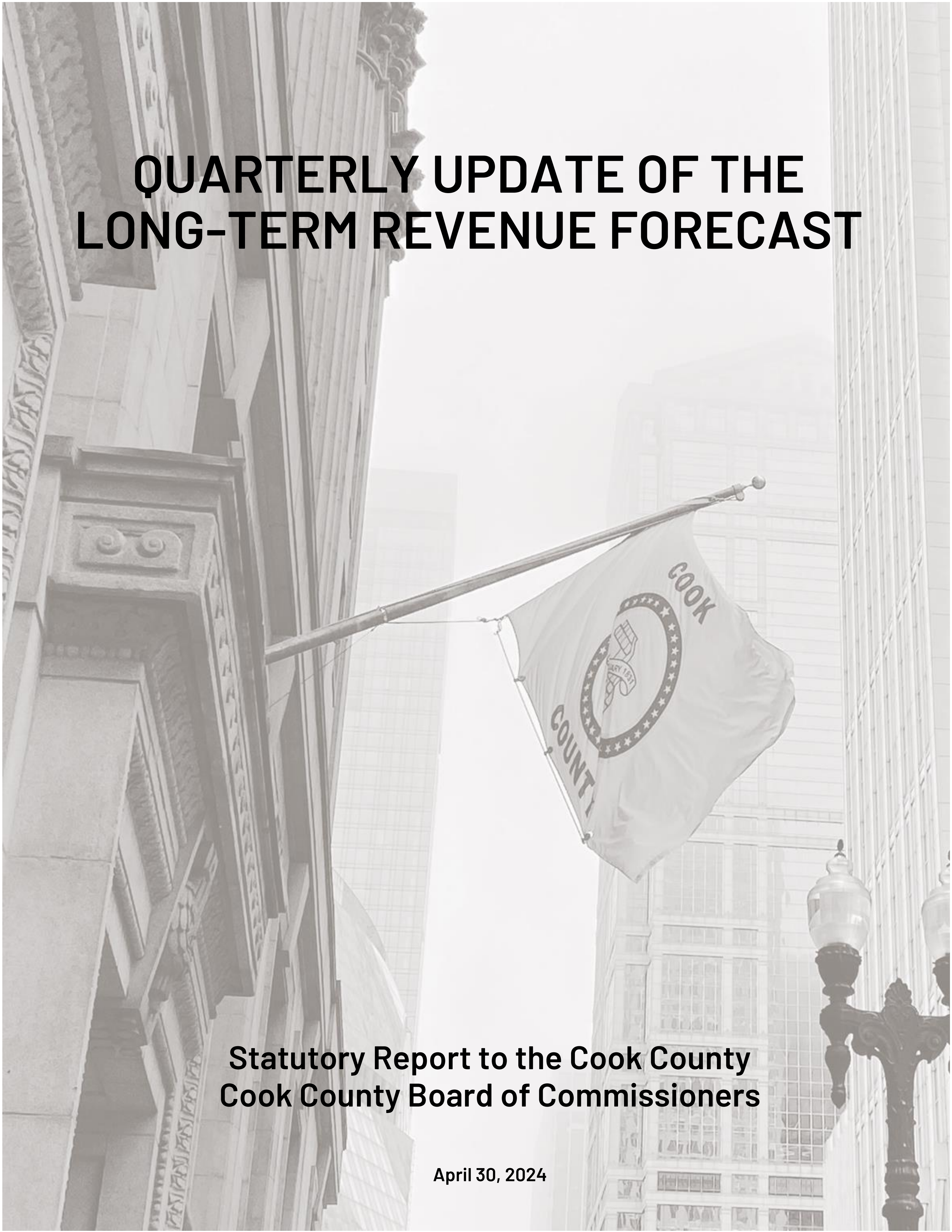


QUARTERLY UPDATE OF THE LONG-TERM REVENUE FORECAST

Statutory Report to the Cook County
Cook County Board of Commissioners

April 30, 2024

The following report provides an update between the long-term financial plan provided to the IRFC and posted on the County's website in January 2024, and the most up-to-date forecast. The forecast was updated in accordance with Section Sec. 2-78 of the Cook County Code, which states:

b) The purpose of the Independent Revenue Forecasting Commission (IRFC) will be to review and analyze an annual five-year revenue forecast (the "forecast") for the County as developed and prepared by the Chief Financial Officer (the "CFO"). Updates pertaining to the forecast will be provided to the IRFC, the Board and posted on the IRFC website on a quarterly basis by the CFO. The forecast will include, but not be limited to, analysis of the following County revenue streams: Sales and Use taxes, Property Taxes, Cigarette Taxes, Fuel Taxes, and other sources of County revenue.

This report includes a summary of the variance analysis comparing the two forecasts and provides an explanation for the significant variances, along with additional supporting detail outlining progress made on the County's sales tax projections and a summary of the impact of the revenue projections on our long-term expense projections for both the General and Health Funds. The report concludes with FY2024 project plans and an update on recent regional economic activity.

Long-Term Forecast

Cook County prepares a long-term financial forecast to support responsible fiscal planning. This section provides an overview of updates to the long-term General Fund and Health Fund forecasts.

General Fund

The General Fund accounts for approximately a quarter of the County's overall budget. It is comprised of the Corporate Fund and Public Safety Fund and supports the County's general operations.

Changes in forecasts since January 2024

Table 1 shows the nominal variance between the current forecast and what was presented at the last quarterly IRFC meeting in January. The FY2024 General Fund revenue forecast increased by $80 million, however, there were decreases in the out-years of the long-term forecast. The long-term forecast for each revenue source was revised upward or downward based on the actual revenues from the first quarter of 2024, as well as preliminary revenue estimates from departments for 2024 and 2025. The County Treasurer forecast experienced the largest nominal change from the January forecast of $36.6 million. This is due to higher than anticipated year-to-date revenues on penalties collected on delinquent property taxes. The sales tax forecast was revised upward for FY2024 by $19.8 million, or 1.8%, because of both higher year-to-date revenues and a stronger economic outlook for 2024. However, out-year sales tax projections were revised downward after Moody's Analytics projected slower growth for real Gross Metro Product for the Chicago Metropolitan Statistical Area, a predictive variable in the sales forecast. The forecast for tax increment (TIF) financing tax surplus revenue was revised up after a higher than anticipated TIF surplus received from the City of Chicago for FY2024. Additionally, investment income for FY2024 and the out-years was increased after stronger than anticipated returns on investments. The non-property tax forecast has decreased as a result of lower disbursements of personal property tax replacement revenue from the State of Illinois. County clerk revenue was also revised down based on first quarter revenues and a larger than anticipated slowdown in short term real estate transactions than previously projected.

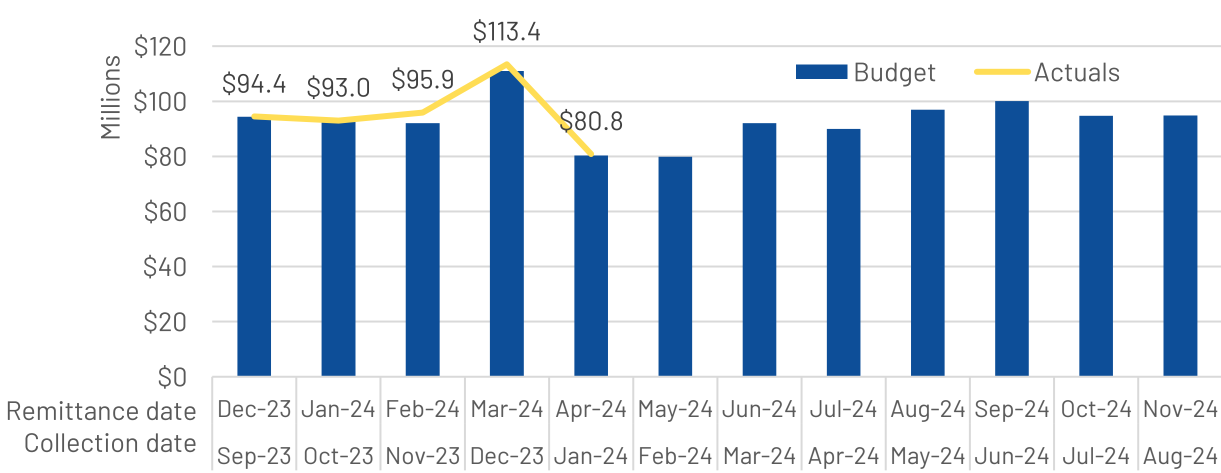
Table 1. Significant nominal variances between 01/30/2024 and 04/30/2024 forecast, in millions

Revenue source	April forecast FY2024	Percent change in forecast FY2024	Amount change in forecast from Jan 2024 forecast FY2024	FY2025	FY2026	FY2027	FY2028
402100-County Treasurer	$71.6	104.6%	$36.6	$3.6	$1.3	$1.4	$1.4
401150-County Sales Tax	$1,138.9	1.8%	$19.8	($8.5)	($24.9)	($38.7)	($47.2)
400040-Tax Increment Financing Taxes	$25.0	85.7%	$11.5	$2.3	$2.3	$2.3	$2.3
405010-Investment Income	$54.1	24.4%	$10.6	$12.0	$9.1	$9.2	$9.2
402548-Clerk of the Circuit Court Fees	$65.0	9.2%	$5.5	($0.8)	$0.8	$0.8	$0.9
401350-Amusement Tax	$44.5	6.0%	$2.5	$1.1	$0.1	($0.7)	($1.6)
401550-Hotel Accommodations Tax	$37.0	4.8%	$1.7	$1.0	$0.4	($0.6)	($1.5)
401390-State Income Tax	$20.3	(6.0%)	($1.3)	($0.8)	($0.3)	$0.2	$0.8
401530-Gambling Machine Tax	$5.3	(23.2%)	($1.6)	($1.2)	($1.2)	($1.2)	($1.3)
402150-County Clerk	$47.2	(4.3%)	($2.1)	($0.5)	($1.2)	($2.1)	($3.5)
401110-Non Property Taxes	$68.4	(6.5%)	($4.8)	($0.6)	($7.7)	($10.0)	($6.7)
Subtotal major changes	**$1,577.2**	**5.2%**	**$78.5**	**$7.6**	**($21.4)**	**($39.4)**	**($47.1)**
Other GF revenues	$699.1	0.2%	$1.5	($9.2)	$4.2	$11.8	$19.7
Total GF revenues	**$2,276.2**	**3.6%**	**$80.0**	**($1.6)**	**($17.2)**	**($27.7)**	**($27.3)**

Sales tax estimate

To date, FY2024 sales tax revenues are 1.5 percent higher than the original forecast. These positive results follow FY2023, when sales tax revenues totaled $1.126 billion, which was 3.1 percent higher than the original budgeted forecast. Figure 1 compares sales tax revenue with forecasts through April 2024.

Figure 1. FY2024 Sales tax revenue, actual and forecasted

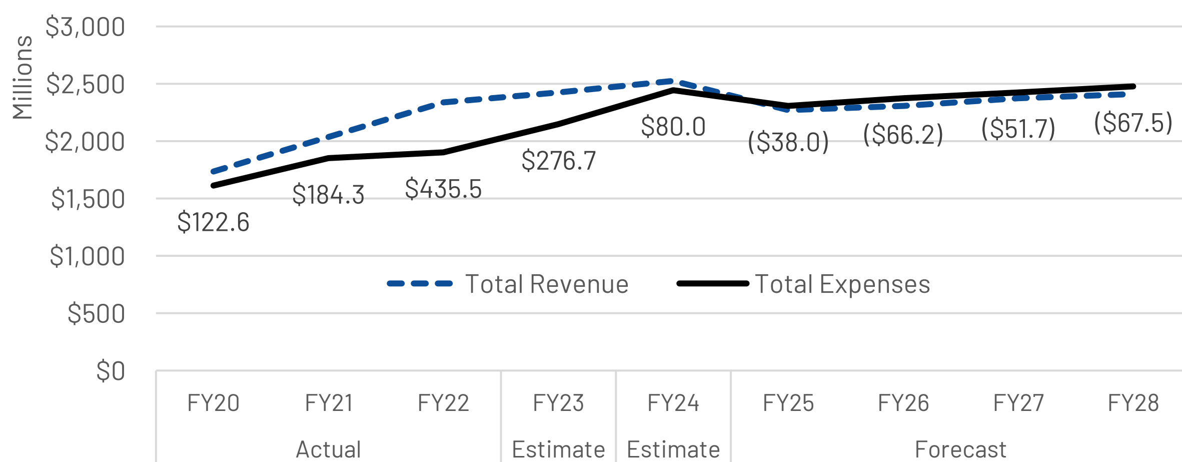


Long-term fiscal plan

Although Cook County has a diverse revenue base, the natural growth in revenues may not keep pace with expenditures. Expenditures rise over time due to inflationary pressures, with medical trends for health benefits and several other categories of expenditures growing faster than general inflation. Several critical revenue sources are declining over time or growing at rates below general inflation.

Revenues are expected to largely keep pace with expenses, with small deficits in the long term. Between FY2024 and FY2028, total expenses for the General Funds are expected to increase at a compound annual growth rate (CAGR) of 0.3 percent, while revenues are estimated to decrease slightly by a CAGR of 1.2 percent. This decrease in revenue growth in the General Fund can primarily be attributed to revenue under Other Financing Sources for $243 million in FY2024, which represent one-time transfers from the General Fund fund balance. The sales tax is expected to grow at an average annual rate of 1.7 percent through FY2028, while Hotel and Amusement taxes are anticipated to increase as they continue to recover from drops experienced during the height of the COVID-19 pandemic. However, a handful of Cook County revenue streams from volume-based taxes are either failing to keep pace with inflation or declining, including the cigarette, gasoline, and alcoholic beverage taxes.

Figure 2. General Fund* net surplus/(deficit) projections



*Includes Transportation Home Rule Tax (TRHRT) revenues

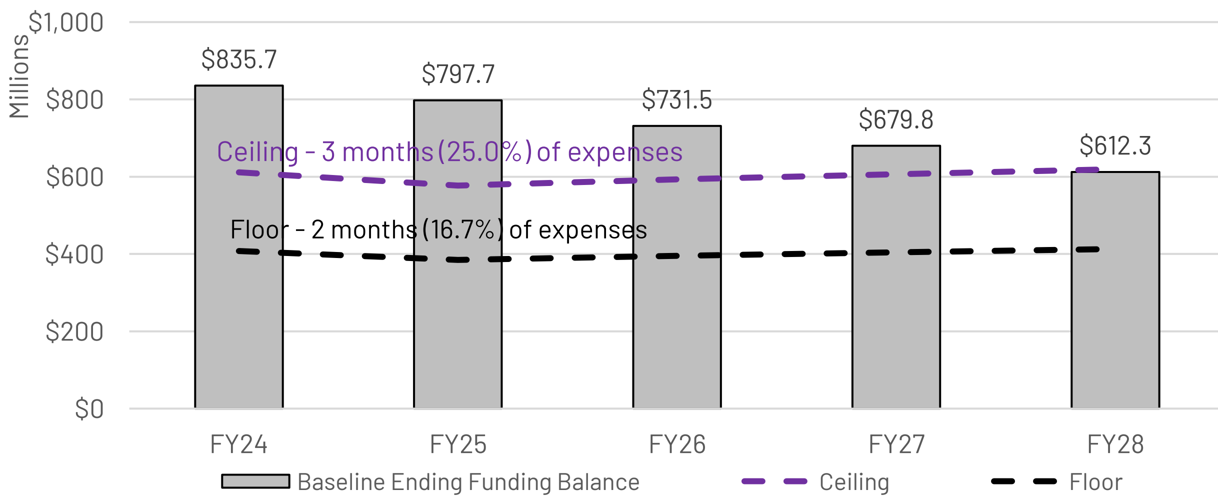
Fund balance projection

Current estimates indicate that the FY2024 unassigned ending fund balance within the General Fund will be $835.7 million, reflecting $143.1 million in fund balance transfers from the General Fund and an assignment of $158.8 million to a new American Rescue Plan Act (ARPA) Program Sustainability Reserve. This fund balance is equivalent to approximately 34.2% of the County's FY2024 annual budgeted expenditures from the General Fund and the Transportation Fund.

Figure 3 illustrates that the projected ending fund balances are anticipated to decrease based on the long-term revenue and expense forecasts for FY2024 to FY2028. The purple dotted line (ceiling) represents three months of projected General Fund and Transportation Related Home Rule Taxes Fund expenses, and the dark green dotted line (Floor) represents two months of projected annual General Fund and Transportation Related Home

Rule Taxes Fund expenses. The floor is the Government Finance Officers Association's (GFOA) minimum recommended value that local governments maintain in their unassigned ending fund balance.[1] The long-term projected ending fund balance is estimated to decrease, reaching $612.3 million by FY2028, coming in just below the $619.4 million ceiling.

Figure 3. Unassigned ending fund balance projection, FY2024 to FY2028



Alternative fund balance scenarios

To understand the impact of different economic scenarios on General Fund revenues and the resulting fund balance, the OCFO forecasts economically sensitive revenues based on different economic indicators using Moody's baseline, S1, and S3 scenarios, which represent the 50th, 10th, and 90th percentile forecasts of potential economic conditions, respectively. Indicators such as gross metropolitan project, unemployment rate, and CPI are used for different revenue sources.

Each revenue scenario is compared to the expenditure forecast, along with the fund balance floor and ceiling; the floor represents two months of projected annual expenses and ceiling represents three months of projected annual expenses. The revenue scenarios, as well as the floor and ceiling, incorporate both General Fund and Transportation Fund revenues and expenses in order to fully capture the potential economic impacts on revenues used by the County for operating expenses.

Figure 4 represents the baseline scenario alongside the worst- and best-case scenarios. In the baseline scenario, fund balance remains above the fund balance floor and ceiling through FY2027, before slightly dipping below the ceiling in FY2028. This baseline forecast from Moody's Analytics assumes the federal government avoids a shutdown and remains in continuous operation through 2024, the Federal Reserve is done tightening and will begin easing interest rates in June 2024, and the Fed will cut interest rates three times in 2024 by 25 basis points each.

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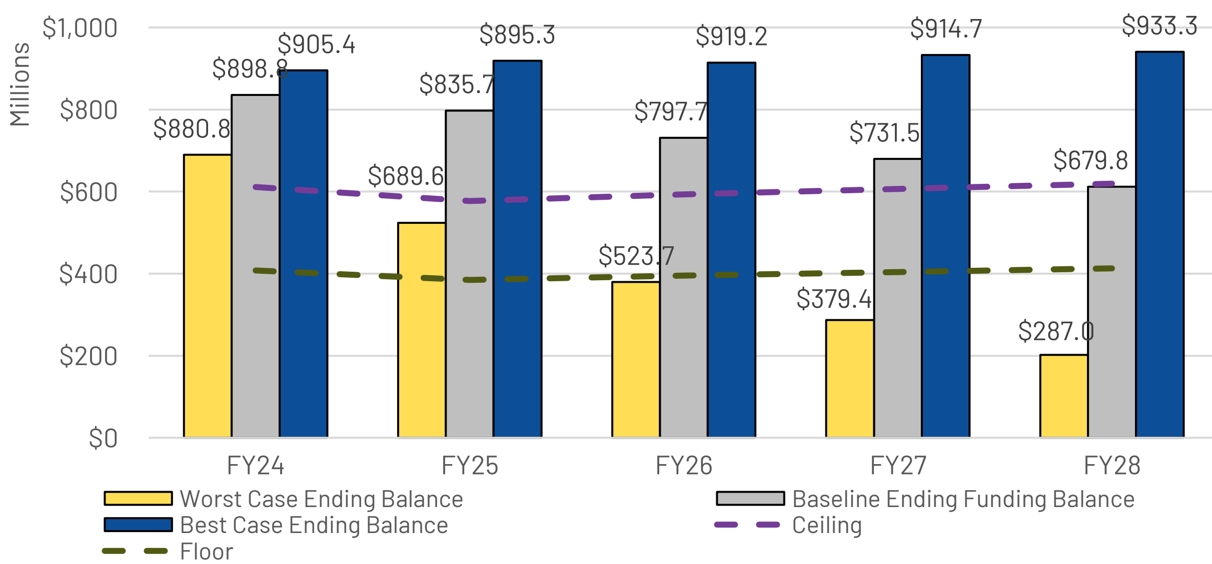
[1] Government Finance Officers Association, Best Practices: Fund Balance Guidelines for the General Fund, 2015, https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund

The best-case scenario, where there is a 10% probability that the economy will perform better and a 90% probability that it will perform worse, assumes interest rates and inflation are a bit higher than baseline due to stronger growth, the economy has more than full employment starting the second quarter of 2024, and the Russian invasion of Ukraine and Hamas-Israel conflict resolve faster than anticipated. The best-case scenario assumes that the Fed will begin to cut rates in the third quarter of 2024, but a bit more slowly than in the baseline scenario as a result of a stronger economy.

The worst-case scenario, where there is a 90% chance of the economy performing better and a 10% chance it will perform worse, assumes there is a rise in unemployment starting in the second quarter of 2024 and peaking at 7.7% in the second quarter of 2025, as well as the economy falling into a recession beginning in the second quarter of 2024 due to the combination of the risk of a federal government shutdown, concerns about bank failures causing the stock market to fall, and political tensions. In this worst-case scenario, Moody's assumes that the Fed will begin to lower the fed funds rate in the third quarter of 2024 and more than the decline in the baseline starting in that quarter. This worst-case scenario results in an ending funding balance $146.1 million below the base case in FY2024 and drops below the floor in FY2026 as revenues decline faster than expenses.

Figure 4. Unassigned ending fund balance projection, FY2024 to FY2028



Health Fund

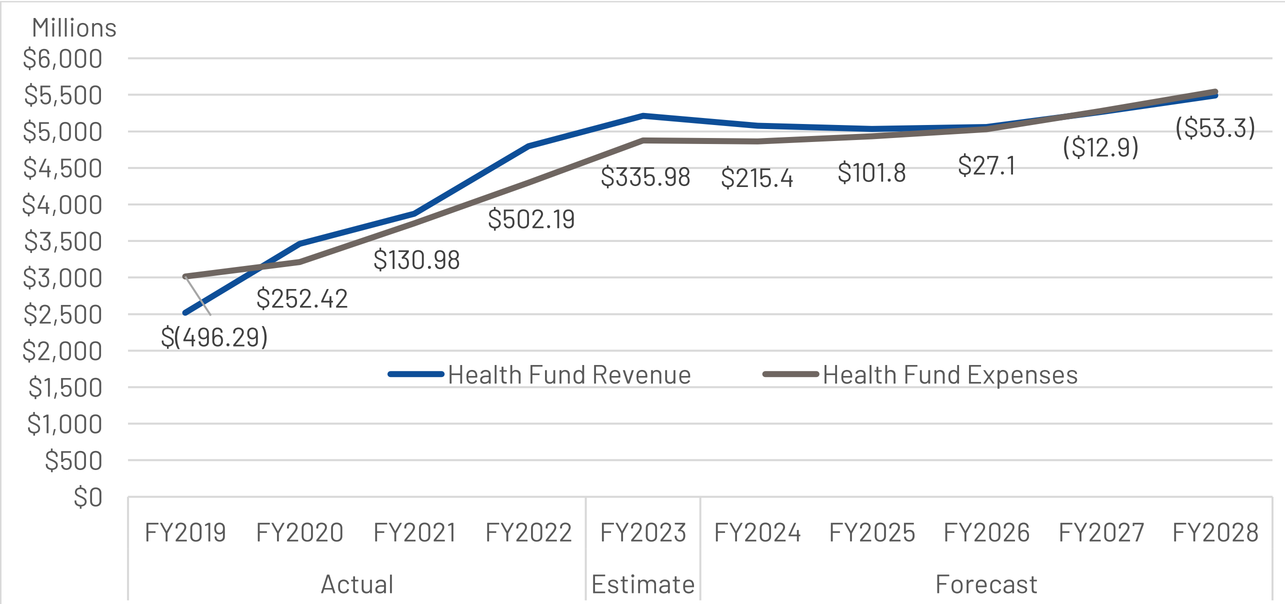
The Health Fund accounts for nearly half of the County's overall budget. The Health Fund receives revenue from and is used to support health system operations and CountyCare.

Long-term fiscal plan

By FY2028, CCH revenues are expected to increase by $414.8 M from the FY2024 forecast, a CAGR of 2.0%. Overall, this is primarily driven by growth in per member per month (PMPM) revenues at Health Plan Services (HPS), which are expected to grow $490.5 M at a CAGR of 3.5% from FY2024 to FY2028. The reinstatement of redetermination has not had the drop-offs or the impact that CountyCare anticipated. In fact, CountyCare has been able to maintain 81% retention of CountyCare membership. Declines in membership due to redetermination have been offset in part by increases in membership due to the addition of Immigrant Adult and Immigrant Senior members to CountyCare. As of January 1, 2024, individuals covered under Health Benefits for Immigrant Adults have been moved from fee-for-service care and became eligible for managed care. As of March 2024, CountyCare has seen approximately 26,500 of these newly eligible members join CountyCare and anticipates the addition of 40,000 members total. Despite the addition of the immigrant adult and senior members reducing the impact of redetermination, CountyCare still anticipates additional drop-offs in membership in FY2025 before flattening out in the long run. These additional drop-offs will cause some declines in revenues but will eventually be compensated for by increases in PMPM rates ultimately driving revenue surpluses at HPS.

The Net Patient Service Revenues (NPSR) forecast now integrates improved assumptions and is anticipated to remain flat from FY2024 to FY2028. New collection rates assumptions were calculated based on historical and actual collections, which resulted in an overall assumed yield of 36.5% up from 31.3% in the previous forecast. Updating the collection rates improved the assumed yield and the accuracy of the baseline forecast. The increase in the assumed Medicaid reimbursement rate of 2% year-over-year was also taken out of the forecast, as this expectation was no longer consistent with the updated reimbursement rate assumptions. The forecast continues to assume no growth in gross charges and due to redetermination, a portion of patients covered by Medicaid are now moving to uncompensated care shifting some of the payor mix in early FY2024. Payor mix was also updated to reflect FY2024 actual gross revenues through March 2024. Expenses are still anticipated to grow faster than revenue over the forecast period, resulting in deficits for FY2027 and FY2028. Figure 5 compares forecasted revenues and expenses for the Health Fund through FY2028. Expenditures within the entire fund are expected to increase by $683.5M, a compounded annual rate of 3.3%, while revenues, after property tax allocation, grow by $414.8 M, a 2% increase over the same period.

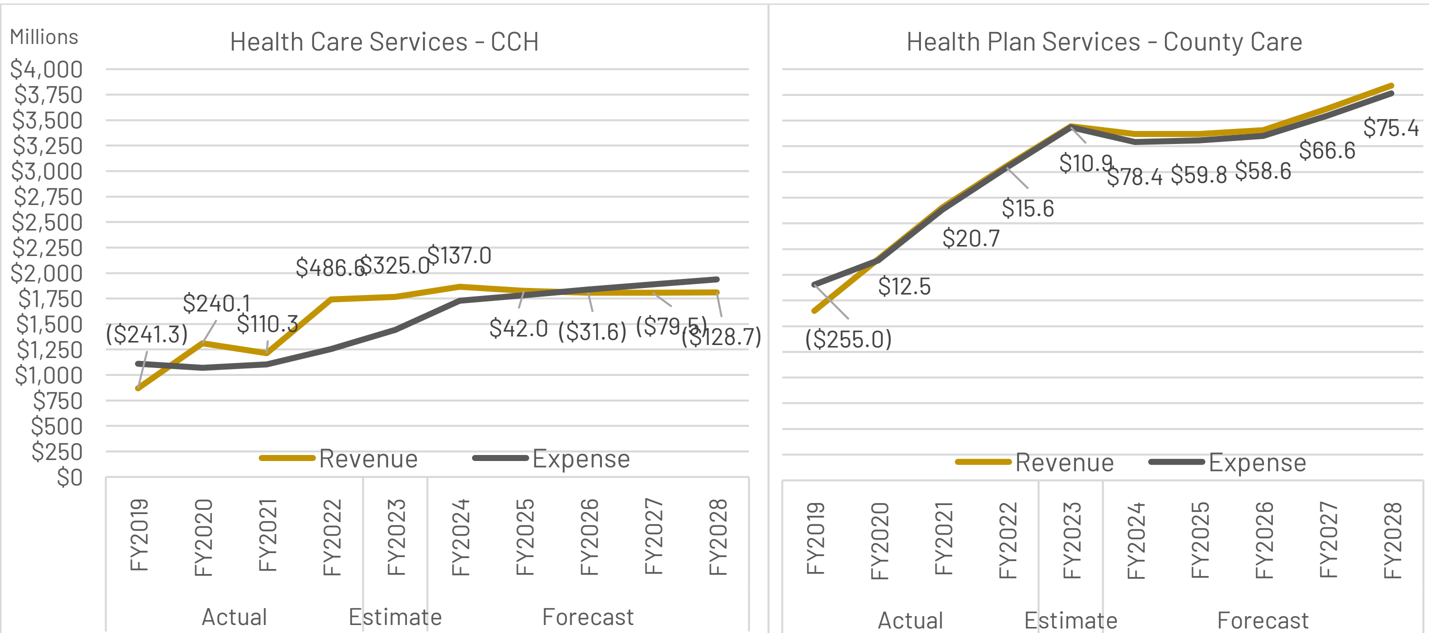
Figure 5. Health Fund net surplus/(deficit) projections



Note: FY2020 through FY2023 includes directed payments and domestic claims that CountyCare passes through to CCH in the revenues and expenses of both Health Plan Services and Health Care Services. Beginning in FY2024, directed payments will only be accounted for in the budget for Health Care Services while domestic claims will be offset in a separate account.

Figure 6 illustrates how revenues growing slower than expenses for health care services will drive small deficits within the overall Health Fund from FY2026 through FY2028. Expenses during this time will increase, as salaries and professional services are anticipated to grow, further driving this deficit. In the out-years, Net Patient Service Revenue is unable to keep up with the growing costs of operating the health system. At HPS , after an initial decline in FY2024 and another decline in FY2025, long-term growth in the Health Fund will be driven by PMPM rate increases at Health Plan Services.

Figure 6. Health Plan Services and Health Care Services net surplus/(deficit) projection



*Domestic claims elimination excluded from totals in both charts.

CountyCare revenue scenarios

Budgeted Health Enterprise Fund revenues are built from several baseline assumptions about the future. To better understand how different assumptions may impact revenue outcomes, three long-term forecasts are developed using conservative, baseline, and optimistic assumptions.

CountyCare revenue is a function of the number of CountyCare members and the fixed PMPM reimbursement generated by those members. Both factors are driven by state policy changes that impact membership levels and PMPM rates. The scenarios for NPSR focus on the underlying impacts that drive the amount charged by CCH for medical services, and how much revenue CCH yields from those charges. The three revenue forecasting scenarios consider the impacts of changes in volume in the hospital system, reimbursement rates, and whether and how patients are insured.

Like the baseline forecast, revenues in the conservative scenario are anticipated to drop in FY2025, and then grow at an average annual rate of 3.4% between FY2025 and FY2028, as compared to 4.5% in the baseline scenario. In the optimistic scenario, revenues grow consistently from FY2024 and grow 5.6% on average between FY2025 and FY2028. With redetermination having resumed in June of 2023, all scenarios have now accounted for this impact. Figure 7 shows projected revenues for CountyCare in each scenario. In all scenarios, overall revenue growth was driven by growth in PMPM rates.

Figure 7. CountyCare projected revenues, FY2024 through FY2028

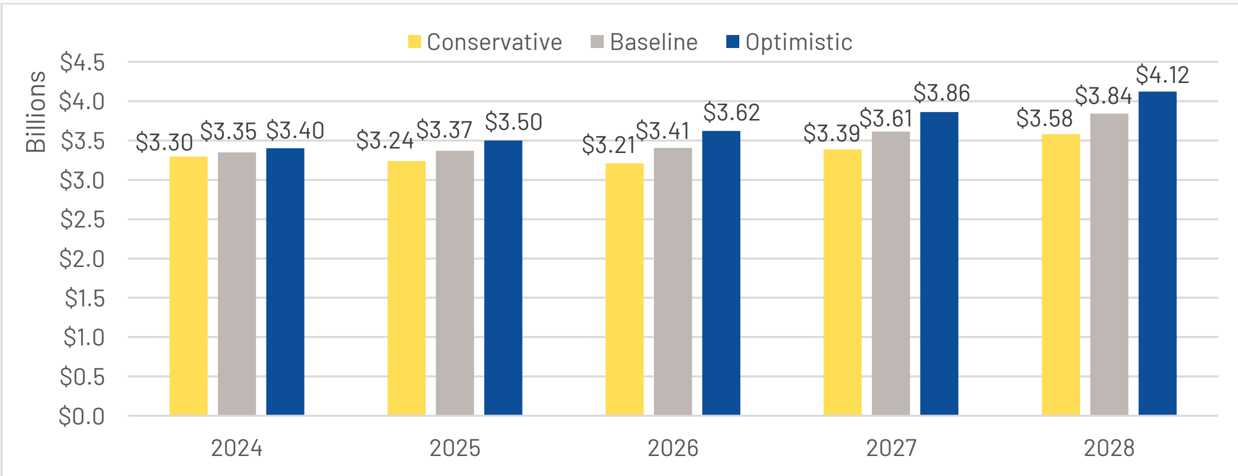
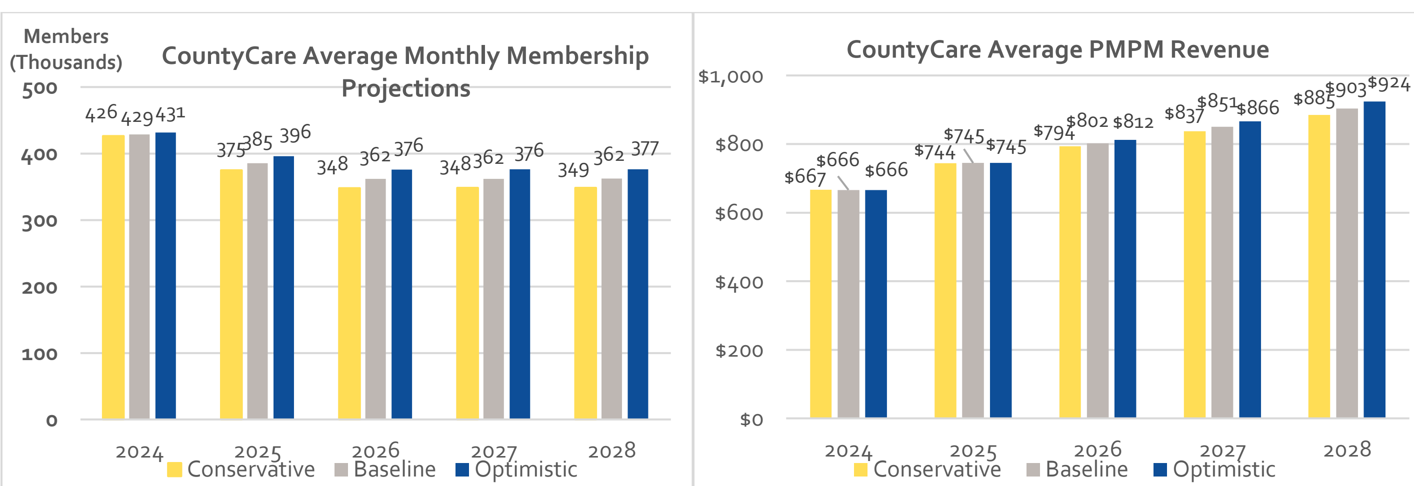


Figure 8 compares growth in monthly membership with growth in average PMPM revenue. The baseline scenario assumes an average annual growth of 7.9% in PMPM revenue between FY2024 and FY2028 based on past trends, while the conservative and optimistic scenarios assume a 7.3% and 8.5% growth, respectively. For all scenarios, the average monthly membership is anticipated to drop in FY2025 when the full-year impact of redetermination is experienced. After these initial declines, membership decreases between 1.7% and 2.4% annually in the optimistic and conservative scenarios, respectively. The baseline scenario assumes auto-assignment, choice adds, and member terminations will follow the previous three-month average; PMPM rates will increase in a manner consistent with past trends. The conservative scenario assumes auto-assignment and choice adds will be lower and member terminations will be higher than the previous three-month average; PMPM rates will increase slower than past trends. The optimistic scenario assumes auto-assignment and choice adds will be higher and member terminations will be lower than the previous three-month average; PMPM rates will increase faster than the past trends.

Figure 8. CountyCare average PMPM revenue and monthly membership projections

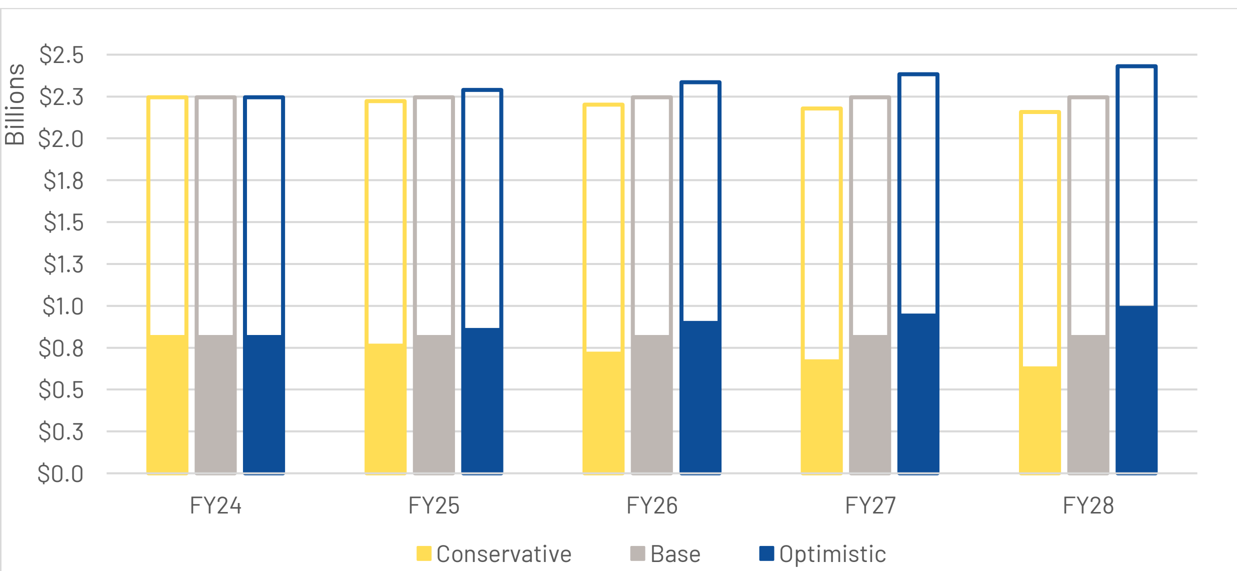


Net patient service revenue scenarios

The net patient service revenue forecast centers around making assumptions about future service volumes, payor mix, the level and rates of contractual payments from various insurers, and the total amount of revenue received compared to the gross charges that the hospital system bills for medical care provided. Considerations include looking at historical trends, expected policy changes, and economic conditions that may affect service volumes, payor mix, or reimbursement rates. For example, due to changes in eligibility and coverage available to historically uninsured individuals, the percentage of patients covered under Medicaid is expected to increase. This would increase the percentage of gross revenues charged to Medicaid and decrease the percentage charged to self-pay patients, who reimburse the County at a much lower rate than Medicaid managed care organizations.

In the baseline scenario used in the long-term forecast, the forecast assumes that volume will be consistent, patients will maintain their current insurance coverage, and reimbursement rates will be flat. To understand the impact of changes that would result in lower revenue growth, the conservative scenario assumes a decline in volume and associated gross charges, that fewer people will have Medicaid coverage, and reimbursement rates will fall below inflation. Conversely, the optimistic scenario assumes that volume and associated gross charges will increase, that more charges associated with self-pay will be covered by Medicaid and that reimbursement rates will be higher than inflation. Figure 9 illustrates the impact of these assumptions on net patient service revenues by scenario while Table 2 provides an overview of the assumptions used in each scenario.

Figure 9. Net patient service revenues compared to gross charges, 2024-28



*Estimates of gross charges billed by CCH are represented by the full bar and net patient service revenue estimated to accrue to CCH is represented by the filled in portion of the bar.

Table 2. Annual change in NPSR assumptions, by scenario

	Conservative	Base	Optimistic
Gross charges	1% decrease	0%	2% increase
Payor mix Self-Pay proportion	2 percentage point increase, maximum at total 38%	Constant	2 percentage point decrease, minimum at total 25%
Payor mix Medicaid proportion	1 percentage point decrease	Constant	1 percentage point increase each year
Payor mix CountyCare proportion	1 percentage point decrease	Constant	1 percentage point increase each year
Reimbursement rate	2 percentage point decrease for Medicaid and Medicaid Managed Care	Constant for Medicaid and Medicaid Managed Care	2 percentage point increase for Medicaid and Medicaid Managed Care

Update on recommendations of the IRFC

The IRFC's recommendations were provided on August 24, 2023, and included four recommendations that build on those approved in FY2022.[2] They reflect the need to document and monitor the implementation of previous recommendations. Progress on implementing these recommendations is outlined in Table 3.

Table 3. Progress on recommendations of the IRFC

Deliverable	Progress
Methodological report and tax history document	Scoping future work
ARPA sustainability analysis of the potential impact on the fund balance of providing funding support to after 2026	This work is being performed alongside the program sustainability evaluation
Access IDOR sales tax data	Data has been downloaded, currently conducting analysis
Economic and policy factors in the CCH revenue forecast	Scoping how to incorporate a recession into an alternative scenario

Economic data releases

The OCFO monitors economic indicators that inform the County's revenue and expense forecasting. Economically sensitive revenues account for 59.7% of the General Fund forecast, including revenues in the Transportation Fund, and the County's expenses are impacted by inflation. Table 4 provides a schedule of

[2] Recommendations of the Independent Revenue Forecasting Commission, August 2023, https://cook-county.legistar.com/View.ashx?M=AO&ID=135212&GUID=864c5a71-dbb2-4a82-913d-dbf4f0134b8e&N=UmVjb21tZW5kYXRpb25zIG9mIHRoZSBJUkZDIDIwMjMucGRm

economic data releases from several of the agencies that the OCFO tracks. To implement the IRFC's recommendation, the OCFO is tracking releases to ensure that the most updated indicators available are used in forecasting.

Table 4. Economic data releases, May 2024 through July 2024

Release Date	Indicator
May 2024	
May 3	Employment Situation
May 15	Consumer Price Index
May 30	Gross Domestic Product, 1st Quarter 2024 (Second Estimate)
June 2024	
June 7	Employment Situation
June 12	Consumer Price Index
June 12	Federal Reserve Economic Projections
June 27	Gross Domestic Product, 1st Quarter 2024 (Third Estimate)
July 2024	
July 5	Employment Situation
July 11	Consumer Price Index
July 25	Gross Domestic Product, 2nd Quarter 2024 (Advance Estimate)

Economic update

The U.S. Bureau of Economic Analysis has released its advance estimate for national real Gross Domestic Project (GDP) growth, which show that real GDP increased 1.6 %in the first quarter of 2024. This growth of 1.6 %was 1.8 %lower than the previous quarter and was below Moody's Analytics' projections for the first quarter real GDP growth. This growth reflects increases in consumer spending, residential fixed investment, nonresidential fixed investment, and state and local government spending that were partly offset by a decrease in private inventory investment. Imports, which are a subtraction in the calculation of GDP, also increased. As detailed above in Table 4, an updated GDP estimate for the fourth quarter will be released on May 30.

In their most recent forecast, Moody's Analytics forecasted that the Gross Metropolitan Product (GMP) for the Chicago-Naperville-Elgin metropolitan area would see weaker GMP growth in 2025, before increasing to historical trend levels in 2026, 2027, and 2028. Moody's continues to project that unemployment will remain below 5 percent in 2024 and the outyears. Although inflation is remained elevated in the first quarter of 2024, it is forecasted to remain under 3 percent through 2024 and continue to moderate in the outyears. Table 5 provides an overview of economic indicators that are considered when developing revenue forecasts.

Table 5. Actuals and forecasts of economic indicators, Chicago-Naperville-Elgin Metropolitan Area, 2022 to 2028

Economic Indicator	2022	2023	2024	2025	2026	2027	2028
Gross Metro Product, (% change, Ch. 2017, SAAR)	1.5%	1.6%	1.5%	1.0%	1.3%	1.5%	1.6%
CPI, All Urban Consumers, (% change, SA)	7.4%	3.4%	2.9%	2.4%	2.3%	2.1%	2.1%
Resident Population: Total, (Ths. #)	9,460.3	9,451.0	9,435.9	9,409.5	9,385.2	9,358.3	9,325.3
Disposable Personal Income, (% change, SAAR)	(1.8%)	7.3%	3.9%	3.6%	3.5%	3.6%	3.6%
Labor Force Participation, (%, SA)	65.8%	65.6%	65.6%	65.8%	65.8%	66.0%	66.1%
Labor: Unemployment Rate, (%, SA)	4.6%	4.3%	4.7%	4.7%	4.6%	4.6%	4.6%
Income: Median Household, (SAAR)	$82,914	$86,527	$89,282	$92,169	$95,032	$98,035	$101,056
Income: Per Capita, (SAAR)	$72,395	$75,739	$79,120	$82,118	$85,260	$88,566	$92,107
Labor: Number of Employed, (Ths. #, SA)	4,735.7	4,743.5	4,726.2	4,731.3	4,730.2	4,728.3	4,721.6
Retail Sales: Total, (% change, SAAR)	10.0%	5.2%	(0.4%)	2.4%	2.2%	2.0%	2.2%

Source: Moody's Analytics, April 2024 baseline scenario