments. There is no centralized system of control, resulting in overlap of functions, duplication of efforts and inefficiency in operation.

⁴⁴ Cook County Health and Hospitals System, Report of the Meeting of the Board of Directors, June 26, 2009, Attachment #3, p. 28.

⁴⁵ Electronic Knowledge Interchange, Summary, p. 3

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The following is an illustration of the current administrative structure of the Board President’s office and the administrative offices under its control. It does not represent the full organizational structure of the County.



The Civic Federation proposes that the administrative structure be reformed so that key administrative functions now located throughout the County government be centralized under the direction of the Board President.⁴⁶ These reforms would lead over time to improved efficiency and cost savings for County operations.

Under the Civic Federation’s proposal, the Board President would oversee the enforcement of the laws of Cook County and provide executive direction to all departments and offices of the County government. The Board President would also develop policies; propose plans, programs, budgets and legislation to the Board of Commissioners; adopt executive orders and regulations and appoint members to boards, committees and commissions. A Chief Administrative Officer (CAO) would be appointed by and report to the Board President.

The CAO would be invested with duties and responsibility for Countywide administration in contrast to the current CAO, who is responsible only for the supervision of the various departments and offices in the County Bureau of Administration.⁴⁷ He or she would be required to be a qualified professional with experience in managing large, complex organizations. The CAO would supervise all departments and offices of the Executive Branch and advise the Board President on administrative matters. In addition, this official would coordinate management review and decision-making on policies, programs, plans, budgets, legislation, regulations and similar matters. Qualified professionals with experience in relevant fields would be selected by the CAO to head key County administrative departments:

- Bureau of Technology
- Bureau of Human Resources
- Department of Procurement
- Bureau of Finance
- Bureau of Administration

⁴⁶ This method of organization is commonly employed in municipal and county governments in the United States. See the governance structure of Maryland counties, for example.

⁴⁷ The current Bureau of Administration includes the Departments of Planning and Development, Building and Zoning, Environmental Control, Zoning Board of Appeals, Medical Examiner, Office of Child Custody Advocacy, Veterans' Assistance Commission, Highways, MFT Illinois First, Animal Control and the Cook County Law Library.

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- Bureau of Capital, Planning and Facilities Management
- Department of Human Rights, Ethics and Women's Issues
- Department of Performance Management

Each of these executive departments would provide their designated service to all county departments and offices. The elected officials' offices would no longer maintain their own separate information technology, human resource, capital planning and/or financial staff. However, the offices of the elected officials would have a liaison employee from each chief officer. The liaison employee would report to the office of the bureau or department head, while working with the elected official to ensure clear communication of policies, priorities and needs. In FY2010 approximately 647 FTEs were located in finance, information technology, human resources and procurement positions in elected officials' offices at a projected cost of \$35.0 million in salaries.⁴⁸ Under a consolidated administrative structure there would be opportunities to reduce the number of positions.

The State of Illinois has purchasing staff members who work in departments that report to the Chief Procurement Officer. This helps to ensure professional purchasing functions within departments. It also alleviates some of the fragmentation of purchasing and can improve accountability. The Board President should establish a strong, centralized Chief Procurement Officer who oversees the procurement functions across all Offices under the President and the elected officials. Liaisons who report to the Chief Procurement Officer should be installed in each department and office, providing needed expertise for each office.

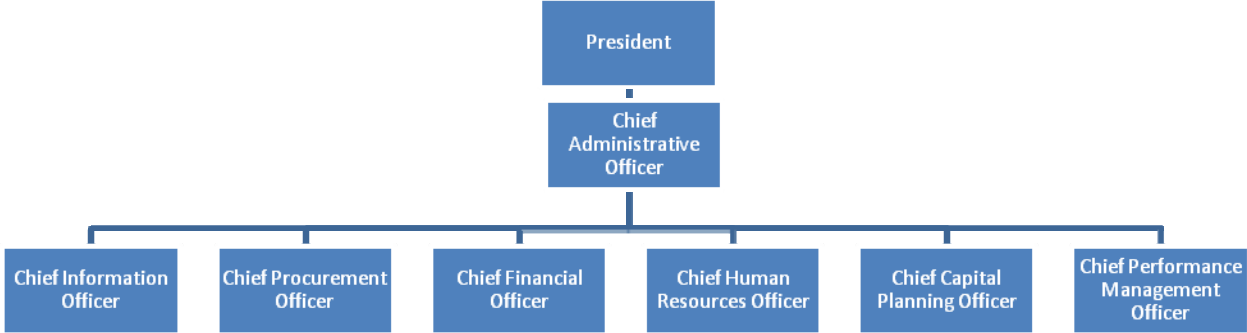
The Health System by ordinance controls its own day-to-day decision making and the Civic Federation supports its independence. Therefore, it would not be included under this new administrative structure. However, the System should participate in countywide administrative activities when there are opportunities to achieve efficiencies through collaboration such as the countywide computer system to advertise job openings.

Currently only 19% of the County's IT personnel falls under the control of a central IT officer. The remaining 81% is spread throughout the County. The efficiency and cost-saving benefits from information technology are realized when a centralized function maximizes its capabilities and minimizes duplication. The Board President should establish a strong, centralized Chief Information Officer who oversees the IT functions across all Offices under the President and the elected officials. Liaisons who report to the Chief Information Officer should be installed in each department and office, providing needed expertise for each office. Corresponding IT staffing reductions should take place in departments across the County as the central office takes over many of the ongoing IT needs.

⁴⁸ These figures are based on a review of job titles in the FY2010 Cook County Annual Appropriation Bill for those offices for which such data was readily available: Sheriff, Chief Judge, State's Attorney, Clerk of the Circuit Court, Clerk and Recorder of Deeds. It is by no means a finalized review of these costs.

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Below is an illustration of the proposed administrative structure, highlighting just the administrative offices under the Board President.



- Time Frame for Implementation: 100 days
- Responsible Official(s): Board President
- Overlapping Official(s): Elected Officials
- Estimated Cost of Implementation: Minimal (hiring highly qualified professionals may require higher salary expenditures)
- Potential Cost Savings: Substantial personnel savings over time

8. Integrate Performance Measurement into Budgeting Process and Make the Information Public

Cook County should collect key performance measurement data and consistently report the data in the budget document. Collecting the data would provide management and policy-makers with objective information to improve operations, reduce unnecessary or inefficient expenditures and prioritize spending. Reporting the data would provide transparency and accountability to the public.

The County should make full implementation of its Performance Based Budgeting initiative a priority. The process should include reports of actual and estimated performance measurement data for at least three prior years, as well as performance targets or estimates for the upcoming budget years. Narrative descriptions of performance measures and results should accompany this data. The data should be a mix of qualitative and quantitative input, output, efficiency and outcome data. Performance measures should relate to departmental goals and objectives: goals should focus on broad direction and purpose while objectives should be specific and measurable. Finally, the County should internally develop data definitions and control procedures to ensure the validity and reliability of the data that is reported.

The FY2010 budget includes only sporadic reporting of performance measures, yet the County appears to recognize the need to integrate performance measures into the budget. In the Citizens' Summary of the FY2010 budget there is a discussion of efforts to implement Performance Based Budgeting. The document describes how the County is moving towards tracking outcome and efficiency measures and the intent to report this information in the departmental reports section

of the budget. Previous budgets included performance measure data under a productivity analysis section and the County formerly published quarterly performance reports. Those efforts suggest the County is well positioned to implement this recommendation immediately.

9. Adopt and Publish Financial Policies

Cook County should develop and publish the financial policies recommended by the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting. It is important to adopt financial policies to help guide the budget process, frame major policy initiatives and provide a benchmark for future financial performance.

The GFOA recommends that at a minimum jurisdictions have policies related to the following:⁴⁹

- **Balanced Budget:** Defines a balanced operating budget, encourages commitment to a balanced budget and provides for disclosure when deviation from a balanced budget is planned or occurs.
- **Long-Range Planning:** Supports a financial planning process that assesses the long-term financial implications of budgets, policies, programs and assumptions.
- **Debt Capacity, Issuance and Management:** Specifies appropriate uses for debt and identifies the maximum amount of debt and debt service that should be outstanding at any time.
- **Reserve or Stabilization Accounts:** Recommends maintaining a prudent level of budget reserves to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.
- **Operating / Capital Expenditure Accountability:** Compare actual expenditures to budgeted expenditures periodically to decide what actions are necessary the budget into balance.
- **Revenue Diversification:** Encourages a diversity of revenue sources to offset fluctuations in individual sources.
- **Fees and Charges:** Identifies the manner in which fees and charges are set and the extent to which they cover services provided.
- **Use of One-time Revenues:** Discourages the use of one-time revenues for ongoing expenditures.
- **Use of Unpredictable Revenues:** Describes the collection and use of major revenues sources considered unpredictable.⁵⁰
- **Fund Balance:** Establishes the level of unrestricted fund balance that should be maintained in the general fund.⁵¹

The Civic Federation was unable to confirm that any of these policies currently exist internally. The County should include a summary of the policies it uses in a section of the budget.

⁴⁹ Government Finance Officers Association, Adoption of Financial Policies (2001).

⁵⁰ Government Finance Officers Association, Adoption of Financial Policies (2001).

⁵¹ Government Finance Officers Association Appropriate Level of Unrestricted Fund Balance in the General Fund (Adopted October 2009).

10. Report Additional Appropriations and Resources Data and Information in Annual Budgets

Cook County should provide additional appropriation and resource data in its annual budget documents. Appropriation data should include:

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

The amount of resources data provided in the budget book should also be enhanced by including:

- The prior year estimate and one year of actual information for all data points;
- Historical data for all resources, including the amount of fund balance utilized each year and capital improvements made each year; and
- Aggregate historical revenue by fund accounting.

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

The Civic Federation believes that all governments, including Cook County, should release audited financial statements no later than six months after the close of their fiscal year. Unfortunately, Cook County has fallen into a pattern of delaying the release of its Comprehensive Annual Financial Report (CAFR).

Cook County's fiscal year begins on December 1 and ends on November 30. Cook County did not release its FY2009 Comprehensive Audited Financial Report (CAFR) until September 2010, nine months after the close of the fiscal year.

Cook County's ongoing delays in releasing its audited financial statements diminish its accountability because the public cannot access important financial information needed to assess the government's financial condition in a timely fashion.

The Civic Federation recommends that the CAFR should be released to the Board of Commissioners and the public no later than May 31 of the following calendar year or within six months of the close of the fiscal year.

12. Adopt Budget Prior to the Start of the Fiscal Year

In government a budget serves not only as a financial plan, but also as the legal authority to raise revenues and expend funds. To properly serve both roles, a budget should be passed well before the start of the fiscal year. Upcoming budgets will require that Cook County undertake significant changes to programs and services including the mixture of services provided, the level at which they are provided and how they are delivered. Staff will need time in advance of the start of the fiscal year to effectively implement these changes. With the exception of the

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FY2010 budget, recent Cook County budgets have been passed more than two months into the new fiscal year.

Cook County: Budget Adoption FY2006-FY2010	
Fiscal Year	Adoption Date
FY2010	November 19th, 2010
FY2009	February 20th, 2009
FY2008	February 29th, 2008
FY2007	February 23rd, 2007
FY2006	February 9th, 2006

Source: Cook County Appropriation Bills FY2006-FY2010

Cook County should adopt a budget at least a month in advance of the start of the fiscal year.

- Time Frame for Implementation: 100 Days (set schedule for timely FY2012 budget process)
- Responsible Official(s): Board President
- Overlapping Official(s): Elected Officials, Chief Financial Officer, Budget Director
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Not Applicable

13. Enhance Pension Fund Financial Reporting Data

Some pension funds voluntarily report changes to benefits and the effect these changes have on the fund’s finances. The Civic Federation recommends that all pension funds be required to describe any benefit enhancements granted in a given year in their annual financial report and to calculate the effect of those enhancements on the fund’s total liabilities. Taxpayers deserve to know the cost of benefit enhancements. The County should also report basic 30-year projections of funded ratios, unfunded liabilities, required contributions and date of insolvency and provide more statistical analysis in financial statements.

- Time Frame for Implementation: 100 Days
- Responsible Official(s): Board President
- Overlapping Official(s): Pension Fund Executive Director
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Not Applicable

14. Include All Operating Expenses of the Health System in the System’s Budget

To provide a clear picture of the cost of operating the Health System, the County should include all operating expenses of the Health System in the System’s budget. The System’s budget currently does not include more than \$170 million of expenses, including pension contributions and debt service.

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The County has not allocated these expenses to various components of the General Funds because labor negotiations and capital improvements are handled by the Board President's Office. As the Health System moves toward greater independence, the full cost of its operations are of increasing importance. Revenues to match the additional expenses would also need to be allocated to the System.

- Time Frame for Implementation: 100 Days
- Responsible Official(s): County President, Chief Financial Officer, Budget Director
- Overlapping Official(s): None
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Not Applicable

15. Report Key Indicators of Health System Financial Performance and Quality of Care

The public currently has ready access to a significant amount of information about the Health System's finances and operations. Detailed minutes of meetings of the System's Board of Directors and Finance Committee are available on the website of the Secretary to the Board of County Commissioners.⁵² Reports presented at the meetings, including monthly financial reports, are attached to the minutes.

The Health System should also post key indicators of financial performance and quality of care on its own website so that the public can more easily track the System's progress. Along with the indicators, the System should provide relevant benchmarks so that the public can assess the System's status in comparison with other public health systems.

It is particularly important that the Health System facilitate public monitoring of the efforts of PricewaterhouseCoopers (PwC). The System hired PwC to carry out major changes in its operations, covering both expense reductions and revenue enhancements. PwC, which has been working at the System since July of 2010, has proposed operating improvements of \$313.8 million over two years. PwC could earn fees of up to \$50 million, depending on improvements achieved for System. The System should begin posting progress reports on its website, including performance targets and actual results to date.

- Time Frame for Implementation: 100 Days
- Responsible Official(s): Health System officials
- Overlapping Official(s): None
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Not Applicable

⁵² Cook County Board of Commissioners, Office of the Secretary to the Board, <http://legacy.cookcountygov.com/secretary/> (last visited on October 13, 2010).

Recommendations for Year 1

The following recommendations should be implemented within the first year of the incoming Board President taking office. The focus of the recommendations is to streamline County operations, introduce additional efficiencies and formalize policies to guide future financial decisions.

16. Eliminate Subsidy for Unincorporated Residents

Cook County government currently provides law enforcement, animal control, liquor control and building and zoning services to the 109,300 residents in county unincorporated areas.

Providing services to the unincorporated areas is expensive. In FY2010, the cost for law enforcement, building and zoning, highways and animal control was approximately \$54.7 million⁵³ or \$501 per resident of the unincorporated areas. There are three potential strategies to reduce the cost of providing services to the Cook County unincorporated areas: annexation to neighboring municipalities, creating Special Service Areas or transferring responsibilities to neighboring municipalities.

Creating Special Service Areas

A special service area (SSA) is a contiguous area within a municipality or county in which governmental services are provided. The cost of the special services is paid from revenues collected from property taxes levied upon property within that area.⁵⁴ An SSA is designed to allow local governments to tax for and deliver services to limited geographic areas within their jurisdictions.

Currently all Cook County residents pay taxes to provide services to the residents in the unincorporated areas. Thus, residents in the incorporated areas are subsidizing services for the 109,300 residents in the unincorporated areas. The residents in the unincorporated areas are paying much less in taxes than they would be if they were charged the full cost of those services.

The County could shift most of the cost of service provision in the unincorporated areas to their residents by establishing special service areas. The taxes paid by residents would pay for those county services provided. Because these areas are not contiguous, separate SSAs would have to be created for each unincorporated area. The County could create an umbrella agency to supervise SSA activities, although each area would have its own governing board. Property taxes in the new SSAs would be higher than is currently the case. This could provide a strong incentive for residents to seek annexation to neighboring municipalities.

The cost savings for Cook County from establishing SSAs to provide law enforcement, animal control and building and zoning⁵⁵ for the unincorporated areas could be considerable, approaching the approximately \$54.7 million appropriated in FY2010 for those services.

⁵³ Data from the FY2010 Cook County Appropriation Bill.

⁵⁴ 35 ILCS 200/27-5.

⁵⁵ County highways and bridges and other infrastructure are located in both incorporated and unincorporated areas and are funded in part by motor fuel tax revenues. There are bonds outstanding for these programs as well, financed by those taxes. Because of the unique characteristics of highway funding, this function is not included as an option for transfer to SSAs.

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- Time Frame for Implementation: Could occur within one year (objections from residents in some areas could slow process down)
- Responsible Official(s): Board President
- Overlapping Official(s): Cook County Board
- Estimated Cost of Implementation: Moderate
- Potential Cost Savings: As much as \$54.7 million in the mid-term

Transferring Responsibilities for Selected Service Provision to Neighboring Municipalities

A second option Cook County could use to reduce the cost of providing selected services to unincorporated areas would be to transfer the responsibility to neighboring municipalities. Under this scenario, the County would continue to subsidize the provision of law enforcement, liquor control, animal control, highway and building and zoning services. However, due to the proximity of municipalities to the unincorporated areas and because they already provide these services, the cost would be much less than at present.

Animal Control: *Reinventing Cook County* notes that it may be appropriate and efficient for the Department to continue to provide some countywide functions such as issuing rabies vaccination tags to veterinarians and maintaining inoculation records; these functions are not typically performed by municipal governments. However, there is some degree of duplication in other areas of responsibility with other communities.⁵⁶ Thus, it would be cost effective to transfer the remaining animal control responsibilities to neighboring municipalities.

In FY2010, Cook County appropriated \$2.99 million for animal control services. This is a per capita expense of \$27.36 per unincorporated area resident.⁵⁷ The per capita average cost for Chicago, Oak Park, Palatine and Skokie was \$2.56. Factoring out Chicago, which had very low per capita animal control costs, the per capita average was \$3.21. Part of the reason for the large cost differential is the cost for travel throughout the County, the distribution of the rabies vaccination tags and the maintenance and administration of inoculation records.⁵⁸

The County could transfer responsibility for the animal control activities not related to the distribution of the rabies vaccination tags and the maintenance and administration of inoculation records to neighboring municipalities. Savings from this action would be less than if the entire function could be transferred. If the County paid the municipalities at an amount that is equal to approximately 50% of the average rate for the four municipalities reviewed, it could save up to \$1.35 million annually. If the County subsidized the municipalities at an amount that is equal to approximately 50% the rate for Oak Park, Palatine and Skokie, as much as \$1.3 million might be saved.⁵⁹

⁵⁶ Cook County Commissioner Mike Quigley, *Reinventing Cook County*, Part I, December 2003, p. 46.

⁵⁷The county per capita expense is overstated because it includes expenses of countywide activities. We were unable to disaggregate this portion of the expense.

⁵⁸ Cook County Commissioner Mike Quigley, *Reinventing Cook County*, Part I, December 2003, p. 46.

⁵⁹ Researchers were not able to disaggregate the costs of administering the rabies program, so they reduced potential savings by 50%.

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Law Enforcement: In FY2010, Cook County appropriated \$48.4 million for the Sheriff's Police Department, which provides law enforcement services to unincorporated Cook County. This is a per capita expense of \$441.59 per unincorporated area resident. The 2010 average per capita average cost for police services is \$304.42 in nine selected representative Cook County municipalities: Chicago, Evanston, Des Plaines, Mount Prospect, Oak Park, Palatine, Park Ridge, Schaumburg and Skokie.⁶⁰ If the County paid municipalities at the average rate for the nine municipalities reviewed, it could save up to \$14.99 million annually.

Building and Zoning: In FY2010 Cook County appropriated \$3.5 million for the Cook County Building and Zoning department, which provides building and zoning services to unincorporated Cook County. This is a per capita expense of \$32.12 per unincorporated area resident. This compares to the 2010 average per capita cost for building and zoning services of \$24.09 in nine selected representative Cook County municipalities: Chicago, Evanston, Des Plaines, Mount Prospect, Oak Park, Palatine, Park Ridge, Schaumburg and Skokie.⁶¹ If the County paid municipalities at the average rate for the nine municipalities reviewed, it could save up to \$0.8 million annually.

Highways: The FY2010 appropriation for the Department was \$15.0 million; this translates into \$10,209 per lane-mile. In contrast, the average per lane-mile cost for the Cook County municipalities of Chicago, Evanston, Skokie, Palatine, Mount Prospect, Oak Park and Schaumburg is \$8,696. If the County paid municipalities at the average rate for the seven municipalities reviewed, it could save up to \$2.2 million annually.⁶² The County would continue to receive state motor fuel tax revenues to be used for road construction and maintenance costs.⁶³

Liquor Control: In FY2003, *Reinventing Cook County* noted that \$180,000 was budgeted for activities of the Cook County Liquor Control Commission. Figures for FY2010 are unavailable at this time, but it is reasonable to assume that at least the same amount could be saved if liquor control services were completely transferred to municipalities adjacent to unincorporated areas and a portion of it could be saved if the County continued to subsidize this activity.

- Time Frame for Implementation: Would take a number of years to negotiate and conclude intergovernmental agreements.

⁶⁰ The communities selected are those used in *Reinventing Cook County* in 2003. The per capita calculations are based on the following data: Population figures are 2006 estimates from the U.S. Bureau of the Census, State and County QuickFacts at <http://quickfacts.census.gov/qfd/states/17000.html>; and budgetary figures are from FY2010 municipal budgets (except for Palatine, where the latest information posted online was from 2009).

⁶¹ The communities selected are those used in *Reinventing Cook County* in 2003. The per capita calculations are based on the following data: Population figures are 2006 estimates from the U.S. Bureau of the Census, State and County QuickFacts at <http://quickfacts.census.gov/qfd/states/17000.html>; and the budgetary figures are from FY2010 municipal budgets (except for Palatine, where the latest information posted online was from 2009).

⁶² The communities selected are those used in *Reinventing Cook County* in 2003 for which Civic Federation researchers could verify data by means of contact with respective highway or road departments. The per capita calculations are based on the following data: population figures are 2006 estimates from the U.S. Bureau of the Census. State and County QuickFacts at <http://quickfacts.census.gov/qfd/states/17000.html>. The budgetary figures are from FY2010 municipal budgets (except for Palatine, where the latest information posted online was from 2009).

⁶³ A portion of the County's motor fuel tax allotment is diverted for use by the Public Safety Fund. See the Cook County FY2010 Appropriation Bill, p. B-48.

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- Responsible Official(s): Board President
- Overlapping Official(s): Cook County Board, Municipal Governing Bodies
- Estimated Cost of Implementation: Moderate
- Potential Cost Savings:
 - Animal Control: \$1.3 million
 - Law Enforcement: \$14.99 million
 - Building and Zoning: \$0.8 million
 - Liquor Control: \$0.1 million
 - Highways: \$2.2 million
- Total: As much as \$19.5 million

Annexation to Neighboring Municipalities

The most cost-effective solution to the problem of providing municipal services to the Cook County unincorporated areas would be for those areas to be annexed to surrounding municipalities. Illinois statute allows the assignment of regulatory control of unincorporated areas to adjacent municipalities. Also, a municipality has the authority to zone land within 1.5 miles of its boundaries.⁶⁴ However, annexation cannot be compelled and there may be political resistance to the idea from residents of the unincorporated areas whose taxes could rise and from the municipalities, whose leaders may not want to take on additional service provision responsibilities.

The annexation process would take time to implement, so savings from the transfer of functions from Cook County to relevant municipalities would not be realized for several years. A transitional arrangement would have to be developed to provide services as the process unfolded. In the end, however, the County would save most or all of the \$54.7 million it appropriated in FY2010 for law enforcement, animal control and building and zoning services. If these unincorporated areas were annexed to municipalities, the County would lose sales tax revenues it currently receives in these areas from its share of state sales tax receipts.⁶⁵

- Time Frame for Implementation: Could be lengthy requiring many years as municipalities take legal steps to annex land
- Responsible Official(s): Municipal Governing Bodies
- Overlapping Official(s): Board President
- Estimated Cost of Implementation: Minimal
- Potential Cost Savings: \$54.7 million in the long term (but loss of roughly \$3 million to \$4 million in sales tax revenue from unincorporated areas)

17. Implement Alternative Service Delivery Options

Cook County historically has not taken advantage of outsourcing or alternative service delivery opportunities to reduce the cost or increase the effectiveness of service delivery for selected programs. Transferring responsibility for service delivery to a private firm or nonprofit organization can be beneficial only if there is a marketplace of competitive, qualified vendors or

⁶⁴ 65 ILCS 5/11-13.1.

⁶⁵ Municipalities and counties receive a portion of sales tax revenues collected by the State of Illinois.

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service providers and strong, sustained management oversight by the government. Governments must establish a mechanism to monitor and evaluate cost saving and efficiency benefits produced by any alternative service or privatization efforts. These efforts should include public reporting of efficiencies and/or savings achieved. Privatization efforts, i.e., the transfer of service delivery responsibilities to the private sector, should be focused on non-essential services or programs.⁶⁶

Privatize Sheriff's Custodial Duties

The Cook County Sheriff's Custodial Services Department currently administers janitorial services for the County Building and the suburban county facilities. The specific duties listed in the FY2010 Cook County Appropriation Bill include:

In addition to daily maintenance, custodial employees also strip and wax floors in all county hallways and lobbies, wash and sanitize stairwells, restrooms, holding cells and lockups. Custodial staff also move office furniture, remove snow, perform grounds-keeping duties, dispose of trash and recyclables, pest control and custodial supply delivery.⁶⁷

The total appropriation for the Custodial Services Department in FY2010 was \$11.8 million. A total of \$10.5 million was appropriated to compensate 285.9 full-time equivalent employees.

The Sheriff has the responsibility for custodial services in the County Building and the suburban facilities because they all contain courthouses and the care of courthouses under Illinois law is entrusted to County Sheriffs.⁶⁸ However, the 1970 Illinois Constitution allows counties to change the powers of county officers by either state statute or county ordinance.

The Sheriff's custodial duties are not core functions of a law enforcement office. As such, this function can reasonably be transferred to another department such as the Department of Facilities Management or outsourced to a private janitorial firm. The County did embark on a limited pilot janitorial privatization program in Board President Todd Stroger's first year in the office, but then quickly reversed course. In 2001 Board President John Stroger's County Operation Review Team reported that privatizing janitorial services could save as much as \$5 million per year.⁶⁹

Other Outsourcing Possibilities

Several other non-core Cook County functions are possible candidates for privatization.

Process of Service function. Currently, plaintiffs who file civil lawsuits must pay the Sheriff a fee for service of summons and complaint upon the defendant. Commissioner Mike Quigley's 2003 report *Reinventing Cook County*, designed to explore ways that County operations and structure could be made more efficient, noted that the fee does not cover the cost of the summons and the Sheriff's success rate in serving the summons is not 100%. *Reinventing Cook County*

⁶⁶ See Civic Federation. *Alternative Service Delivery Issue Brief*, December 1, 2006.

⁶⁷ Cook County FY2010 Appropriation Bill, p. V-22.

⁶⁸ 55 ILCS 5/3-6017.

⁶⁹ See Cook County Commissioner Mike Quigley, *Reinventing Cook County*, Part II, December 2003, p. 37.

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estimates that privatizing this function could save up to \$8.2 million per year.⁷⁰ One of the factors that was used to calculate the amount of potential savings in the report was that the \$25 process of service fee that was charged in 2003. The fee is now \$60, so savings will be less.⁷¹

Pharmacy function. Cook County currently employs 338.3 Pharmacy FTEs at a projected salary cost in FY2010 of \$25.5 million.⁷² Even if only 5% savings were achieved through outsourcing to a private vendor, approximately \$1.2 million could be saved annually.

Print shop function. The County currently maintains four separate print shops for the County, the Clerk of the Circuit Court, the Forest Preserve District and Oak Forest Hospital. These shops should be consolidated.

- Time Frame for Implementation: 1 year
- Responsible Official(s): Board President
- Overlapping Official(s): Sheriff, Chief Executive Officer of Health System
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: at least \$6.2 million

18. Maximize Medicaid Revenues to the Health System

It is critically important that the Health System seek every opportunity to expand its volume of Medicaid business. Given that Medicaid is the primary source of Health System operating revenue, it is troubling that patient fees in FY2010 are expected to be as much as \$40 million below budgeted levels.

The Health System has attributed the decline in Medicaid revenues in part to a failure to aggressively participate in a state Medicaid managed care program. This lapse, linked to personnel changes, is of particular concern because Medicaid is expected to move increasingly in the direction of managed care.

The decline in newborn deliveries at Stroger Hospital is also of concern because low-income pregnant women are eligible for Medicaid and have apparently chosen to deliver their babies elsewhere, even if they visit Stroger clinics for prenatal care. The number of deliveries is expected to play a major role in the State's decision in July of 2011 about whether to continue Stroger Hospital's designation as a perinatal center.

The Health System has begun to plan for the expansion of Medicaid coverage in 2014 under the federal health reform law and this planning should be made a priority. More than 600,000 Illinois residents are expected to become eligible for Medicaid in 2014. The federal government will reimburse all costs for these newly eligible recipients from 2014 through 2016, with the federal share declining to 90% for 2020 and beyond.

⁷⁰ Ibid., p. 31.

⁷¹ See http://www.cookcountysheriff.org/faq/faq_serviceofprocess.html.

⁷² Cook County FY2010 Appropriation Bill, pp. D-15-D-17.

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Health reform could represent a unique opportunity for the Health System, if it is able to attract a substantial share of the newly eligible Medicaid recipients. If Health System patients who are newly covered by Medicaid choose other healthcare providers, the Health System could be left in a much worse position, serving an even larger share of uninsured patients and jeopardizing the financial health of the System in the long-term.

- Time Frame for Implementation: 1 year
- Responsible Official(s): Health System officials
- Overlapping Official(s): None
- Estimated Cost of Implementation: Included in PricewaterhouseCoopers' performance improvement contract
- Potential Cost Savings: None, but substantial revenues could be realized

19. Reform Information Technology Practices

Information Technology is closely related to business processes. The current County systems hinder cooperation and efficiency in operations and must be addressed.

Fully Implement an Enterprise Resource Planning System

After the Board President has collaborated with the Chief Information Officer to choose a proper ERP system for the County, the next step is to fully implement the chosen system across the County. The elements of a complete ERP system include the following modules: general ledger, accounts payable, fixed assets, inventory, purchasing, accounts receivable, budgeting, grants, human resources, payroll and work flow. The County never fully implemented its existing ERP system, losing many of the efficiency and cost saving benefits inherent in these systems. By committing time and resources upfront to the complete installation of a new or upgraded ERP system, the County will dramatically reduce expenditures going forward.

- Time Frame for Implementation: 1 year
- Responsible Official(s): Board President and Chief Information Officer
- Overlapping Official(s): Elected Officials
- Estimated Cost of Implementation: \$10 to \$29 million, depending on choice, over several years
- Potential Cost Savings: Negligible in Year 1, up to \$20 million per year if properly implemented⁷³

Create an Enterprise-wide Policy for all Cook County Information Technology Needs

The County's Information Technology department currently troubleshoots small items instead of thinking globally and moving proactively. Instead of using technology to streamline operations, the County has attempted to replicate traditional paper-based processes. Under the direction of a new central Chief Information Officer, the County should implement an IT strategy that forces the government to re-engineer existing systems and processes. The aim should be to achieve

⁷³ Cook County Board of Commissioners, Notice, August 24, 2010 (transmitting a communication requesting authorization for the Purchasing Agent to amend the Lawson contract with the Health System).

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specific operational goals and cost savings. The Civic Federation estimates that the County can reduce IT expenditures by 5% once a countywide policy is implemented.

- Time Frame for Implementation: 1 year
- Responsible Official(s): Board President and Chief Information Officer
- Overlapping Official(s): Elected Officials
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: \$8.0 million⁷⁴

Study the Possibility of Switching to VOIP Telecom Services and Cloud Computing

Some governments, including the State of Illinois, are looking into using Voice Over Internet Protocol for its phone services. The Federation recommends that the County also explore this option as the opportunity for cost-savings exists due to the possibility to use existing data networks for both phone and web access, eliminating the need for land line telephone service.

According to the National Association of Counties (NACo), cloud computing, which means services and data are hosted over the internet as opposed in-house, are resulting in lower IT costs for governments.⁷⁵

- Time Frame for Implementation: 1 year
- Responsible Official(s): Board President
- Overlapping Official(s): None
- Estimated Cost of Implementation: None
- Potential Cost Savings: \$8.0 million⁷⁶

20. Reform Purchasing Practices

Purchasing has been identified in many previous reports as an area where there are opportunities to achieve significant costs savings and operational improvements. It is an area that exemplifies the outmoded practices of the County and through reform can come to represent its modernization.

Consolidate Purchasing Across the Organization

An internal or external analysis should be utilized to look for opportunities across the County where spending for commodities can be consolidated. Purchasing can then monitor the marketplace to make the purchases when most favorable to the County and leverage the full buying power of the County through various modern procurement methods. For example, demand management seeks to limit placement of multiple orders for the same items while vendor

⁷⁴ Calculation based on annual IT spend rate of \$160 million for IT needs across the County. See EKI report, p. 146.

⁷⁵ Charles Taylor, "Cloud computing could mean silver linings for county IT." NACo Current Issues, Vol. 42, No. 16, September 6, 2010.

⁷⁶ Calculation based on annual IT spend rate of \$160 million for IT needs across the County. See EKI report, p. 146.

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management consolidates spending to a set of preferred vendors willing to negotiate lower prices in exchange for higher volumes.⁷⁷

- Time Frame for Implementation: 1 year
- Responsible Official(s): Board President and Chief Procurement Officer
- Overlapping Official(s): Elected Officials
- Estimated Cost of Implementation: Could be significant.
- Potential Cost Savings: The County currently spends over \$1 billion in vendor expenses annually.⁷⁸ A 5% savings on vendor costs could yield \$50 million annually.

Implement Procurement Card Program

A well designed procurement card program for small purchases can lead to efficiencies, although strong protections against fraud and abuse must be in place. Under a procurement card program, employees are allowed to deal directly with suppliers, using credit cards that generally have pre-established credit limits. The cards enable electronic procurement and facilitate on-line ordering, frequently from pre-approved suppliers under blanket contracts for small purchases.⁷⁹ The Office of the Purchasing Agent is currently working to implement a procurement card program for purchases between \$750 and \$25,000.⁸⁰

- Time Frame for Implementation: 1 year
- Responsible Official(s): Chief Procurement Officer
- Overlapping Official(s): Board President, Elected Officials
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Not Applicable

Promote County as a Desirable Business Partner

Some vendors may be hesitant to do business with the County because of the unique requirements of governmental purchasing. The County should take steps to reduce barriers to vendors when possible. One key issue for vendors in the current marketplace is timely payment. Purchasing should work with relevant departments to track and improve vendor payment and publicize positive performance measures. In addition, contract stipulations should be evaluated and modified if necessary. Lastly, the purchasing staff should solicit feedback from vendors about barriers to doing business within the County.

- Time Frame for Implementation: 1 year
- Responsible Official(s): Board President
- Overlapping Official(s): Chief Procurement Officer

⁷⁷ Electronic Knowledge Interchange, *Transforming Cook County Government: OPTIMA Phase I*, July 8, 2010, p. 151.

⁷⁸ Electronic Knowledge Interchange, *Transforming Cook County Government: OPTIMA Phase I*, July 8, 2010, p. 143.

⁷⁹ See National Institute of Governmental Purchasing, Online Dictionary, <http://www.nigp.org/eweb/docs/education/OnlineDict/DictP.htm> (last visited on October 21, 2010).

⁸⁰ Cook County, FY2010 Appropriation Bill, Departmental Overview, p.C-34.

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- Estimated Cost of Implementation: Minimal
- Potential Cost Savings: Increased pool of vendors may lead to reduction in the prices for goods and services.

21. Provide Incentives for Further Expenditure Reductions and Fee Revenue Enhancements

Across-the-board reductions provide little incentive to departments and elected officials to proactively reduce their budgets. Oakland County, Michigan provides one example of an alternative approach.⁸¹ Each elected official was provided an annual reduction target for the subsequent three years and told that any surplus savings at year-end would be designated in fund balance to be utilized as a one-time source of funds that could be applied in future years. The result was that officials had an incentive to take budget reduction actions as soon as possible to accumulate savings. Our recommendation to targeting the Health System subsidy instead of expenditures has a similar impact by encouraging increased revenue collections.

Cook County should utilize financial forecasting and the make forecasts publicly available to determine the scale of the reductions that will be necessary over the next two to five years. The Government Finance Officers Association (GFOA) recommends that all governments engage in long-term financial planning that utilizes financial forecasting and that is visible to the public.⁸² The forecast reduction targets should be used as the basis to provide a multi-year reduction target to departments and elected officials. This can serve as the basis to provide departments with incentives to proactively reduce budgets and increase revenues.

- Time Frame for Implementation: 1 year
- Responsible Official(s): Board President
- Overlapping Official(s): Board of Commissioners, All Elected Officials
- Estimated Cost of Implementation: Minimal
- Potential Cost Savings: Minimal

22. Fully Exercise Presidential Budgetary Authority

Research prepared for the Civic Federation suggests that the Board President possesses executive authority over the budgets of all County offices and departments including those of the elected officials. Whether or not authority is exercised appears to be a matter of presidential discretion. Thus, one way to cap or control County expenditures would be for the Board President to actually use this authority.⁸³

Illinois law vests power generally in the Cook County Board of Commissioners (i.e., the “Board”) in terms of matters relative to budget, appropriations and the levy of property taxes.⁸⁴ Specifically, the provisions provide that the Board “shall appropriate such sums of money as may be necessary to defray all necessary expenses and liabilities of said Cook County...”⁸⁵ The

⁸¹Laurie Van Pelt, “Oakland County: emphasizes long-term planning over immediate fixes”, *Government Finance Review*, April 2010.

⁸² Government Finance Officers Association, *Long-Term Financial Planning* (2008).

⁸³ Thomas J. McNulty, Esq., of Neal, Gerber and Eisenberg prepared the material contained in this section.

⁸⁴ 55 ILCS 5/6-240001 and 5/6-240002.

⁸⁵ 55 ILCS 5/6-24001 (1999).

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budget process requires the estimation of assets and liabilities, which, in turn, form the basis of the tax levy. As in the case of any other county or any other County Board ordinance, the Board President does have veto power that can be overridden by a three-fifths vote.⁸⁶

The powers and duties of the Chief Administrative Officer of Cook County are also outlined in Illinois law.⁸⁷ The Chief Administrative Officer is given “all the powers and shall exercise all the duties granted to the Board of Commissioners of Cook County with respect to the preparation of the County budget or budget estimates and the administration of the budget appropriations” The Chief Administrative Officer is under the “policy direction and control of the Board President and the County Board.”

It is the practice in Cook County for the Chief Administrative Officer to report to and interact directly with the Board President. Therefore, the Chief Administrative Officer plays a key role in the executive recommendation for the annual county budget. Despite the vesting of appropriations power in the Board as a whole, once the appropriation bill is adopted, it is the Board President who controls the expenditures. The Board President has binding control over the monthly schedule for the year’s proposed expenditures. The statutory language states the following:

A monthly schedule for the year of proposed expenditure, including any limitations or conditions against appropriations for each program, sub activity and the agency or department shall be made within 30 days of the adoption of the annual appropriation bill and such schedule, as amended by the Board President, shall be binding upon all officers, agencies and departments and such schedule of expenditure or of incurring obligations may not be exceeded, provided that any such schedule may be revised after three calendar months have elapsed since the last schedule.⁸⁸

Therefore, the Board President because of the authority he or she possesses to establish binding monthly expenditure schedules ultimately does have budgetary authority over all County officials.

- Time Frame for Implementation: 1 year
- Responsible Official(s): Board President
- Overlapping Official(s): Not Applicable
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Not Applicable

23. Prepare a Comprehensive Capital Improvement Program Updated Annually

Although the County provides information in its capital program annually, which includes estimated five-year cost and descriptions of the project to be funded, more detail regarding the capital needs and the prioritization for projects should be made available. In order to ensure the

⁸⁶ 55 ILCS 5/2-6008.

⁸⁷ 55 ILCS 5/3-14008.

⁸⁸ 55 ILCS 5/6-24007.

effectiveness of capital spending, Cook County should develop a comprehensive capital improvement plan (CIP) that includes a prioritized list of all proposed capital projects and funding sources. Goals and guidelines in a CIP document help manage capital spending effectively to meet legislative goals. These goals should include maintaining current assets while improving those assets through upgrades and monitoring any increase in operational cost that often accompanies new capital projects.

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

- Time Frame for Implementation: 1 year
- Responsible Official(s): Board President
- Overlapping Official(s): Chief Officer of Capital Planning
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Not Applicable

24. Implement a Formal Long-Term Financial Planning Process

Cook County currently employs many of the techniques of a long-term financial planning process internally, including the projection of multi-year revenue trends and modeling of various revenue and expenditure possibilities. Cook County should develop and implement a formal long-term financial planning process that allows for input from the Cook County Board of Commissioners and key external stakeholders, along with members of the public. The Board President should submit to the Finance Committee revenue and expenditure projections for the next five fiscal years as well as narrative explanations of assumptions made in order to reach the projections. For an example of what such a plan would look like, please see best practice examples at the website of the Government Finance Officers association, located at www.gfoa.org.

- Time Frame for Implementation: 1 year
- Responsible Official(s): Board President
- Overlapping Official(s): Chief Financial Officer, Budget Director
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Not Applicable

25. Develop, Track and Publicize Purchasing Performance Goals and Metrics

Performance measurement and goal setting are encouraged for all county functions, but are especially critical within the Purchasing area. Purchasing can involve trade-offs between various goals such as cost reduction, adherence to regulations, expanding opportunities, efficiency and other policies. Clear goals and performance measures ensure that purchasing within the County is focused on the most critical objectives. Performance measures can also build trust among

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partners. County departments and outside contractors may be more eager to cooperatively work with the Office of the Purchasing Agent when a track record of success can be demonstrated. The Cook County Cost Control Task Force identified timeliness as a key metric that should be the subject of benchmark studies in order to ensure the County is in step with current norms.⁸⁹

- Time Frame for Implementation: 1 year
- Responsible Official(s): Board President and Chief Procurement Officer
- Overlapping Official(s): Not Applicable
- Estimated Cost of Implementation: None
- Potential Cost Savings: None

⁸⁹ The Civic Federation and Chicagoland Chamber of Commerce, Cook County Cost Control Task Force, June 2001, p.56.

Recommendations for Year 2

The Civic Federation recommends that in year two of the incoming Board President's term the County focus on reforming the County's criminal justice system.

26. Reform Criminal Justice Practices

The two major areas of Cook County expenditures are criminal justice and health. The County has already begun the process of reforming the Health System and should begin to undertake modernization of criminal justice by addressing public safety operations and policies.

Begin Implementing Public Safety Task Force Recommendations

The Cook County Board should consider the Public Safety Task Force findings and adopt suitable recommendations. The Board President, with the cooperation of the public safety elected officials, should focus on making improvements to criminal justice operations and improving efficiency. The Cook County Board should consider larger criminal justice policy issues that may arise from the task force, such as how to address non-violent and mentally ill offenders, the proper adjudication process including the possible role for recognizance bonds and electronic monitoring, diversion programs and juvenile detention alternatives.

- Time Frame for Implementation: Year 2
- Responsible Official(s): Board President
- Overlapping Official(s): Cook County Board, Chief Judge of the Circuit Court, the Clerk of the Circuit Court and the Sheriff
- Estimated Cost of Implementation: Unknown
- Potential Cost Savings: Could be substantial

Establish a Performance Management System for Criminal Justice Departments

As it exists right now, there is limited available data related to the performance of the County's criminal justice functions. Within in the first 100 days of taking office, the Board President should appoint a senior official to implement a performance management system within the Public Safety departments. Accountability standards should be set and departments should obtain performance goals. The goals could include the following measurements: number of cases per week, judges sitting for a certain number of hours each day and automation of certain functions. The focus on these measurements should be delivering justice in an efficient manner.

If the established goals and benchmarks are not met within four months of implementation, then the Board President should exercise budget authority to withhold funds until the department can perform to the set standards.

Going forward, the Chief Performance Management Officer should oversee data collection for all aspects of Public Safety operations – court rooms, jails and juvenile systems. Standards for data collection should be set within 12 months by the CPMO, with reporting of data contingent on receiving funds for the upcoming fiscal year.

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- Time Frame for Implementation: 2 years
- Responsible Official(s): Board President
- Overlapping Official(s): Sheriff, Chief Judge, State's Attorney
- Estimated Cost of Implementation: Moderate
- Potential Cost Savings: Unknown

Proceed with Implementation of Electronic Filing for the County's Court System

Currently the County is running a pilot program for electronic filing of court documents. The Civic Federation recommends that the County proceed with conversion to electronic filing, which saves time and money for those filing documents and for the court system. Electronic filing reduces the amount of time employees spend waiting on customers, eliminates paperwork and reduces storage costs.⁹⁰

- Time Frame for Implementation: 2 years
- Responsible Official(s): Board President
- Overlapping Official(s): Chief Judge, State's Attorney, Clerk of Circuit Court
- Estimated Cost of Implementation: Moderate
- Potential Cost Savings: \$19.9 million⁹¹

27. Reevaluate Health System Strategic Plan Based on Financial Resources and Geographic Needs

The Cook County Board of Commissioners in July of 2010 approved the Health System's five-year strategic plan, The Health System should regularly evaluate whether the plan continues to make sense in light of the System's financial resources and the demographics of the County. The plan calls for shifting resources to outpatient care by eliminating inpatient and emergency room services at Oak Forest Hospital and most inpatient services at Provident Hospitals. The plan focuses on making preventive and specialty outpatient care more accessible to County residents.

The Civic Federation supported the strategic plan but expressed concerns that more reductions in Health System operations might be necessary. The plan should be adjusted to respond to financial constraints and population shifts.

- Time Frame for Implementation: 2 years
- Responsible Official(s): Health System officials
- Overlapping Official(s): Board President, Board of Commissioners
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Not Applicable

⁹⁰ Commissioner Forrest Claypool, *Applying Technology To Improve Service and Reduce Costs in Cook County Government*, November 18, 2004, p. 19.

⁹¹*Ibid.*, p. 27. The estimate was updated to account for FY2010 personnel costs but does not account for potential reductions in document storage costs, which could be substantial.

EXCERPT

28. Separate the Cook County Forest Preserve District from Cook County Government

The Civic Federation calls on Cook County elected officials to support legislation pending in the Illinois General Assembly that would create a separate board of commissioners for the Forest Preserve District of Cook County.

In the spring of 2008 the Civic Federation, along with Friends of the Forest Preserves, issued a report advocating for the creation of a separate elected Board of Commissioners to govern the Forest Preserve District of Cook County.⁹² The report stated that due to an organizational structure that creates an inherent conflict of interest and inhibits proper oversight, the District suffers from numerous problems that may be improved by installing a separate governing body.

With respect to the conflict of interest, the report stated that certain actions taken by the Commissioners illustrate the fact that they are placed in irreconcilable positions when asked to choose between economic development and land preservation. These actions included the sale of District land to the Village of Rosemont in 1999, granting the Village of Morton Grove a permanent easement over District lands in 2000, consideration of a land swap proposal between the District and Mittal Steel in 2005 and the transfer of \$13.3 million from the District to the County in 2007.

The report also cited a disproportionate allocation of meeting time between County issues and District issues. Commissioners are appropriately required to spend great amounts of time dealing with issues pertinent to their County oversight duties, including operating the nation’s second-largest unified trial court system and reducing the County’s huge structural deficit. These time-consuming issues leave the Commissioners little time to focus on the needs of the District and inhibit their ability to properly manage the District.

This situation is illustrated by the allocation of meeting time between County issues and District issues. As an example, in 2007 the Commissioners met 33 times to discuss County issues, while meeting only 11 times to discuss issues pertinent to the District.⁹³ While having the County Board meet three times more than the District Board is unusual, from 2003 through 2006 the County Board met twice as many times than the Forest Preserve Board.

Cook County Board Meetings: County v. Forest Preserve District						
2003 - 2008						
	2003	2004	2005	2006	2007	2008*
County	23	23	24	26	33	22
Forest Preserve District	11	11	11	11	11	11

*Proposed Meeting Dates

Source: Cook County Clerk Office and Cook County Forest Preserve District

⁹² The Civic Federation and Friends of the Forest Preserves, *Forest Preserve District of Cook County: A Call for a Separate Board of Commissioners*, March 2008, http://www.civicfed.org/articles/civicfed_269.pdf (last visited on October 20, 2010).

⁹³ Cook County Clerk’s Office Website – Board Meetings Archive 2007 Meeting Dates at http://www.cookctclerk.com/sub/meetings_archive.asp?year=2007 (last visited on January 8, 2008); Forest Preserve District of Cook County Meeting Dates and Agendas 2007 at http://www.fpdcc.com/tier3.php?release_id=390 (last visited on January 8, 2008).

EXCERPT

In contrast to the Forest Preserve District of Cook County Board, the Forest Preserve District of DuPage County Board of Commissioners met 50 times in 2007 to manage a district that is approximately one-third the size of the Forest Preserve District of Cook County.⁹⁴ As shown in the figure below, between 2003 and 2006 the DuPage District Board met an average of 47.5 times a year and is scheduled to meet another 46 times in 2008.⁹⁵ While half of the Forest Preserve District of DuPage County’s meetings are planning sessions and the other half are commission meetings, board members are required to attend both.

Forest Preserve District Board Meetings: DuPage County v. Cook County 2003 - 2008						
	2003	2004	2005	2006	2007	2008
DuPage County	47	48	48	47	50	44
Cook County	11	11	11	11	11	11

Sources: DuPage County and Cook County Forest Preserve Districts.

The report pointed to numerous problems arising from the current governance structure. Some of the negative consequences affected the District’s finances, including a failure to address the District’s general financial difficulties, inadequate adherence to transparent financial procedures and failure to develop a Capital Improvement Plan until after approving a \$100 million bond issue. Other problems are operational and include questionable land management practices, a slow rate of land acquisition and the allowance of private use of public lands.

The Civic Federation and the Friends of the Forest Preserves strongly recommend that a separately elected Board of Commissioners be created for the Forest Preserve District of Cook County. This action does not create a new government entity and its creation should not result in any additional costs for the District. The new board should be elected countywide via a non-partisan election and have a board president selected among and by the members of the board. A separate board will allow voters to elect Commissioners on the basis of candidates’ positions, credentials, experience and interest in forest preserve governance. It will also provide the necessary governance and oversight required for operating one of the largest forest preserve districts in the nation.

Legislation has been introduced in the Illinois General Assembly to create a separate board of commissioners for the District.⁹⁶

- Time Frame for Implementation: 2 years
- Responsible Official(s): Illinois General Assembly
- Overlapping Official(s): Board President, Board of Commissioners
- Estimated Cost of Implementation: Nominal

⁹⁴ Forest Preserve District of DuPage County Meeting Schedules at <http://www.dupageforest.com/commissioNotApplicablelegenda.php> (last visited on January 10, 2008).

⁹⁵ Forest Preserve District of DuPage County Meeting Schedules at <http://www.dupageforest.com/commissioNotApplicablelegenda.php> (last visited on January 10, 2008); Forest Preserve District of DuPage County Resolutions 02-594, 03-459, 04-335, 05-326, 07-300.

⁹⁶As of this writing, House Bill 5128 has been assigned to the House Rules Committee and its companion bill, Senate Bill 176 is currently in the Senate Assignments Committee.

- Potential Cost Savings: Nominal

29. Identify and Restrict Cost-Shifting to the Health System from Other Healthcare Providers

The Health System should determine the extent to which it is bearing costs that should be borne by other healthcare providers and implement policies to eliminate the major sources of this cost-shifting.

Examples of cost-shifting include the provision of free care to non-residents of Cook County, the provision of free prescriptions to patients of health facilities that receive federal subsidies to provide prescriptions and the provision of free immunizations to patients enrolled in Health Maintenance Organizations. Currently, the System does not have adequate systems in place to determine the amount of cost-shifting and the impact on the System's budget.

As part of its performance improvement initiative, the Health System should identify cost-shifting problems as quickly as possible and determine what policies need to be implemented to eliminate them.

- Time Frame for Implementation: 3 years
- Responsible Official(s): Health System officials
- Overlapping Official(s): Board President, Board of Commissioners
- Estimated Cost of Implementation: Moderate
- Potential Cost Savings: Could be substantial

Recommendations for Year 3

30. Create a Unified Property Tax Administration Office

The Civic Federation proposes that a unified property tax administration office be created. The new office would merge the Treasurer's office; the County Clerk's tax extension, tax redemption and map divisions; the part of the Recorder's office dealing with property records; and the Auditor's property functions. It would be appointive. Several previous proposals had called for merging the assessor's office into a unified property tax administration office.⁹⁷ However, the Federation believes that this move could potentially compromise the integrity and independence of the property assessment process. Instead, assessment should be maintained separately from the property tax extension, redemption, collection and disbursement processes. Creating a unified Office of Property Tax Administration would require a county referendum.⁹⁸

In FY2010, combined General Funds expenditures for the different offices were appropriated at \$30.4 million. Assuming a 5% reduction in costs as a result of a merger, as much as \$1.5 million could be saved. If only General Funds appropriations are considered, savings would be much less – 5% of the \$16.7 million in General Fund appropriations would yield approximately \$0.8 million.⁹⁹

- Time Frame for Implementation: 3 years
- Responsible Official(s): Board of Commissioners, Voters
- Overlapping Official(s): Not Applicable
- Estimated Cost of Implementation: Minimal
- Potential Cost Savings: \$0.8 million to \$1.5 million

31. Merge Clerk and Recorder of Deeds Offices

Two possible candidates for further consolidation would be the Offices of County Clerk and the Recorder of Deeds. In Illinois counties with population of under 60,000, the county clerk is also the recorder. This is also the case in many counties across the nation. If the Office of Tax Administration discussed above was adopted, a consolidated Clerk-Recorder would retain responsibility for vital records and elections. Implementing this proposal would require approval by county referendum.¹⁰⁰ The *Reinventing Cook County* report by Commissioner Quigley estimated in 2003 that this effort could save approximately \$616,000 through elimination of duplicative functions.¹⁰¹ In FY2010, combined General Fund expenditures for both offices appropriated at \$16.27 million. Assuming a 5% reduction in costs as a result of a merger, as much as \$0.8 million could be saved.

⁹⁷ See Cook County Commissioner Mike Quigley, *Reinventing Cook County*, Part I, December 2003, pp. 20-22 and Civic Federation Statement on House Bill 1346, Seventy-First Session, Illinois General Assembly (1959).

⁹⁸ Illinois State Constitution Article VII Section 4(c) County Officers.

⁹⁹ Cook County FY2010 Appropriation Bill.

¹⁰⁰ Illinois State Constitution Article VII Section 4(c) County Officers.

¹⁰¹ Cook County Commissioner Mike Quigley, *Reinventing Cook County*, Part I, December 2003, p. 23. The report assumed a 5% savings from consolidation.

EXCERPT

- Time Frame for Implementation: 3 years
- Responsible Official(s): Board of Commissioners, Voters, General Assembly
- Overlapping Official(s): Clerk, Recorder of Deeds
- Estimated Cost of Implementation: Minimal
- Potential Cost Savings: \$0.8 million

32. Allow the Judiciary to Appoint the Clerk of the Circuit Court

The Illinois Constitution permits the General Assembly to authorize appointment of Circuit Court Clerks by the Circuit Court Judges.¹⁰² Therefore, this change would require state legislation. Of the eight counties nationwide reviewed in this report, Hennepin and Los Angeles Counties appoint their court clerks. The argument for appointment rather than election of this office is that it is a ministerial rather than a policymaking office.

- Time Frame for Implementation: 3 years
- Responsible Official(s): Board of Commissioners, Illinois General Assembly
- Overlapping Official(s): Chief Judge
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Nominal

33. Establish Reserve Funds for Capital Equipment Replacement

Since FY2001 Cook County has spent increasing amounts of long-term debt to purchase capital equipment. This category includes assets with much shorter useful lives than the term of the bonds used to purchase the assets. Capital equipment includes such items as office furniture, vehicles and computers. By using long-term debt to purchase these items, the County increases the overall cost of the asset through interest on the loans and may end up paying for assets long after they have been retired from service.

The County's total appropriations of capital bond funds to purchase frequently replaced capital equipment decreased from a total of \$26.1 million in FY2001 until FY2005, when no bond funds were used to purchase capital equipment. However, since FY2005 the total appropriated bond funds for capital equipment increased to a total of \$114.2 million in FY2011, a 336.9% increase from FY2001.

Rather than using bond funds for capital resources with shorter useful lives than the life of the debt, Cook County should establish a capital reserve policy in accordance with the best practices prescribed by the Government Finance Officers Association.¹⁰³ According to the best practices recommended by GFOA, the County should adopt the following policies for acquisition, maintenance and replacement of capital equipment:

¹⁰² Illinois State Constitution, Article VI, section 18 – Clerks of Courts.

¹⁰³ GFOA, Capital Asset Management, Maintenance and Replacement Policy, (2007 and 2010), http://www.gfoa.org/downloads/GFOA_capassetspolicyBP.pdf (last visited on October 1, 2010).

EXCERPT

- Maintain and update annually a comprehensive inventory of all capital assets including estimated replacement cost, periodic physical condition updates and realistic useable life estimates;
- Establish replacement plans for all capital equipment with a schedule for purchase prioritized by overall goals and objectives of the County to maintain service levels;
- Allocate adequate annual funding to capital reserves to enable replacement of capital equipment within the estimated usable life of the asset without using long-term bond proceeds; and
- Establish an ongoing source of funds for both the capital plan and budget for renewal and repair of capital equipment.

Using these reserve funds rather than funding purchases through the proceeds of long-term bonds will save on interest cost. This would also reduce the overall cost of County government by reducing annual operating cost for debt service and prevent multiple layers of annual debt service due for capital equipment that is no longer in service. Capital purpose debt should not be used for basic capital maintenance and routine replacement of short-term capital such as vehicles, computers and software and office renovations.¹⁰⁴

- Time Frame for Implementation: 3 years
- Responsible Official(s): Board President, Chief of Capital Planning
- Overlapping Official(s): Board of Commissioners
- Estimated Cost of Implementation: Not Applicable
- Potential Cost Savings: Not Applicable

¹⁰⁴ John Vogt, *Capital Budgeting and Finance: A Guide for Local Governments*, ICMA, 2004, p. 8.

Recommendations for Year 4

34. Implement Pension Reforms

The Cook County pension fund actuarial value funded ratio has fallen from 94.0% to 63.2% over ten years. The unfunded accrued actuarial liabilities have reached \$4.6 billion, or \$876 per Cook County resident. While the County's pension fund is not yet in as dire straits as some other state and local pension funds, it soon will be if no action is taken. Major reforms to contributions and benefits will keep the pension fund solvent and distribute tax burden more fairly by tackling the problem sooner rather than requiring larger service cuts or tax increases later to keep promises made to retirees and employees.

Fund Pensions at the Annual Required Contribution Level

The cost to fund at the annual required contribution (ARC) level will be high: In FY2009 the employer cost would have almost tripled, adding an additional \$322.5 million to the current \$188.3 million employer contribution. This cost increase would be reduced if the ARC funding were shared with employees (e.g., 60/40 or 50/50).

Reduce Benefits for Current Employees

Following the recommendations put forth by the Civic Committee, the County will likely need to reduce expenditures for current employees. Retiree benefits are protected and future hire employee benefits were reduced during the last legislative session. If the pension plan's funded ratio is allowed to deteriorate past the point of recovery, current employee benefits will have to be reduced.

Implement Governance Reforms

The County should reform board governance to be more balanced with management and citizen members rather than employee/retiree dominated.

Increase Contributions

Employer and employee contributions should be increased and made actuarially related to fund health (see the Chicago Transit Authority model—perhaps a 60%/40% employer/employee contribution structure). This will be expensive. In FY2009 the County contributed \$188.3 million to the pension fund but it should have contributed an additional \$322.5 million in order to meet the actuarially calculated needs of the fund.

Prohibit Benefit Enhancements Until 90% Funded

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

EXCERPT

- Time Frame for Implementation: long-term, will require state legislation
- Responsible Official(s): Board President, Board of Commissioners
- Overlapping Official(s): Illinois General Assembly
- Estimated Cost of Implementation: Adds costs in the short-term. Cost to fund at actuarial level (ARC) will be high: In FY2009 the employer cost would have almost tripled, adding an additional \$322.5 million to the current \$188.3 million employer contribution. This cost increase would be reduced if the ARC funding were shared with employees.
- Potential Cost Savings: Long-term benefit is that it keeps the pension fund solvent and distributes tax burden more fairly by tackling the problem sooner rather than requiring larger service cuts or tax increases later to keep promises made to retirees and employees.

35. Consider Establishing a Dedicated Revenue Stream for the Health System

The County should consider establishing a dedicated revenue stream for the Health System to serve as the System's total subsidy from the County. The County and the Health System could both benefit from predictability in the System's annual subsidy. The source could either be an earmarked tax or a formula for determining the subsidy.

As a unique, business-like enterprise within the County, the Health System should not be constrained by the County's budgeting process. At the same time, the County cannot afford to allocate unlimited resources to providing healthcare for the indigent. The Health System's five-year strategic and financial plan is focused on reducing reliance on County support by retaining patients who become eligible for Medicaid coverage under federal health reform and attracting new commercially insured patients.

The County could consider earmarking the reduced sales tax entirely to the Health System as its only subsidy. Among issues to be considered is whether all of the growth in sales tax revenue over time should accrue to the System. This is not likely to be a problem in the near future, assuming that the remaining 0.5 percentage point of 2008 sales tax rate increase is rolled back. The County projected total sales tax revenues for FY2011, with only half of the rollback in effect, at \$481 million.¹⁰⁵ The System's total subsidy in FY2010, with all costs included, is expected to exceed \$500 million.

The County could also consider dedicating a lump-sum amount to the Health System that would grow over time as determined by a specified inflation factor. This approach might make sense after the Health System realizes efficiencies laid out in the strategic and financial plan.

Appendix 5: Alternative Financing Structures for the Health System, which can be found in the complete report, provides examples of other public health systems with financing structures that could serve as models for the Cook County Health System.

- Time Frame for Implementation: long-term
- Responsible Official(s): Board President, Board of Commissioners

¹⁰⁵ Cook County FY2010 Annual Appropriation Bill, Citizens' Summary, p. 36.

EXCERPT

- Overlapping Official(s): Health and Hospital System Officials, Chief Financial Officer, Budget Director
- Estimated Cost of Implementation: Nominal
- Potential Cost Savings: Not Applicable

36. Develop a Vision for the County Revenue Structure

Once Cook County streamlines its expenditures and right-sizes its operations, the County should develop a revenue diversification policy to ensure that crucial services receive a stable funding source.

Nationwide, property taxes are the largest source of own-source revenues for counties.¹⁰⁶ Historically, the property tax has been the largest revenue source in Cook County, as well. There has been a clear change in direction of the County's revenue structure away from the property tax as the largest revenue source and toward home rule taxes, including the sales tax. This change appears to be in part the result of a longstanding policy to keep property taxes flat.

Each type of tax and fee brings with it unique advantages and disadvantages. The overall mix of county revenues should be examined and discussed in order to develop a revenue mix target that furthers the County's fiscal and policy goals.

Limited increases in Cook County's property tax levy may be appropriate if these increases are tied to policies that improve the overall financial health of the County. Cook County has not increased the property tax levy during the past ten years, although the same Commissioners have increased the property tax levy for the Forest Preserve District many times over that period. The property tax is an ad valorem tax, which means that it is determined according to value. The tax base (taxable assessed value of property) increased by 67.8% from FY2001 to FY2007. However, in Illinois if the property tax levy is kept flat none of the growth in property tax values or new construction is captured by the tax; only the distribution between taxpayers changes.

The Cook County tax rate for real property has declined by 44.4% from 0.746 in FY2001 to 0.415 FY2008. Cook County's share of the composite Chicago property tax bill has also declined. In 2001, 9.70% of a typical bill was distributed to Cook County¹⁰⁷ and in FY2008 it was 8.60%.¹⁰⁸ Any levy increase should be implemented only as part of a larger financial plan and after the structural deficit and cost drivers are addressed. Limited increases in the property tax levy can then be used to address inflationary increases to ensure the structural deficit does not re-merge. The average inflation rate during the past five years for the Chicago-Gary-Kenosha area was 2.68%.¹⁰⁹ If the property tax levy were increased at 2.68% per year for the next five years, it would generate approximately \$80 million in additional revenue per year.

- Time Frame for Implementation: 4 years

¹⁰⁶National Association of Counties, *Overview of County Government*, <http://www.naco.org/Counties/Pages/Overview.aspx>.

¹⁰⁷ Source: Cook County Clerk, 2001 Tax Rates Extended, p.iv.

¹⁰⁸ Source: Cook County Clerk, 2008 Tax Rates Extended, p.v.

¹⁰⁹ Bureau of Labor Statistics.

EXCERPT

- Responsible Official(s): Board President
- Overlapping Official(s): Board of Commissioners
- Estimated Cost of Implementation: None
- Potential Cost Savings: None