



QUARTERLY UPDATE OF THE LONG-TERM REVENUE FORECAST

Statutory Report to the Cook County Board of Commissioners

October 26, 2023



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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 June 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 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 FY2023 and 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 June 2023

Table 1 shows the nominal variance between the current forecast and what was presented at the last quarterly IRFC meeting in June. The FY2024 General Fund revenue forecast increased by \$163.1 million, which aside from FY2025, resulted in increases in the out-years of the long-term forecast. The long-term forecast for each revenue source was revised upward or downward, in part to account for revenue estimates for the FY2024 budget. The 411490 - Other Financing Sources forecast experienced the largest nominal change, increasing \$142.9 million from the previous forecast as result of a transfer from FY2022 unassigned General Fund balance. The investment income forecast increased \$7.6 million to account for the County improving cash investments to take advantage of favorable interest rates.

The property tax forecast has the largest nominal decrease from the previous forecast, dropping \$34.0 million in 2024. The property tax decrease is primarily the result of reducing the amount of PPRT revenue—a volatile and economically sensitive revenue source—going towards the County’s statutory pension contributions. Beginning in FY2024, the County will budget a flat amount of PPRT revenue—\$40 million—for statutory pension contributions. As a result of budgeting this reduced and flat amount of PPRT revenue for statutory pension contributions, the County intends to allocate additional property tax revenue towards those contributions, in turn lowering the property tax allocation to the General Fund.



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While the property tax forecast decreased due to this change, any additional PPRT revenue that the County receives over the flat \$40 million for pension contributions will be deposited into the General Fund in 401110-Non Property Taxes. As a result of this adjustment, the 401110-Non Property Taxes forecast for FY2024 has increased \$73.2 million from the previous forecast because of anticipated disbursements related to PPRT.

The county sales tax was revised downward from the previous forecast by \$11.4 million, or 1.0%, as a result of an adjustment to the County’s forecasting methodology, breaking out accelerated disbursements from the State of Illinois. Additionally, effective FY2024, casino tax revenues in the General Fund will shift to the Equity Fund as a permanent funding source.

Table 1. Significant nominal variances between 6/27/2023 and 10/26/2023 forecast, in millions

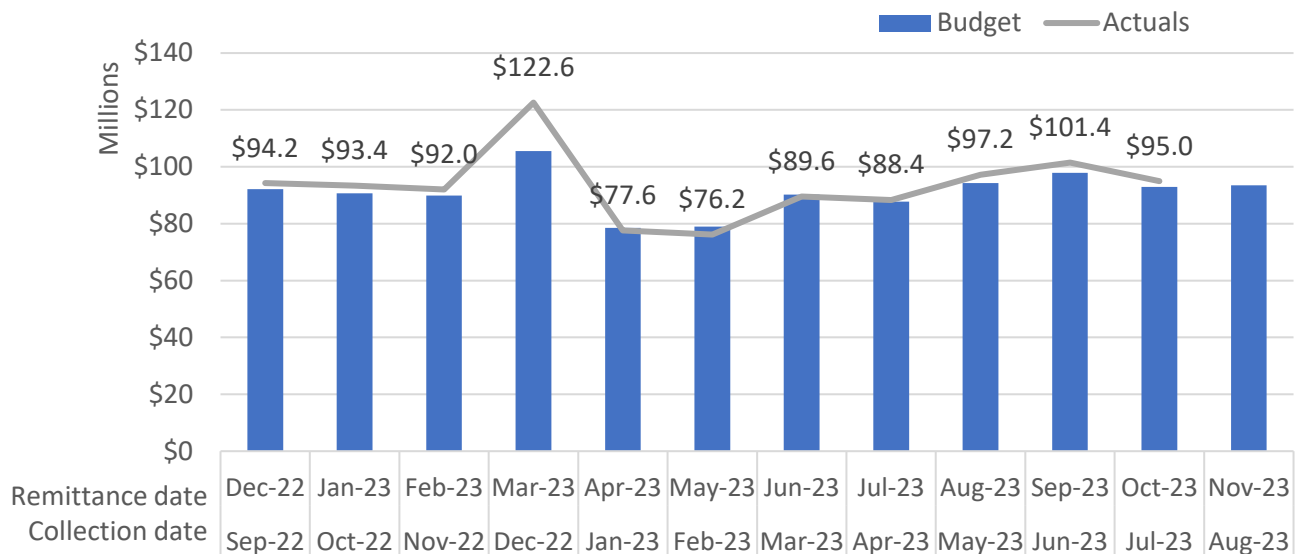
Revenue source	October forecast FY2024	Percent change in forecast FY2024	Change in forecast from June 2023 forecast			
			FY2024	FY2025	FY2026	FY2027
400010-Property Taxes	\$157.0	(17.8%)	(\$34.0)	(\$40.0)	(\$62.1)	(\$72.3)
400040-Tax Increment Financing Taxes	\$13.5	(25.7%)	(\$4.7)	(\$0.9)	(\$0.9)	(\$0.9)
401110-Non Property Taxes	\$73.2	100.0%	\$73.2	\$79.0	\$103.0	\$117.8
401150-County Sales Tax	\$1,119.0	(1.0%)	(\$11.4)	(\$19.8)	(\$3.4)	\$16.8
401330-II Gaming Des Plaines Casino	\$0.0	(100.0%)	(\$16.0)	(\$20.3)	(\$20.7)	(\$21.0)
401350-Amusement Tax	\$42.0	2.4%	\$1.0	\$0.9	\$0.8	\$0.7
401550-Hotel Accommodations Tax	\$35.3	11.9%	\$3.8	\$3.9	\$4.1	\$4.3
401590 - Sports Wagering Tax	\$11.0	10.0%	\$1.0	\$1.1	\$1.2	\$1.3
402548-Clerk of the Circuit Court Fees	\$59.5	(4.9%)	(\$3.1)	\$1.1	\$1.2	\$1.3
402200-County Recorder and Registrar / 402150-County Clerk	\$49.3	(1.9%)	(\$0.9)	(\$18.7)	(\$17.7)	(\$16.7)
405010-Investment Income	\$43.5	21.1%	\$7.6	\$3.7	\$5.6	\$7.8
406010-State of Illinois	\$59.4	2.2%	\$1.3	\$0.0	\$0.3	\$0.5
407010-Miscellaneous Revenue	\$46.6	41.1%	\$13.6	\$0.1	\$0.2	\$0.4
407080-Other	\$3.5	(75.6%)	(\$10.7)	\$0.0	\$0.0	\$0.0
411490 - Other Financing Sources	\$142.9	100.0%	\$142.9	\$0.0	\$0.0	\$0.0
Subtotal major changes	\$1,855.6	9.7%	\$163.5	(\$9.9)	\$11.6	\$39.9
Other GF revenues	\$240.6	(0.1%)	(\$0.4)	\$1.4	\$2.0	\$2.6
Total GF revenues	\$2,096.3	8.4%	\$163.1	(\$8.4)	\$13.6	\$42.5



Sales tax estimate

To date, FY2023 sales tax revenues are 2.9 percent higher than the original forecast. The primary driver behind the favorable YTD variance is the result of the County receiving a larger accelerated payment disbursement from the State in March, which is based on a statutory formula.¹ To better project these accelerated payments, if applicable, the OCFO has revised its forecasting methodology to reduce sales tax revenue in out-year forecasts. 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 October 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.

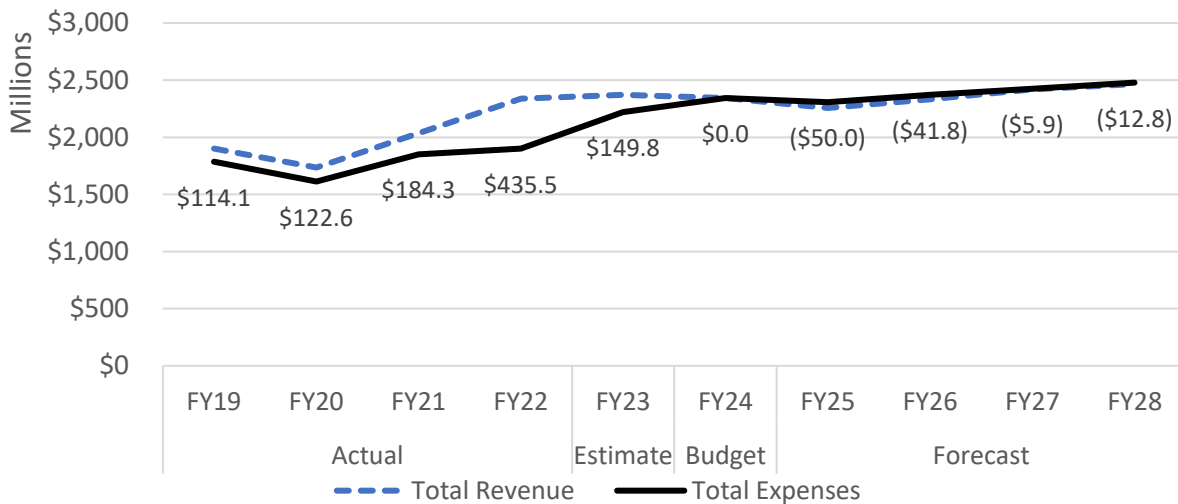
Revenues are expected to largely keep pace with expenses, with small deficits in the long term. Between FY2024 and FY2028, total expenses for the General Funds are expected to increase at a compound annual growth rate (CAGR) of 1.4 percent, while revenues are estimated to increase by a CAGR of 1.3 percent. General Fund revenue growth can be mostly attributed to sales tax, which is expected to grow at an average annual rate of 3.4%. Hotel and Amusement taxes are anticipated to increase as they continue to recover from drops experienced during the height of the COVID-19 pandemic. Additionally, PPRT revenue disbursed to the General Fund in the Non-Property Taxes account is projected to increase by a CAGR of 13.6%, as state adjustments resulting in reduced disbursements are expected to lessen by 2026. However,

¹ (55 ILCS 5/5-1006) (from Ch. 34, par. 5-1006) Sec. 5-1006. Home Rule County Retailers' Occupation Tax Law. <https://www.ilga.gov/legislation/ilcs/ilcs5.asp?ActID=750&ChapterID=12>



a handful of Cook County revenue streams 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

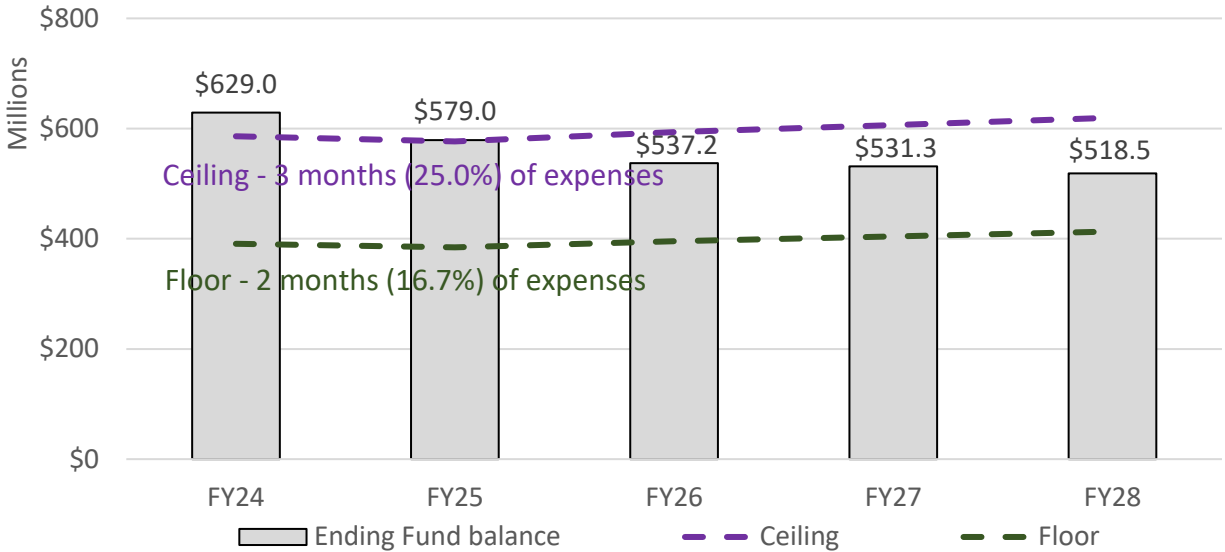
In FY2023, the County’s beginning unassigned fund balance within the General Fund was \$810.9 million, \$301.7 million higher than the fund balance ceiling. Based on current estimates and transfers out for FY2023, the fund balance is anticipated to increase by \$119.8 million by the end of FY2023. The unassigned fund balance is expected to remain above the \$390.8 targeted floor for FY2024. Therefore, pursuant to the County’s fund balance policy, transfers and assignments totaling \$301.7 million will be made to other funds. As a result, by the end of FY2024, the fund balance is expected to be reduced to \$629.0 million. This amount accounts for approximately 26.8% of the County’s FY2024 annual budgeted expenditures from the General Fund and the Transportation Fund. According to the long-term revenue and expense forecasts for FY2024 to FY2028, the long-term projected ending fund balance is estimated to decrease to \$518.5 million by FY2028.

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 long-term projected ending fund balance is estimated to decrease, reaching \$518.5 million by FY2028, and remaining above the floor. 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.²

² 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, 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 product, unemployment rate, and CPI are used for different revenue sources.

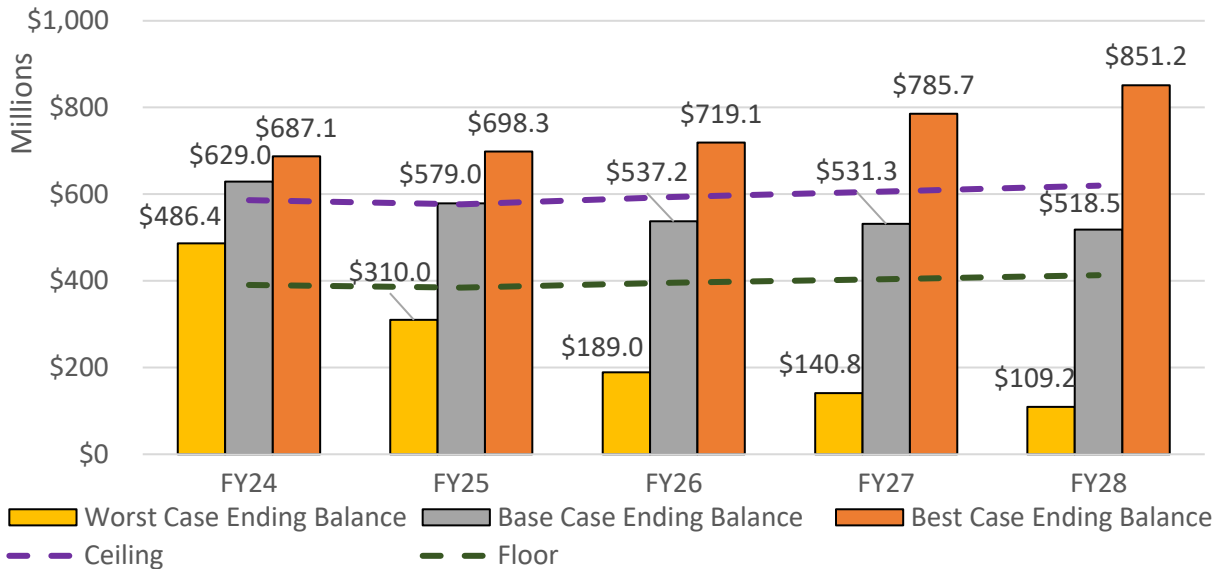
Each revenue scenario is compared to the expenditure forecast, along with the fund balance floor and ceiling; the floor represents two months of projected annual expenses and ceiling represents three months of projected annual expenses. The revenue scenarios, as well as the floor and ceiling, incorporate 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 through FY2028 but drops below the ceiling in FY2026. This baseline forecast from Moody's Analytics assumes the U.S. economy will experience a soft landing as a result of resilient consumers and labor markets, the Federal Reserve is done tightening and will begin easing interest rates in June 2024, the economy will grow at a slower pace in the beginning of 2024, and inflation growth will approach the Fed's target range around the third quarter of calendar year 2024. 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, unemployment declines below the baseline projection, and the Federal Reserve restores consumer confidence after recent bank failures. The worst-case scenario, where there is a 90 percent chance of the economy performing better and a 10 percent chance it will perform worse, assumes there is a rise in unemployment starting in the fourth quarter of 2023 and peaking in the fourth quarter of 2024, further instability in the banking sector, and the economy falling into a recession at the



end of 2023. This worst-case scenario results in an ending funding balance \$142.5 million below the base case in FY2024 and drops below the floor in FY2025 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 \$500.3 million over the FY2024 budget recommendation, a CAGR of 2.8%. Overall, this is primarily driven by growth in per member per month (PMPM) revenues at Health Plan Services (HPS), which are expected to grow \$422.2 million at a CAGR of 3.8% from FY2024 to FY2028. The reinstatement of redeterminations and lower auto-assignment levels will cause initial declines in revenues in FY2024 and part of FY2025. However, after an initial decline, increases in revenue are driven by expected increases in PMPM rates for HPS, as membership is anticipated to be flat. Net Patient Service Revenues (NPSR) are anticipated to increase by a CAGR of 3.5% from FY2024 to FY2028. These patient fee forecasts assume an increase in the average reimbursement rate by 2% year over year for members paying with Medicaid but assume no growth in gross charges or shift in payer mix, after the initial shift in FY2024 from patients covered by Medicaid to uncompensated care. After the initial decrease in both revenue and expense in FY2024, driven by the redetermination process, expenses are anticipated to grow faster than revenue for FY2024 through FY2028.

Figure 5 compares forecasted revenues and expenses for the Health Fund through FY2028. Expenditures within the entire fund are expected to increase by \$579.3 million, a compounded annual rate of 3.2 percent, while revenues, after property tax allocation, grow by \$500.3 million, a 2.8% increase over the same period. Property tax allocations to the Health Fund are expected to increase by \$10 million annually.



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

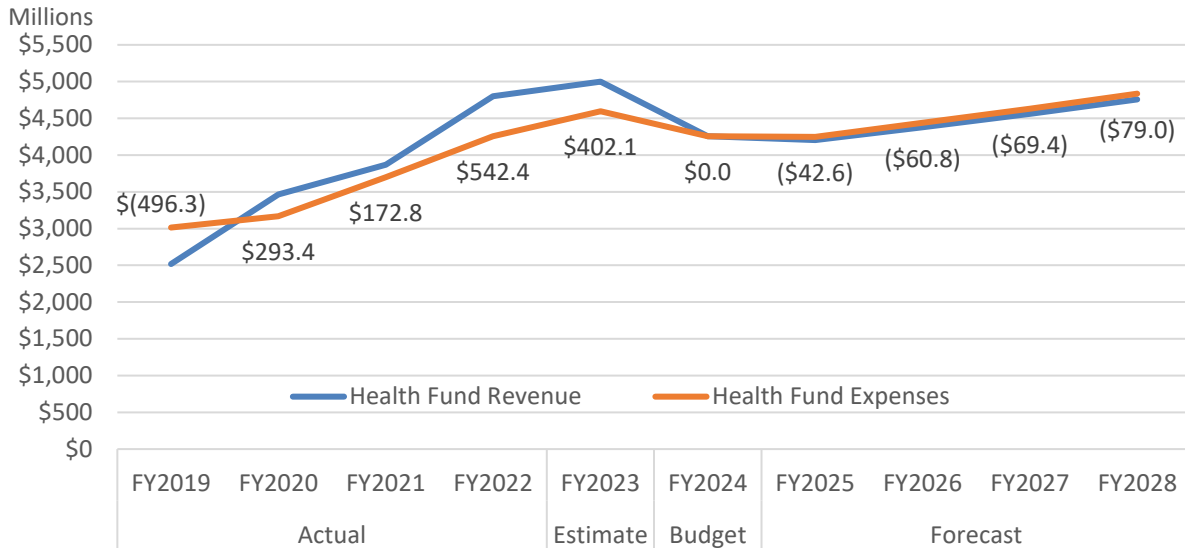
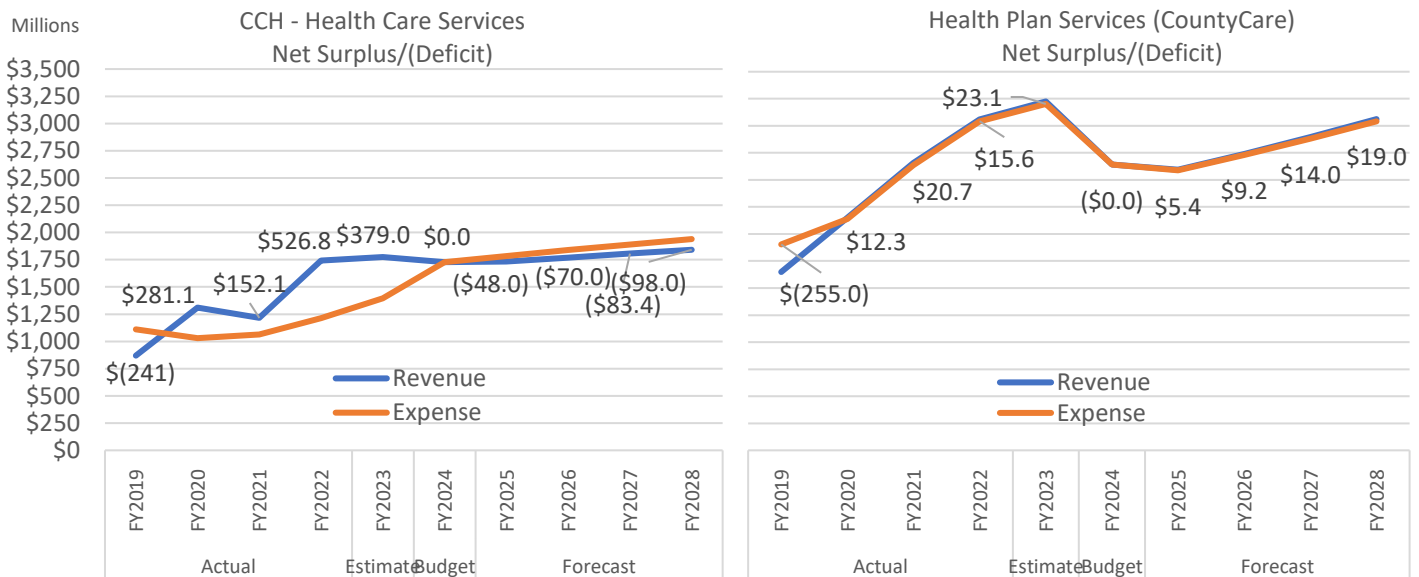


Figure 6 illustrates how declines in revenues in FY2024 and FY2025 along with increases in expenditures at CCH will drive small deficits within the overall Health Fund from FY2024 through FY2028. An anticipated shift of \$60M in gross charges from Medicaid to uncompensated care due to the reinstatement of redetermination is responsible for these revenue declines. Expenses during this time will also increase as salaries and professional services are anticipated to grow, further driving this deficit. At HPS however, after initial declines in FY2024 and some continuation into 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 FY2024 and FY2025, and then grow at an average annual rate of 4.6% between FY2025 and FY2028, as compared to 5.7% in the baseline scenario. In the optimistic scenario, after an initial reduction in FY2024, revenues start growing again in FY2025 and grow 6.7% on average between FY2025 and FY2028.

With redetermination having resumed June 2023, all scenarios have accounted for this impact, and that attrition, the percentage of new members and the monthly growth rate will all return to pre-pandemic rates. Auto-enrollment rates are currently 50%, however, the scenarios defer in their assumptions regarding whether they stay at current levels or drop at different rates.

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

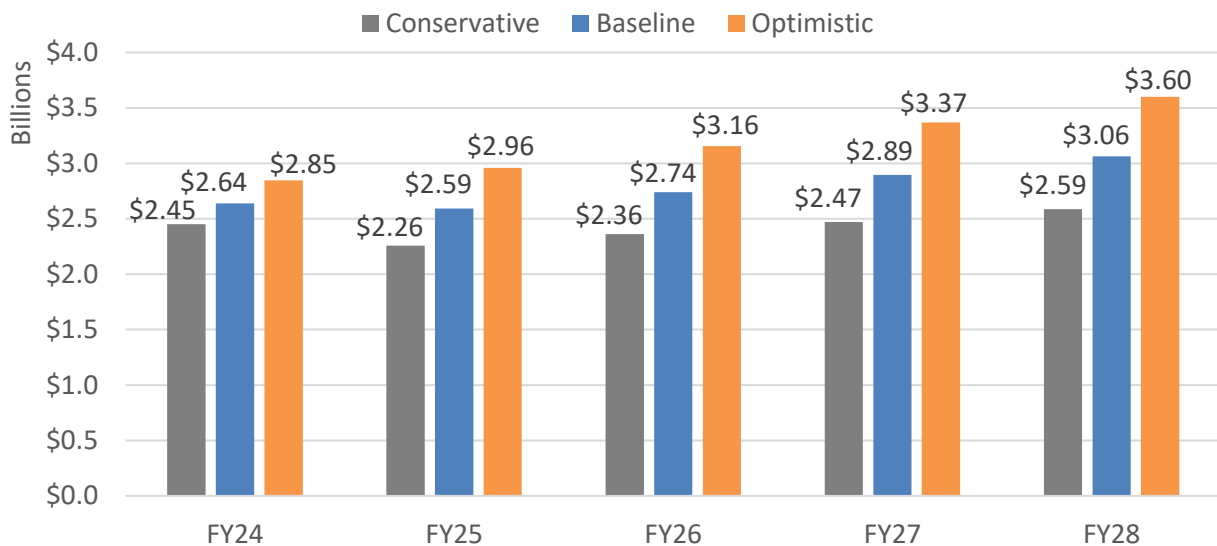
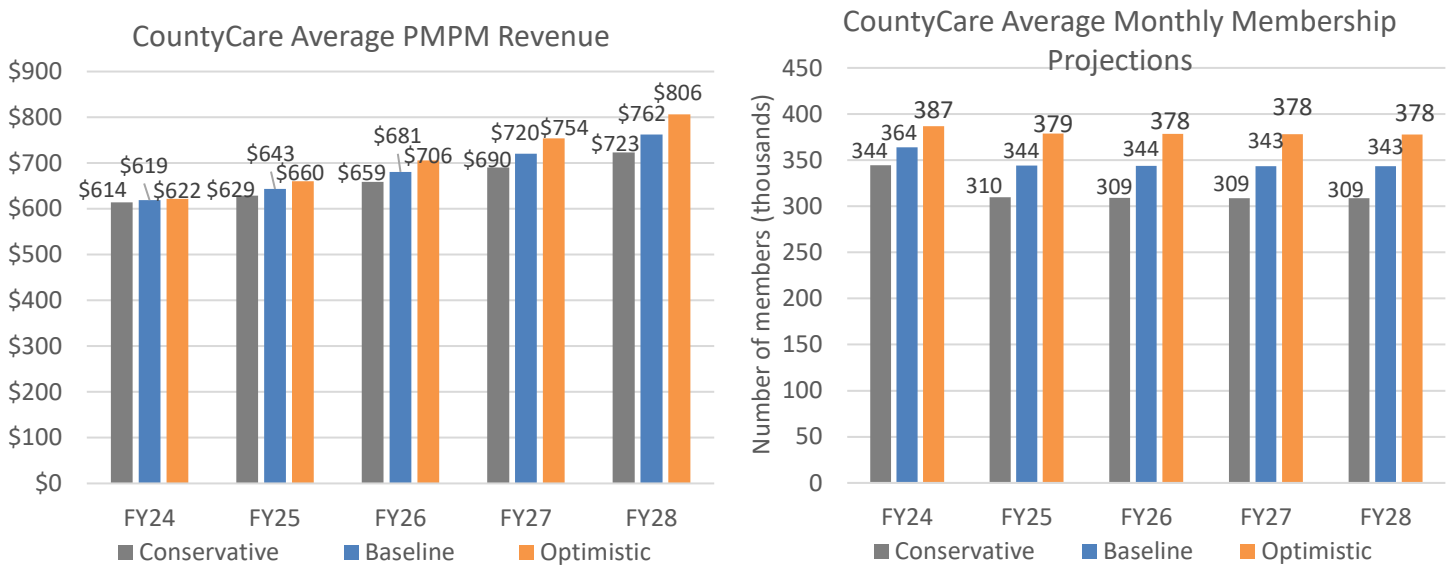


Figure 8 compares growth in monthly membership with growth in average PMPM revenue. The baseline scenario assumes an average annual growth of 5.3% in PMPM rates between FY2024 and FY2028 based



on past trends, while the conservative and optimistic scenarios assume a 4.2% and 6.7% growth, respectively. For all scenarios, average monthly membership is anticipated to drop in FY2024 and then again in FY2025 when the full year impact of redetermination is experienced. After these initial declines, membership decreases by 0.1% annually in each scenario. The differences across scenarios are driven by the autoenrollment pool being assigned to CountyCare. The baseline scenario assumes 35% of the pool will be assigned to CountyCare, while the conservative scenario assumes a drop to 20% and the optimistic scenario assumes it will remain at 50%. Aside from these factors driving membership, members may choose to select or leave CountyCare. Starting in FY2025, all scenarios assume that membership growth and attrition will return to historical averages.

Figure 8. CountyCare average PMPM revenue and monthly membership projections



Net patient service revenue scenarios

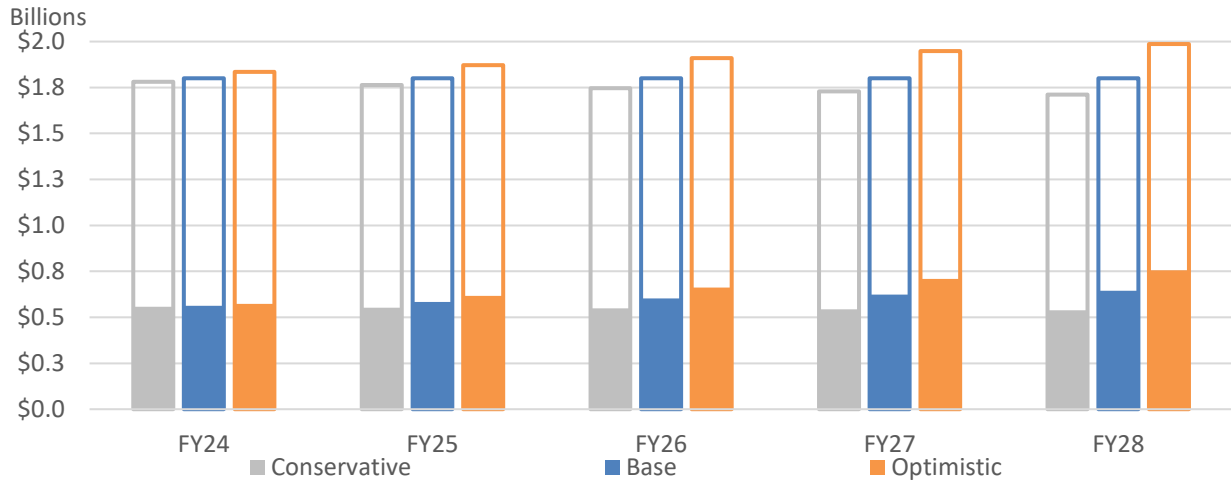
The revenue forecast centers around making assumptions about future service volumes, payor mix, and the level and rates of contractual payments from various insurers, and inability of self-pay patients to pay the full gross charges that the County bills for medical care provided. Considerations include looking at historical trends, expected policy changes, and economic conditions that may affect service volumes, payor mix, or re-imbursements 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 percent of gross revenues charged to Medicaid and decrease the percent 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 as of FY2024, 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.

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 provides an overview of the assumptions used to forecast NPSR in each scenario.

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	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 24, 2023, and included four recommendations that build on those approved in FY2022.³ 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
Health Fund assumption validation modeling	Continuing the process to create new accounts for eliminating domestic transfers. Will be updating model that compares actual collection rates to collection rate assumptions used in the forecast
Create a calendar of economic data releases and integrate that calendar into forecasting schedule	Calendar of economic data releases is updated for 2023-2024.
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	Conducted meetings with three County offices that collect fee revenues and received related fee data for analysis
Methodological report and tax history document	Completed draft of methodological report with several key revenue sources
ARPA sustainability analysis of the potential impact on the fund balance of providing funding support to after 2026	Executive recommendation includes creation of a reserve
Access IDOR sales tax data	Held initial meeting with IDOR staff
Economic and policy factors in the CCH revenue forecast	Beginning to scope project

Economic data releases

The OCFO monitors economic indicators that inform the County's revenue and expense forecasting. Economically sensitive revenues account for 63.2 percent 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 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.

³ 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=UmVjb21tZW5kYXRpb25zIG9mIHRoZSBJUkZDIDlwMjMucGRm>



Table 4. Economic data releases, November 2023 through January 2024

Release Date	Indicator
November 2023	
November 1	Metropolitan Area Employment and Unemployment
November 3	Employment Situation
November 14	Consumer Price Index
November 29	Gross Domestic Product, 3rd Quarter 2023 (Second Estimate)
November 30	Metropolitan Area Employment and Unemployment
December 2023	
December 8	Employment Situation
December 12	Consumer Price Index
December 13	Federal Reserve Economic Projections
December 21	Gross Domestic Product, 3rd Quarter 2023 (Third Estimate)
January 2024	
January 5	Employment Situation
January 11	Consumer Price Index
January 25	Gross Domestic Product, 4th Quarter and Year 2023 (Advance Estimate)

Economic update

The U.S. Bureau of Economic Analysis has released its advance estimate for national real Gross Domestic Product (GDP) growth, which show that real GDP increased 4.9 percent in the third quarter of 2023. This growth of 4.9 percent was the highest growth dating back to the fourth quarter of 2021 when real GDP increased 7.0 percent. This growth reflects increases in consumer spending, private inventory investment, exports, state and local government spending, federal government spending, and residential fixed investment that were partly offset by a decrease in nonresidential fixed investment. As detailed in Table 4, an updated GDP estimate for the third quarter will be released on November 29.

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 2024 and 2025, before increasing to historical trend levels in 2026 and out-years. While Moody's continues to project that the unemployment rate in the region will not reach its pre-pandemic level of 3.6 percent in the next five years, Moody's also anticipates that unemployment will remain below 5 percent. Although inflation is expected to remain elevated through the first half of 2024, it is forecasted to drop below 3 percent by the second quarter of 2024 and moderate in the out-years. 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

	2022	2023	2024	2025	2026	2027	2028
Gross Metro Product, (% change, Ch. 2017, SAAR)	1.5%	1.0%	0.7%	1.2%	1.9%	1.9%	1.8%
CPI, All Urban Consumers, (% change, SA)	7.6%	3.6%	2.7%	2.2%	2.0%	2.0%	2.0%
Resident Population: Total, (Ths. #)	9,462.7	9,442.4	9,421.5	9,394.4	9,370.3	9,343.3	9,310.7
Disposable Personal Income, (% change, SAAR)	(1.5%)	7.4%	3.9%	3.3%	3.5%	3.5%	3.4%
Labor Force Participation, (% SA)	65.6%	65.7%	65.7%	65.8%	65.8%	65.9%	66.1%
Labor: Unemployment Rate, (% SA)	4.6%	4.1%	4.5%	4.7%	4.7%	4.7%	4.7%
Income: Median Household, (SAAR)	\$82,914	\$86,593	\$89,355	\$91,888	\$94,697	\$97,643	\$100,622
Income: Per Capita, (SAAR)	\$72,784	\$76,427	\$79,613	\$82,493	\$85,682	\$89,001	\$92,439
Labor: Number of Employed, (Ths. #, SA)	4,735.7	4,754.8	4,726.7	4,711.1	4,707.7	4,704.5	4,697.0
Retail Sales: Total, (% change, SAAR)	10.3%	2.8%	3.2%	2.0%	2.5%	2.4%	2.4%

Source: Moody's Analytics, October 2023 baseline scenario