

#### Submitted to Cook County Board President John H. Stroger

May 24, 1995

#### Transition Team Co-Chairs:

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#### FIRST Steering Committee:

Clark Burrus, Chair Thomas P. Beck Joseph Fratto Ronald D. Picur Jane W. Thompson

Volume I

Ms. Jewel LaFontant Mankarious Mr. Christopher Kennedy Co-Chairpersons Stroger Transition Team

Dear Committee Co-Chairpersons:

On behalf of the Financial Issues, Resources & Strategies for Transition (FIRST) Team, we are pleased to transmit our report on the fiscal condition of Cook County and its Forest Preserve District. The FIRST Team is composed of fifty-six members drawn from the following professional communities: accounting, commercial and investment banking, law, management consulting, investment management, actuarial and insurance services, professional associations, academia and other governmental entities.

The entire team was divided into seven subcommittees to examine major components of the fiscal condition and financial position of the County. This report includes a separate chapter for each subcommittee as well as a summary of critical issues and key recommendations for the seven topical areas examined.

As the Steering Committee of the FIRST Team, we wish to sincerely thank our fellow members for their dedication, energy and extensive time devoted to the analyses encompassed in this report. Their combined financial acumen and extensive expertise enabled us to prepare this report which identifies the major fiscal issues facing your administration, both in the immediate future and in years to come. We also wish to express our appreciation for the support and cooperation provided by the staff of the County and its elected officials.

The FIRST Team stands ready to review our report with you and members of your administration. We would be pleased to assist in implementing the recommendations embodied herein in order that the County can enhance its fiscal strength and financial viability.

Sincerely.

The FIRST Team Steering Committee

Clark Burrus, Chairperson

Thomas P. Beck

Joseph Fratto

Ronald D. Picur

Jane W. Thompson

## FINANCIAL ISSUES, RESOURCES & STRATEGIES FOR TRANSITION (FIRST) REPORT

May 22, 1995

**Steering Committee** 

Clark Burrus, Chairperson Thomas P. Beck Joseph Fratto Ronald D. Picur Jane W. Thompson

## FINANCIAL ISSUES, RESOURCES & STRATEGIES FOR TRANSITION (FIRST) REPORT

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#### L INTRODUCTION

The Financial Issues, Resources and Strategies for Transition (FIRST) Team was created by Cook County Board President John H. Stroger, Jr. in December 1994. The FIRST Team had two fundamental charges. The first was to identify and quantify critical fiscal issues facing Cook County as President Stroger took office. Second, the Team was asked to develop substantive recommendations based upon the underlying reviews and analyses conducted during the issue identification stage.

#### **STRUCTURE**

The FIRST Team was initiated when President Stroger named a Steering Committee to provide overall direction and coordination to the financial transition efforts. That Committee assumed the following responsibilities:

- Determination of Topical Areas Drawing upon the fundamental charge outlined above, the Steering Committee prepared a lengthy list of potential topical areas.
   Those topics were subsequently grouped into the following seven general areas:
  - Budgeting, Accounting and Financial Condition
  - Funded Debt and Capital Project Financing
  - Risk and Benefits Management
  - Pension and Deferred Compensation
  - Cash and Grants Management
  - Financial Organization, Systems and Control
  - Forest Preserve District of Cook County

It was determined that each of these topical areas should be analyzed by separate subcommittees.

- Assembling Subcommittees The Steering Committee's next task was to assemble
  a series of subcommittees to conduct the review and analyses for each topical area.
  Members were drawn from the following professional communities:
  - Public accounting
  - Banking
  - Investment banking
  - Law
  - Management consulting
  - Investment management
  - Actuarial services
  - Insurance
  - Professional associations
  - Academia
  - Other governmental entities

Co-chairpersons were selected by the Steering Committee for each of the topical areas.

- Preparation of Specific Charges The Steering Committee next prepared specific
  charges for each topical area based upon the FIRST Team's dual charges. Those
  specific statements were reviewed with the subcommittee co-chairpersons in late
  December during an organizational meeting of the Transition Team. The final
  version of each subcommittee's charge is incorporated in their summarized reports
  which are encompassed within this document.
- Consultation during Reviews by Subcommittees The Steering Committee was available as a sounding board for each subcommittee as they conducted their reviews and analyses during January and February of 1995. Written feedback on the drafts of each subcommittee's report was also provided by the Steering Committee during March.
- Preparation of FIRST Report During April, 1995 the Steering Committee supervised preparation of this document which was compiled by drawing upon each subcommittee's report. Those reports were edited for uniformity and consistency purposes.

#### THE FIRST REPORT

This report represents a compendium of the individual reports prepared by each subcommittee. Each of the following chapters represent the seven topical areas identified above.

In general, each chapter is structured as follows:

- Charge The specific charge of the subcommittee is documented.
- Overview Each chapter contains a brief background statement regarding the topical area under review.
- Issues and Recommendations Subcommittees were instructed to focus their reviews on critical issues and key recommendations. This report generally contains brief discussions of each.
- Summary Table A table which summarizes the critical issues and key recommendations in matrix form is included at the end of each chapter.
- Acknowledgments Each chapter contains an identification of all subcommittee members as well as their affiliation. Cook County officials, management and staff are also acknowledged.

Individual subcommittees also prepared additional documentation in the form of figures, graphs and numerical tables. Those were also incorporated into each chapter.

The Steering Committee felt that the length of several of the subcommittees' reports was such that inclusion in their entirety would draw away from the critical fiscal issues identified in each area. Therefore, the use of summarized versions was chosen as the most effective method of transmitting the FIRST Team's report to the County and public.

#### **ACKNOWLEDGMENTS**

The Steering Committee wishes to acknowledge the following individuals or organizations for their assistance in preparing this report:

- John Chambers, Cook County Comptroller and Acting Chief Financial Officer, served as the primary liaison to the County for all seven subcommittees.
- Orlando Jones, Chief of Staff for Cook County, served as the President's Office liaison to the FIRST Team.
- Lacy Thomas, Chief Financial Officer for the Cook County Hospital, served as the Hospital's liaison to the FIRST Team.
- Mezell Williams, Chief Financial Officer for the Forest Preserve District of Cook County, served as the District's liaison to the FIRST Team.
- Clark Burrus, Vice Chairman, First Chicago Capital Markets, Inc., served as the Steering Committee Chairperson for the FIRST Team and provided overall coordination of the reviews and analyses conducted by the subcommittees.
- Ronald D. Picur, Professor of Accounting and Department Head at the University of Illinois at Chicago, served as technical editor providing written feedback for each subcommittee's draft and also compiled this report.

The Steering Committee wishes to acknowledge the time, energy and insight of the multitude of financial experts and professionals who conducted the reviews and analyses which culminated in this FIRST Team Report. This project would not have been possible without their dedication and support.

#### II. BUDGETING, ACCOUNTING AND FINANCIAL CONDITION

The Budgeting, Accounting and Financial Condition Subcommittee of the FIRST Team was charged with researching, analyzing and making recommendations on the County's fiscal and budgetary conditions. Specific charges included:

- Analyze and assess the County's current financial condition.
- Determine the extent, if any, to which projected 1995 revenues may fall short of budgeted revenues and projected expenditures may exceed appropriations.
- Identify those programs and activities which are fully funded in 1995, but could cause funding gaps in 1996 and beyond.
- Review and analyze the budgets and financial management systems and processes of those agencies controlled by publicly elected officials.
- Highlight concerns and issues that may not require immediate action, but should command attention in subsequent years.

#### SUMMARY

This chapter focuses primarily on the 1995 and 1996 projected structural operating deficits. The comprehensive report of this subcommittee includes additional detailed analyses related to the 1995 and 1996 projected structural operating deficits, as well as discussions and recommendations related to the County's overall financial condition, budgetary process, annual financial statement reporting process and other financial issues.

#### STRUCTURAL OPERATING DEFICIT

The overriding financial issue facing Cook County for the remainder of this decade is a significant and growing structural operating deficit. A structural operating deficit means that operating revenues (e.g., taxes, fees, etc.) are not growing at the same annual rate as operating expenditures (e.g., payroll, fringe benefits, etc.). Thus, there is a basic imbalance built into the operating position and financial structure of the government.

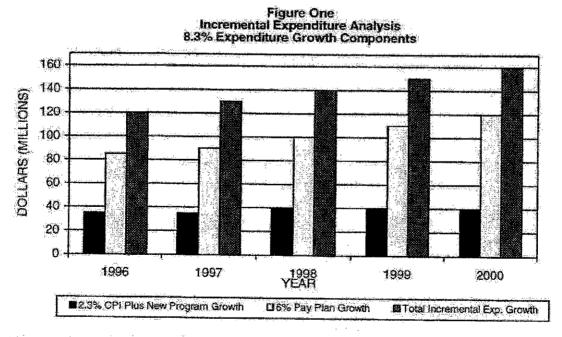
As more fully detailed in the *Financial and Budgetary Issues* section of this chapter (which follows), a structural operating deficit exists in fiscal year 1995 and is estimated to range from \$57 to \$69 million. Further, based on our analysis of fiscal year 1996, this built-in structural structural operating deficit is expected to range from \$107 to \$161 million that year and increase each year thereafter. This means that without specific actions to control and reduce expenditures and enhance revenues, the cumulative operating deficit could reach approximately \$850 million by the end of 2000.

Neither projection reflects additional property taxes associated with the issuance of general obligation bonds necessary to pay for future capital projects of the County including a new hospital. The Funded Debt and Capital Project Financing Subcommittee has estimated that projected debt service would add \$7 million in 1995 and an additional \$21 million in 1996. Debt service is not subject of the Cook County Property Tax Relief Ordinance and is therefore not included in that self-imposed cap. These amounts, however, would require additional property tax levies. Alternatively, if the County decides to hold total property taxes constant, the additional debt service requirements would increase the operating deficit by \$7 million in 1995 and \$21 million in 1996.

#### **PROJECTIONS**

In Cook County's case, existing revenues are estimated to grow at slightly less than 3% per year. That growth rate assumes the Cook County Board enacts an annual increase in the property tax levy of 3.4% (i.e., estimated growth in equalized assessed valuation), the maximum permitted by County ordinance.

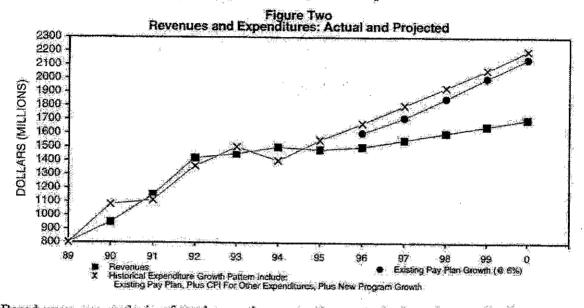
Expenditures will grow at an average annual rate of approximately 8.3%, if past trends during the last four years continue. The 8.3% growth rate was primarily due to the escalating costs of law enforcement and health care, in particular, and the increasing cost of the County's pay plan, in general. Although some of the expenditure increases are due to new programs (e.g., opening Provident Hospital, constructing new jails, etc.), approximately 6% of the 8.3% growth is due to the County's "built-in spending structure" — i.e., the pay plan, cost of living increases, grade level increases and general inflation. Figure One illustrates the future impact of this historical growth pattern.



Although the preliminary and unaudited 1994 fiscal year operating results suggest an excess of revenues over expenditures, the 1995 budget — even after assuming spending only 95% of appropriated amounts — still results in operating expenditures exceeding operating revenues by approximately \$70 million. That excess is primarily due to the built-in costs of the pay plan as

well as new law enforcement and health programs. As a consequence, the average increase of approximately 8.3% experienced in expenditures during the last four years (1991-1994) will produce an operating deficit ranging from \$107 million to \$161 million in 1996 and increasing each year thereafter, if corrective action is not taken.

As indicated in Figure Two, below, if left unchecked, the cumulative deficit excluding additional debt service could reach approximately \$850 million dollars by the year 2000. Figure Two illustrates the nature of the spending growth during that time period.



Based upon our analysis of total operating costs, the control of employee-related costs -i.e., salaries, salary increases, fringe benefits and headcount (i.e., the total number of County employees) – is essential if the projected deficit is to be eliminated. As a result, immediate steps such as those recommended in this report <u>must</u> be considered to correct the County's long-term structural operating deficit.

#### ISSUES AND RECOMMENDATIONS

Table One summarizes critical issues and key recommendations which are more fully discussed in the comprehensive report of the subcommittee. Where feasible, estimates of potential cost savings or potential incremental revenues are provided for these key recommendations. The table also contains explanatory footnotes which describe each recommendation.

Table Two, in the Appendix to this chapter, summarizes other managerial issues and organizational recommendations, for which a direct cost savings cannot be estimated at this point in time.

The four main issues the County must address are:

1. Pay Plan - The annual incremental cost of the pay plan exceeds the expected annual growth in revenues.

- Law Enforcement Expanding law enforcement responsibilities and the consequent
  physical plant and personnel costs associated with the court system and the offices of the
  State's Attorney and Sheriff place substantial spending pressure on both the operating
  and capital budgets of the County.
- 3. Health Facilities The scope of the County's health care responsibility and the rising costs of the health facilities also expend spending pressure on both budgets.
- New Revenue Sources New sources of revenue which grow with the economy are needed in order to reduce the reliance on property taxes and to support increasing health facility and law enforcement costs.

We recommend that expenditures be controlled and reduced <u>first</u>, before considering new revenue sources or increased revenues from existing sources. However, we do recognize that various revenue enhancement alternatives may need to be implemented if expenditure reductions, sufficient to balance the County's operating results, cannot be accomplished.

## Table One Budgeting, Accounting and Financial Condition Critical Issues and Key Recommendations

Structural Imbalance: Operating	1. Freeze all new hiring and reduce headcount	Financial Impact     A 3% reduction in positions yields
ceed Operating		approximately \$39 million. Every 1% reduction in personal services costs yields \$10 million.
54	2. Increase budget "salvage" (unspent appropriations)	• \$15 million for every 1% in salvage
* Escalating Personal Services Costs	<ol> <li>Reduce total pay plan increases to lesser of CPI or revenue growth rate (approximately 3%)</li> </ol>	• \$30 million at 3%.
· Increasing Employee Benefits Costs	4. Increase employee contributions	Each 1% equals \$1.4 million
Substantial Overtime Costs	6. Reduce overtime costs by implementing flexible time and shift programs and review overtime related to the Corrections. Sheriff's Police and nursing functions.	• \$1.3 million for each 5% reduction
Property Tax Subsidy for Elected Officials	6. Develop funding/subsidy limits and cap Elected Officials spending	* \$6 to \$16 million
Stagnant Fee Revenues	7. Authorize and implement a "cost of services" study	* \$10 to \$15 million
	8. Set certain existing fees at maximum level	* \$67 million
	9. Increase law library fees to \$50.	• \$12 million
Existing Taxes - Limited Growth in Future	<ol> <li>Consider implementation of Use Tax Component of County's Sales Tax</li> </ol>	• \$30 to \$35 million
Efficient Provision of Services	11. Pursue opportunities to consolidate the existing County-wide management information systems function as well as the County-wide building and grounds functions.	<ul> <li>Annual County-wide spending for personnel, equipment and supplies is approximately \$51 million for MIS and \$67 million for building and grounds. A 10% reduction in this spending would yield \$12 million.</li> </ul>
	The second secon	

\*Note: See attachment for further explanation of each key recommendation.

# H. Budgeting, Accounting and Financial Condition

## Fable One Explanation of Key Recommendations

Recom-	
tion Code #	Explanation
<del>-</del>	This recommendation indicates that all new hiring contemplated for fiscal year 1995 should be frozen and staffing levels should be reduced from the current level of approximately 28,000 positions. Assuming average salaries and benefits of \$46,500 (\$34,000 average salaries plus a 37% benefits factor) and a 3% reduction in positions (840 positions), personal services costs could be reduced by approximately \$39 million.
ON .	The amount of unexpended appropriations (budget salvage) at the end of the past four fiscal years has ranged from 2.7% to 10.7% of operating tunds appropriations of approximately \$1.5 billion. Budget salvage over this same 4 year period averaged 5.8% which is in excess of the County's targeted budget salvage of 5%. Every 1% increase in budget salvage reduces spending by \$15 million.
<b>*</b>	Over the past four years operating expenditures have increased at an average annual growth rate of 8.3%; approximately 6%, was due to factors in the County's pay plan (primarily step and COLA increases). If such pay increases are capped and held to CPI increases or the projected revenue growth rate of approximately 3% (instead of the historical pay plan trend of 6%), resulting savings in salaries and wages would be \$30 million. This estimate is based upon operating salaries and wages of approximately \$1 billion.
	The County has implemented various strategies to contain and reduce the rate of increase in employee benefits costs (e.g., hospitalization insurance, dental, viston, etc.). These strategies have included competitive bidding, plan redesign and increased employee contributions, Applicable annual employee benefits costs are approximately \$140 million. Increasing employee contributions for an additional 1 % of such costs would yield a savings to the County of \$1.4 million per year.
ŁO	Overtime expenditures have averaged \$31.5 million annually over the past four years. In 1994, overtime expenditures exceeded appropriations by \$3.2 million. During this four year period, overtime has consistently comprised 4% of personal services appropriations. A Covertime has historically been incurred in the Public Safety (Corrections and Sheriff's Police) and Health Funds (Nursing) functions. A policy decision in the Health Fund to reduce the reliance on outside registry nurses, in addition to substantial holiday and shift differentials built into current contracts, results in a Health Fund overtime appropriation for 1995 of \$20 million (75% of the total County-wide 1995 overtime appropriations of \$26.5 million). A 5% reduction in overtime appropriations would yield an annual savings of \$1.3 million.
6	General Fund appropriations funded by property taxes for Elected Officials should be capped and frozen at 1995 spending levels. Any future increases in spending should be funded from either new fees of increases in net fees instituted by the applicable Elected Officials. Based upon recent increases in Elected Officials spending, this action could save the County \$6 to \$16 million annually.

# II. Budgeting, Accounting and Financial Condition Table One Explanation of Rey Recommendations

Recom. menda- ilon Code #	
***	A cost study (as is currently done by other municipalities and counties) has not been performed in recent years to: (1) determine the actual costs of services provided by the County's fee offices; (2) ascertain whether such costs are greater than the fee set by statute; and, (3) to ascertain the appropriateness of existing fee levels. While fees do not necessarily have to cover 100% of the direct cost of providing related services, such costs should be understood and taken into consideration in the periodic determination of fee levels. Fee revenues for 1995 (excluding patient fees) are estimated at approximately \$158 million. Increasing such fees from 6 to 10% could result in additional revenues of \$10 to \$15 million.
65	In certain instances, the legal authority currently exists to establish fees within a range or up to a maximum amount. However, fee levels were established at amounts lower than the maximum permitted by law. Specifically, these fees relate to birth certificates provided by the County Clerk's Office (currently \$7.00) and to the law library and count service fee (currently \$9.00 and \$10.00, respectively) charged by the Clerk of the Circuit Count. Based upon current volume statistics, increasing fees for birth certificates to the maximum \$15.00, would yield \$1.8 million; increasing the law library fee to the maximum \$10.00 would yield \$300,000; and increasing the court service fee to the maximum \$15.00 would yield \$4.6 million for a total of \$6.7 million.
<b>o</b> :	As discussed previously, the maximum law library fee currently allowed by statute (\$10.00) would yield total fees of \$3 million based upon the current volume of 300,000 library users. Increasing such fees to \$50 at the 300,000 volume level would yield total fees of \$15 million or \$12 million above the current maximum potential of \$3 million.
10	It has been determined that 40% of the County's Home Rule taxes have no growth potential other than from rate increases. The identification of alternative revenue sources could produce a growth-oriented revenue structure. Specifically, the implementation and collection of the Use Tax component of the County's Sales Tax would result in an estimated \$30 to \$35 million of incremental revenues. If the County were to impose this use tax starting in June 1995, such fax would generate approximately \$15 million of additional revenue in the current fiscal year.
:	The County's annual spending of approximately \$51 million for personal and non-personal services related to information technology, equipment, software, training and related services is substantial. Currently the management information systems function is decentralized training and related services in the county. This decentralized function does not operate pursuant to a coordinated plan. Accordingly, the potential exists for a significant level of redundancy, overlap and duplication. A 10% reduction in spending resulting from a coordinated County-wide management information systems strategy would result in savings of \$5 million. This same decentralized management and absence of a coordinated plan also exists in the County-wide building and grounds function. The County's annual building and grounds expenditures are \$67 million and, therefore, a 10% reduction would save approximately \$7 million.

#### **FINANCIAL AND BUDGETARY ISSUES**

#### BUDGET ANALYSIS AND PROJECTED OPERATING DEFICIT: FY 1995

Based on current facts and circumstances, the Budgeting, Accounting and Financial Condition subcommittee estimates that operating expenditures will exceed current year operating revenues by as much as \$69 million for fiscal year 1995. Further, the projected operating deficit could grow to \$107 to \$161 million by the end of 1996, if corrective fiscal actions and management measures are not taken.

The potential 1995 operating deficit and underlying cause is summarized as follows:

County Government	Estimated Operating Deficit (millions) FY 1995
1995 Budget: Net Operating Expenditures in excess of Operating Revenues	\$ 57.2 to \$69.2

The County adopted an operating budget in 1995 which required the use of \$144.2 million of budgetary fund balance in order to balance the budget. This imbalance means that operating expenditures will exceed the County's operating revenues. However, there will be some "salvage" (i.e., unexpended appropriations) carried over from prior years to offset this imbalance. In effect, the County will "spend" reserves accumulated in earlier years in order to balance the 1995 budget on a budgetary basis.

The following table illustrates the calculation of the potential \$57.2 to \$69.2 million operating deficit as drawn from the 1995 budget.

Component	Amount (millions)
Budgetary Basis Fund Balance	
Used to Balance 1995 Budget	\$ 144.2
Less: Projected Operating Expense Salvage	1
(5% historical target to 5.8% annual average	1
01 57,499.9 operating fund appropriations)	(\$75.0 to \$87.0)
Projected Prior Year Budgetary Basis Fund Balance used	18/2/6/16/80/19
to Balance the 1995 Budget	\$ 57.5 to \$69.2
	**************************************

In estimating the total potential operating deficit, the use of prior year fund balance on a budgetary basis — in order to balance the current year's budget — essentially represents a "built-in" deficit. Because prior year fund balance is considered by the County to be a resource for the current year, the operating budget is balanced on a "budgetary basis" only.

All other things equal, that budget will produce an operating deficit on a generally accepted accounting principles (GAAP) basis, when reported in the audited Comprehensive Annual Financial Report of the County for FY 1995. That is, actual current year operating expenditures are expected to exceed current year operating revenues by \$57 to \$69 million. (Note: Budgetary basis differs from GAAP basis primarily due to the one year time lag between when property taxes are levied and budgeted versus when those taxes are actually collected and accounted for in the annual report.)

#### BUDGET IMPLICATIONS: FISCAL YEAR 1996 AND BEYOND

The subcommittee also identified conditions or assumptions that would have a potential impact on the County's budgets in the fiscal year 1996 and beyond. The table below illustrates those impacts.

The calculation of the net estimated operating deficit of \$106.6 to \$161.0 million assumes that the previously identified financial issues applicable to 1995, if not addressed, will also impact the 1996 budget. Additionally, those financial issues identified applicable to the 1996 budget, if not addressed, will also impact the operating budgets of 1997 and beyond.

The components of the future estimated operating deficit for fiscal year 1996 and beyond are as follows:

	Estimated Operating Deficit
Financial Issues: FY 1996 and Beyond	(millions)
Carryover Effect of 1995 Financial Issues:	
<ul> <li>Base budget operating deficiency—from prior 1995 financial analysis (includes Health System)</li> </ul>	\$ 57.2 to \$69.2
1996 Additional Appropriations Needs:*	
<ul> <li>Automatic step increases (i.e., pay plan) in salaries (at 3.5% to 4.0%, including Health System)</li> </ul>	\$ 35.0
<ul> <li>Cost of living adjustment (at 2.0% to 4.0%, including Health System)</li> </ul>	\$ 20.4 to \$40.8
<ul> <li>Annualized salaries and benefits for new positions budgeted for a partial year in FY 1995 budget</li> </ul>	\$12.0
• New initiatives	\$ 22.0 to \$44.0
Total Estimated Budget Deficit	\$146.6 to \$201.0
Less: Estimated Average Annual Revenue Growth	\$40.0
Net Estimated Operating Deficit (1996 and Beyond)	\$106.6 to \$161.0
*See narrative description that follows.	

The estimates above assume certain pay plan effects associated with the December 1995 union contract negotiations. A contractual agreement in excess of the 1996 budget amounts assumed above – i.e., for step increases and cost of living adjustments – will generate an additional 1996 deficit for applicable personal services costs. We recommend that the County take an aggressive negotiating approach in order to reduce the future pay plan effects well below the assumed amounts.

The following comments further describe each of the estimated 1996 additional appropriations needs:

- Step Increases Currently scheduled (i.e., under existing collective bargaining agreements) annual step increases for 1996 are estimated at \$35 million, based upon 3.5% increases in salaries and wages of approximately \$1 billion.
- COLA Increases Assuming that 1995 collective bargaining results in cost of living adjustments (COLA) increases ranging from 2% (the percentage assumed in the 1994 budget) to 4% (the actual percentage increase in 1994), the additional required appropriations for 1996 would range from \$20.4 to \$40.8 million. This amount is based upon salaries and wages of approximately \$1 billion. The impact of COLA increases is \$10 million for every 1% increase.
- Annualization Increases Certain salaries and benefits were included in the 1995 budget
  for less than a full year. These salaries and benefits, totaling \$9.8 million in 1995, are
  applicable to over 670 positions representing the additional staffing necessary to implement
  certain new initiatives. An additional \$12 million is needed in 1996 to provide annual
  salaries and benefits for these positions.
- New Initiative Increases Assuming a continuing pattern of 2% to 4% in incremental costs as a result of new (unspecified here) initiatives in the Corporate Purposes, Public Safety and Health System Funds, there will be an additional 1996 appropriation requirement. That additional appropriation requirement will range from \$17 to \$34 million based upon 2% to 4% of the total 1995 Corporate Purposes and Public Safety operating budgets of \$860.2 million and another \$5 to \$10 million associated with expanded ambulatory care in the Health System.

In addressing the County's projected budget deficit, any continued annual growth in expenditures can be offset in part by the estimated average annual revenue growth of \$40 million. However, that amount assumes the County Board will increase property taxes by approximately \$14 million, consistent with the inflation provision of the County's self-imposed tax cap ordinance. If that assumed property tax increase is not included in the 1996 budget, the estimated operating deficit will increase by that \$14 million amount. Additional revenues would need to be identified to offset expenditure growth beyond the \$40 million average annual revenue growth and to address any major, nonrecurring, one-time expenditure requirements.

#### **ACKNOWLEDGMENTS**

#### SUBCOMMITTEE MEMBERS

The Budgeting, Accounting and Financial Condition Subcommittee included professionals from the fields of accounting, management consulting, legal services, academia and other governments. Subcommittee members also provided additional support in the form of technical professionals from their organizations. Collectively the subcommittee's members gave their time, energy and insights to identify the major fiscal issues that the County faces and produce this report.

We recognize the following individuals for their dedication and valuable contribution to this transition process:

#### Co-Chairpersons:

John B. Filan, Pandolfi, Topolski, Weiss & Co., Ltd. Thomas Johnson, Grant Thornton Michael Mayo, Deloitte & Touche

#### Members:

Jeffrey Lewis, Chicago Stock Exchange
Rowan Miranda, City of Pittsburgh
Robert Remer, Columbia College
Sidonie Walters, Midwest Management Consultants

Bert Neuhring, Pandolfi, Topolski, Weiss & Co., Ltd.

Spencer Staton, Pandolfi, Topolski, Weiss & Co., Ltd.

John Weber, Pandolfi, Topolski, Weiss & Co., Ltd.

#### **Professional Support:**

Michael Engelhart, Deloitte & Touche
Patrick Hagan, Deloitte & Touche
Matthew Kates, Deloitte & Touche
William Lachman, Grant Thornton
Michael Malzewski, Deloitte & Touche
Bert Neuhring, Pandolfi, Topolski, Weiss & Co., Ltd.
Spencer Staton, Pandolfi, Topolski, Weiss & Co., Ltd.
John Weber, Pandolfi, Topolski, Weiss & Co., Ltd.

#### **COOK COUNTY OFFICIALS AND MANAGEMENT**

We sincerely thank the members of the Cook County management team and Elected Officials for their time and efforts in analyzing and discussing fiscal, budgetary and operational issues. We appreciate the cooperation received in conducting interviews and obtaining documents necessary to prepare this report.

The following Cook County management officials in the Offices under the President, Elected Officials offices and the Health System assisted our subcommittee during this transition process:

Barbara Bruno, Revenue Director
Charles Burbridge, Budget Director
John Charnbers, Acting Chief Financial Officer and County Comptroller
Betina Gembala, Special Assistant, Clerk of the Circuit Court
Margaret Houlihan, Chief Deputy Recorder, Recorder of Deeds
Terrie McDermott, Special Assistant, Office of the Sheriff
Marcia Maras, Chief Deputy Assessor, County Assessor
Brandon Neese, Deputy Clerk, County Clerk
Grace Neville, First Deputy Treasurer, County Treasurer
Donald O'Connell, Special Assistant, Clerk of the Circuit Court
Chris Orozco, Deputy State's Attorney, State's Attorney's Office
Joseph Rose, County Auditor
Ruth Rothstein, Health System Director
Lacy Thomas, Health System Chief Financial Officer

It is not possible to identify by name all of the supervisory and staff personnel who assisted with this transition effort. Nevertheless, we do appreciate the efforts and contributions of such personnel to this report.

#### **APPENDICES**

Appendix No.	Description
Ť	Table II - Other Managerial Issues and Organizational Recommendations
2	Revenues to Expenditures Growth - Assumptions for Figure Two
3	Revenues (2.9%) to Expenditures (3.0%) Growth Projections
Ä	Revenue - Prior Trends and Future Projections
5	Total Revenues: Historical and Projected
6	Fund Appropriations as Percentages of Total Budget
7	Summary of Expenditures by Fund
8	Five-Year Expenditures Trend

Appendix 1

# Table Two Budgetary, Accounting and Financial Condition Other Managerial Issues and Organizational Recommendations

\$8168	Recommendations
<ul> <li>Unfunded Ambulatory Care Strategy</li> </ul>	Develop funding plan
New Initiatives/Programs	Prepare 3-5 year operating and capital cost estimates
	Negotiate level of services
	Consider liming of facilities openings
	Conduct position studies
<ul> <li>Expenditure Levels (Health System)</li> </ul>	Reengineer core processes to eliminate non-value added activities
	Consider appropriateness of existing human resources and information systems support functions
	Reduce length of stay and related costs by creating oritoria for critical paths, admissions, discharges and targeted use rates.
	Match personnel costs with patient demand
	Set staffing levels utilizing benchmark production standards
Provident Hospital - Insufficient Patient Demand (Health System)	Study nature and scope of services and develop strategic plan to either increase market share or limit services
Extensive Public Health, Long Term Care and Teaching Mission (Health System)	Consider deemphasizing or eliminating the long term care component
Efficient Provision of Service	Study departmental consolidation and organizational realignment opportunities.  Reengineer functional processes
	Perform operational and performance reviews on a routine basis utilizing benchmark statistics and "best practices" concepts
	<ul> <li>Implement integrated real time "point of service" terminals in fee offices to stream.</li> <li>Integrate cash collections processing</li> </ul>
Expanded Public Safety Responsibilities	Consider the allocation of responsibilities among County, State and federal government
Reliance on Operating Subsidies	Match fees for civil functions of State's Attorney and Chief Judge with operating     costs
Miller of the control	COSIS

1000

Revenue to Expenditure Growth Assumptions (for Figure Two)

	REVENUE		EXPENDITURES	EFFECT ON INCREASE	EFFECT ON OPERATING CASH INCREASE (DECREASE)	PROJECTED CASH BALANCES BASED ON OPERATING ACTIVITY	LANCES 3 ACTIVITY
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85	0.120	1288.4	1288.4				
66	1444.5	1462.1	1462.1			198.3	198.3
94	1506.6	1447.2	4 2 2 2	59.4	50.4	7.72	257.7
32	1479.6	1536.5	1536.5	(6.93)	(6.99)	200'8	200.8
96	1519.3	1654.8	1579.2	(135.5)	0.09	65.3	140.8
26	1560.1	1782.9	1623.2	(222,8)	(63.1)	(187.0)	7.77
98	1,005	6.1.9	1668.5	(3.9.5)	(66.4)	0.777	<b>F</b>
99	1645.3	2071.8	7.62	(426.5)	(6.89)	(908,5)	(58.6)
8	1689.8	2234.5	2000	(544.7)	(2.8.2)	(1,448.2)	(132.1)
						2	

## EVENUE

989 - 1993 = CAFR FIGURES

994 = 1395.0 PLUS 111.6 PROVISION

895 = 1368.0 PLUS 111.6 PROVISION

996 - 2000 = 1995 THROUGH 1999 BASE FIGURES PLUS 2.9 % INCREASES PLUS 111.6 PROVISION

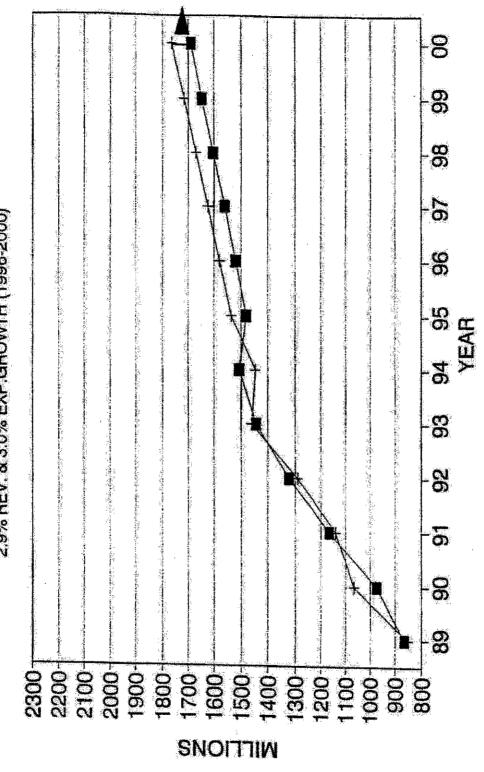
XPENDITURES 989 - 1993 = CAFR FIGURES WITH NO DEPRECIATION

994 = EXPENSE ON DRAFT REPORT OF 1335.8 (WHICH DOES NOT INCLUDE DEPRECIATION, PROVISION FOR BAD DEBTS OR SELF INSURANCE COSTS IN EXCESS OF PAYMENT) PLUS 1993 PROVISION

OF 111.6

895 = APPROPRIATION FIGURE IN DRAFT REPORT OF 1499.9 AT 95 % PLUS PROVISION OF 111.6 996 - 2000 = APPROPRIATION FIGURE PLUS 8.3% OR 3.0% INCREASE PLUS PROVISION OF 111.8

# COOK COUNTY - REVENUES TO EXPENDITURES 2.9% REV. & 3.0% EXP.GROWTH (1996-2000)

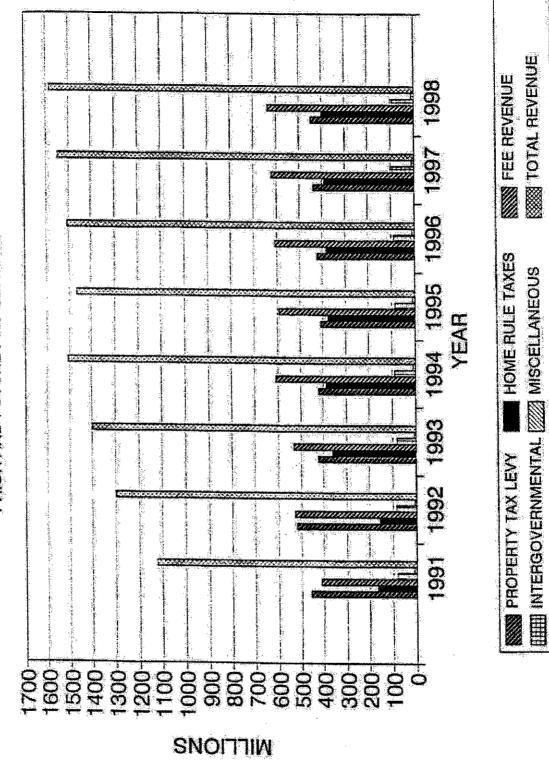


DEFICIT

NOTE: CUMULATIVE PROJECTED OPERATING DEFICIT OF 330 / MILLION AT YEAR 2000



# COOK COUNTY - REVENUE PRIOR AND FUTURE PROJECTIONS



Total Revenues: Historical and Projected

Total Resente								-	:		Forested	
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りなった。	370,362,441		,	*				A Commence of the Commence of		A STATE OF S	Section of the second	
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	20年27年	179		484,790,857	476,254,583	483,997,449	609,238,405	625,031,450	17.75		Delegation #1.0	
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Cook County Budget Analysis Fund Appropriations as Percentages of Total Budget

TOTAL COOK COUNTY BUDGET \$2,168,73 (\$4,168,73) (\$4,168,84,136,136) (\$4,168,84,136,136) (\$4,168,84,136,136) (\$4,168,136,136) (\$4,168,136,136) (\$4,168
PUBLIC SAFETY FUND Proentage  Precentage
COUNTY HEALTH PROGRAM \$644,50 Percentage
ELECTION FUND Percentage
HIGHWAY FUND Percentage 0.0% CAPITAL IMPROVEMENTS \$250,690,567
OTHER FUNDS Percentage \$257,387,719
GRAND TOTAL \$2,168,739,399 Percentage 100.0%
ANNUAL INCREASE (DECREASE)

Cook County Summary of Expenditures by Fund

	12.54% 29.90% 32.42%	0.06% 0.05%	0.02%	and the same and the	8 5% 8 5% 100:00%
	\$162,705,458 \$387,998,208 \$420,603,981 \$971,307,847	\$797,027 \$8,125,423	\$200,000 \$17,699,176 \$3,490,447	\$67,355,000 \$76,848,264 \$44,822,299	\$220,507,094 7,73% \$105,696,223 (00.00% \$1,297,510,964
	8,90% 33,23% 32,96%	0.04% 0.46% 0.00%	0.01% 0.65% 0.26%	0.00% 0.06% 6.77% 6.60% 3.18%	
1991	\$138.415.910 \$454.520,760 \$450.839.099 \$1,040,775,769	\$561,901 \$6,308,294	\$200,000 \$8,849,826 \$3,368,732 \$2,097,521	\$872,379 \$78,949,688 \$76,648,254 \$43,474,131	\$105,696,223 \$105,696,223 \$1,367,792,718
	7.86% 32.86% 31.99%	0.04% 0.32% 0.27%	0.01% 1.17% 0.24%	0.00% 0.007% 5.79% 5.99%	11.89% 100.00%
1992	\$124 734 901 \$520 151 565 \$506 431 409 \$1 151317 875	\$619,448 \$5,037,165 \$4,201,548	\$200,000 \$18,446,461 \$3,761,035 \$2,718,979	\$1,165,689 \$91,634,000 \$94,746,743 \$20,965,331	\$1,583,034,554
	6,26% 30,85% 29,31%	0.03% 0.25% 0.22%	0.01% 0.46% 0.21% 0.15%	0.00% 0.07% 3.36% 3.36%	16.95% 100.00%
1993	\$11 \$58 \$55 \$1.26	\$652,497 \$4,847,956 \$4,199,388	\$200,000 \$8,693,802 \$3,960,999 \$2,964,549	\$1,291,823 \$96,266,000 \$130,021,919 \$64,433,109	\$323,541,516 \$1,908,944,078
	6.69% 33.29% 32.57%	0.03% 0.40% 0.22%	% % % & & & & & & & & & & & & & & & & &	0.00% 0.05% 7.85% 3.90%	7.97%
1984	\$123,083,061 \$512,901,881 \$599,646,482 \$1,335,631,414	\$607,677 \$7,347,319 \$4,020,189	\$17,622,140 \$4,307,143 \$3,593,035	5 5 <sup>60</sup> 5	
Fund	GENERAL FUNDS Corporate Public Safety Health SUB FOTAL OF GENERAL FUNDS	OPERATING FUNDS Aritmal Control Circuit Court Automation Circuit Court Document Storage	Dispute Resolution Election Law Library Recorder of Deeds Document Storage	Cook County 911 Emergency Telephone Superintendent of Schools Annuty and Benefits Bond and interest Grants Charts	Capital Improvements Egipt (UNI) Prestruction CRAND TOTAL EXPENDITURES

## COOK COUNTY Five Year Expenditures Trend

	1990	1991	1992	1993	1994
Corporate	\$ 162,705,458	<b>§ 135,415,910</b>	\$ 124,734,901	\$ 119,481,493	\$ 156,742,779
Public Safety	387,998,208	454,520,760	520,151,565	588,944,818	631,285,540
Health	420.603.981	450.839.099	506.431.409	559,454,209	611.032.305
Subtotal General Funds	971,307,648	1,040,775,769	1,151,317,876	1,267,880,520	1,335,631,414
Animal Control	797,027	551,901	619,448	652,497	431,335
Circuit Court Automation	8,125,423	6,308,294	5,037,165	4,847,956	7,304,053
Gircuit Court Document Storage	·		4,201,548	4,199,388	2,655,635
Dispute Resolution	200,000	200,000	200,000	200,000	200,100
Election	17,599,175	8,849,826	18,446,461	8.693,802	16,405,365
Law Library	3,490,447	3,368,732	3,761,035	3,960,999	4,404,986
Recorder of Deeds Document Storage	1,469,469	2,097,521	2,718,979	2,954,549	3,618,365
Superintendent of Schools		872,379	1,165,889	1,291,823	816,755
Annuity and Benefits	67,355,000	78,949,688	91,634,000	96,266,000	107,557,000
Bond and Interest	76,648,254	76,648,254	94,746,743	130,021,919	152,518,791
Grants	44.822.299	43.474.131	20.965.331	64,433,109	68,944,526
Subtotal Operating Funds	1,191,814,740	1,262,096,497	1,394,814,474	1,585,402,562	1,694,358,620
Capital Improvements	105.696,223	105.696.223	188.220,080	<u>323.541.516</u>	130,484,340
Grand Total Expenditures	\$1,297.510.963	\$1.367.792,720	\$1.583.034.554	\$1.908.944.078	\$1.894.401.875

#### III. FUNDED DEBT AND CAPITAL PROJECT FINANCING

The Funded Debt and Capital Project Financing Subcommittee of the FIRST Team was charged with the following:

- Review the County's debt structure, including the current funded debt as well as the
  overlapping debt issued by other Chicago and suburban Cook County governments which
  share the County's tax base. Review the County's multi-year Capital Improvements Program
  (CIP) including the process by which it is developed, and determine its impact upon debt
  levels and credit ratings.
- Particular attention should focus on the construction of the new County Hospital and satellite facilities, as well as any planned new jails, courthouses and related projects. In addition, the review should encompass capital equipment acquisitions including: (1) the process by which equipment needs are identified and prioritized, and (2) the policies followed to finance such acquisitions.
- Funded debt includes both general obligation (G.O.) and revenue debt as well as long-term bonds and short-term notes.

The subcommittee was made up of two subgroups, the Healthcare Subgroup and the Capital Planning and Policy Subgroup. The entire report of each subgroup is summarized herein and has been separately transmitted to County officials.

#### OVERVIEW

#### COOK COUNTY GENERAL OBLIGATION DEBT OUTSTANDING

The County currently has almost \$1.4 billion in general obligation (G.O.) debt outstanding. The County has recently reinstated its G.O. Tender Note program to provide for interim financing between G.O. bond issues. This technique provides the County the flexibility of entering into the capital market at the most opportune time and to later permanently finance the notes through a subsequent bond issuance.

The County's debt has a downward sloping maturity structure with a significant portion of principal coming due in the next five years, as shown in Figure One. During this period, approximately \$315 million of the County's general obligation bonds will mature resulting in about 23% of the current G.O. debt currently outstanding being retired.

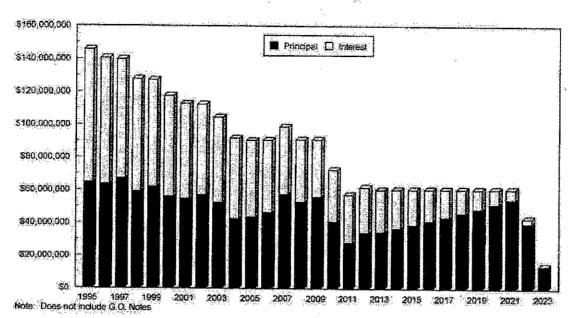


Figure One
Overview of Cook County General Obligation Bonded Debt

#### PROJECTED COOK COUNTY CAPITAL EXPENDITURES

The Healthcare Subgroup of our subcommittee examined: (1) the future capital requirements of the Cook County Health Facilities; and (2) the structuring options available to fund those capital requirements. The driving force behind the construction of a new hospital and clinics is the Cook County Health Facilities response to a changing healthcare environment, as outlined in the Cook County Bureau of Health Services 1991-1994 report. In that report, the County identifies specific goals including: (1) development of an ambulatory network; and (2) replacement of Cook County Hospital. These goals have been supported by the Cook County President and Board.

The Healthcare Subgroup identified costs associated with the improvements to the Cook County Health Facilities. The costs are outlined below in Table One.

Table One Estimated Major Capital Requirements of Cook County Healthcare System\*

(All numbers in 000s and are approximate)

Series in section - in week in	1995	1996	1997	1998	1999	2000	Total
New Hospital Ambulatory Care Clinics	\$ 39,920	\$ 31,592	\$ 116,119	\$ 139,370	\$ 168,340	\$ 93,787	\$ 589,128
Ongoing Maintenance**	10,000 20,000	10.000	5,000	AND AAA	india.	- Annual C	25,000
and the State of State of the S		15,000	10,000	10,000	10.000	- Aliene -	65,000
	\$ 69,920	\$.56,592	\$ 131,119	\$ 149.370	\$ 178 340	\$ 93.787	\$ 679,128
				W TANK	& TA 6 23-4	9.33.107.	9.0(3.170

As outlined in Coopers & Lybrand report dated November 1993 and supporting documentation provided by Cook County.

<sup>\*\*</sup>Represents capital maintenance for the existing Cook County Hospital that will be phased out by the year 2000.

The Capital Planning and Policy Subgroup of our subcommittee examined various County departments in the planning, design, and construction of facilities to house County Board approved programs. The subgroup identified projects in planning or construction under the oversight of the Cook County Capital Development Program (CDP).

The subcommittee has assumed that the County plans to issue approximately \$200 million in debt per year from 1995 to 2000 (as outlined in County documents) or a total of \$1.2 billion. Given this assumption, the subcommittee accordingly adjusted downward the CDP's estimates for capital requirements. The subcommittee's revised estimates are summarized in Table Two.

The subcommittee's adjustments were based upon one of the following assumptions: (1) a portion of the costs originally estimated by the CDP had been previously bonded, or (2) were expected to be financed through existing cash flows, or (3) proposed capital projects other than healthcare-related will be scaled back or deferred into future years to stay within the \$1.2 billion total.

Table Two
Other Estimated Capital Requirements for Cook County
(All numbers in 000s and are approximate)

	1995	1996	1997	1998	1999
Apital Requirements Current Projects New Projects*	\$291,929	\$228,084	\$99,017	\$79,500	\$66,700
Lower Range Upper Range		2,000 5,000	30,000 50,000	30,000 75,000	45,000 125,000

Based on the above tables, the County has outlined a plan which consists of significant capital expenditures over the next six years. These projects encompass the funding of a new hospital and clinics, as well as the funding of other major capital requirements such as projects in the criminal justice system and the highway department. This analysis does not include any projects connected with the Forest Preserve District or the Motor Fuel Tax, since they represent separate funding sources not supported by G.O. bonds of the County.

The subcommittee found that the capital planning process is not comprehensive and that a Capital Improvement Plan (CIP) is not prepared. (A CIP is a standard fiscal technique that identifies and prioritizes future capital projects and quantifies funding sources). The lack of a comprehensive process and associated CIP means that there is no complete picture of capital requirements and the related debt implications to inform the County Board and the President.

Accordingly, the subcommittee conducted a pro forma analysis of estimated capital needs as summarized in Tables One and Two. Our estimates of the debt requirements associated with the entire capital program are summarized in Table Three.

### Table Three Cook County Capital Plan's Debt Requirements (All numbers in 000s and are approximate)

4.	1995	1996	1997	1998	1999	2000
Healthcare Related:	\$ 69,920	\$ 56,592	\$131,119	\$149,370	\$178,340	\$93,787
Capital Requirements:				i i	Y	•
Future Projects	130,000	150,000	90,000	70,000	60,000	<u>NA</u>
Estimated Total	\$199.920	\$206,592	\$221.119	\$219.370	\$238.340	\$93,787
			- <del>(75) 7 (10) 1</del> (10)			, <del>3237, 132</del>

#### IMPACT OF COOK COUNTY CAPITAL PLAN ON DEBT BURDEN

As identified above, the County is about to embark on an aggressive capital plan that will require at least \$1.2 billion in debt issuances over the next six years. The subcommittee has analyzed the impact of this level of borrowing on the County's current debt structure in order to forecast the accompanying effect on the County's overall debt burden.

The assumptions used in our analysis are summarized in Table Four.

Table Four 1995-2000 G.O. Bond Issue Assumptions

Type of Issues	County G.O.
Rating of County	A1(Moody's)/A+(S&P)
Number of Issues	6
Size of Issues:	
1995	\$199,920,000
1996	206,592,000
1997	221,119,000
1998	219,370,000
1999	238,340,000
2000	93,787,000
Interesi Rates	As of March 24, 1995
Maturity Structure	Level Debt
Date of Issuance	June 1 of each year

Using the capital projects as outlined in the tables above, six bond issues were structured to identify the impact on the County's overall debt burden. As shown by the tables and graph below, this magnitude of debt issuances over the next six years would add a significant amount of debt to the County's books and debt service to the County's budget.

As shown by Table Five, the County's debt service is projected to increase from \$152 million in 1995 to \$199 million by 2000. This represents an increase of almost 31%. Debt service is historically paid by property taxes. Thus, the anticipated bond issues would likely result in a proportional 31% increase in the property tax levy earmarked to G.O. bond debt service. However, substantial cost savings have been projected when the new hospital is operational.

Table Five
G. O. Debt Service Payment Analysis
(All numbers in 000s and are approximate)

Year	Existing Debt Service	Projected Additional Debt Service	Total Projected Debt Service
1995	\$145,571	\$6,568	\$152 140
1996	140,510	21,216	161 726
1997	139.759	36,638	176 397
1998	127,661	52.599	180.260
1999	127.104	69:145	196 250
2000	117,556	81,679	199.235

Figure Two illustrates the increased debt burden on the County's budget of the assumed new bond issues:

Figure Two
Projected Cook County General Obligation Debt

\$250,000,000

\$150,000,000

\$100,000,000

\$59,000,000

\$59,000,000

The County has almost \$1.4 billion in general obligation debt currently outstanding. The assumed bond issues will increase this amount to \$2.1 billion by the year 2000, which represents a net increase of over 58%. The effects of this increase can be seen in Table Six.

The additional \$1.2 billion in bond issues would result in an increase in the ratios of **debt per capita** and **debt per full value** (full value refers to the true or fair market value of all taxable real property within the boundaries of Cook County). The County currently has a debt per capita ratio of \$271 and a debt per full value ratio of 0.77%. Those ratios compare to Moody's medians of \$415 for debt per capita and 0.70% for debt per full value. The County is facing projected debt ratios of \$429 (debt per capita) and 1.22% (debt per full value) in 2000 by the addition of the projected debt issues, as summarized in Table Six below.

Table Six
Total Principal Outstanding Analysis
(All numbers in 000s and are approximate)

Year End (Dec. 30)	Principal Retired	Projected Additional Principal Added	Total Principal Outstanding	Debt per Capita (based on 5.1 million population)	Debt per Fuli Value (based on \$180 billion full value estimate)
1995	\$64,710	\$199,920	\$1,521,340	\$298	.85%
1996	63,675	206,592	1,664,257	326	.92%
1997	67,070	221,119	1.818.306	356	1.01%
1998	59,075	219,370	1,978,601	387	1.10%
1999	61,920	238,340	2,155,021	422	1.20%
2000	56.030	98,787	2.192.778	429	1.22%

The subcommittee has assumed a static population and a constant full value for analysis purposes. It is reasonable to assume that each will rise over the next six years (particularly full value) to somewhat offset the substantial increase in ratios projected above.

#### IMPACT ON BOND RATING

The County would be substantially increasing its debt service requirements if the projected debt is issued. In addition, the projected debt ratio for debt per full value will be significantly greater than Moody's median value. This additional debt service and burden could negatively impact the County's debt rating.

The County should clearly detail the entire financing plan with the rating agencies, as debt ratios are only one of many factors examined by the agencies. For example, the savings generated through improvements in operations by the construction of a new hospital could be used to pay debt service on the projected bond issues. As outlined in the Coopers & Lybrand study, this could be in the range of \$140 to \$170 million per year. The County would be well-served to discuss these types of factors with the rating agencies when new capital expenditures are initiated and coupled with new bond issuances.

#### SUMMARY

The subcommittee conducted a series of interviews and analyses which are summarized in its full report. The analyses and narrative above focused on the key quantitative impacts of the County's capital plan and associated funded debt programs. However, a number of related issues were identified during the course of the subcommittee's review which are detailed in our full report. Limited space does not permit an in-depth discussion in this summary report. Accordingly, Table Seven is a compendium of critical issues and key recommendations developed during the course of our review.

Briefly stated, two major themes arose:

• Capital Plan - The County's capital planning process is not fully integrated nor comprehensive. As a result, there is no multi-year Capital Improvement Plan (CIP).

A CIP is a standard analytical technique to summarize future capital requirements and identify projected resources to finance such needs. Lacking a CIP, the County cannot make informed long-term decisions regarding its future capital program and associated financing needs.

• Debt Affordability - The County does not prepare a formal analysis of the type and extent of debt it can afford to incur. As noted above, the subcommittee analysis suggests a significant increase in debt burden - as measured by additional debt service costs and a key debt ratio used by rating agencies. One contemporary fiscal technique - that would assist the County in making future debt decisions - is a quantitative analysis incorporated in a Debt Affordability Study. That type of study would analytically estimate the level of debt the County could afford to issue in light of its current debt burden, forecasts of future tax base, and national benchmarks reflecting debt measures of other counties that are used by rating agencies.

In summary, the subcommittee's basic recommendations reduce to implementation by the County of quantitative and contemporary planning processes that can produce fundamental financial information regarding its capital needs (i.e., a CIP) and its debt capacity (i.e., a Debt Affordability Study).

# III. Funded Debt and Capital Project Financing Table Seven Funded Debt and Capital - Project Financing Critical Issues and Major Recommendations

valegory		Recommendations
CAPITAL PROJECT	No comprehensive summary of proposed capital needs over a multi-year period.	Implement a comprehensive capital planning process and prepare a multi-year     Capital Improvement Program (CIP).
	Insufficient priorities for projects.	Create a priority structure for projects to classify necessary projects from desired projects.
	Replacement and renewal program.	Continue to monitor program as it affects long term capital plan.
	Cost impact of new Cook County Hospital    and clinics.	<ul> <li>Determine the exact costs associated with hospital and clinic construction.</li> <li>Determine the cost savings associated with new hospital. Confirm Coopers &amp; Lybrand study of \$140 to \$170 million in annual savings.</li> </ul>
	Ongoing maintenance costs of Cook County     Hospital.	Determine costs associated with providing ongoing maintenance of hospital.
	· Calls for privatization.	<ul> <li>Examine areas for privatization as possibilities arise.</li> </ul>
	Courthouse planning.	Determine exact space needs.
-	<ul> <li>Cermak Hospital study.</li> </ul>	<ul> <li>Determine means to provide healthcare at the Department of Corrections.</li> </ul>
-	<ul> <li>Increased costs at Daley Center.</li> </ul>	Do not accept additional expenditures without approval.
	• Space needs	<ul> <li>Consolidate and move within downtown Chicago to save space/money.</li> </ul>
	<ul> <li>Authorization for expenditures.</li> </ul>	<ul> <li>Appoint single person per capital project to authorize expenses.</li> </ul>
FUNDED	<ul> <li>Outstanding debt will increase from \$1.4 billion to over \$2.1 billion in 6 years.</li> </ul>	<ul> <li>Manage increased debt with increased efficiency and lower costs. Determine cost savings from operation of new hospital.</li> </ul>
	<ul> <li>Annual debt service will increase from \$145 million to almost \$200 million in 6 years</li> </ul>	<ul> <li>Determine exact budgetary needs associated with new hospital and capital plan.</li> <li>Prepare a Debt Affordability Study.</li> </ul>
	<ul> <li>County bond rating is of concern since "debt per full value" will increase substantially</li> </ul>	<ul> <li>Discuss with rating agencies as bonds are issued.</li> <li>Review entire long-term financing plan with rating agencies.</li> </ul>
	<ul> <li>Need to select hospital bond structuring scenario: general obligation, revenue, or lease-back revenue.</li> </ul>	<ul> <li>Examine total interest costs and County's comfort level associated with each scenario.</li> </ul>

### **ACKNOWLEDGMENTS**

### SUBCOMMITTEE MEMBERS

The following team members, along with the professional support of others, contributed to this report:

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### **Professional Support:**

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John Chambers, Cook County Comptroller and Acting Chief Financial Officer
William Huffman, Office of Capital Planning, Cook County
Joseph Rose, Cook County Auditor
Lacy Thomas, Chief Financial Officer, Cook County Hospital

### IV. RISK AND BENEFITS MANAGEMENT

The Risk and Benefits Management Subcommittee of the FIRST Team was charged with the following:

### RISK MANAGEMENT:

- Review the role and scope of the Department of Risk Management in assessing, controlling and managing such risks and claims as (1) tort liabilities, (2) Workers' Compensation, (3) Unemployment Compensation, and (4) prisoner/patient arrestee program.
- Financial implications -- both annual budgetary and long-term liability impact -- of liabilities identified in the Tillingbest Report (i.e., an actuarial study of the County's liabilities).
- Impact of the County's self-insurance policy including opportunities/needs for excess or catastrophic coverage.

### BENEFITS MANAGEMENT:

- Identify opportunities for cost savings including employee contributions, deductibles, etc. - for major fringe benefits including: (1) healthcare, (2) vision, (3) dental, and (4) life insurance.
- Examine the nature and cost of the County's compensated absences policy.
- Make cost and benefit comparisons to other major governments in the metro Chicago area, as well as other large counties nationwide.

### **OVERVIEW**

The subcommittee reviewed the Department of Risk Management and its operations. That Department was created in 1991 to plan, direct, and coordinate a comprehensive program designed to minimize the County's exposure to loss through appropriate risk control and financing methods. The Department directly administers:

- Employee benefits programs including medical, dental, vision, life, and wellness;
- Workers compensation;
- Unemployment compensation:
- Patient/Arrestee Medical Program; and
- Various insurance policies/self insurance programs including General Liability, Property and Casualty, Business Automobile, Professional Liability, and Employee Bonding.

We also reviewed the "compensated absences" policies of the County -i.e., vacations, holidays, sick days, personal days and other compensatory time - to identify policy issues and potential cost savings.

The most significant recommendations and underlying issues for each area are summarized below. The complete report of the subcommittee has also been transmitted to Cook County officials.

### ISSUES

The subcommittee identified four primary issues during the course of our review. These include:

- Lack of Uniformity (1) among the policies of different Elected Officials and
  government agencies, and (2) within the contracts of different bargaining units in
  terms of risk management functions, compensated absences and employee benefits.
- Overly Generous Compensated Absence Package when compared to other local government units, resulting in a drain on Cook County financial resources.
- Effectiveness of New Programs should be reviewed to determine how well they have been performing.
- Efficiency and Cost of Select County Practices should be reviewed for potential savings.

### RECOMMENDATIONS

The remaining sections of this chapter will provide a series of recommendations that are grouped by the generic risk or benefits management area. The format utilized will be that each specific recommendation — which is stated in bold italics — is followed by a discussion of the underlying issue(s).

### **INSURANCE POLICIES AND SELF-INSURANCE PROGRAMS**

• Undertake an overall risk management study with particularly emphasis on Cook County Health Facilities. One of the largest deficiencies in the current risk management program is that there is little if any coordination between: (1) the Cook County Health Facilities (CCHF), (2) General Government operations, and (3) the Cook County Forest Preserve District. The recommended study should identify strategies which will save the County considerable resources over time.

Excluding the Cook County Forest Preserve District, nominal liabilities associated with CCHF account for about two-thirds of the total nominal liabilities of the County. Although there have been significant strides in risk management within General Government operations, the other operational areas have seen little savings. This lost opportunity is at

least partly due to the lack of integration of these area's risk management functions under the Department of Risk Management.

Reinstituting "structured settlement" payments for liability awards should also be given consideration as a component of the risk management study.

• Authorize the County's Department of Risk Management to settle claims up to \$5,000. We recommend the Department of Risk Management survey similar-sized counties and other large public bodies across the United States. The survey should document what claims settlement authority levels have been granted to internal staffs or to outside third party administrators.

A \$5,000 level is appropriate in our opinion. Although it is not possible to quantify the savings today, this change is likely to generate millions of dollars over time because claims could be settled quickly and expeditiously.

- Implement a limited bid program for selecting an insurance broker to acquire "wrap-up insurance" for the construction of the new County Hospital. We recommend that the County select at least two potential brokers based on a formal request for qualifications (RFQ) process including subsequent interviews using appropriate criteria to independently obtain competitive proposals for the wrap-up insurance. The County can secure long-term contracts and reduce overall costs by several millions dollars over the course of construction, if a more competitive method of choosing insurance companies is utilized.
- Study the desirability of securing property insurance. The County does not maintain
  property insurance to protect against the financial consequences of damage to or
  destruction of its buildings, contents or other property. A study should be conducted to
  ascertain the appropriateness of securing property insurance, including breadth of coverage,
  amounts, retentions, estimated costs and potential savings.

### COMPENSATED ABSENCES

Appendix One presents a comparative summary of the compensated absence policies of Cook County versus other major governments in the region. The following recommendations are based upon those comparisons.

• Reduce the maximum number of sick days an employee can accumulate to 120 days and make this maximum consistent for all employees of the County. The maximum accumulation allowed for sick days is 150 days for Cook County Health Facilities employee and 175 days for all other County employees. We recommend reducing this number to 120 days which reflects the Metropolitan Water Reclamation District's sick leave policies. Potential savings of over \$21 million could be realized over the average (7 years) per worker employment period.

- Reduce the number of personal days to 3 working days. Our comparative analysis of
  other governments indicates that the County provides its employees with four personal
  days a year. Reducing the number of personal days to three working days would result in
  improved productivity and potential savings of over \$3 million a year.
- Revise the County's current policy regarding compensation for unused vacation time
  upon termination to exclude those individuals who are discharged for cause from
  receiving these benefits. Although we were unable to get precise figures, we believe this
  change will produce at least modest savings for the County.

### UNEMPLOYMENT COMPENSATION

- Revise the amount budgeted in 1995 for Unemployment Compensation claims based on historic claim experience. Actual unemployment compensation claims in fiscal year 1994 were \$1,123,426 which was \$2,000,000 less than budgeted. Barring any dramatic initiative related to a change in the workforce during FY95, the appropriation for that fiscal year of \$1,850,000 would appear excessive. Based on claims experience and salary trends, it would be appropriate to reduce this appropriation to between \$1,150,000 to \$1,250,000.
- Examine the circumstances under which each department requests that "no protest" be made on Unemployment Compensation claims. Of the 146 claims processed by the Department of Risk Management that were not protested in 1994, eighty-one came from department requests. There may be value in protesting the claims if not all of these department requests to "take no action" were within the guidelines of the termination protocol. Assuming a 25% success rate in challenging these protests, a potential reduction of \$40,000 in the annual expense appears possible.

### PATIENT ARRESTEE MEDICAL PROGRAM

The current contract with Martin Boyer is new and no data is available to determine the success of the program. The County should review the savings generated by the program to:

- Confirm discounts actually received through Martin Boyer on a per hospital basis.
- Assess success in the "coordination of benefits" payment related to aggressiveness in pursuing other payers for claims.

### **EMPLOYEE BENEFITS PROGRAM**

• Consider entering into a financial partnership arrangement with current health insurance carriers. This arrangement would continue the transfer of risk to the insurers, but would be structured to provide a return of some predetermined level of profits to the County. This "profit sharing partnership" should be designed to continue the health care providers incentive to contain cost while allowing the County to share in "excess" profits. This approach could save the County \$15 to \$20 million dollars over the next two years.

Investigate a group purchasing arrangement with other local governmental agencies to
assure the best possible pricing of services. The combination of local government units
into a purchasing coalition could increase the County's and other agencies' buying power
and significantly reduce overall healthcare costs.

### SUMMARY

Table One is a summary of critical issues and key recommendations surrounding the risk and benefits management functions of Cook County.

Part 2 16 2

### Financial Issues

### Resources and Strategies

for Transition (FIRST)

Report

### Submitted to Cook County Board President John H. Stroger

May 24, 1995

### Transition Team Co-Chairs:

Christopher Kennedy
Jewell La Fontant-Mankarious

### FIRST Steering Committee:

Clark Burrus, Chair Thomas P. Beck Joseph Fratto Ronald D. Picur Jane W. Thompson

Volume I

### V. PENSION AND DEFERRED COMPENSATION PLANS

### **OVERVIEW**

The Pension and Deferred Compensation Subcommittee of the FIRST Team was charged with identifying key issues of importance related to the County Employees' and Officers' Annuity and Benefit Fund (the "Fund" or the "Pension Fund") and the County Deferred Compensation Plan (the "Plan"). The specific charge stated:

Review the current status of the County's pension fund and its deferred compensation programs. The reviews should include, but not necessarily be limited to, discussion and recommendations regarding:

- Enabling and authorization legislation -- state and county
- Funding policies and practices
- Cash flows current and future
- Revenue analysis -- employee and employer contributions and investment income
- Actuarial assumptions
- Unfunded liabilities and cash forecast
- Investment policies and results
- Portfolio: structure, quality, composition and compliance with investment policies and statutory limitations

### THE PENSION PLAN

The County Employees' and Officers' Annuity and Benefit Fund is governed by Illinois statute and administered by a separate pension board. Defined benefits, employer and employee contributions, methods of funding and investment authority are established by the Illinois legislature.

The pension board is independent of the County Board. The pension board selects and monitors fund managers, invests assets, approves benefits and payments, and is responsible for obtaining the actuarial report and the pension fund audit.

Our review of the County pension fund found that it is well-managed and financially sound. For example, in its February 1994 report, the Illinois Economic and Fiscal Commission (IEFC) recognized the Cook County Employees' and Officers' Annuity and Benefit Fund and the Cook County Forest Preserve District Pension Fund as being among the strongest in the state under most accepted measures of pension fund financial condition.

In light of the IEFC review, our subcommittee chose to focus the majority of our report on policy decisions by the Cook County Board of Commissioners which have a significant impact on the Fund and its corresponding property tax levy. Our report includes an in-depth analysis of those variables that impact the Plan and are either set or controlled by the President and the Cook County Board.

### ISSUES

There are several factors which greatly impact the changes in payments to pension plan annuitants. If the level of benefits paid out to annuitants increases without control, the overall financial condition of the plan may be weakened.

Increases or decreases in benefit payments result from a number of factors including management and operating decisions. Some of the other factors relate to the nature and extent of benefits which are directly impacted by legislative events. For example, the Fund is paying the healthcare premiums of those retired annuitants (including family members) who currently participate in one of the County's healthcare plans, pursuant to 1989 legislation. Hospitalization benefits increased by 172% in 1993 primarily due to the increase in the number of annuitants brought about by an early retirement incentive passed by the Illinois General Assembly.

### The major factors include:

- Changes in the number of participants:
- Changes in the salary costs of members in service;
- · Changes in the nature and extent of benefits, especially hospitalization; and
- Asset allocation policies and limitations

### CHANGES IN THE NUMBER OF PARTICIPANTS

Table One summarizes changes in pension plan participants over the past five years. All amounts in the following tables for fiscal year 1994 are unaudited.

Table One Five Year Annuitants Summary

Year	Employee Annuitants	% Change	Widow(er) Annuitants	% Change	Members in Service	% Change
1994	7,052	(1.6)	1,648	4.0	26,883	4.5
1993	7,165	27.2	1,584	5.0	25,725	0.9
1992	5,633	4,4	1,509	2.6	25,504	24
1991	5,396	4.4	1,471	3.2	24,900	3.0
1990	5,171	2.6	1,425	2.7	24,169	3.6
1989	5,039	3,3	1,387	3.3	23,323	3.7

Health insurance benefits were first paid in 1990. Table Two summarizes payments for 1990-1993, the percentage increase for these benefits and the percentage these benefits represent of the total benefit payments.

Table Two
Health Insurance Benefits

Year	Hospitalization Payments	% Increase	% of Total Benefits
1994	\$ 9,712,360	8.52%	9.05%
1993	8,949,940	171.65%	9.38%
1992	3,294,666	10.83%	5,01%
1991	2,972,783	11.4%	5.05%
1990	2,674,709	#	5:07%

As of December 31, 1993, 54% of the total employees and spouse annuitants are health insurance participants.

The significant increase in employee annuitants — especially in reference to the change in the number of "members in service" — is due to the Early Retirement Incentive ("ERI") in Senate Bill 1770 (signed September 16, 1992). Of the 5,252 eligible employees, 28% retired early under this incentive. This increase in annuitants, when coupled with other miscellaneous actuarial experience, increased the Pension Fund liability by approximately \$37 million. (The unfunded liability increased \$61 million due to the ERI benefits.)

Of the 1,872 new retirees in 1993, 80% or 1,493 were ERI annuitants. This incentive may have produced favorable results in terms of current payroll costs. However, any future evaluation of such incentives should include the consideration of the impact on pension costs and liabilities.

### CHANGES IN SALARY COSTS

Table Three is a summary of average salaries for current employees covered by the pension plan.

Table Three
Five Year Average Annual Salary Summary

Year	Members in Service	% Increase	Annual Salaries (in 000s)	% Increase	Average Salary	% Increase
1994	26,883	4.5	\$923,000	11.6	\$34,339	6.8
1993	25,725	0.9	827.000	2.0	32,147	11
1992	25,504	2.4	810,700	9.5	31.789	6.9
1991	24,900	3.0	740.400	75.1	29.733	11.7
1990	24,169	3.6	643,500	8.9	26.625	5,1
1989	23,323	3.7	591.000	9.4	25,341	5.5

The 1993 statistics are impacted by the effects of the ERI. The Early Retirement Incentive did not result in a net loss of employees. At the same time that it offered this incentive to eligible employees, the County added positions which required more technical expertise. The majority of the County's new hires are consistently more professionally oriented and typically earn more than the average employee.

The restructuring of pay grades, the impact of collective bargaining pay changes (which relate to a significant portion of the workforce) and the timing and number of "other raises," can result in a compounded effect with respect to the average actual salary increase in a given plan year. Future wages will continue to grow without action from the Board.

The average annual increase in members in service over the last five and ten year periods have been 2.7% and 3.4% respectively. For the same periods, annual salaries have increased 9.0% and 8.5% respectively, yielding increases in average salaries of 6.1% and 5.0% respectively. However, the increases in the Chicago Consumer Price Index (CPI) for the same periods were only 4.1% and 3.8% respectively.

Funding of pension liabilities is affected by the difference between the actuarial assumptions and actual experience. For example, for every \$1 increase in salary over the 6% increase assumed in the Plan, the unfunded liability will increase by \$2.04 (based on the December 31, 1993 valuation). The average annual increase in salaries for the 30 year period 1964-1994 was approximately 6.2% compounded.

### **CHANGES IN BENEFITS - HOSPITALIZATION**

During the 1989 legislative session, HB158 provided for payment by the pension plan of 50% of the healthcare premiums for annuitants who participate in any of the County's healthcare programs (beginning January 1, 1990 and ending December 31, 1993.) During the 1991 legislative session, additional legislation (HB971) provided for payment by the Fund of all or any portion of the total healthcare premium — including coverage for other family members — due from each annuitant who chooses to participate in any of the County's healthcare plans.

Hospitalization benefit payments are increasing significantly. For example, \$8.9 million was paid in 1993 and approximately \$9.7 million was paid in 1994. The costs and liabilities related to these benefits will continue to increase. As of December 31, 1993, the present value of benefits related to the health insurance supplement was \$157.7 million. 94% of the increases in the Pension Plan's 1992 unfunded liability can be attributed to the change in assumptions to account for the health insurance supplement.

Table Four below summarizes how the factors discussed above have impacted benefit payments of the pension plan.

Table Four
Five Year Benefit Payment Summary - Percentage Change

Year	Employee Annuities	Hospitalization Benefits	All Other	Total Benefits
1994	15%	5%	N/A	12%
1993	46%	172%	-1%	45%
1992	12%	11%	8%	1/2%
1991	13%	11%	8%	12%
1990	12%	N/A	11%	18%
1989	17%	N/A	11%	16%

### **ASSET ALLOCATION POLICIES AND LIMITATIONS**

Currently the pension board has allocated the resources entrusted to the Fund as follows: 36% in equities and 64% in high quality fixed income securities.

The statutorial limit for pension fund equity investments is 40%. The County may achieve a higher rate of return on its investments if the pension board allocates more Fund money to equity investments.

As a general rule, portfolio managers recommend an asset allocation of 60% in equities and 40% in fixed income securities. Such an allocation allows pension plans to earn income without unduly adding risk. Corporations and endowment funds have, on average, approximately 65% of their assets in equity and are often over-funded.

### SUMMARY

The subcommittee's critical issues and key recommendations are summarized in Table Five. Most recommendations require action or consideration by the County Board.

### Table Five Pension Plan Critical Issues and Key Recommendations

Critical Issues		
HANGES IN NUMBER OF PARTICIPANTS	4	Key Recommendations
The Early Retirement Incentive, created for withdrawals from December 1, 1992 through May 29, 1993, singularly had the impact of increasing the accrued pension liability by approximately \$61.4 million as of December 31, 1993.	www.Weekhammannanianee?	The Board should take into consideration how future changes in the number of participants brought about by personnel initiatives impact the Pension Plan.
IANGES IN SALARY COSTS	<b>†</b>	
The restructuring of pay grades, the impact of collective bargaining pay changes, and the timing and number of "other raises," can result in a compounded effect on the Plan with respect to average actual salary increases in a given plan year.	The statement of the st	The Board should consider the Pension Plan implications when studying changes in compensation.
The average actual salaries are increased by new hires that earn more than the average salary of the pool. Average actual annual salary increases that exceed actuarial assumptions for salary increases negatively impact the unfunded liability.	•	The Board should consider the Pension Plan implications when studying changes in compensation.
ANGES IN BENEFITS	in included the	The second secon
Hospitalization benefit payments are increasing significantly. As of December 31, 1993, the present value of benefits related to the health insurance supplement was \$157.7 million. 94% of the increases in the Pension Plan's 1992 unfunded liability can be attributed to the change in assumptions to account for the health insurance supplement.		The Board should evaluate the negative impact on the Pension Plan of the benefits related to the Health Insurance Supplement and consider how to minimize the impact of providing these benefits from the overall County perspective.
SET ALLOCATION		мания при
The County is not at its statutorial limit for equity investments.		The allocation mix should include a minimum of 40% in equity investments.
Current statutorial limits may be overly conservative.	•	The County should take steps to effect a change in current investment limits. The Committee recommends allowable allocation mix of up to 60% in equities and 40% in fixed income.
	Militariawals from December 1, 1992 through May 29, 1993, singularly had the impact of increasing the accrued pension liability by approximately \$61.4 million as of December 31, 1993.  **FANGES IN SALARY COSTS**  The restructuring of pay grades, the impact of collective bargaining pay changes, and the timing and number of "other raises," can result in a compounded effect on the Plan with respect to average actual salary increases in a given plan year.  The average actual salaries are increased by new hires that earn more than the average salary of the pool. Average actual annual salary increases that exceed actuarial assumptions for salary increases negatively impact the unfunded liability.  **ANGES IN BENEFITS**  Hospitalization benefit payments are increasing significantly. As of December 31, 1993, the present value of benefits related to the health insurance supplement was \$157.7 million. 94% of the increases in the Pension Plan's 1992 unfunded liability can be attributed to the change in assumptions to account for the health insurance supplement.  **SET ALLOCATION**  The County is not at its statutorial limit for equity investments.  Current statutorial limits may be overly.	Milidrawals from December 1, 1992 through May 29, 1993, singularly had the impact of increasing the accrued pension liability by approximately \$61.4 million as of December 31, 1993.  **FANGES IN SALARY COSTS**  The restructuring of pay grades, the impact of collective bargaining pay changes, and the timing and number of "other raises," can result in a compounded effect on the Plan with respect to average actual salary increases in a given plan year.  The average actual salaries are increased by new hires that earn more than the average salary of the pool. Average actual annual salary increases that exceed actuarial assumptions for salary increases negatively impact the unfunded liability.  **ANGES IN BENEFITS**  Hospitalization benefit payments are increasing significantly. As of December 31, 1993, the present value of benefits related to the health insurance supplement was \$157.7 million. 94% of the increases in the Pension Plan's 1992 unfunded liability can be attributed to the change in assumptions to account for the health insurance supplement.  **SET ALLOCATION**  The County is not at its statutorial limit for equity investments.  Current statutorial limits may be overly.

### THE DEFERRED COMPENSATION PLAN

The County's program is a voluntary salary deferral plan that is administered by the Copeland Companies and offered to Cook County employees. It enables them to defer part of their salaries on a tax-deferred basis.

The current participation is approximately 7,000 employees. Optimal participation is considered to be from 50% to 60%.

The Copeland Company – the third party administrator – is responsible for all aspects of administering the plan. The plan is also overseen by a Deferred Compensation Committee appointed by the President. All policy pertaining to the Deferred Compensation Plan (the "Plan") is decided by the Committee. There is currently a vacancy on this Committee.

### **EMPLOYEE EDUCATION**

The greatest needs related to the Deferred Compensation Plan involves employee education. It is reasonable to expect that the federal government will adopt regulations governing participant directed plans for individuals employed by public entities similar to 404(c) regulations adopted for corporate profit sharing and 401(k) plans. Under the 404(c) regulations, participants must automatically receive:

- · A notice of limited liability.
- A description of investment alternatives. These alternatives must have materially different risk factors and return characteristics.
- The identity of investment managers, if any.
- A description of investment instructions and limitations.
- · Identification of a person to contact for additional information.
- A description of confidentiality safeguards for employer stock transactions.
- A pass-through of prospectuses.
- A pass-through of proxy materials.

The 404(c) regulations relieves fiduciaries of these plans from liability of any losses that result from plan participants' decisions about their assets.

The current marketing/education process takes place at the time of initial employment. Subsequently, the amount of information disseminated and the frequency of contact is inconsistent across Cook County employees. Further marketing to employee non-participants is minimal. Contact with employee participants – to ensure that the plan is continually meeting their needs – is non-existent.

### PLAN ADMINISTRATION

It is our understanding that the County is planning to issue a request for proposal for third party administrators for the Deferred Compensation Plan. In a recent evaluation of the Plan, several areas were identified in which the third party administrator needs to improve. Key areas for improvement include communications to employees and the enrollment process.

### COMMITTEE LIABILITY

Because the Committee sets policy for the Plan, its members may assume certain fiduciary liability. It is our understanding the Committee does not have fiduciary liability insurance.

### RECOMMENDATIONS

In order to effectively address all of the above issues, our subcommittee would also recommend evaluating the feasibility of creating a second plan, administered by a new third party administrator or a sole administrator for both plans. This new plan would:

- Offer alternate types of investment vehicles designed to address differing needs of County Employees.
- Be in compliance with 404(c) regulations.
- · Address current deficiencies in marketing and enrollment.

However, we would not recommend terminating the existing plan. By allowing existing money to stay in the old plan — i.e., new money would not be accepted after a certain date — the existing third party administrator would maintain its fiduciary responsibility. In addition, the existing plan includes investment contracts that must run their course. Retiring these investments early would be accompanied by significant surrender penalties.

Table Six summarizes the Deferred Compensation Plan issues raised above and key recommendations offered by the subcommittee.

### Table Six Deferred Compensation Plan Critical Issues and Key Recommendations

	Critical Issues		Key Recommendations
EI *	The federal government may adopt regulations governing participant directed plans for individuals employed by public entitles similar to 404(c) regulations adopted for corporate profit sharing and 401(k) plans.	Andrea and A	The County should amend or alter its existing plan to more closely comply with 404(c) regulations.
	The current marketing/education process takes place almost exclusively at the time of initial employment.		The County, through the third party administrator, should expand the marketing of the deferred compensation benefits to employees after the initial sign-up and maintain regular contact with employee participants.
PL	AN ADMINISTRATION		No. of the second s
With the second of the second	The County is planning to issue an RFP for third party administrators for the Deferred Compensation Plan		Suggestions for improvement identified in the Grant Thorton study should be incorporated into the upcoming RFP process for a new third party administrator.
	It may be difficult to implement recommendations to the existing plan and ensure that the current third party administrator maintains its fiduciary responsibilities.		The County should evaluate the feasibility of creating a second plan, administered by a new third party administrator.
c	PMMITTEE LIABILITY		
· • • • • • • • • • • • • • • • • • • •	Members of the Deferred Compensation Committee, which sets policy for the Plan, may have certain fiduciary liability.	A Section 11	The County should purchase fiduciary liability insurance for the Deferred Compensation Committee.

### SUMMARY

Table Seven summarizes all critical issues and key recommendations that relate to the scope of the subcommittee's charge and includes both the Pension and Deferred Compensation Plans.

# V. Pension and Deferred Compensation Pluns Table Seven Pension and Deferred Compensation Critical Issues and Key Recommendations

Category	Critical Issues	Key Recommendations
THE PENSION PLAN	Investment mix	The allocation mix should include a minimum of 40% in equity investments.
	Conservative current statutorial limits for investinients	The County should take steps to effect a change in current investment limits.
	Changes in the number of participants (increase caused by The Early Refirement Incentive).	The Board should take into consideration how changes in the number of participants brought about by personnel initiatives impact the Pension Plan.
	Average actual annual salary increases	The Board should consider the Pension Plan implications when studying changes in compensation.
	Hospitalization benefit payments are increasing significantly.	The Board should evaluate the negative impact related to the health insurance supplement and consider how to minimize the impact from the overall County perspective.
THE DEFERRED COMPENSATION PLAN	The federal government regulations 404(c) regulations adopted for corporate profit sharing and 401(k) plans,	The County should amend or alter its existing plan to more closely comply with 404(c) regulations.
	Marketing/education process	The County should expand the marketing of the deferred compensation benefits and maintain regular contact with employee participants.
	The County is planning to issue an RFP for third party administrators for the Deferred Compensation Plan,	Suggestions identified in the Grant Thornton study, should be incorporated into the RFP for a new third party administrator.
	Current third party administrator's continuing fiduciary responsibilities.	Evaluate creating a second plan, administered by a new third party administrator.
	Fiduciary liability of the Deferred Compensation Committee members	The County should purchase fiduciary liability insurance for the Deferred Compensation Committee.

### **ACKNOWLEDGMENTS**

### SUBCOMMITTEE MEMBERS

### Co-Chairpersons:

Carole Brown, Mesirow Financial Carol Kone, Arthur Andersen & Co.

### Members:

Barbara Bowles, The Kenwood Group Donald F. Campbell, Consulting Actuaries Louis Holland, Holland Capital Management JoAnn Matzorkis, DOM Capital Management, Inc.

### **Professional Support:**

Howard Freidin, Arthur Andersen & Co. Michael Kesner, Arthur Andersen & Co.

### COOK COUNTY

Additional information was provided by the offices of John Chambers, Cook County Comptroller and Acting Chief Financial Officer.

### OTHER ACKNOWLEDGMENTS

Data regarding Pension Fund statistics was taken from the December 31, 1993 Actuarial Statement of the County Employees' and Officers' Annuity and Benefit Fund of Cook County. Certain information regarding the Deferred Compensation Plan was provided by Judy Thorpe of Grant Thorton, Inc.

### VI. CASH AND GRANTS MANAGEMENT

The Cash and Grants Management Subcommittee of the FIRST Team was charged with reviewing, analyzing and evaluating cash and grants management activities of Cook County:

- CASH Responsible for reviewing, analyzing and evaluating cash management activities
  of Cook County Government. The report should provide:
  - Discussion of potential revenue shortfalls in 1995 and the affect on the County's cash flow and current cash position.
  - Discussion of the County's cash management system including use of the Working Cash Fund.
  - Actions the County should undertake to assure that sufficient cash resources are available to meet its obligations in a timely manner.
  - Recommendations of system enhancements for consideration by the new County administration.
- GRANTS The team should review and/or analyze:
  - Financial organization, controls and systems which seek out, administer, and account for state and federal grants.
  - Existing and potential grant sources and amounts.
  - Cash and debt management processes.
  - Questioned, disallowed, committed and expended costs.

Particular emphasis should be given to review organizational plans for providing sufficient "matching" of existing and potential capital grants.

### **OVERVIEW**

In conducting our analysis, the subcommittee adopted the approach that we were examining and making recommendations for improvements in cash management for all agencies and entities within Cook County. It was our belief that the President is elected to serve all of the taxpayers in the County. Thus our proposals can be used to either make administrative changes or propose legislation to the County Board in order to bring about improvements benefiting all governments located in Cook County.

While some of our recommendations have the potential of resulting in substantial savings and increased investment earnings for the Cook County budget, other proposals also have the potential for increasing the earnings of the approximately 600 taxing jurisdictions within the County. Taxpayers in Cook County and around the nation are demanding increased efficiency from governments, improved coordination between different entities and levels of government, and modern business-like management of all taxpayer dollars regardless of their source.

### **CASH MANAGEMENT**

Cook County is the second largest county in the United States. As such it collects taxes and fees and invests cash on a very substantial scale. The revenue collection and investment activities of the County can easily be compared to the largest cities, counties and state governments, as well as to large corporate and financial enterprises.

According to the Cook County Treasurer's office, approximately \$7 billion of property taxes are collected by the County for taxing districts (e.g., Cook County, City of Chicago, towns, villages and special districts) within the County. The County had \$926 million of investments as of December 1, 1994.

The funds collected by various entities (primarily Elected Officials) within Cook County government are collected daily and held by and invested by these entities for a period of approximately one month. After the end of the month, each of these entities transfer funds to the County Treasurer. The County Treasurer in turn invests these funds along with all others collected by the County's Department of Revenue.

According to the Treasurer's Office, the funds are invested in time deposits of no longer than 90 days and are collateralized at the level of 110 percent. A small amount of funds are also invested with the Illinois Public Treasurers' Investment Pool (IPTIP).

The County can have more than \$900 million invested at certain peak periods of the year. All funds invested by the County are governed by the "Cook County Taxpayers Interest Assurance Ordinance."

During the late 1980's and 1990's, the County also issued tax-exempt bonds for a Working Cash Fund. In the past, it has also issued tax anticipation notes to cover short-term cash needs.

### **GRANTS MANAGEMENT**

The County receives approximately \$70 million in federal funds each year. These funds are administered by the President's Office, as well as entities involved in criminal justice (such as the Sheriff, States Attorney and Chief Judge), healthcare (Cook County Hospital), and child and welfare programs. The various entities mentioned above and others apply for and receive the funding from various federal sources.

### CASH MANAGEMENT: ISSUES AND RECOMMENDATIONS

### INVESTMENT POLICY

Cook County does not have a written investment policy. The subcommittee recommends that the President should consult with the County Treasurer and jointly propose to the County Board an ordinance establishing a detailed written investment policy. This ordinance should follow the generally accepted public sector cash management principles of safety, liquidity and yield (in that order.)

We strongly recommend that the written investment policy specifically prohibits the use of speculative investments including derivatives. In addition, the policy should prohibit investment of short-term cash reserves of the County in long-term securities.

### **INVESTMENT REPORTS**

The subcommittee recommends that the Finance Committee of the Board should receive detailed investment reports on a monthly basis. These reports should relate specifically to the guidelines established in a written policy. For example, the monthly report should include information on portfolio liquidity, duration, benchmark comparisons and credit quality.

### OVERSIGHT

The subcommittee recommends that the Finance Committee should review County investments on a monthly basis. All investment policies, investments, and investment returns should be reviewed by the entire County Board on at least an annual basis.

### **CASH FLOW ANALYSIS**

While some progress has been made to estimate cash flows, a comprehensive cash flow analysis is needed in order to maximize the investment returns on County funds. In order for this analysis to be meaningful, it must measure all funds held by County agencies and entities, as well as estimated receipts and expenditures. The subcommittee recommends that the Chief Financial Officer or the Comptroller of the County should regularly prepare a detailed and consolidated cash flow analysis. It should include all County funds, including those collected by independent Elected Officials and other entities.

### COLLECTIONS BY ELECTED OFFICIALS

Independent Offices (generally referred to as Elected Officials) collect, hold and invest funds for a period of approximately one month before transferring these funds to the County Treasurer. The subcommittee recommends that these independent entities should continue to collect these funds. However, those collections should be deposited and invested along with all other County funds on a daily basis.

The recommended practice will enable the County to include such funds in its cash flow analysis (see previous recommendation) and to efficiently invest all funds.

### INVESTMENT PRACTICES AND INVESTMENTS

All County funds are invested in collateralized certificates of deposit with maturities of ninety days or less. These investments are all invested in financial institutions within Cook County and are 110 percent collateralized. These practices provide Cook County taxpayers with an extremely high level of safety and liquidity, yet generate yields lower than those received by similar types of governments in the United States.

Based upon the recommended cash flow analysis, the subcommittee further recommends that the County should invest portions of its portfolio for time periods longer than ninety days in order to earn higher rates of interest. Adoption of modern safe investment practices can significantly increase the investment earnings for the County without increasing risk.

The written investment policy, recommended above should also allow the County to invest in other safe liquid investments including U.S. Treasury Notes and Bonds. These high quality investments can often times produce yields that are higher than the collateralized certificate of deposits (time deposits) in which the County currently invests. By investing in both collateralized deposits and "plain vanilla" U.S. Treasury securities, the County can significantly increase the investment returns, while still maintaining the accepted public sector cash management principles of safety, liquidity and yield.

Finally, the subcommittee recommends that the written investment policy provide that the County should continue its current practices of investing a portion of the County funds with minority owned financial institutions.

### **ACCOUNTING RECONCILIATIONS**

Currently, the County Treasurer only reconciles balances with the Cook County Comptroller on an annual basis in preparation for the Comprehensive Annual Financial Report. The subcommittee recommends that the County Treasurer should be required to reconcile with the Comptroller on a monthly basis.

### **COLLECTIONS: ISSUES AND RECOMMENDATIONS**

### PROPERTY TAXES

Thirty to forty percent of the 1,5 million tax parcels in Cook County pay property taxes by check to the County. Over one-half million checks are received by the County immediately prior to March 1 and September 1 of each year. While precise figures were not available, it has been estimated that it often takes days if not weeks for property tax checks to be deposited and either: (1) distributed to taxing jurisdictions, or (2) invested in interest bearing accounts, in the case of Cook County. These "lost" investment earnings — to both Cook County and the taxing

jurisdictions — could represent a significant source of funds for these governments, if the property tax payments are deposited in a more efficient and timely manner.

The subcommittee recommends that the County should consider the lock box procedure used by the U.S. Internal Revenue Service and other large cities and counties. For example, the IRS requires lock box vendors to deposit all checks within 48 hours of receipt. The investment earnings, on roughly \$7 billion of property tax payments for the County and all taxing jurisdictions, could be substantial. By contracting out the collection of these property taxes, the County could both reduce its collection expenses and increase investment earnings at the same time.

Alternatively, the County should examine methods to improve the property tax collection procedure through the use of modern equipment. For example, Los Angeles County — which collects a larger volume of property taxes in terms of both dollar volume and number of tax parcels — generally deposits property tax checks within 24 hours of receipt. (During two peak periods, the deposits are made within 72 hours of receipt.) Either through privatization or improved efficiency, Cook County could reduce the time if takes to deposit funds (and begin earning interest) from weeks to days.

### PROPERTY TAX PAYMENT CYCLE

Currently, Cook County collects taxes one year after they are levied. These property tax payments are due twice a year, on March I and approximately September 1.

We recommend that taxpayers should be given the option of paying taxes on a quarterly basis, in order to increase the cash flow for the County as well as all other taxing jurisdictions. The taxpayers paying on a quarterly basis should be given an appropriate discount for the early payment of taxes. Even after providing this discount incentive to the taxpayers, the County and other taxing jurisdictions would have a significant amount of funds to be invested one full calendar quarter earlier than under the current system.

### CREDIT CARD PAYMENTS

Many large counties — such as Los Angeles County and Arlington County in Virginia — have started to allow the collection of fees, fines and property taxes via credit cards. The credit card fees are paid by the individual making the payment and not by the government. These counties have found that the use of credit cards enhances their collection rate, increases the amounts available for investment and can contribute to "rightsizing" efforts.

We recommend that the County investigate the use of credit cards and gradually allow their use on an experimental basis for various fees and fines. If successful, we then suggest allowing the use of credit cards for property taxes as an approach to reducing delinquent taxes and depositing funds on a more timely basis.

### **GRANTS MANAGEMENT: ISSUES AND RECOMMENDATIONS**

### **GRANTS COORDINATION**

No person or office in the County is responsible for grant coordination, inclusion of all direct costs in grant applications, consistent application of indirect cost rates, grant draw downs, and grant renewals or extensions.

We recommend that one person in the Budget Office should be assigned the responsibility of reviewing all grant applications. Before the County Board approves grant applications, the Budget Office should make certain that all grant procedures have been followed, that grant renewals are produced on a timely basis, that all direct costs have been incorporated in the budget, and that appropriate indirect cost rates have been included.

### INDIRECT COST RATES

Indirect cost rates are not used on a consistent basis on all County grant applications. The County therefore may not be fully recovering the allowable indirect costs.

The subcommittee recommends that all grant applications should include the appropriate indirect cost rates. In addition, the County should make certain that it is fully being reimbursed for all such costs and should hire an independent cost allocation firm to document the appropriate indirect cost rate.

### **GRANT DRAWDOWNS**

According to Cook County financial staff, the individual researchers and agencies which receive federal or state funded grants may not receive grant funds in a timely manner. As a result, the operating funds of the County are used to pay grant expenses until the federal funds are received.

We recommend that the grant coordinator should make certain that all grant drawdowns are done in a timely fashion.

### **GRANT BUDGETING**

Agencies receiving federal or state grants do not consistently reconcile the original grant budgets submitted to funding agencies with the actual amounts received. Since the original grant budgets are incorporated in the overall County budget, any discrepancies on the actual amounts received have a direct impact on the County budget.

We recommend the grant coordinator oversee reconciliation of original grant budgets to actual amounts received.

### SUMMARY

Table One is a summary of the critical issues and key recommendations developed by the subcommittee as detailed above.

### **ACKNOWLEDGMENTS**

### SUBCOMMITTEE MEMBERS

The members of the Cash and Grants Management subcommittee included:

### Co-Chairpersons:

Jeffrey L. Esser, Government Finance Officers Association Maria de J. Prado, Prado & Renteria

### Members:

Gene Saffold, Smith Barney David Stewart, Amalgamated Bank of Chicago Richard Pavia, Speer Financial David Kelly, NIPSCO Industries, Inc.

### **COOK COUNTY OFFICIALS**

We wish to express our appreciation to John Chambers, Comptroller and Acting Chief Financial Officer, and Joseph Rose, County Auditor, as well as the staff from County Treasurer Edward Rosewell's office for their valuable assistance.

### VI. Cash and Grants Management

## Table One Cash and Grants Management Critical Issues and Key Recommendations

1681168	Recommendations
CASH MANAGEMENT	
<ul> <li>No written investment policy.</li> </ul>	<ul> <li>The President and Treasurer should jointly propose a policy to the County Board.</li> </ul>
<ul> <li>No regular review of investment reports.</li> </ul>	<ul> <li>Detailed investment reports should be provided to the Finance Committee on a monthly basis.</li> </ul>
<ul> <li>No regular oversight of investments.</li> </ul>	<ul> <li>The Finance Confinittee should review County investments on a monthly basis.</li> </ul>
<ul> <li>No comprehensive cash flow analysis.</li> </ul>	The Comptroller or CFO should regularly prepare a detailed and consolidated cash flow analysis.
<ul> <li>Lack of timely transfers of cash collected by Elected Officials.</li> </ul>	<ul> <li>Transfer funds to Treasurer on a daily basis.</li> </ul>
<ul> <li>Current investment practices and instruments result in yields.</li> <li>lower than other governments.</li> </ul>	<ul> <li>The County should extend the investment horizon beyond the current 90 days and expand investments to include U.S. Treasury Notes and Bonds.</li> </ul>
<ul> <li>Accounting reconciliations are only performed annually.</li> </ul>	<ul> <li>The Treasurer and Comptroller should reconcile accounting records monthly.</li> </ul>
COLLECTIONS	The state of the s
<ul> <li>Property tax collection practices result in tost interest earnings and delays in distribution of cash to local governments.</li> </ul>	<ul> <li>Consider the utilization of lock box procedures and modernized collection equipment as used by other counties.</li> </ul>
The bi-annual property tax collection cycle results in tost interest earnings to the County.	<ul> <li>Provide taxpayers the option of quarterly payments and offset an incentive of discounts for early payments.</li> </ul>
<ul> <li>The County does not permit the use of oredit cards for payments of fees, fines or taxes.</li> </ul>	<ul> <li>Investigate use of credit cards and permit use on an experimental basis.</li> </ul>
GRANTS MANAGEMENT	
<ul> <li>No person or office is responsible for grant coordination.</li> </ul>	<ul> <li>Assign a grant coordinator in the Budget Office to provide overall coordination.</li> </ul>
<ul> <li>Indirect cost rates are dated and not used consistently.</li> </ul>	<ul> <li>Conduct an updated indirect cost study and use those rates for all grants and applications.</li> </ul>
<ul> <li>Grant funds are not always drawdown on a timely basis.</li> </ul>	<ul> <li>Have grant coordinator ensure drawdowns are done promptly.</li> </ul>
Grant budgets are not consistently reconciled with actual amounts received.	<ul> <li>Assign responsibilities to grant coordinator.</li> </ul>

### VII. FINANCIAL ORGANIZATION, SYSTEMS AND CONTROL

The Financial Organization, Systems and Controls Subcommittee of the FIRST Team was charged with researching and evaluating the following areas in order to generate recommendations for improvement:

### FINANCIAL ORGANIZATION

- Overall structure, specific offices, reporting lines and responsibilities.
- Role of the Chief Financial Officer (CFO).
- Potential duplication of efforts, functions, responsibilities and positions.
- Implications of separately Elected Officials to the financial organization.

### SYSTEMS

- Nature, functionality, comprehensiveness and integration of financial and accounting systems.
- Need and feasibility of integrating stand-alone systems.
- Possibilities for updates, or replacements of information systems, or outsourcing of data processing.

### CONTROLS

- Nature of key data and document flows, particularly from the Hospital and the Offices of the separately Elected Officials.
- Status of internal controls regarding separate bank accounts and cash handling particularly in the Hospital and the Court system.
- Role and scope of the Department of Revenue in the cash collection cycle for the County.

### **OVERVIEW**

Due to time constraints, the subcommittee determined that it was not feasible to research and evaluate all of the areas discussed above and develop effective recommendations for improvement. In addition, we did not conduct interviews or perform research with any of the Elected Officials.

The subcommittee decided to concentrate on those areas where we thought we could make an effective contribution to the overall transition effort. These areas included the overall tone at the County, the purchasing/procurement process, performance accountability and the flow of financial information. Each is described in the following sections.

### TONE AT THE TOP

### ISSUES AND RECOMMENDATIONS

Cook County, like most counties in Illinois, has many of its critical functions managed by elected officials charged with certain responsibilities by statute. This structure results in a fragmented system of internal control. Each official is accountable to their electorate and state law but not directly to the County.

Certain activities require the approval of the County Board (e.g., budget adoption). Many activities are performed relatively autonomously yet brought together for external reporting purposes. Information that is combined for reporting purposes is not systematized nor is the protocol to accumulate the information necessarily accepted by the elected office holders.

The County Board has formed numerous oversight committees (e.g., audit, finance, information technology and automation, etc.). However, the authority and responsibilities of the oversight committees are not clearly defined. Thus, the existence of an effective internal control system is important.

An internal control system helps ensure compliance with laws and regulations as well as providing reliable financial reporting. Such a system can also help an entity meet its performance goals and prevent the loss of resources.

The effectiveness of the internal control structure and system is dependent upon the cooperation of all component units of the County under the leadership of the President. According to the Committee of Sponsoring Organizations of the Treadway Commission report entitled, Internal Control - Integrated Framework, "The Chief Executive Officer is ultimately responsible and should assume 'ownership' of the system. More than any other individual, the Chief executive sets the 'tone at the top' that affects integrity and ethics and other factors of a positive control environment,"

We recommend that President Stroger set the "tone at the top". Working with other elected officials, County-wide standards of conduct and accountability need to be developed. An initial self-assessment of the control system, conducted by a task force representing a variety of County interests, should be conducted to prioritize and focus attention where needed.

There are numerous circumstances where the "tone at the top" could improve the overall efficiency and effectiveness of County government. Areas that require attention include, for example, a formal code of conduct, protocol for exchange of information and standards for information systems. Similarly, the role of the Board committees should be clearly defined. This process would improve the overall effectiveness of the internal control system at the County.

### **PURCHASING/PROCUREMENT**

### ISSUES AND RECOMMENDATIONS

Cook County has a complicated purchasing/procurement process with an extraordinarily long cycle time requiring numerous approvals and review. Due to the nature of certain purchases (i.e., health care related) purchases often need to be expedited. During the process it is difficult to ascertain at what state of the approval process a particular purchase may be.

The Purchasing Department has not specialized to more effectively deal with unique requirements (e.g., healthcare). This type of situation may result in circumventing of controls, ordering "just in case", shortage of critical goods or significant wasted effort. The system is dependent upon substantial manual input and has not taken advantage of more efficient processing and control alternatives.

We recommend the County re-engineer the purchasing/procurement process to reduce cycle time by eliminating redundant approvals and by making more effective use of current or enhanced computer capabilities. System enhancements — to automate the process and provide the ability to make inquiries and track the progress of the purchasing process — would improve controls and efficiency. In addition, elimination of redundant approvals would streamline the process. Further specialization within the Purchasing Department — to deal with unique requirements (e.g., healthcare) — should also be considered.

### PERFORMANCE ACCOUNTABILITY AND BENCHMARKING

### ISSUES AND RECOMMENDATIONS

Cook County does not have a formal method of evaluating the performance of its various departments and elected offices. The County — as well as most governments across the United States — have been confronted with budgetary problems associated with fiscal stress. Such problems include a declining revenue base and ever-increasing service demands and escalating costs.

To combat these problems, many governments are placing new responsibilities on the government's management team to improve the effectiveness and efficiency of its operations. Performance measures — a fundamental component of a **Performance Accountability System** — can be developed to measure how effective and efficient the County and its departments operate, whether they are meeting their objectives, as well as providing a mechanism for benchmarking.

Based upon discussions with the Department of Budget and Management Services, we understand an attempt has been made to develop performance measures to provide for benchmarking analysis. However, progress to date has been limited. The County should expand its data base of relevant statistics by departments and elected offices, in order to develop reliable performance measures.

A research report prepared by the Governmental Accounting Standards Board (GASB) entitled Service Efforts and Accomplishments Reporting: Its Time Has Come, states that GASB believes service efforts and accomplishment reporting (SEA) will become a major element of governmental financial reporting. SEA reporting is an effective fiscal technique for assisting in fulfilling government's duty to be publicly accountable. Such reporting also enables citizens, elected officials and other users of financial reports to assess that accountability.

We recommend that the County develop appropriate performance measures and target performance levels for each department and elected office relative to expenditures and service levels. Since the County is a large governmental unit with diversified services, we recommend the County identify certain departments to implement the performance measures on a pilot basis. The remaining departments should be implemented over a reasonable time period. Examples of costs that could be tracked to help develop performance measures are included in the Appendix to this chapter.

Some performance measures may not be comparable to other governmental units due to the uniqueness of the County, its structure and its operations. However, the County can receive benefits from benchmarking certain functions that are similar to most counties such as budgeting, property tax collections, public safety, etc. In addition, performance measures represent a valuable tool because the County will have a benchmark to evaluate how certain departments have performed in relative comparison to previous years.

The development and implementation of performance measures will provide the County with a strong management tool to:

- Evaluate a department's or elected office's performance.
- View trends over a period of time for a department or elected office.
- Make management decisions regarding the cost effectiveness of providing goods and services to other County departments, elected offices, and the citizens of the County

### FLOW OF FINANCIAL INFORMATION

### ISSUES AND RECOMMENDATIONS

The flow of financial information should provide valuable information in an efficient manner to assist County officials in making appropriate management decisions. Through discussions with various members of Cook County government, we identified the following functions where the County can improve the flow of financial information to enhance decision making:

- Payroll systems
- Department of Management Information Systems
- Budgeting

The improvements discussed below affect all of Cook County government.

### Payroll Systems

The County operates separate payroll systems for the Health Facilities, the Forest Preserve District, the pension plans and the remaining County employees. These systems require several manual processes which are inefficient and misuse County resources. Since the payroll system does not interface with the overall financial accounting system, the Department of Management Information Systems currently requires four working days every two weeks to process payroll.

We recommend the County automate the payroll system thereby eliminating the need for manual sign-in sheets and manual input of time sheets in the payroll system. Implementing a system where employees are automatically processed through the payroll system by "swiping" a time clock with an ID card will improve controls and provide efficiencies.

We also recommend that the County identify pilot departments for implementation of the automated payroll system over a period of time to allow for a smooth transition. The cost of implementing an automated payroll system should be offset by the efficient use of County resources in a relatively short period of time.

Finally, we recommend the County consider outsourcing the payroll system should the cost of automating the current system become cost prohibitive.

### The Department of Management Information Systems

The Department of Management Information Systems (the Department) appears to be operating without an overall mission and with minimal direction from the County Board of Commissioners. The following conditions were identified during our interviews:

- County departments and offices of Elected Officials frequently initiate their own systems solutions without benefit of input from the Department.
- The Department's mandate, to the extent it exists, is to respond to user requests.
   However, it does not reach out to users to educate them on new technology or to address their data processing problems.
- The Department does not solicit feedback from other County departments and offices of Elected Officials as to their systems needs and their satisfaction with the Department's current levels of service.
- The staff of the Department perceive a general reluctance in County government to purchase commercial software and develop integrated, relational systems.
- The Department has had a relatively small budget for staff training and development.

We recommend the County develop a mission statement for the Department of Management Information Systems (Department) which addresses the Department's role in:

- Analyzing information systems needs which may affect more than one department or elected office.
- Developing integrated technology solutions and relational data bases.
- Identifying and incorporating the best practices throughout the County.
- Assisting and educating users on optimal system use.

The Department's mission can be achieved by implementing the following specific recommendations:

- Feedback from Customer Departments and Elected Offices We recommend the
  Department develop and administer formal feedback instruments (i.e. surveys, focus groups,
  etc.) to assess current service levels and improvement opportunities. As a result, the
  Department will be informed of the needs and concerns of the County departments and
  offices of Elected Officials. Further it will be able to plan for an approach to provide
  services to meet such needs.
- Need to Modify Systems We recommend the Department take a proactive role in
  educating key decision makers of the benefits and needs regarding the purchase of
  commercial software and the development of integrated, relational systems. The
  Department should also be given a more substantive voice in approving departmental
  requests for system enhancements.
- Training and Development We recommend more financial resources be devoted to keep Department staff current with industry standards given the dynamic nature of systems technology and utilization.
- Automation of Several Financial Information Processes The County can benefit from
  the automation of several of its financial information processes including payroll and
  budgeting. (Note that due to the significance of the purchasing process, a separate
  recommendation was previously made relating to purchasing.)

### Budgeting

The budgeting process needs several modifications to improve its timeliness and benefit to County government. The following was noted relating to the budgeting process:

- The role of the Department of Budget and Management Services is limited to assembling departmental budgets into a consolidated whole.
- The scheduling deadlines for the budget process are frequently ignored. The result is that
  the schedule is compressed for subsequent process steps and there is lack of time for
  substantive budget analysis beyond the department level.

Numerous databases must be referenced and utilized in developing a consolidated budget, including the payroll file maintained by the Comptroller, and the job code, reclassification, and wage schedule files maintained by Human Resources.

We recommend the County develop and implement a completely integrated, relational data base to allow for each department and each Elected Official to input budget information. Such information can then be easily accessed and reviewed by the Department of Budget and Management Services. The County will experience the following benefits by implementing an automated and integrated budgeting system:

- Provide for a more standardized budget system.
- Provide scheduling deadlines which will be more easily achievable.

We also recommend the County provide the Budget Office with more control over the budget process including the performance of detailed reviews to ensure its validity and reasonableness and have the ability to modify the budget as necessary.

### SUMMARY

Table One is a summary of the critical issues and key recommendations prepared by the Financial Organization, Systems and Control Subcommittee.

## Table One Financial Organization, Systems & Controls Critical Issues and Key Recommendations

Critical Issues	Key Becommendations	
TONEATTHETOP	County wide standards of conduct and accountability need to be developed. Task force should be established to prioritize and focus attention where needed. Role of Board Committees should be clearly defined.	tability need to be developed, nd focus attention where needed. sfined.
PURCHASING/PROCUREMENT	Re-engineer the Purchasing/Procurement process to reduce cycle time by eliminating redundant approvals and by making more effective use of current or enhanced computer capabilities.	ess to reduce cycle time by gmore effective use of current or
PERFORMANCE ACCOUNTABILITY AND BENCHMARKING	<ul> <li>Develop performance measures and target performance levels for each department and elected office.</li> </ul>	formance levels for each
FLOW OF FINANCIAL INFORMATION	Automate payroll system identifying pilot departments for implementation over a period of time.	ments for implementation over a
	Consider outsourcing the payroll system should the cost of automating the current system become cost prohibitive.	Ifthe cost of automating the current
	Develop and implement a completely integrated, relational data base to allow each department and Elected Office to input budget information that is easily accessed and reviewed.	f relational data base to allow each information that is easily accessed
	Provide the Budget Office with more control and input over the budget process. Develop a mission statement for the Department of Management Information Systems (Department)	d input over the budget process. It of Management Information
	The Department should develop and administer formal feedback instruments.  The Department should take a proactive role in educating decision makers of the benefits and needs regarding the purchase of commercial software and the	r formal feedback instruments, educating decision makers of the commercial software and the
	development of Integrated, relational systems. More linancial resources should be devoted to keep Departmental staff current with industry standards.	keep Departmental staff current
		About the state of

#### **ACKNOWLEDGMENTS**

#### SUBCOMMITTEE MEMBERS

The Financial Organization, Systems and Control Subcommittee acknowledges the efforts of the following individuals:

#### Co-Chairpersons:

Cameron Clark, KPMG Peat Marwick LL.P. Gary Seidelman, Coopers & Lybrand LL.P.

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# **Professional Support:**

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John Chambers, Comptroller and Acting Chief Financial Officer
Robert Farrington, Acting Director of Management Information Systems
Joseph Rose, County Auditor
Lacy Thomas, Chief Financial Officer, Bureau of Health Services

# APPENDIX

# SAMPLE COSTS TO TRACK IN DEVELOPING PERFORMANCE MEASURES

Department or Elected Official	Cost to Track
Department of Corrections	Medical Treatment and Social Activities - The County could identify the cost incurred to provide medical treatment and social activities to inmates.
Cook County Hospital	Emergency Room Visits - The County could identify the cost incurred to provide medical services for emergency room visits.
	Patient Days -The County could identify the cost incurred to provide daily medical service to patients.
Cook County Courts	Trial Days - The County could identify the costs incurred to try certain types of cases (e.g., civil, criminal)
Commission on Human Rights	Complaints Investigated and Adjudicated - The County could identify the cost incurred to investigate and adjudicate a complaint.
County Assessor	Parcels Reviewed - The County could identify the cost incurred to assess land parcels.
Building and Zoning	Construction Inspections - The County could identify the cost incurred to perform construction inspections.
Recorder of Deeds	<u>Tract Searches</u> - The County could identify the cost incurred to record deeds.

# VIII. FOREST PRESERVE DISTRICT OF COOK COUNTY

The Forest Preserve District of Cook County (FPD) Subcommittee of the FIRST Team was charged with the following:

Analyze the 1995 financial issues and concerns of the District and determine the extent to which these matters deserve immediate budgetary attention. The review should encompass the financial organization structure, the financial accounting system, the capital budget (process and plan), recent budgetary trends and operating results. Recommendations should include those fiscal issues which will have current year (1995) budgetary impact, and those affecting out years (1996 and beyond).

The subcommittee identified and pursued six areas of analysis which included the following:

- Budgeting, Accounting and Financial Condition
- Financial Organization, Systems and Control
- Cash and Investment Management
- Debt and Capital Project Management
- Risk and Benefits Management
- Pension and Deferred Compensation Plans

The subcommittee's methodological approach in evaluating these areas primarily consisted of:

- Review of various documents provided by the Forest Preserve District including budgets and financial statements.
- Interviews with senior Forest Preserve District staff.
- Meetings with various consultants and outside professionals including the Forest Preserve District's auditors.

# **BUDGETING, ACCOUNTING AND FINANCIAL CONDITION**

#### **ISSUES AND RECOMMENDATIONS**

## Recent Operating Deficits

The Corporate Fund Balance — as measured either in accordance with generally accepted accounting principles (GAAP) or as the "Budgetary Surplus Available for Appropriation in Subsequent Year's Budget" — has declined during the period 1989 to 1994. According to management, these results were due to a planned "spend down" of prior surpluses. However, a "spend-down" is realistically an operating deficit because operating expenditures exceed operating revenues.

As shown in Table One, the surplus which is "Available for Appropriation" has dropped by 75% during the period 1990-1995:

Table One
Operating Results and Impact on Fund Balance
(in millions)

Year	Deficit	Available for Appropriation
1989	\$3.362	\$5.700
1990	2.050	12.834
1991	(.930).	10.117
1992	(4.803)	7.778
1993	(10.033)	3.223
TO SEE SEE SEE	Constantial and the same and the same	unaudited
1994	not available	2.948
1995	not available	3:199

(Source: District audited financial statements and appropriation ordinances)

The primary cause of the year-by-year differences — between GAAP Fund Balance and Amounts Available for Appropriation — is that the GAAP Fund Balance only includes the collection of prior year's tax levies. Alternatively, Amounts Available for Appropriation include property taxes that have been levied for the current year, but will not be collected until the subsequent year.

In connection to other issues identified in this report — i.e., stable tax levy, method of "financing" tax levy collections, non-tax revenues, etc. — the District must determine an acceptable future level of GAAP Fund Balance and Amounts Available for Appropriation, now that the "spend down" of prior surpluses has occurred. It is recommended that the District should work towards establishing 5% of the Corporate Fund budget, approximately \$2 million, as a targeted level of year-end fund balance. Figure One illustrates these interrelated issues.

Figure One Five Year Budgetary Comparison: Corporate Fund 38 36 34 32 30 28 26 24 22 20 \$ Millions 18 16 14 12 10 6 4 O 1991 1992 1993 1994 1995 Total Resources = Appropriated Expenditures Property Tax Levy Other Revenues Surplus Available for Appropriation

## Property Tax Levies

Because of the planned "spend down" of Corporate Fund Balance/Amounts Available for Appropriation, the District's Corporate Fund tax extensions (i.e., the amount of property taxes billed to taxpayers) have neither been at a constant or at a ratably increasing amount. The percentage change in Corporate Fund tax extensions has ranged from a 24% decrease (1989 to 1990) to a 25% increase (1991-1992). Table Two documents this lack of stability in property taxes.

Table Two
FPD Property Tax Extensions
(in millions)

Year	Corporate Fund	% Change	All Funds
1989	\$17.471	N/A	\$49.605
1990	13.286	(23.9)	44,138
1991	12.015	(9.6)	38.385
1992	15.107	25.7	40.294
1993	16.980	12.4	48.116
1994	19.010	12.0	48.909
1995	20.132	5.9	48.811

(Source: District records)

As shown in Table Two, 1995 represents the high point in property taxes required to support the Corporate Fund budget of the FPD. At the same time and as previously noted, 1995 represents a near low point in the surplus Amounts Available for Appropriation. Despite only modest increases in appropriated expenditures in recent years, we recommend that smaller increases in expenditure levels or actual cuts in expenditures may be necessary to stabilize Corporate Fund tax levies.

## Cash Flow Financings

Because property taxes are levied in one fiscal year — as part of that year's budget — but are not collected until the following year, cash flow financings are needed to pay for current year bills.

Financing the current year tax levy has become more difficult for the District and has resulted in interfund borrowings from funds other than the Working Cash Fund. This is due to the interrelationship between the effects of the following events:

- "Spend down" of Corporate Fund Balance/Amounts Available for Appropriation;
- Increases in the Corporate Fund tax levy; and
- A fixed level of available Working Cash resources (\$10 million) that can be loaned to the Corporate Fund. (The District has not issued Tax Anticipation Notes (TANs) since 1987.)

We recommend that the District should consider the following alternatives to increasing its cash resources needed to finance the annual delay in collection of the current year tax levy:

- Sell TANs.
- Increase Working Cash Balances Fund through a bond sale or permanent transfer from another fund (e.g. the Construction Fund).

- Increase Corporate Fund levy for one year to create additional working capital/fund balances.
- Intergovernmental borrowing from Cook County.

# Use of Earmarked Property Tax Levy

The District annually transfers unexpended funds from the Construction and Development (C&D) Fund that expires by statute each year. Amounts so transferred (to the Corporate Fund) in recent years are summarized in Table Three.

Table Three C&D Transfers to Corporate Fund

Transfer Year	Levy Year	Amount (\$ millions)
1991	1987	\$1.0
1992	1988	4.7
1993	1989	12
1994	1990	2.2
1995	1991	1.4 Estimated

(Source: District records)

An annual tax levy approximating \$5 million (from 1991 - 1995) serves as the primary resource for funding C&D projects. Amounts levied prior to 1991 were in excess of \$5 million.

The District expects to transfer approximately \$1.4 million from expiring C&D funds in 1995 and subsequent years. However, these expected annual transfers have historically not been included as a budgeted resource in the Corporate Fund when determining the annual tax levy requirement. That budgetary treatment therefore does not reflect the total resources spent by the District.

We recommend that the District should evaluate the creation (via the earmarked property tax levy) and use of the C&D Fund surplus, by considering the following (or combinations of the following) alternatives:

- Utilize the C&D tax levy for C&D purposes only.
- Reduce the annual C&D levy and increase the Corporate Fund levy by that amount.
- Since the C&D transfer is not budgeted for the Corporate Fund, transfer the unexpended C&D amounts to the Working Cash Fund to increase the internal sources of financing for Corporate Fund borrowings.

#### Declining Non-Tax Revenues

Corporate Fund non-tax revenues historically include amounts realized from the sale of stone that was mined from the Deep Tunnel Project and stored on the District's property. In addition, the District has entered into new contracts for the future sale of stone. Both are summarized in Table Four.

Table Four Non-Tax Revenue—Sale of Store (in millions)

Revenue	e Received	Projected	Revenue
1990	\$2.448	1995	\$3.670
1991	1.918	1996	3.587
1992	1.890	1997	2,506
1993	1.685	1998	1.742
1994	3.960	1999	450
		2000	.450

(Source: District records)

The subcommittee recommends that as part of its financial planning effort, the District must identify alternative revenue sources or expenditure cuts to replace the anticipated future reduction in annual revenues from the sale of stone.

#### Capital Equipment Purchases

Starting with the District's 1994 appropriation ordinance and continuing in 1995, capital equipment purchases — i.e., furniture and fixtures, computer, golf and office equipment, tools and vehicles — were purchased with funds borrowed from Cook County via its G.O. Tender Note Program.

In 1994, the equipment purchases were not specifically included in the FPD's budget. However, the Bond and Interest Fund property tax levy was increased to include repayment to the County for equipment purchases made during 1994. In 1995, equipment purchases were not specifically included in the budget. The Bond and Interest Fund includes repayment to the County for equipment purchased during 1995, but only in an amount that approximates 20% (i.e., a \$450,000 repayment) of the \$2,284,702 estimated equipment purchases.

This new practice represents an installment purchase plan for acquiring this equipment which assumes that the equipment has a useful life of at least 5 years. If this new plan is followed annually, during the first four years of the plan it will generate a declining savings — depending on whether any interest is charged by the County — to the District. In year five, the annual level of the installment will — for that year and thereafter — approximate the \$2 million annual expenditure for capital equipment historically budgeted.

The District should re-evaluate its participation in the County's G.O. Tender Note Program as it relates to its annual operating and capital financing objectives. Alternatively, it may be more advantageous to finance its capital equipment needs on a current (or "pay-as-you-go") basis.

#### Auditor's Recommendations

The District receives a management letter issued by the external auditor in connection with the annual audit of its financial statements. The points raised in audits for prior years (1992 is the latest letter issued) discuss recommendations for improving operations such as warehouse, data processing and other functions, as well as recommendations for improving the quality and timeliness of its financial reporting practices.

We recommend that the District should develop a management action plan to address the points raised in these letters including a description of the specific tasks and a timetable for completion.

# FINANCIAL ORGANIZATION, SYSTEMS AND CONTROL

#### ISSUES AND RECOMMENDATIONS

## Cost Savings and Efficiency of Enhancements

The Forest Preserve District performs numerous administrative activities that should be further reviewed for potential cost savings and efficiency improvements. Presently, the District works well with Cook County for certain services in the area of pension fund management, deferred compensation and health insurance management.

The District can further benefit by capitalizing on the County's economies of scale and existing expertise in these areas which require immediate needed improvements. For example, The FPD has no formal internal audit or risk management functions. Additionally, the District does not coordinate with Cook County for the purchase of natural gas nor its annual requirement contracts for repair materials. If coordinated, significant cost savings could result:

The subcommittee recommends that the District should evaluate transferring to Cook County the functions of purchasing, internal audit, management information systems, risk management, investment and personnel management service, to the extent such transfers are cost effective for both entities.

#### Financial Reporting Systems

During the subcommittee's review of management systems, it became apparent that many improvements were necessary. For example, current information regarding such common financial data as general ledger amounts and cash balances were not available.

The subcommittee concluded that FPD management does not receive timely financial reporting required to facilitate decision making. The financial staff of the District is presently installing new financial systems using packaged software.

We recommend that the effort to install new financial systems must be expedited and additional resources allocated to the project. An acceptable timetable for the systems installation must be developed with clear lines of responsibility established. The District should consider use of an outside consultant to assist in the systems implementation project.

#### Non-Tax Revenue Enhancements

The Forest Preserve District operates 8 eighteen-hole and 2 nine-hole golf courses as well as 4 driving ranges. Together they generate annual gross revenues of \$7.4 million. Based on the

analysis provided to the subcommittee – covering the profitability of the golf courses and ranges – the District appears to be generating over \$3 million in annual net income. However, the District should consider alternative management structures which may produce even higher net income as well as improved facilities.

The subcommittee recommends that the District should undertake a review of all revenue producing operations — beginning with the golf courses and driving ranges — to determine if other forms of management (e.g., privatization) should be implemented. The FPD must maximize non-tax revenues and enhance the net results of all its profit centers such as its golffing facilities.

# **CASH AND INVESTMENT MANAGEMENT**

#### ISSUES AND RECOMMENDATIONS

A review of the cash management area was performed and a complete lack of cash management reporting was found. Without such reporting the tracking of cash balances for investment and disbursement purposes cannot be performed. An effective cash management system will assist management in financing its operations through the use of TAN's, working cash and interfund borrowings.

## Cash Management and Cash Forecasting

Cash management cannot be accomplished by the District because an effective system of reporting cash activity does not exists. In addition, no cash flow forecasts are prepared.

The subcommittee recommends that the District should immediately implement an effective system of cash management. The system should contain daily cash balance reporting and the comparison of actual versus projected cash activity.

#### Investment Policy

A draft investment policy has been proposed but not yet adopted by the Forest Preserve District. Such an investment policy should outline key elements, such as permitted investments and restrictions, investment performance objectives and liquidity criteria. The policy should also propose a mechanism to insure adequate reporting and oversight.

We recommend that the FPD should place a high priority in formally adopting a comprehensive and written investment policy.

# **DEBT AND CAPITAL PROJECT MANAGEMENT**

#### ISSUES AND RECOMMENDATIONS

The Forest Preserve District currently finances its capital improvement expenditures by levying an annual property tax and through participating in the Cook County G.O. Tender Note Program. Proceeds from the Forest Preserve District's last bond issue in 1993 were allocated for land acquisition. For 1995, over \$5.6 million was appropriated in the Construction and Development (C & D) Fund and over \$4.4. million was appropriated for land acquisition.

# Capital Improvement Plan

The 1995 appropriation ordinance includes a goal for the District "to develop and implement a Capital Improvement Plan (CIP) to prioritize new construction, repairs, and replacement of District facilities according to a schedule and financing strategy". The appropriation ordinance also describes the projects — i.e., salaries and wages, new golf facilities, building and miscellaneous, new bicycle and equestrian trails — and the level of unencumbered appropriations that are estimated to be available in the District's C&D funds as of December 31, 1994. (See Table Five).

Table Five Unencumbered Appropriation (in millions)

Year	Amount
1991	\$2.702
1992	2.598
1993	3.528
1994	4.068

Except for the 1994 balance, these amounts are fully funded by revenues collected in prior years.

Based upon the District's stated goal, the timely completion of its capital improvement projects is not being accomplished. Given the historical use of Construction and Development funds, a full years's program (approximately \$5 million) is never fully expended. Therefore, it is recommended that the District re-evaluate its capital program and planning efforts to determine if its objectives are being met.

Even though planning studies for ecological restoration and land acquisition were done, no long-term Capital Improvement Plan ("CIP") exists. The Forest Preserve District cannot effectively plan improvements beyond the current year without a long-term plan.

No effective capital planning can be performed due to the lack of a Capital Improvement Plan. Thus, the subcommittee strongly recommends that the District should develop a long-term (5 year) CIP.

## Personnel Costs in Capital Funds

Review of the current Construction and Development Fund and land acquisition budgets disclosed high levels of expenditures for salaries and fringe benefits in relation to the total annual capital budget. For example, approximately 28.5% of the total C & D budget of \$5.7 million in FY 1995 will be expended on salaries and fringe benefits.

We recommend that the District should review all costs allocated to the C & D and land acquisition funds for appropriateness as capital expenditures. Capital funds should not be expended for operating purposes.

#### **RISK AND BENEFITS MANAGEMENT**

#### ISSUES AND RECOMMENDATIONS

The Forest Preserve District is self-insured for property, general liability and workers compensation liability. The District participates in the County's health insurance program which the subcommittee believes is beneficial for the District to continue.

The District utilizes an outside service for managing workers' compensation claims, the largest and fastest growing expense category confronting the District. The 1994 expenditures for workers' compensation were \$1.7 million, well above the initial budget of \$800,000. The District presently has no Risk Manager and there is no functioning loss prevention program or active claims investigators.

In sum, the District is experiencing increasing workers' compensation costs and potential increases in other liability claims without any formal loss control or other risk management function. The subcommittee recommends that the District must immediately implement loss control measures in all areas of liability and risk management. The District should consider utilizing the County's Department of Risk Management to take advantage of its existing services and expertise.

#### PENSION AND DEFERRED COMPENSATION PLANS

#### **ISSUES AND RECOMMENDATIONS**

Employees of the District participate in their own pension fund which is managed by the same Retirement Board of Trustees as Cook County's Pension Fund. The Forest Preserve District Employees' Annuity and Benefit Fund is statutorily separate from the Forest Preserve District.

The pension fund was 100.2% funded as of year-end 1993, the most recent year for which audited data was available. Based on the subcommittee review, the pension fund appears to be financially healthy since it earns above average rates of returns when compared to other public pension funds.

We recommend the Retirement Board of Trustees should consider whether the District should continue to levy the maximum employer contribution, given the current funding level which is in excess of 100%.

The Forest Preserve District participates in the same deferred compensation program as used for Cook County employees. This is an example of the District and Cook County successfully taking advantage of the benefits associated with undertaking a program on a joint basis.

# SUMMARY

The Forest Preserve District is confronted with numerous issues that must be quickly addressed. These issues can be summarized as follows:

- Significant draw downs of Corporate Fund Balance, especially in light of recently enacted property tax cap limitation legislation.
- No plan to utilize the economies of scale and the existing expertise of Cook County in the management of certain Forest Preserve District functions.
- A 30% loss of non-tax revenue from the sale of stone projected for 1997.
- Lack of management information systems to facilitate decision making by management.
- Inadequate cash management reporting systems.
- Lack of long-term financial planning including capital improvement planning.
- No risk management function required to control the substantial increase in workers' compensation costs.

The subcommittee recommends that immediate attention and the necessary resources must be given to resolve these matters. Now that Cook County property tax caps have been adopted by the Illinois General Assembly, management must actively plan to streamline operations with a goal of reducing the overall cost. New methods of operations such as privatization and consolidation must be implemented.

Management must begin to evaluate the mission of the District and then develop the required systems for delivering those services as planned. Even though there are numerous programs and services provided to the public that are extremely successful, the challenge will be to evaluate, modify, eliminate and replace those programs and services to meet the limited resources available.

Table Six is a summary of the critical issues and key recommendations drawn from the above analyses conducted by the subcommittee.

# Table Six Forest Preserve District Critical Issues and Key Recommendations

Area	Griffoal (saties	Kev Recommendations
BUDGETARY AND FINANCIAL CONDITION	Increasing Operating Deficits	Given significant reductions in fund balance, establish a "5% of Budget unused fund balance goal.
	Corporate Property Tax Increases	Smaller increases or actual cuts in expenditures are necessary to stabilize Corporate Fund tax levies.
and the second s	Declining Cash Balances	Various financing alternatives should be considered to increase cash flow resources.
	Use of Earmarked Property Tax Lavy	Consider more appropriate use of C&D Fund surpluses.
	Declining Non-Tax Revenues.	Plan the replacement of a 30% reduction of sale of stone revenue.
	Capital Equipment Purchases	Evaluate various financing options.
	Implementation of Auditor's Management Letter Recommendations	Develop plan to implement auditor's recommendation.
FINANCIAL ORGANIZATION SYSTEMS AND CONTROL	Cost/Savings Efficiency Enhancements	Greater coordination and utilization of Cook County government resources.
	Inadequate Financial Reporting Systems	Expedite the installation of new financial systems.
	Study Non-Tax Revenue Enhancements	Review all revenues producing operations to determine if other management structures should be implemented.
MANAGEMENT	Lack of Adequate Cash Management Reporting	Develop an effective cash management system.
	Lack of Investment Policy	<ul> <li>Adopt a comprehensive investment policy.</li> </ul>
DEBIT AND CAPITAL	Lack of Long-Term Capital Improvement Plan	<ul> <li>Develop a five-year Capital Improvement Plan (CIP).</li> </ul>
MANAGEMENT	Delay in Expenditure of Capital Improvement Funds	Increase efforts to complete projects in a timely manner.
MISK AND BENEFITS	<ul> <li>High Level of Personnel Costs in Capital Budget</li> </ul>	Review personnel costs allocated to capital funds.
	Lack of Hisk Management Function	Immediately implement a risk management program in cooperation with Gook County.
PENSION AND DEFERRED COMPENSATION PLANS	Maximum Employer Contributions Requested by Pension Fund	Examine if maximum contributions by employee are required given current funding level.

## **ACKNOWLEDGMENTS**

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The subcommittee wishes to express its appreciation and offer its thanks to the staff of the Forest Preserve District during this process. In particular, it expressly would like to thank Mr. Joseph Nevius, General Superintendent and Mr. Mezell Williams, Chief Financial Officer for their complete cooperation and assistance.

# IX. FIRST TEAM COMMITTEE MEMBERS

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RONALD D. PICUR, Professor of Accounting and Department Head, The University of Illinois at Chicago, former Comptroller for the City of Chicago

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