QUARTERLY UPDATE OF THE LONG-TERM REVENUE FORECAST

Statutory Report to the Cook County Board of Commissioners

April 27, 2023

Contents

Introduction

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 2023, 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 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 FY2023 project plans and an update on recent regional and relevant 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 2023

Table 1 shows the nominal variance between the current forecast and what was presented at the last quarterly IRFC meeting. The FY2023 General Fund revenue forecast increased by $26.6 million, which also resulted in an increase 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 2023, as well as preliminary revenue estimates from departments for 2023 and 2024. The sales tax forecast experienced the largest nominal change, increasing $27.5 million from the previous forecast. The forecast revision was driven by Moody's Analytics' increase in their forecast for the region's economic growth since their January forecast, as well as a positive $23 million variance in FY2023 revenues year-to-date. The forecast for revenues from Amusement and Hotel taxes was increased to reflect a faster recovery in revenues than anticipated. The property tax forecast has the largest nominal decrease from the previous forecast, a downward revision of $6.7 million. This property tax decrease is the result of lower anticipated personal property replacement tax (PPRT) revenue—which is used for statutory pension contributions—coming into Cook County for 2023, thus the county will need to allocate additional property tax revenue towards those contributions, lowering the property tax allocation to the General Fund. The PPRT forecast decreased because of lower than anticipated corporate profits. County Clerk revenues are forecasted down in 2023 to account for a slowdown in fees generated from real estate transactions.

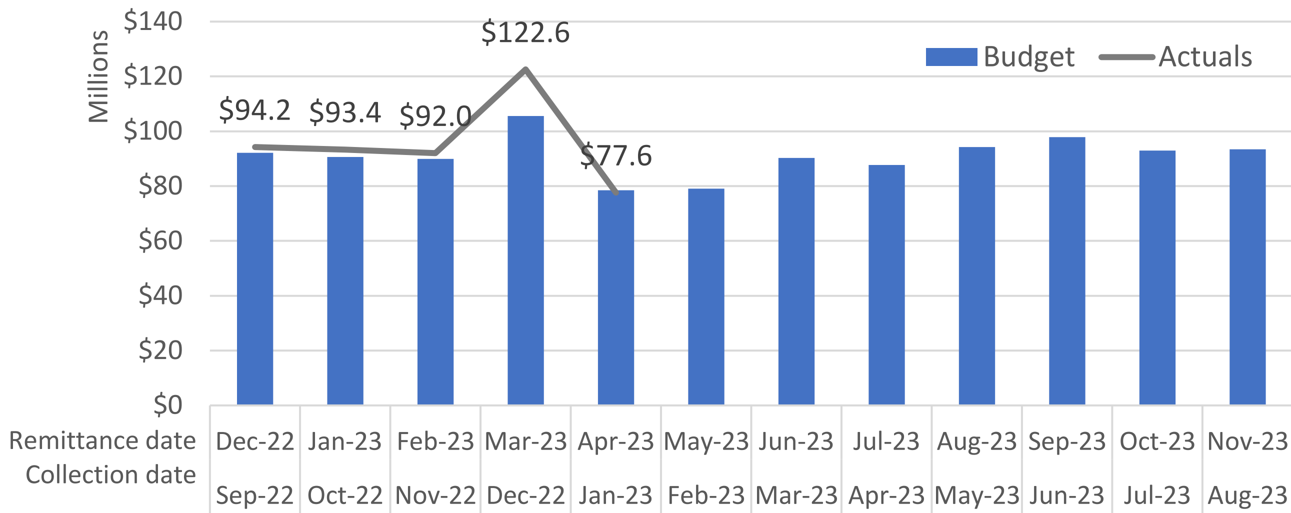
Table 1. Significant nominal variances between 1/23/2023 and 4/27/2023 forecast, in millions

	April forecast	Percent change in forecast	Amount change in forecast from January 2023 forecast				
Revenue source	**FY2023**	**FY2023**	**FY2023**	**FY2024**	**FY2025**	**FY2026**	**FY2027**
400010-Property Taxes	$260.9	(2.6%)	($6.7)	($2.4)	($4.0)	($2.7)	($1.7)
401150-County Sales Tax	$1,119.9	2.5%	$27.5	$40.6	$33.6	$28.7	$21.9
401350-Amusement Tax	$39.5	5.7%	$2.3	$2.4	$2.5	$2.6	$2.7
401430-Cigarette Tax	$82.0	(4.8%)	($4.0)	($3.5)	-	-	-
401550-Hotel Accommodations Tax	$30.6	7.0%	$2.1	$1.9	$2.1	$2.2	$2.2
401590 - Sports Wagering Tax	$9.1	22.7%	$2.1	$1.3	$0.7	$0.1	($0.5)
402100-County Treasurer	$63.9	11.3%	$4.5	($1.9)	($1.1)	($1.7)	($2.4)
402150-County Clerk	$39.5	(7.2%)	($3.8)	$11.9	$12.2	$12.4	$12.6
402548-Clerk of the Circuit Court Fees	$52.3	(3.3%)	($2.1)	($4.5)	($7.1)	($9.7)	($12.3)
406010-State of Illinois	$57.9	3.5%	$2.0	($0.2)	($2.6)	($3.9)	($5.3)
407080-Other	$13.7	17.2%	$2.4	$0.3	$0.3	$0.3	$0.3
Subtotal major changes	**$1,769.3**	**1.5%**	**$26.2**	**$45.8**	**$36.6**	**$28.2**	**$17.4**
Other GF revenues	$231.6	0.2%	$0.4	($6.1)	($2.8)	($4.7)	($4.2)
Total GF revenues	**$2,000.9**	**1.3%**	**$26.6**	**$39.8**	**$33.9**	**$23.5**	**$13.3**

Sales tax estimate

To date, FY2023 sales tax revenues are 5.0 percent higher than the original forecast. These positive results follow FY2022, when sales tax revenues totaled $1.06 billion, which was 9.4 percent higher than the original budgeted forecast. Figure 1 compares sales tax revenue with forecasts through April 2023.

Figure 1. FY2023 Sales tax revenue, actual and forecasted

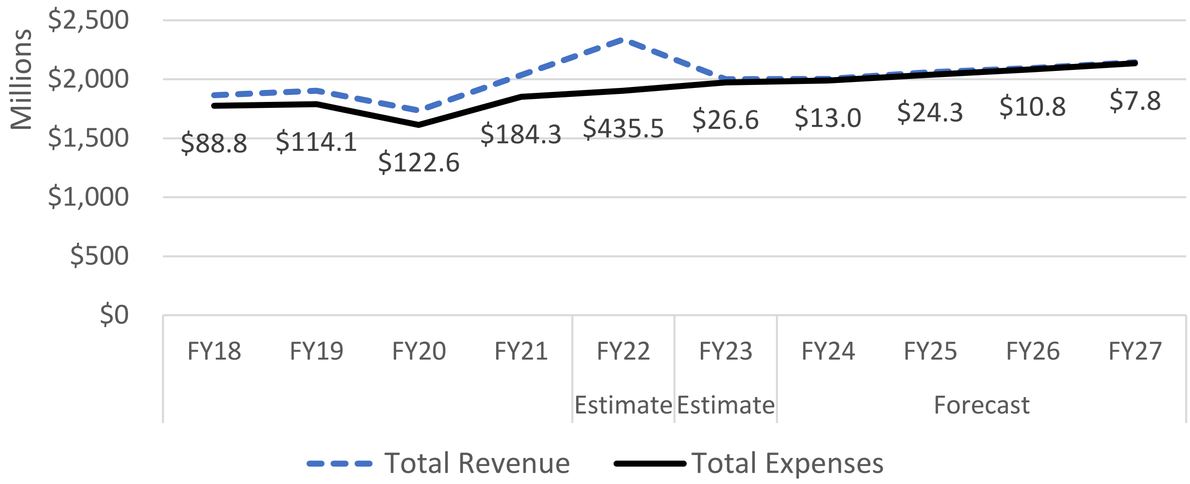


Long term fiscal plan

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 surpluses in the long term. Between FY2023 and FY2027, total expenses for the General Funds are expected to increase at a compound annual growth rate (CAGR) of 2.0 percent, while revenues are estimated to increase by a CAGR of 1.7 percent. This growth can be mostly attributed to sales tax, which is expected to grow at an average annual rate of 2.3 percent. Amusement tax and hotel tax are anticipated to increase as they continue to recover from drops experienced during the height of the COVID-19 pandemic. Revenues associated with gambling are also projected to experience strong growth as additional casinos open in the County during FY2023, FY2024, and FY2025. However, many of Cook County's revenue streams are either failing to keep pace with inflation or declining, including the cigarette tax and many of the fee revenues imposed to support county operations.

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



Fund balance projection

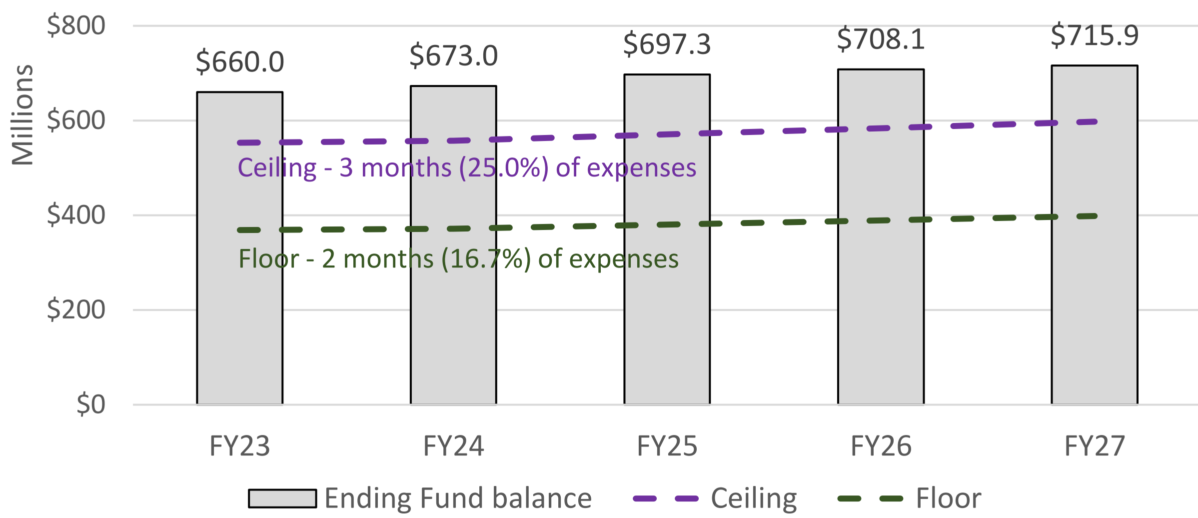
Current estimates indicate that FY2023 is forecast to end with a balance of $660.0 million, reflecting a $30 million appropriation from the General Fund to the County's new Infrastructure and Equipment Fund, as well as transfers of $44.3 million and $29.3 million to the Self Insurance Fund and the Equity Fund, respectively. This fund balance accounts for approximately 29.8 percent of the County's FY2023 annual budgeted expenditures from the General Fund and the Transportation Fund.

Figure 3 illustrates that the projected ending fund balances are anticipated to slowly increase based on the long-term revenue and expense forecasts for FY2023 to FY2027. The long-term projected ending fund balance is estimated to increase, reaching $715.9 million by FY2027, and remaining above the ceiling.

The purple dotted line (Ceiling) represents 3 months of projected General Fund and Transportation Related Home Rule Taxes Fund expenses, and the dark green dotted line (Floor) represents 2 months' worth of projected annual General Fund and Transportation Related Home Rule Taxes Fund expenses. The floor is the GFOA's minimum recommended value that local governments maintain in their unassigned ending fund balance.[1]

[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

Figure 3. Unassigned ending fund balance projection, FY2023 to FY2027



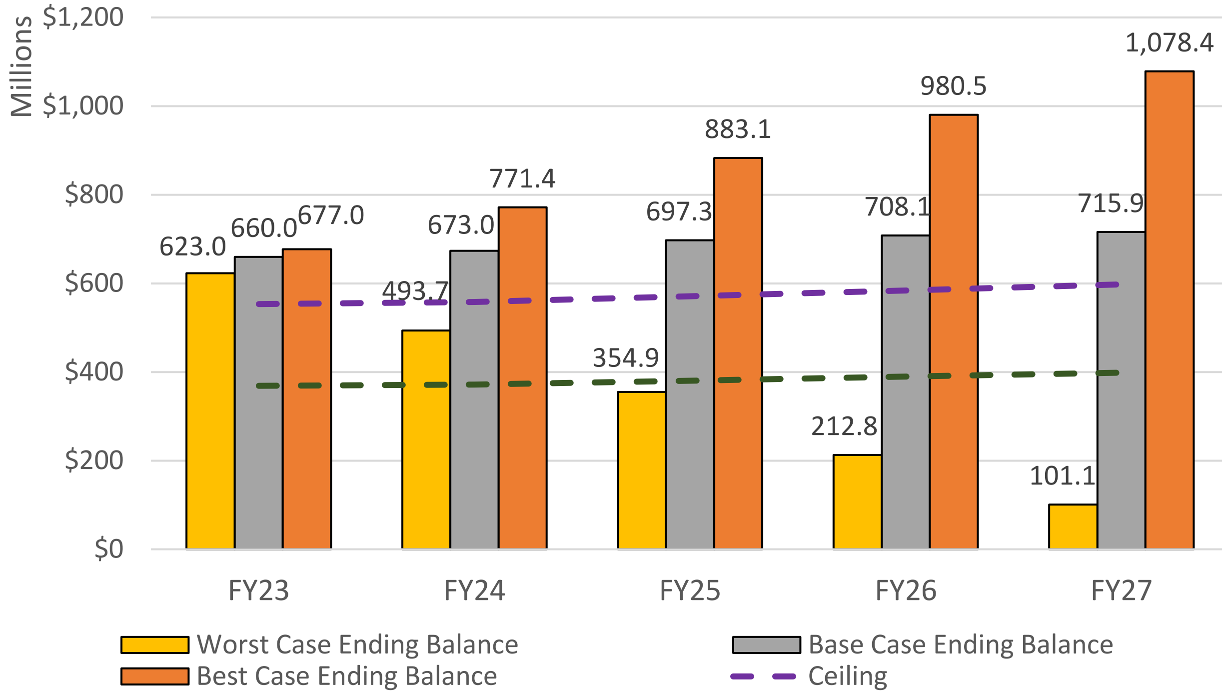
Alternative fund balance scenarios

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, the fund balance remains near the fund balance ceiling through FY2027. 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 the economy sees more than full employment starting in the 2nd quarter of 2023, the Fed restoring consumer confidence after recent bank failures, as well as a faster resolution to the conflict between Russia and Ukraine. The worst-case scenario, where there is a 90 percent chance of the economy performing better and a 10 percent change it will perform worse, assumes a rise in unemployment starting in the 2nd quarter of 2023 and peaking in mid-2024, and further instability in the banking sector. This worst-case scenario results in a drop in the fund balance such that, without further action, the General Fund does not meet the fund balance floor by FY2025.

Figure 4. Unassigned ending fund balance projection, FY2023 to FY2027



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.

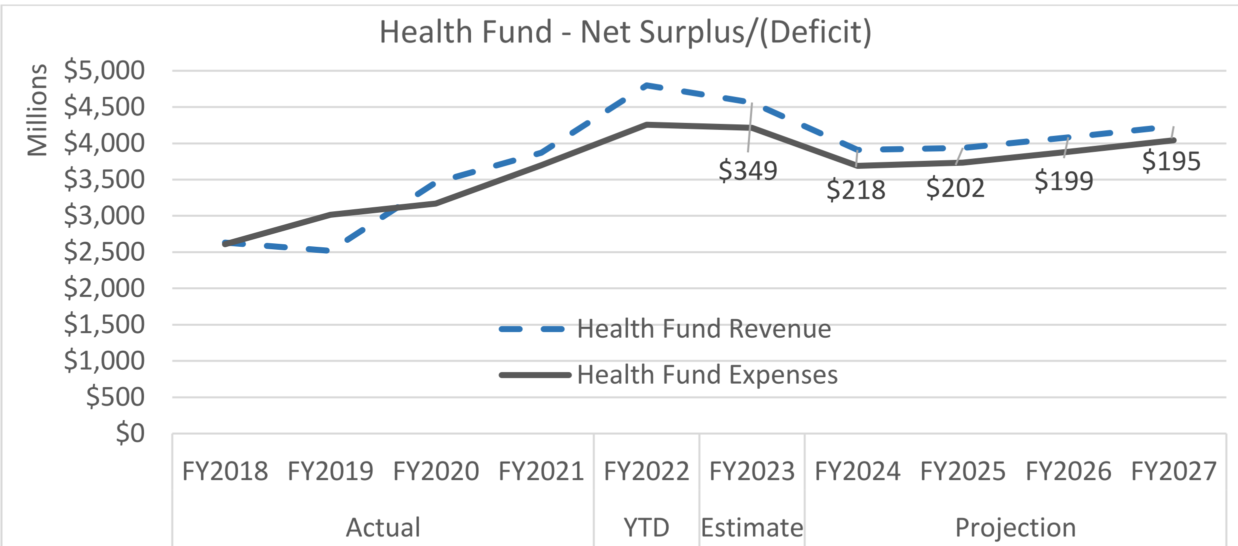
Long term fiscal plan

Since the County's FY2023 budget was adopted, the Consolidated Appropriations Act, 2023, (Public Law 117-328) was enacted at the federal level. This omnibus spending bill allows states to resume the redetermination process for Medicaid eligibility on April 1, 2023. As a result, Health Plan Services anticipates that members will start to be disenrolled from CountyCare starting on July 1, 2023. In the adopted FY2023 budget, it was assumed that members would be disenrolled sooner, starting in the first quarter of FY2023. In addition, as overall Medicaid enrollment decreases, fewer patients at CCH facilities will be insured, resulting in reduced patient fee revenue.

Figure 5 compares forecasted revenues and expenses for the Health Fund through FY2027. The forecast provides for updated estimates of domestic transfers within the Health Fund, as well as incorporates a new approach to accounting for these transfers. A domestic transfer occurs when Health Plan Services (HPS) pays medical claims to CCH for CountyCare members receiving care at CCH facilities. These transfers are recognized as an expense at HPS and as revenue at CCH, but the forecasted revenues and expenses below offset domestic transfer funds, so they are accounted for once in total Health Fund revenues and expenses.

FY2023 is anticipated to end with a surplus in the Health Fund. After a decrease in both revenue and expense in FY2024 driven by the redetermination process, expenses are anticipated to growth faster than revenues in the long run. Expenditures within the Health Enterprise Fund are expected to increase by a compounded annual rate of 3.1 percent from FY2024 through FY2027, while revenues grow 2.7 percent over the same time period. Overall, revenues are anticipated to be sufficient to meet projected expenses.

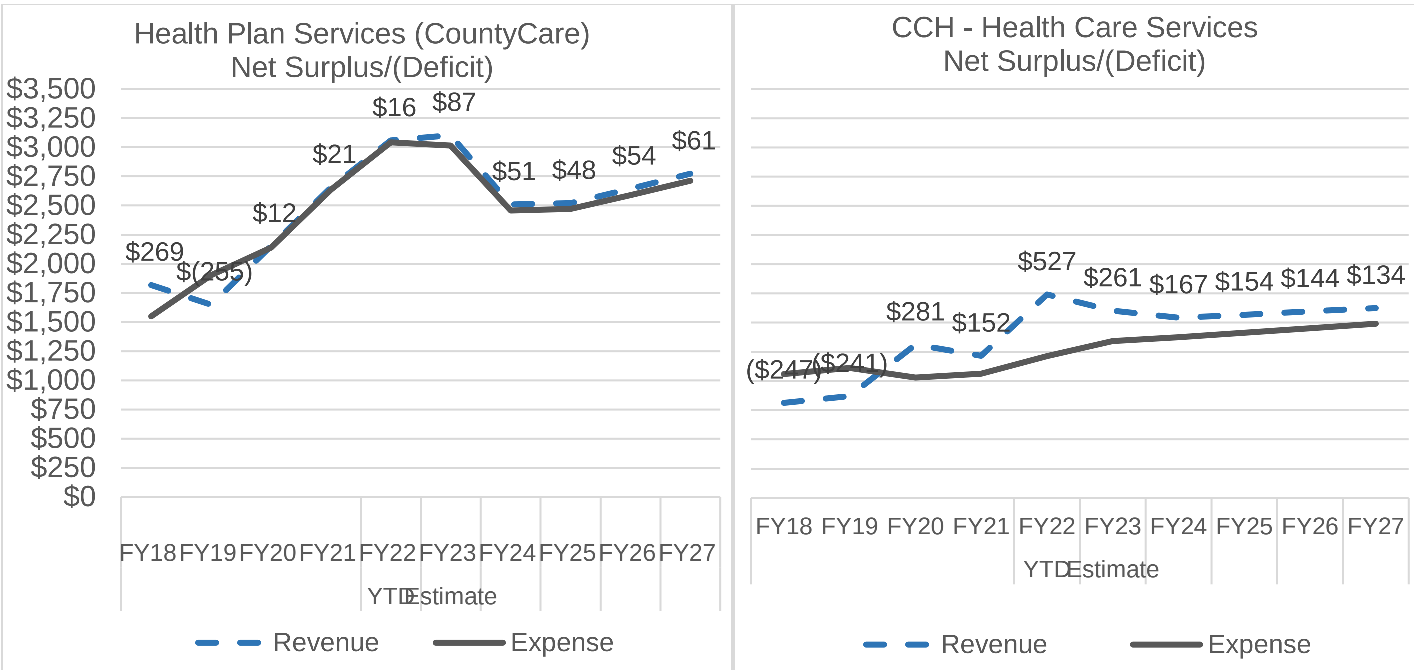
Figure 5. Health Fund net surplus/(deficit) projections



*Forecast assumes an offset for domestic transfers in FY2024 through FY2027

Figure 6 illustrates that after an initial decline in FY2024, long-term growth in the Health Fund is driven by Health Plan Services. Declines in revenues and expenses in FY2024 can be attributed to the reinstatement of redeterminations at Health Plan Services and return to lower auto assignment levels. Increases in revenue after FY2024 are driven by expected increases in per member per month revenue for Health Plan Services, as membership is anticipated to be flat. Revenues from health care services provided by the hospital system are expected to drop by 3.7%, primarily as a result of lower patient fee revenue and directed payments from Medicaid managed care organizations. These sources are expected to decline due to the redetermination process for Medicaid eligibility resulting in fewer insured patients. After this initial decline, revenues are estimated to grow between FY2024 and FY2027 at an average of 1.7 percent annually, slower than expenses, which are forecast to grow 2.7 percent on average.

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



*Charts do not include offset for domestic transfers.

HPS membership and revenue scenarios

HPS revenue is a function of the number of CountyCare members and the per member per month revenue generated by those members. Both factors are driven by state policy changes that impact membership levels and PMPM rates. The OCFO and CCH staff analyzed three different scenarios focused on several factors. The resumption of redetermination for Medicaid eligibility is now assumed to start in July 2023 in all scenarios. It is anticipated that the proportion of the autoenrollment pool assigned to CountyCare will also drop in both the conservative and baseline scenarios. These changes will impact membership attrition and enrollments. Table 2 summarizes the assumptions used in these scenarios.

Table 2. HPS scenario assumptions

CountyCare scenario	Next Month Choice Add Projection	Next Month No Reason Given Term Projection	No Reason Given Attrition	Future Month Auto-Enrollment	Auto-Enrollment Pool	PMPM rates
Conservative	Historical Average: 0.7K	Daily Adj. Projection: 2.6K	COVID Attrition: 11.2%	20%, Q2 2023	Historical average	25% decrease to base trends
Base	Historical Average: 0.7K	Daily Adj. Projection: 2.6K	COVID Attrition: 11.2%	35%, Q3 2023	Historical average	Growth rates based on trends
Optimistic	Daily 834 Adj. Projection: 1.0K	Historical Adj. Projection: 2.3K	Historical Attrition: 10.2%	50%	EVH adjusted	25% increase to base trends

Figure 7 shows projected revenues for CountyCare in each scenario. Revenues in all scenarios are anticipated to drop in FY2023 and FY2024, and then grow between FY2024 and FY2027. Growth is driven by increases in PMPM rates in all scenarios.

Figure 7. CountyCare projected revenues, FY2023 through FY2027

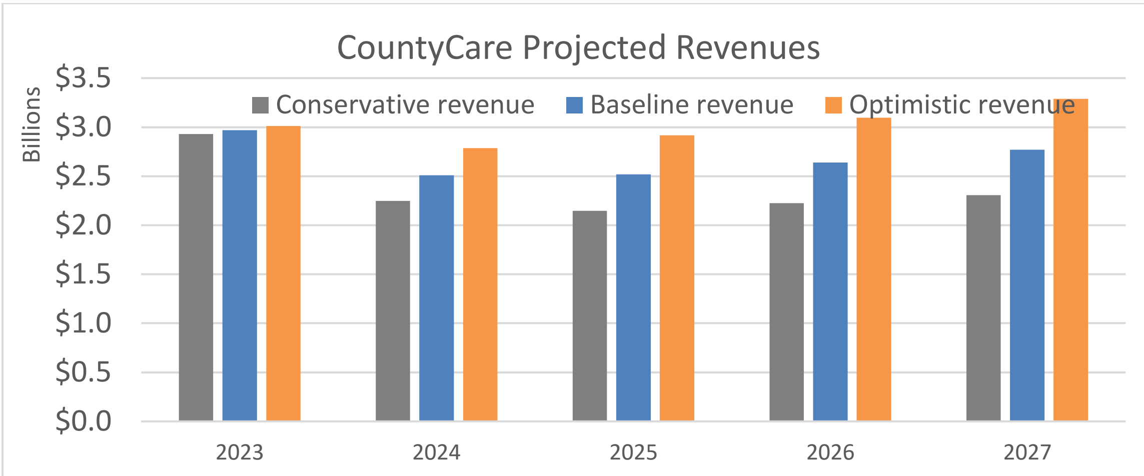
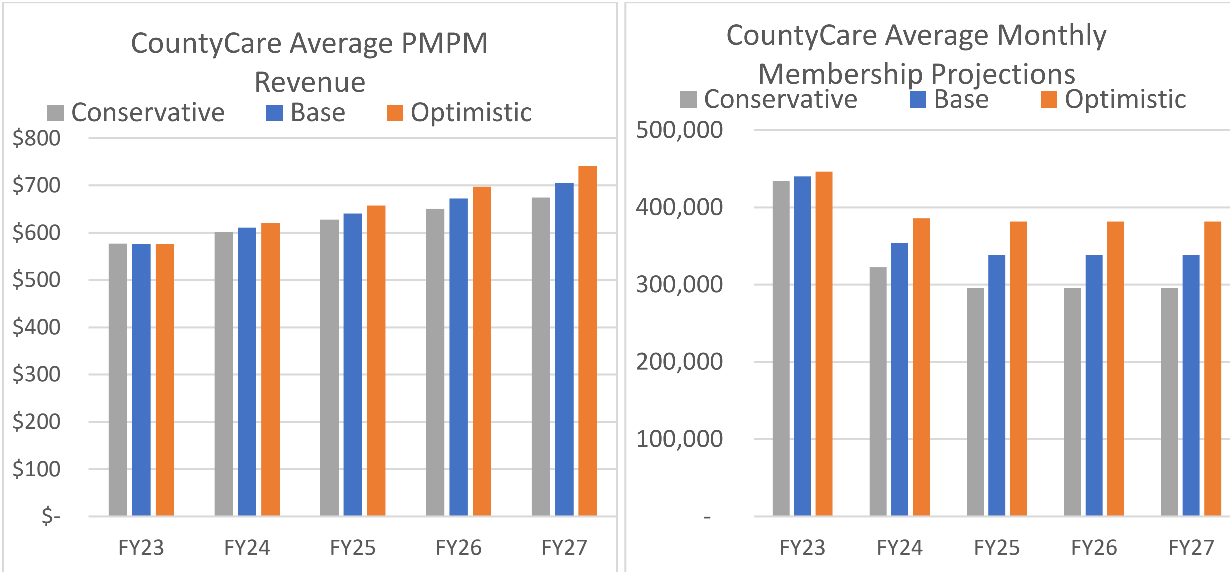


Figure 8 compares growth in monthly membership with growth in average PMPM revenue. The baseline scenario assumes an average annual growth of 4.8 percent in PMPM rates based on past trends, while the conservative and optimistic scenarios assume a 3.4 percent and 6.3 percent growth, respectively. FY2023 PMPM rates are expected to be higher than originally expected in the FY2023 budget.

Membership is anticipated to drop in all scenarios in FY2024. The differences in these reductions across scenarios are driven by the timing of the reduction in the autoenrollment pool being assigned to CountyCare. After these initial drops, membership increases then remains flat in each scenario.

Figure 8. CountyCare average PMPM revenue and monthly membership projections



Net patient service revenue projections

To understand the impact of changes in volume in the hospital system, reimbursement rates, and whether and how patients are insured, OCFO works with CCH to develop assumptions around three revenue forecasting scenarios. Table 3 provides an overview of the assumptions used to forecast net patient service revenue in each scenario.

Net patient service revenue projections and the assumptions behind them have been updated in all scenarios to consider the impacts of the resumption of the redetermination process for Medicaid eligibility. It is assumed that 4% of what is currently charged to Medicaid will be now charged to uninsured patients, and further shifts in the payor mix in the conservative and optimistic scenarios are applied to this new baseline.

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 reimbursements rates will be consistent with inflation. 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.

Table 3. 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		1 percentage point increase for Medicaid and Medicaid Managed Care	2 percentage point increase for Medicaid and Medicaid Managed Care	3 percentage point increase for Medicaid and Medicaid Managed Care

Update on recommendations of the IRFC

The IRFC's recommendations were provided on August 31, 2022, and included six new recommendations that build on those approved in FY2021. They reflect the need to document and monitor the implementation of previous recommendations. Progress on implementing these recommendations is outlined in Table 4.

Table 4. Progress on FY2023 recommendations of the IRFC

Deliverable	Progress
Methodological report	Methodology report drafted for property taxes. Sales taxes in progress.
Create a calendar of economic data releases and integrate that calendar into forecasting schedule	Calendar of economic data releases is updated for 2023.
Identify data and indicators that capture short- and long-term changes in work and spending patterns	Analyzing detailed data from Dept. of Revenue for gasoline, amusement, and parking tax revenues
Prioritize an initial set of fees to explore and collaborate with the offices that impose the fees to obtain data on fee rates and volumes	Began reaching out to departments to discuss collaboration
ARPA sustainability analysis of the potential impact on the fund balance of providing funding support to after 2026	County's fiscal sustainability work will be done in concert with recently-commenced program sustainability work.

Economic data releases

The OCFO monitors economic indicators that inform the County's revenue and expense forecasting. Economically sensitive revenues account for 62.0 percent of the General Fund forecast, and the County's expenses are impacted by inflation. Table 5 provides a schedule of 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 possible are used in forecasting.

Table 5. Economic data releases, May through July 2023

Release Date	Indicator
May 2023	
May 3	Metropolitan Area Employment and Unemployment
May 5	Employment Situation
May 10	Consumer Price Index
May 25	Gross Domestic Product, 2023 Q1 – 2nd Estimate
May 31	Metropolitan Area Employment and Unemployment
June 2023	
June 2	Employment Situation
June 13	Consumer Price Index
	Federal Reserve Economic Projections
June 28	Metropolitan Area Employment and Unemployment
June 29	Gross Domestic Product, 2023 Q1 – 3rd Estimate
July 2023	
July 7	Employment Situation
July 12	Consumer Price Index
July 27	Gross Domestic Product, 2023 Q2 – Preliminary

Economic update

The U.S. Bureau of Economic Analysis has released its advance estimates for national Gross Domestic Project (GDP) growth, which show that real GDP increased 1.1 percent in the first quarter of 2023. This growth estimate is lower than growth during the previous two quarters and reflects increases in consumer spending and exports. As detailed in Table 5, this estimate will be updated by the BEA on May 25, and again on June 29.

In their forecast released prior to the most recent GDP estimates, Moody's Analytics forecasted that the Gross Metropolitan Product (GMP) for the Chicago-Naperville-Elgin metropolitan would rise by 1.6 percent in 2023 because of expected responses to monetary policy changes. Moody's is no longer anticipating that the unemployment rate in the region will reach its pre-pandemic level of 3.6 percent in the next five years, but it is forecasting that it will remain below 5 percent. Although inflation is expected to remain high in the beginning of 2023, it is forecasted to drop below 3 percent by the end of 2023 and moderate beginning in 2024. Table 6 provides an overview of economic indicators that are considered when developing revenue forecasts.

Table 6. Actuals and forecasts of economic indicators, Chicago-Naperville-Elgin Metropolitan Area, 2021 to 2027

	2021	2022	2023	2024	2025	2026	2027
Gross Metro Product, (% change, Ch. 2012, SAAR)	6.3%	2.6%	1.6%	1.2%	2.1%	2.3%	2.0%
CPI, All Urban Consumers, (% change, SA)	4.3%	7.6%	3.2%	2.4%	2.0%	2.0%	2.0%
Resident Population: Total, (Ths. #)	9,520.5	9,462.7	9,444.7	9,423.9	9,396.4	9,372.7	9,347.2
Disposable Personal Income, (% change, SAAR)	5.4%	(0.4%)	6.8%	4.6%	3.6%	3.7%	3.6%
Labor Force Participation, (%, SA)	63.2%	65.0%	65.7%	65.8%	66.1%	66.3%	66.4%
Labor: Unemployment Rate, (%, SA)	6.3%	4.5%	4.5%	4.7%	4.7%	4.6%	4.7%
Income: Median Household, (SAAR)	$78,166	$78,700	$81,239	$84,006	$86,593	$89,359	$92,180
Income: Per Capita, (SAAR)	$71,956	$73,930	$77,313	$80,676	$83,855	$87,209	$90,570
Labor: Number of Employed, (Ths. #, SA)	4,500.4	4,694.2	4,740.3	4,733.8	4,741.5	4,749.2	4,743.6
Retail Sales: Total, (% change, SAAR)	18.7%	9.8%	3.3%	1.4%	2.5%	2.5%	2.2%

Source: Moody's Analytics, April 2023 baseline scenario