



QUARTERLY UPDATE OF THE LONG-TERM REVENUE FORECAST

Statutory Report to the Cook County Board of Commissioners

7/29/2021



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 provides an update between the Long-term Financial plan provided to the IRFC and posted on the County’s Website on May 26th, 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. We conclude with an out-year forecast of the County’s Unassigned Ending Fund Balance and an update on recent regional and relevant economic activity.

Variance Analysis

The table below shows the nominal variance between the current forecast and what was presented at the last quarterly IRFC meeting on May 26, 2021. In total, the FY21 estimate was raised \$25.2 million and the FY22 estimate was reduced by \$25.1 million. Most methodologies were slightly adjusted as part of the budget cycle, so this chart only shows major variances. Full differences can be seen when comparing the forecast summaries posted on the IRFC website.

The variance in the Cook County property tax was led by the assumption that a greater share of property tax will be allocated to the Cook County Health System going forward. Additionally TIF surpluses were erroneously excluded from the prior version which has been corrected in the current version.

The online sales tax forecast presented at the May 26th meeting of the IRFC contained an error. The forecast of the online portion was erroneously included both as its own line item and as a part of the sales tax forecast. To correct this, we removed the \$74 million online estimate from its dedicated line, and left the aggregate sales tax forecast. This error was not included in the preliminary budget. Separately, the county sales tax estimate was raised by \$31.6 million in FY21 to account for stimulus and pent up demand, as detailed in the IRFC presentation.

County Recorder and Registrar will be merged with County Clerk. The variances in these two categories mostly relate to a recategorization of revenues accordingly Somewhat similarly, there are



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changes in what revenues fall under miscellaneous and other. The variances in these two categories mostly offset each other.

County Treasurer revenue mainly covers penalties and delinquents, which are now estimated to be lower, as County's initiatives to boost economic activity following COVID-19 take priority. Sheriff General Fees, which mainly includes vehicle code violation tickets, alarm permits and fees collected by the Sheriff's municipal division for summons, is also expected to be lower. This is supported by the most up-to-date data applied to the 3-year Compound Annual Growth Rate (CAGR) methodology. However, the will continue to monitor.

Cannabis tax forecasts were lowered due to new lower-than-expected data through May 2021. This is a new line item for the County and upcoming trends will be closely monitored. The Cannabis tax revenue reached just over \$1.0 million, for the first time in June 2021, directly impacted by additional licenses issued in February and March this year. Remaining non-property taxes were adjusted based on year-to-date results above or below budget.

	FY21	FY22	FY23	FY24	FY25	FY26
400010-Property Taxes	-	(43,889,020)	(10,133,937)	(20,792,598)	(8,741,123)	(9,395,691)
400040-Tax Increment Financing Taxes	23,525,945	23,525,945	23,525,945	23,525,945	23,525,945	23,525,945
Online County Sales Tax	(74,226,000)	(5,000)	-	-	-	-
401150-County Sales Tax	30,567,966	(16,198,581)	(13,490,000)	(14,040,000)	(17,993,000)	(22,812,000)
402200-County Recorder and Registrar	65,489,704	57,499,716	-	-	-	-
402150-County Clerk	(40,468,750)	(50,804,407)	-	-	-	-
402548-Clerk of the Circuit Court Fees	(462,707)	9,845,386	10,062,000	10,243,000	10,428,000	10,616,000
402100-County Treasurer	-	(7,017,884)	(7,189,000)	(7,348,000)	(7,502,000)	(7,660,000)
407080-Other	(5,718,838)	(1,035,667)	(6,037,000)	(6,146,000)	(6,256,000)	(6,370,000)
407010-Miscellaneous Revenue	5,524,575	123,392	5,833,000	5,937,000	6,045,000	6,153,000
401580-Cannabis Tax	(987,177)	(20,000)	(5,397,655)	(6,001,171)	(6,846,238)	(7,827,953)
401390-State Income Tax	3,596,400	4,149,175	4,223,860	4,299,890	4,377,288	4,456,079
401170-County Use Tax	10,545,613	400,000	413,000	427,000	441,000	455,000
402950-Sheriff General Fees	146,757	(5)	(2,188,000)	(2,467,000)	(2,744,000)	(3,023,000)
401370-Parking Lot and Garage Operation	(639,260)	-	1,687,000	1,837,000	1,987,000	2,139,000
401550-Hotel Accommodations Tax	3,004,765	-	-	-	-	-
401210-Alcoholic Beverage Tax	1,640,580	-	-	-	-	-
401430-Cigarette Tax	(1,168,667)	-	-	-	-	-
401590-Sports Wagering	1,085,000	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Major Variances Total	21,455,905	(23,476,949)	1,259,213	(10,574,935)	(3,328,128)	(9,793,619)



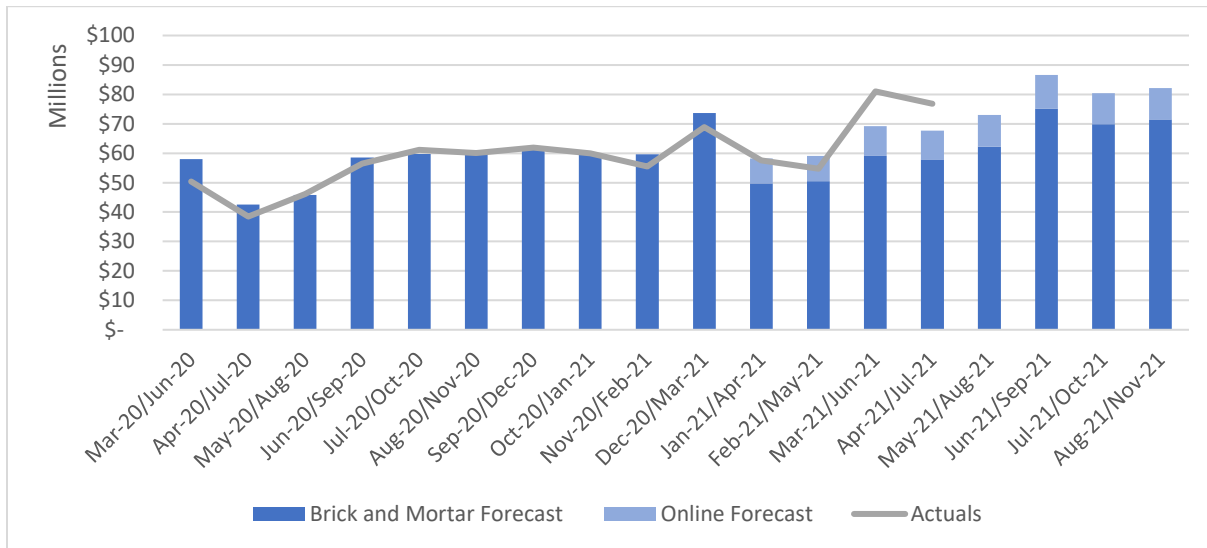
Total Variance	25,176,271	(25,097,675)	(174,424)	(12,000,405)	(4,758,062)	(11,239,758)
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Table 1: Significant Nominal Variances between 5/26/2021 and 7/29/2021 Forecast

Sales Tax Estimate

As previously discussed, retail sales have been heavily impacted by social distancing policies due to COVID-19 concerns. Forecasting this impact on Cook County’s sales tax revenue has been a major focus of the Independent Revenue Forecasting Commission since 2020. Sales tax includes both brick-and-mortar and online sales, which was only recently introduced as a revenue source. Due to the new-ness of online sales tax and the uncertainty with which the American Recovery Plan Act (ARPA) will impact spending, We currently expect that Sales tax will increase 16.4 percent in FY2022, or \$135.7 million, and increase 5.02% annually from FY2022 to FY2026 for a growth of \$208.7 million.

Chart 1: Sales Tax Actuals vs Forecasts



Revenues collected in November and December 2020 were lower than anticipated due to increased COVID-19 mitigation measures. These results are similar to what we expect to see if there is a surge of a COVID-19 variant. Revenues were only slightly below our forecast and were not nearly as impacted as they were at the beginning of the pandemic in March-May 2020. Businesses and consumers have adapted to function in a pandemic, so potential future social distancing efforts should only minimally impact sales tax, especially with the implementation of online sales tax.

Sales tax receipts in March and April 2021 (remitted in June and July 2021) were significantly higher than forecasted due to ARPA stimulus. These results led us to raise our 2021 sales tax estimates to account for the \$1,400 stimulus payments that began being distributed in March, some of which will be



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spent on taxable goods in Cook County. The forecasts in the above chart reflect the estimate before the addition of pent-up demand and stimulus.

Chart 2: Percent Change in Sales Tax by SIC Code from April 2019¹

	April 2020	April 2021
General Merchandise	-32.1%	4.7%
Food	-16.2%	0.3%
Drinking and Eating Places	-53.5%	-17.6%
Apparel	-91.9%	8.7%
Furniture & H.H. & Radio	-50.4%	20.5%
Lumber, Bldg, Hardware	-0.4%	23.6%
Automotive & Filling Stations	-46.2%	1.9%
Drugs & Misc. Retail	-36.4%	95.5%
Agriculture & All Others	-39.8%	25.1%
Manufacturers	-41.7%	4.1%
Total	-42.9%	14.1%

The most recent sales tax data remitted in July 2021 was collected in April 2021. Drinking and Eating Places is the only category are still below 2019 levels. This category is the largest contributor to total sales tax revenues (27.5% in FY19, pre pandemic), so these persisting declines are still noteworthy. Drugs & Misc. Retail is where we believe online sales tax is being recorded, which is why it shows such significant increases in 2021.

Long Term Fiscal Plan

Pursuant to Executive Order 2012-01, Cook County prepares a long-term financial forecast to support responsible long-term planning. Cook County's \$6.9 billion budget helps support vital public safety, public health and property tax related services for its residents. Although Cook County has a diverse revenue base, 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, meanwhile natural growth in revenues struggle to keep pace. Several critical revenue sources are declining over time or growing at rates below general inflation. This makes structurally balancing the budget challenging and necessitates difficult decisions. The addition of Cannabis Revenue, Online Sales Tax and Sport-wagering Tax in FY2021 has the potential to help offset these structural deficits in the out-years. However, these new revenues represent an additional source of uncertainty that will not be fully understood until the County has received payments from the State for a longer period of time.

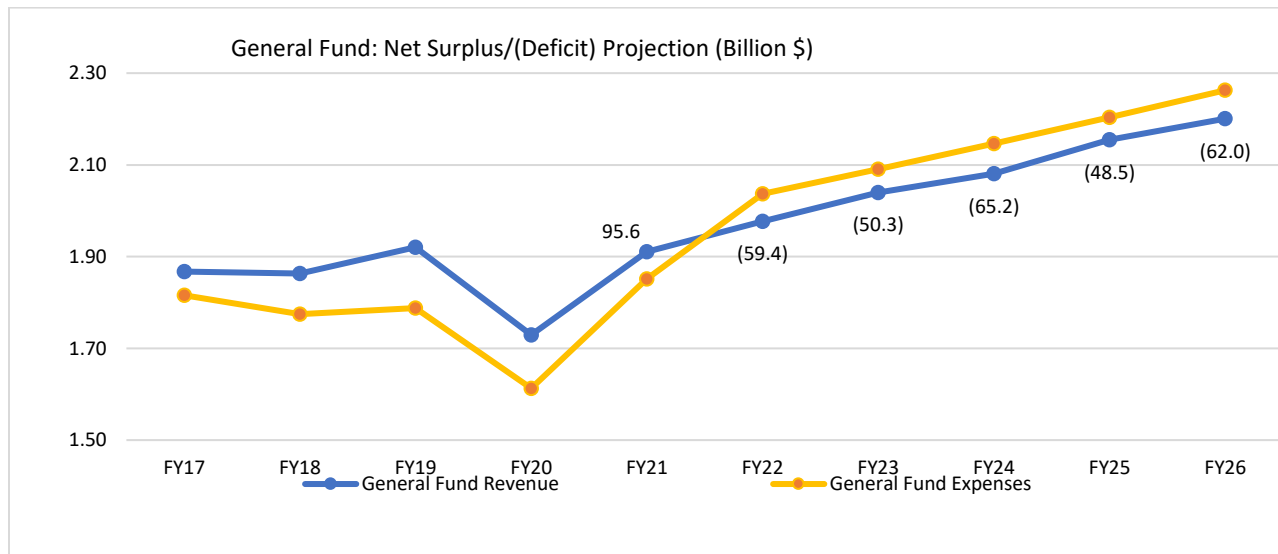
¹ [Sales Tax Statistics - Sales Tax Statistics \(illinois.gov\)](#)



General Fund

Between FY2021 and FY2026 total General Fund expenses are expected to increase by \$411.5 million, or about 2.7% annually. Further details about the Long-Term Expense forecast can be found in the executive summary of the FY 2021 Budget.² Total General Fund revenues are expected to increase at a rate of 2.7% annually and be \$349.5 million higher by FY2026. This growth can be almost entirely attributed to the new revenue streams of Online Sales, Cannabis and Sports Wagering which are estimated at a combined value of \$154.8 million in FY2022, with Online Sales Tax contributing around \$133 million alone. The combined trio is expected to reach \$321.7 million in FY2026. However, major revenue streams like Property Tax and Cigarette Tax are expected to decline net of inflation. The brick and mortar component of Sales Tax are projected to largely grow with the economy with an expected increase, but it is also subject to potential economic volatility and sensitive to social distancing policies. In the near future, Cook County will need to either reduce expenses, identify new revenues, or replace existing revenues with ones that grow at the rate of inflation to maintain a balanced budget, particularly if new revenue sources do not meet expectations.

Chart 2: General Fund Net Surplus/(Deficit) Projections



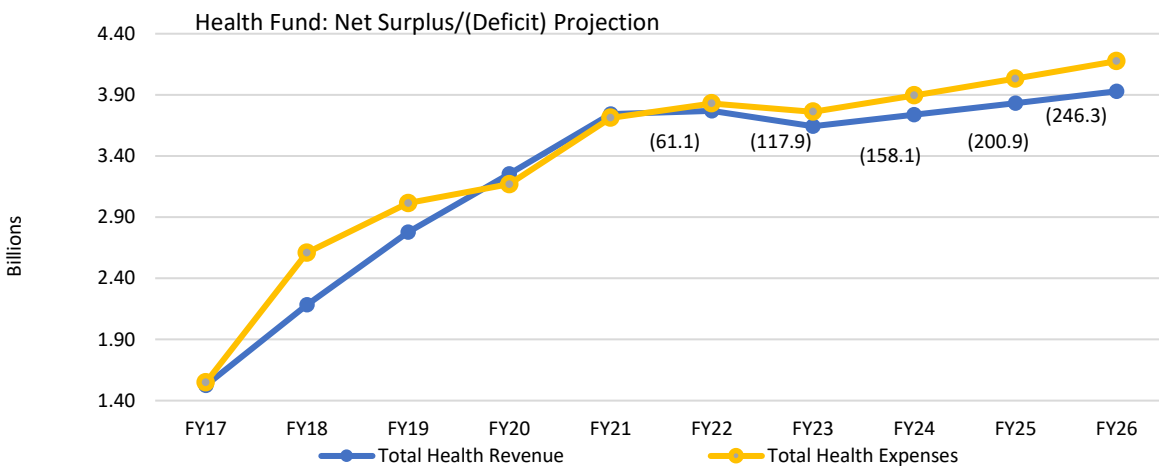
²<https://www.cookcountyil.gov/sites/default/files/service/volume-i-budget-overview-fy21-annual-appropriation.pdf>



Health Funds

In FY2021, the Health Enterprise Fund's portion of the property tax levy is increased by \$50 million and will increase by another \$10 million each year thereafter. Net Patient Service Revenues, composed of Medicaid, Medicare, and Private Payors, are expected to increase by 1.9% from the FY2021 estimate to FY22. In the succeeding years, from FY2022 to FY2026, these revenues are expected to increase at a CAGR rate of 1.9% as management initiatives, such as improving the internal capture rate for CountyCare, reducing CCH's proportion of Countywide uncompensated care and expediting application processing, are assumed within the model.

Chart 3: Health Fund Net Surplus/(Deficit) Projections



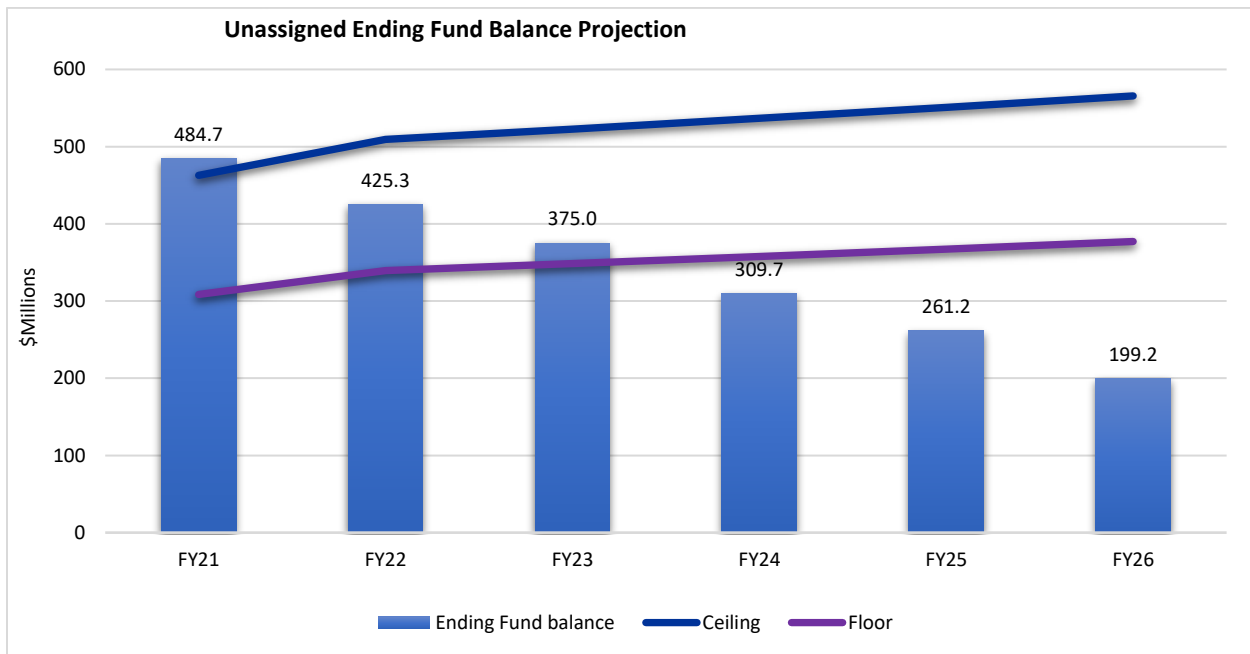
Fund Balance Projection

In FY2021, the County's beginning fund balance within the General Fund was \$593.1 million. In April of FY2020 this year, the County received approximately \$428.6 million in Coronavirus Relief (CRF). Approximately, \$132.9 million was made available for economic development activities and as reimbursement to local governments in Suburban Cook County, \$49.9 million was reserved for use in FY2021, leaving approximately \$245.8 million to help offset expenses related to the County's efforts to contain the coronavirus at the Cook County Jail, hospital and across the County's Departments. As part of the FY2020 adopted budget, \$10 million in fund reserves was allocated to the General Fund and \$20 million was reclassified from unassigned to assigned as part of the County's efforts to establish a Pension Stabilization reserve.



By the end of FY2021, the anticipated end of year general fund balance will be approximately \$484.7 million. For FY21, the Appropriation Bill allocates \$76.8 million of the County's unassigned fund balance for General Fund operating purposes resulting in an estimated end of year fund balance of \$436.6 million, which is just over 22% of the County's annual budgeted expenditures. According to the long-term revenue and expense forecasts for FY2022 to FY2026, the long term projected unassigned Fund balance is estimated to be \$425.3 million, \$357.0 million, \$309.7 million, \$261.2 million and \$199.2 million in FY2022, 2023, 2024, 2025 and 2026 respectively.

Chart 4: Ending Fund Balance Projection



FY 2021 CCH Project Plan

Long term revenue forecasting at Cook County continues to be a work in progress around multiple recurring revenue sources. However, sources at CCH have been identified by the Independent Revenue Forecasting Commission as requiring additional research and formality around forecasting methodologies and practices. Further, in doing so, additional understanding around current practices regarding net patient services and health plan services revenue collection is critical to reducing variation while increasing accuracy in forecasts.

A major goal for FY2021 will be to strive for greater collaboration with CCH, with an end goal of producing forecasts that are reasonable, conservative, and explainable within acceptable tolerance levels and deemed satisfactory by the Independent Revenue Forecast Commission.



Economic Update

The favorable projections of the County’s revenues are in line with the upward growth projections in the US economy. In its April 2021 World Economic Outlook (WEO), the International Monetary Fund has projected the US growth for 2021 at 6.4 percent, higher than the 5.1 percent and 3.1 percent forecasts in January 2021 and October 2020 WEO updates.³ This outturn is sustained by supportive fiscal policies legislated, including the much anticipated \$1.9 trillion American Rescue Plan package.

In 2021, the Gross Metropolitan Product (GMP) for the Chicago-Naperville-Elgin metropolitan is expected to rise by 5.9 percent. The labor force saw a 2.5 percent decline, which is reflective of the decrease in the total number employed. Conversely, consumption activity remained upbeat as annual retail sales registered around 17 percent growth in June from July last year. Both total and median household income have risen in the Chicago metropolitan area in 2020 and 2021, with total income showing greater growth over the year than the median. This suggests a K shaped recovery, in which the high-income population see income growth that the middle and lower class does not experience. Additionally, industrial production index has averaged over 100, which confirms an expansion in the manufacturing sector.

However, Consumer Price Index (CPI), gathered from the Bureau of Labor Statistics showed that price pressures remained high on a national level. Annual inflation rose to 5.4 percent in June from 5.0 percent in May, driven mainly by increased indices of cars and trucks, new vehicles, airline fares, and apparel. Excluding food & energy prices, the prices rose 4.5 percent in the same period.⁴ The uptick could be underpinned by relaxation in COVID-19 mitigation efforts in June, boosting demand, as well as the massive amounts of federal stimulus funds flooding the economy. Seasonally unadjusted data for Chicago-Naperville-Elgin, IL-IN-WI region (Table 5) concurred with the national trend. Annual CPI in the region remained at 4.7 percent in June from May, but has rose significantly since January this year (0.7%). However, the Federal Reserve has commented high inflation to be transitory, with their forecasts for prices to subside in 2022 and 2023.⁵

Table 3: Actuals and Forecasts of Economic Indicators, Chicago-Naperville-Elgin Metropolitan Area, from July 2020 to June 2021⁶

Gross Metro Product in Billions	Consumer Price Index	Labor: Number of Employed in Thousands	Income: Median Household	Real Income: Total Personal per Capita	Real Disposable Personal	Retail Sales in Billions	Industrial Sector: Industrial
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³ <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>

⁴ <https://www.bls.gov/news.release/cpi.nr0.htm>

⁵ <https://www.federalreserve.gov/monetarypolicy/fomcminutes20210616.htm>

⁶ Moody’s Analytics



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						Income per Capita		Production Index
Jul-20	562.32	241.84	4,694.30	78,598.44	62,772.37	56,767.94	202.83	94.18
Aug-20	585.26	243.06	4,713.54	76,627.40	61,228.70	54,814.67	206.70	98.59
Sep-20	592.56	243.54	4,709.87	74,804.36	59,345.30	52,767.97	206.56	100.78
Oct-20	588.55	243.48	4,689.83	73,870.31	58,049.97	51,481.59	204.52	101.12
Nov-20	582.54	243.30	4,667.67	74,588.42	58,423.16	51,874.17	203.69	100.69
Dec-20	581.43	243.41	4,654.27	77,206.56	60,932.24	54,310.34	206.29	100.35
Jan-21	585.00	244.02	4,650.11	80,328.00	64,098.81	57,389.07	211.79	100.33
Feb-21	590.30	245.26	4,652.31	81,889.61	65,680.83	59,002.19	218.27	100.62
Mar-21	595.48	247.17	4,658.15	80,901.69	64,568.35	58,101.76	224.67	101.19
Apr-21	600.21	249.35	4,666.01	78,366.40	61,781.61	55,589.47	230.21	101.93
May-21	604.33	251.10	4,673.97	76,146.88	59,260.64	53,200.35	233.73	102.61
Jun-21	607.88	252.01	4,680.61	75,554.52	58,380.37	52,181.34	234.82	103.10
12-month average	589.65	245.63	4,675.89	77,406.88	61,210.20	54,790.07	215.34	100.46
Average for 2021	597.20	248.15	4,663.53	78,864.52	62,295.10	55,910.70	225.58	101.63



Table 4: Annualized Percentage Change of Economic Indicators from July 2020 to June 2021

	Gross Metro Product in Billions (%)	Consumer Price Index (%)	Labor: Number of Employed in Thousands (%)	Income: Median Household (%)	Real Income: Total Personal per Capita (%)	Real Disposable Personal Income per Capita (%)	Retail Sales in Billions (%)	Industrial Sector: Industrial Production Index (%)
Jul-20	-10.4	0.3	-4.0	6.0	9.9	14.1	7.6	-13.0
Aug-20	-6.5	0.7	-3.4	4.0	8.5	11.6	10.8	-9.1
Sep-20	-2.7	1.1	-2.9	1.1	5.6	7.2	12.7	-4.9
Oct-20	-1.4	1.2	-2.7	-1.9	2.0	2.6	12.5	-2.3
Nov-20	-2.0	1.1	-2.9	-3.5	-0.5	-0.2	11.5	-1.6
Dec-20	-3.5	0.8	-3.3	-2.3	0.4	0.9	11.5	-2.3
Jan-21	-4.7	0.6	-3.7	2.2	5.4	6.9	13.5	-3.8
Feb-21	-4.4	0.6	-3.9	7.4	11.2	13.7	17.2	-4.6
Mar-21	-1.9	1.2	-3.5	9.2	13.0	15.5	20.8	-2.8
Apr-21	3.6	2.4	-2.4	5.7	8.2	9.4	23.5	2.8
May-21	10.4	3.8	-1.0	-0.3	0.3	-0.2	24.6	10.4
Jun-21	14.6	4.7	0.0	-4.9	-6.1	-7.7	23.2	15.6
12-month average	1.2	1.9	-2.5	0.9	3.3	4.1	16.8	1.0
Average for 2021	5.9	2.9	-1.7	1.9	3.1	3.5	21.5	6.0



Table 5: Chicago-Naperville-Elgin, IL-IN-WI, CPI-U 1-month and 12-month percent changes, all items index, not seasonally adjusted⁷

Month	2017		2018		2019		2020		2021	
	1-month	12-month	1-month	12-month	1-month	12-month	1-month	12-month	1-month	12-month
January	0.7	1.8	0.8	1.8	0.6	0.8	0.9	2.6	0.7	0.7
February	0.1	2.2	0	1.6	0.6	1.4	0	2	0.6	1.2
March	-0.1	2	0	1.8	0.1	1.5	-0.7	1.1	0.6	2.6
April	0.4	1.7	0.7	2.1	-0.1	0.8	-0.9	0.3	1	4.6
May	0.2	1.8	0.4	2.3	0.8	1.2	1	0.4	1	4.7
June	0	1.3	-0.2	2.2	-0.4	1	0.3	1.1	0.4	4.7
July	0	2.2	-0.3	1.9	0.3	1.6	0.2	1		
August	0.3	2.3	0.1	1.7	0.2	1.6	0.1	1		
September	0.4	2.1	0.4	1.6	0.2	1.4	0.6	1.4		
October	-0.4	1.6	0	2	0.3	1.8	-0.1	1		
November	0.4	1.8	-0.6	1	-0.2	2.2	-0.4	0.8		
December	-0.4	1.7	-0.3	1.1	-0.2	2.2	-0.2	0.9		

Source: https://www.bls.gov/regions/midwest/news-release/ConsumerPriceIndex_Chicago.htm

National retail sales have shown interesting trends through 2020. With social distancing mandates, e-commerce sales have grown massively in 2020. Based on quarterly data, US e-commerce sales grew from 14.0 percent in Q1 2020 to 32.0 percent in Q4 2020. The momentum continued in Q1 2021 with an annualized growth of 39.1 percent from 2020. With the inception of the online sales tax collection for Cook County beginning January 1, 2021, a similar shift is plausible. The county expects some level of permanent shift from brick and mortar to online even after full lifting of social distancing mandates preventing in-person shopping.

⁷ https://www.bls.gov/regions/midwest/news-release/ConsumerPriceIndex_Chicago.htm



Table 6: US Census Bureau Quarterly E-Commerce 1Q 2021⁸

Quarter (Seasonally Adjusted)	E-commerce as a Percent of Total	Percent Change From Prior Quarter		Percent Change From Same Quarter A Year Ago	
		Total	E-commerce	Total	E-commerce
1st quarter 2021(p)	13.6	7.8	7.7	16.8	39.1
4th quarter 2020	13.6	0.6	-0.9	7.0	32.0
3rd quarter 2020	13.8	12.1	-1.2	7.0	36.1
2nd quarter 2020	15.7	-3.9	31.8	-3.6	43.8
1st quarter 2020	11.4	-1.2	2.2	2.0	14.0

⁸ https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf