QUARTERLY UPDATE OF THE LONG-TERM REVENUE FORECAST

Statutory Report to the Cook County Board of Commissioners

January 23, 2023

COOK COUNTY GOVERNMENT

Bureau of Finance

Contents

Introduction

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.

The following report provides an update between the Long-term Financial plan provided to the IRFC and posted on the County's Website in October 2022, and the most up to date forecast. 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 long-term 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 October 2022

Table 1 shows the nominal variance between the current forecast and what was presented at the last quarterly IRFC meeting. The FY2024 General Fund forecast decreased by $12.7 million, which also resulted in a decrease 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 revenues adopted for the FY2023 budget, as well as more recent results. The sales tax forecast experienced the largest nominal change. One of the inputs to the sales tax forecast, number of households, was reduced by Moody's Analytics for 2024, under the assumption that a slowing economy will reduce the number of households being formed. The property tax forecast is higher as it now accounts for updated tax year 2021 data on the value of new property, expiring TIFs, and incentives. These property values, which will incrementally increase the levy, were higher than originally estimated. The forecast for revenues from the state income tax was increased to reflect higher FY2022 actuals.

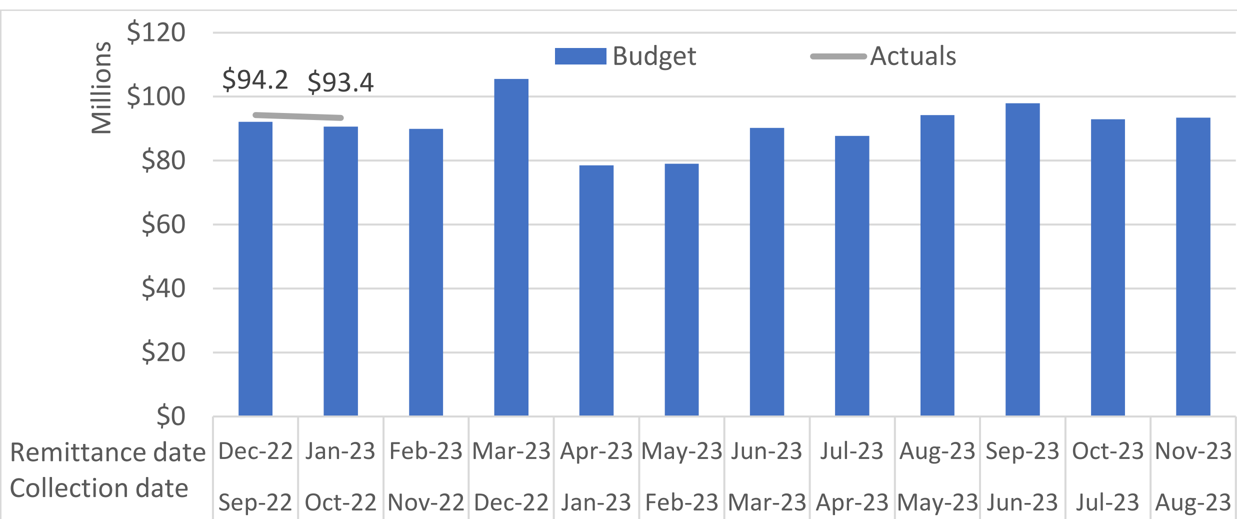
Table 1. Significant nominal variances between 10/27/2022 and 1/23/2023 forecast, in millions

	FY2024 % change in forecast	FY2024	FY2025	FY2026	FY2027
400010-Property Taxes	1.9%	$5.0	$4.7	$4.6	$4.4
400040-Tax Increment Financing Taxes	10.0%	$2.3	$2.3	$2.3	$2.3
401150-County Sales Tax	-2.1%	($23.8)	($28.8)	($34.5)	($41.2)
401390-State Income Tax	7.7%	$1.5	$1.5	$1.5	$1.6
406010-State of Illinois	2.9%	$1.6	$1.9	$2.1	$2.4
407010-Miscellaneous Revenue	-4.4%	($1.7)	($2.0)	($1.9)	($1.9)
407080-Other	15.9%	$1.8	$1.6	$1.4	$1.2
Subtotal major changes	**-0.9%**	**($13.3)**	**($18.8)**	**($24.4)**	**($31.2)**
Other changes	0.0%	$0.6	$1.5	$2.4	$3.2
Total	-0.6%	($12.7)	($17.3)	($22.0)	($28.0)

Sales tax estimate

To date, FY2023 sales tax revenues are 2.6 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 for December and January.

Figure 1. FY2023 Sales tax revenue, actual and forecasted

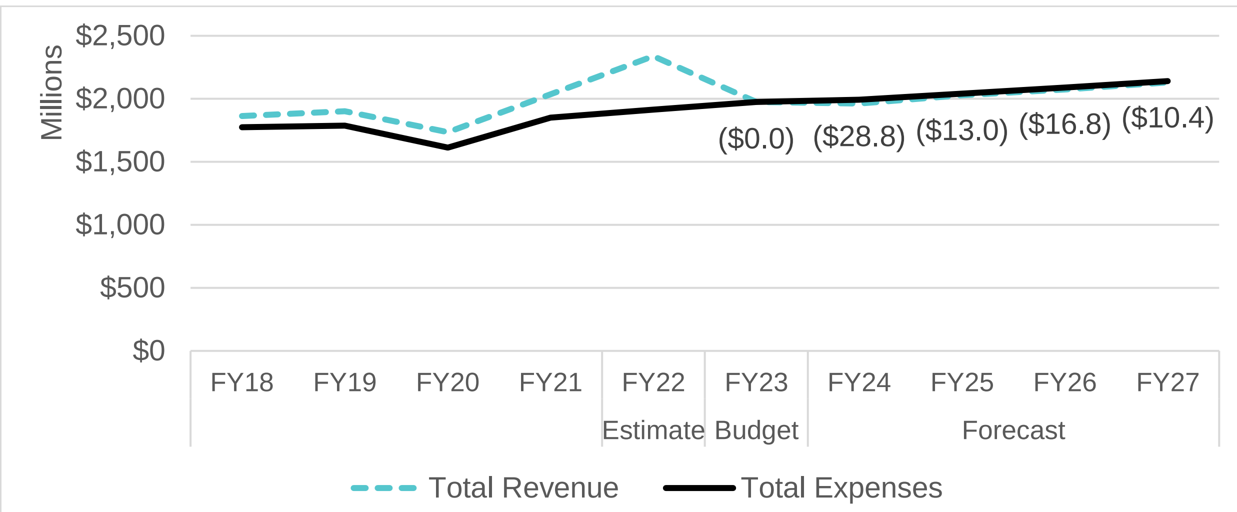


Long term fiscal plan

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 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 1.9 percent. This growth can be mostly attributed to sales tax, which is expected to grow at an average annual rate of 2.5 percent. Amusement tax is anticipated to increase as it continues 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

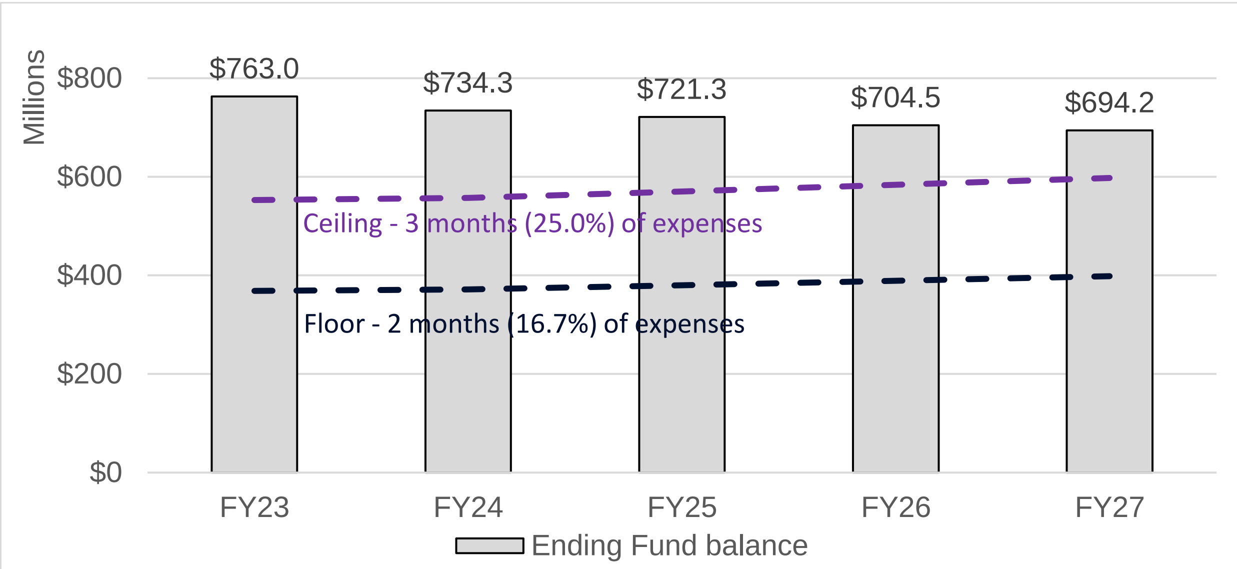


Fund balance projection

Current estimates indicate that the FY2022 unassigned end fund balance within the General Fund will be $866.6 million, reflecting assignments totaling $231.8 million at the end of the year. FY2023 is forecast to end with a balance of $763.0 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 34.5 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 decline based on the long-term revenue and expense forecasts for FY2022 to FY2027. The long-term projected ending fund balance is estimated to decrease, dropping to $694.2 million by FY2027, but 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]

Figure 3. 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 now 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.

Figure 4 compares forecasted revenues and expenses for the Health Fund through FY2027, along with projected surpluses and deficits for both the adopted FY2023 budget and an updated forecast that assumes the new redetermination process timeline. FY2023 is now anticipated to end with a surplus in the Health Fund. By FY2027, CCH revenues are expected to increase by $299.6 million over the updated higher FY2023 estimate, a CAGR of 1.7 percent. Expenditures within the Health Enterprise Fund are

[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

expected to increase by $329.1 million from FY2023 to FY2027, a CAGR of 1.9 percent. Overall, revenues are anticipated to keep up with projected expenses.

Figure 4. Health Fund net surplus/(deficit) projections

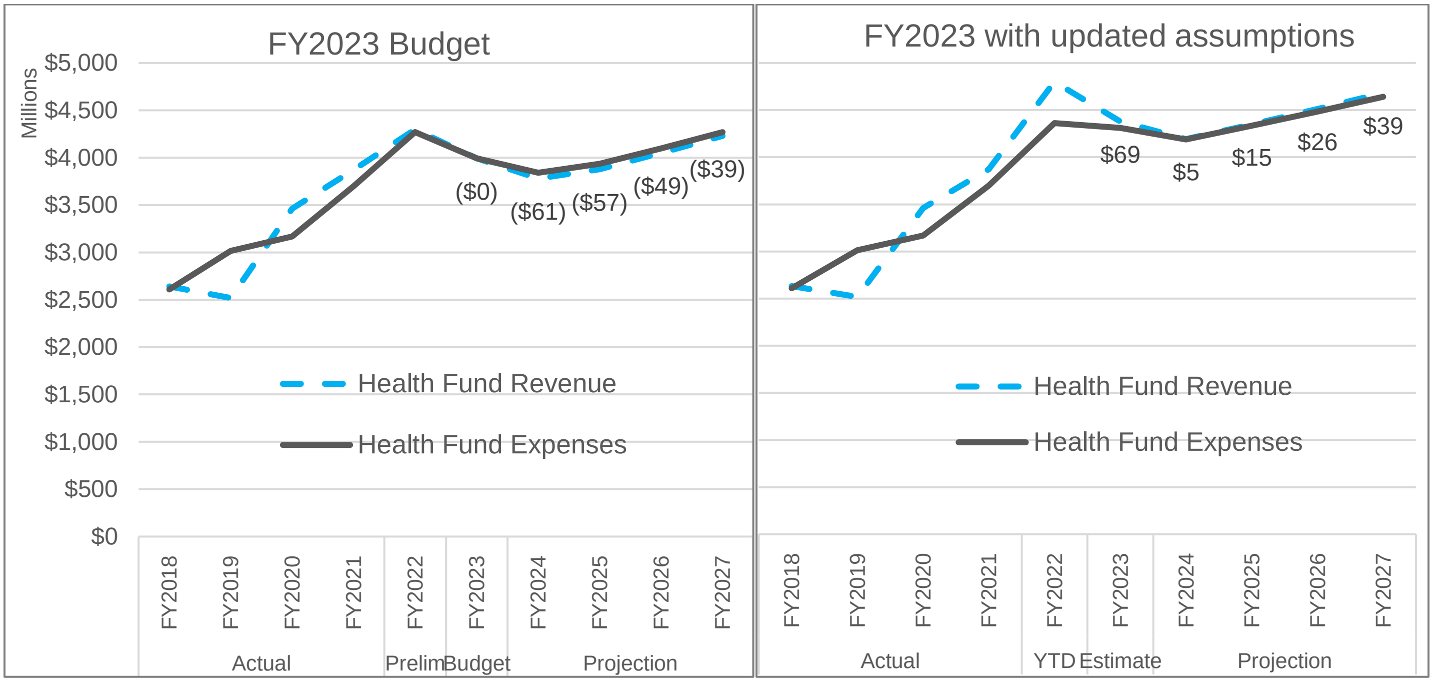
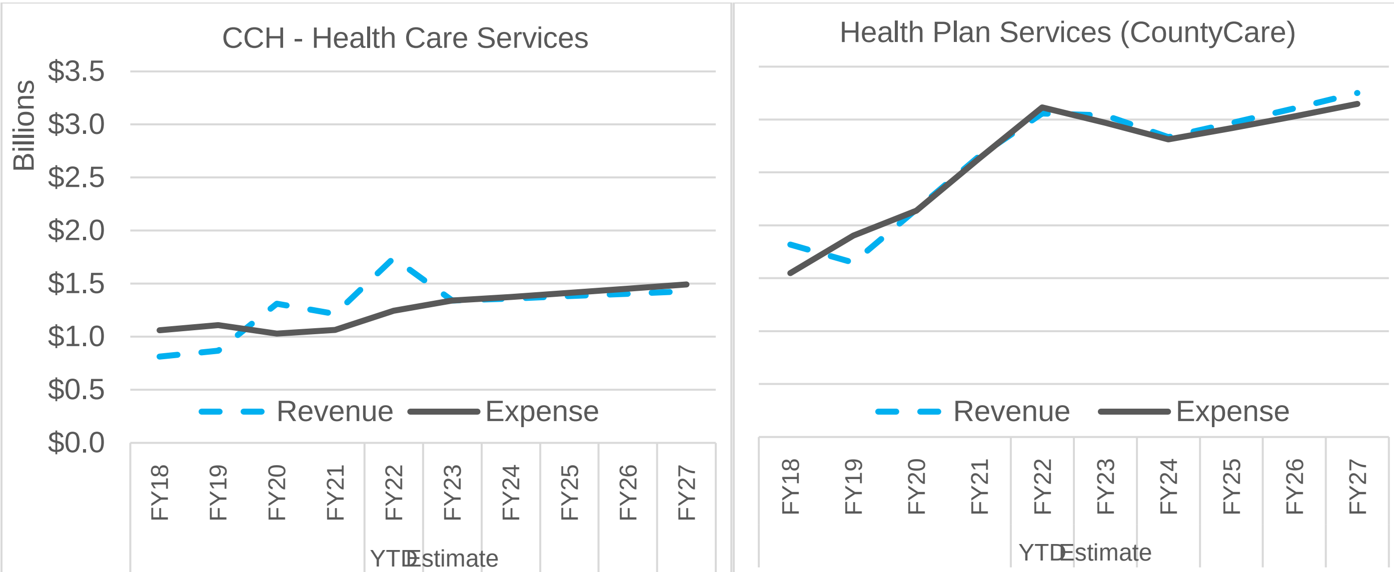


Figure 5 illustrates that after an initial decline in FY2023 and FY2024, long-term growth in the Health Fund is driven by Health Plan Services. Declines in revenues and expenses in FY2023 and FY2024 can be attributed to the reinstatement of redeterminations at Health Plan Services and return to lower 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 growth an average of 1.6 percent annually, slower than expenses, which are forecast to grow 2.7 percent on average.

Figure 5. Health Plan Services and Health Care Services net surplus/(deficit) projections



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 6 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 6. CountyCare projected revenues, FY2023 through FY2027

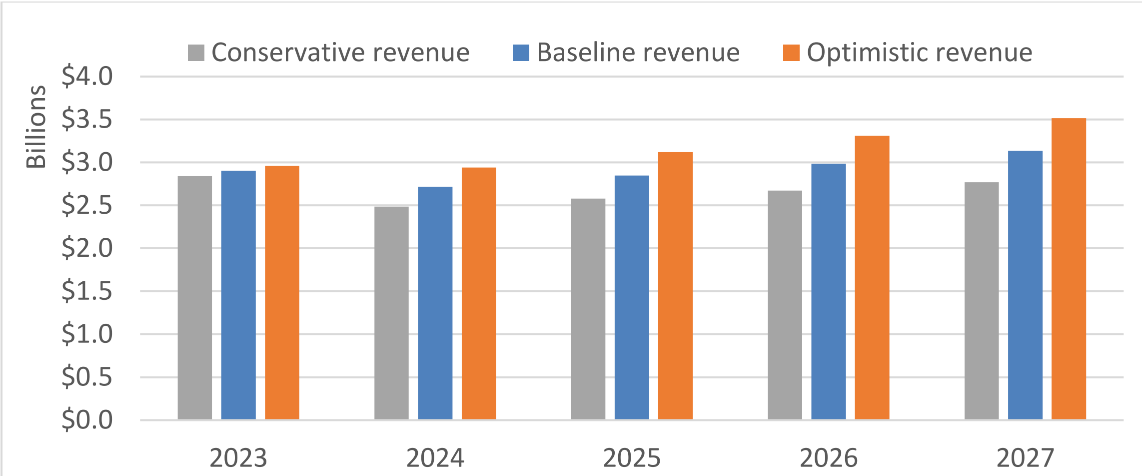
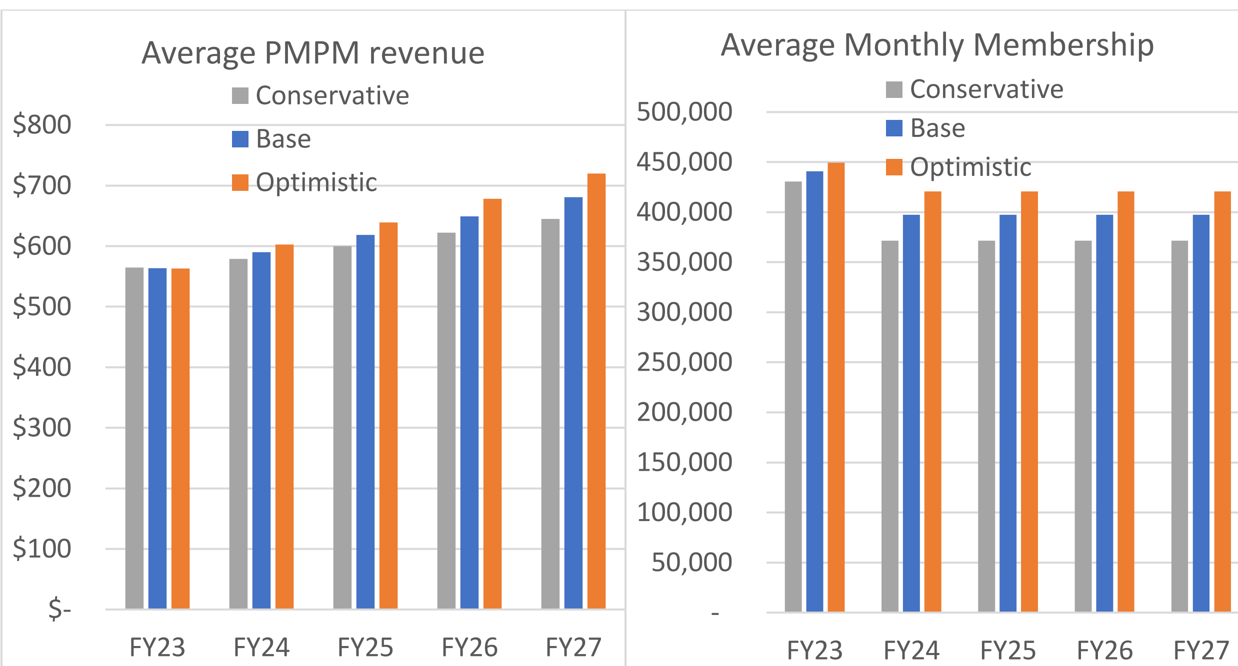


Figure 7 compares growth in monthly membership with growth in average PMPM revenue. The baseline scenario assumes an average annual growth of 4.8 percent in PMPM rates based on past trends, while the conservative and optimistic scenarios assume a 3.4 percent and 6.3 percent growth, respectively. FY2023 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 7. 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 remain unchanged from the forecast included in the FY2023 budget. 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**
Tracking to improve Health Fund revenue modeling	Reviewed December 2022 revenues in new accounts
Create a calendar of economic data releases	Calendar of economic data releases is being updated for 2023 as information becomes available
Methodological report	Drafted outline
Identify data and indicators that capture short- and long-term changes in work and spending patterns	Identified revenues that may be experiencing longer term changes

Economic data releases

The OCFO monitors economic indicators that inform the County's revenue and expense forecasting. Economically sensitive revenues account for 61.3 percent of the General Fund, 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, February through April 2023

Release Date	**Indicator**
February 2023	
February 1	Metropolitan Area Employment and Unemployment
February 3	Employment Situation
February 14	Consumer Price Index
February 23	Gross Domestic Product, 2022 Q4 – 2nd Estimate
March 2023	
March 10	Employment Situation
March 14	Consumer Price Index
March 17	Metropolitan Area Employment and Unemployment
March 21	Federal Reserve Economic Projections
March 30	Gross Domestic Product, 2022 Q4 – 3rd Estimate
April 2023	
April 5	Metropolitan Area Employment and Unemployment
April 7	Employment Situation
April 12	Consumer Price Index

Economic update

The U.S. Bureau of Economic Analysis has released estimates for national Gross Domestic Project (GDP) growth, which show that real GDP increased 2.1 percent in 2022. This growth was driven by gains made in the second half of the year, with GDP growth in the fourth quarter estimated at 2.9 percent, down from 3.2 percent in the third quarter.

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 0.5 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. 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)	6.2%	3.4%	0.5%	1.6%	2.3%	2.3%	2.0%
CPI, All Urban Consumers, (% change, SA)	4.3%	7.7%	3.4%	2.4%	2.1%	2.0%	2.0%
Resident Population: Total, (Ths. #)	9,372.6	9,324.1	9,309.0	9,288.4	9,260.0	9,235.8	9,210.5
Disposable Personal Income, (% change, SAAR)	5.4%	-0.5%	4.7%	4.7%	4.0%	4.0%	3.7%
Labor Force Participation, (%, SA)	63.9%	65.6%	65.8%	66.2%	66.4%	66.6%	66.8%
Labor: Unemployment Rate, (%, SA)	6.3%	4.5%	4.6%	4.4%	4.2%	4.5%	4.7%
Income: Median Household, (SAAR)	$78,166	$79,046	$81,806	$84,581	$87,432	$90,428	$93,399
Income: Per Capita, (SAAR)	$73,097	$74,798	$77,564	$80,976	$84,512	$88,175	$91,704
Labor: Number of Employed, (Ths. #, SA)	4,500.4	4,695.6	4,698.2	4,726.4	4,743.8	4,733.6	4,724.9
Retail Sales: Total, (% change, SAAR)	18.1%	9.9%	3.0%	2.3%	2.7%	2.2%	2.1%

Source: Moody's Analytics, January 2023 baseline scenario