RECOMMENDATIONS OF THE IRFC

Statutory Report to the Cook County Board of Commissioners

August 24, 2023

Introduction

The Office of the Chief Financial Officer (OCFO) presented the FY2024 Preliminary Forecast[1] and long-term revenue forecast to the Independent Revenue Forecasting Commission (IRFC) at their June 27, 2023 meeting. The IRFC analyzed the forecast and met on July 26, 2023 to discuss its recommendations for improvements to the forecast. The OCFO provides the following report on the IRFC's final recommendations in accordance with Section Sec. 2-78 of the Cook County Code, which states:

> d) The CFO shall provide the President and the Board with copies of the forecast and the IRFC's final recommendations along with a written report as to whether or not the CFO advises adopting the IRFC's final recommendations. The CFO's report will identify the reasons in support of such decision. The forecast, IRFC's recommendations and CFO's report on the IRFC's recommendations shall be tendered to the Cook County Board of Commissioners at its September Board meeting for receipt and file.

Recommendations

The IRFC's recommendations build on those approved in FY2022,[2] reflecting the need to document and monitor the implementation of previous recommendations. The recommendations are described below:

1. Assess the role of economic and policy factors in the CCH revenue forecast
2. Engage with Illinois Department of Revenue (IDOR) to access detailed sales tax data
3. Continue to consider options to sustain ARPA programs in the long term
4. Update and enhance tax history and methodological reports

Assess the role of economic and policy factors in the CCH revenue forecast and revise techniques accordingly

The County should continue its efforts to refine the CCH revenue forecast and examine the inputs and factors that are used in forecasting. This effort should be built on analysis completed during FY2023 associated with monitoring the new accounts for CCH revenue in their initial year. For FY2023, the County implemented separate object accounts within the Chart of Accounts to break out CountyCare revenues and net patient service revenue (NPSR) associated with Medicaid, Medicare, and private payors. The County has worked with CCH to resolve issues relating to the use of the new accounts, including creating new accounts for FY2024 that will eliminate duplications of revenues and expenses associated with domestic claims CountyCare pays to CCH. The County has also compared the monthly revenue data posted to EBS to its long-term forecasting assumptions. Following the first full year of implementation, the County should reassess these assumptions for both CountyCare revenue and NPSR.

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[1] Cook County, FY2024 Preliminary Forecast Report, https://www.cookcountyil.gov/sites/g/files/ywwepo161/files/documents/2023-06/FY2024%20Preliminary%20Forecast.pdf

[2] Recommendations of the IRFC, Statutory Report to the Cook County Board of Commissioners, August 29, 2022, https://cook-county.legistar.com/View.ashx?M=F&ID=11243736&GUID=85A747C1-DBEA-4426-B688-678162961C8C

CountyCare 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 federal and state policy changes that impact membership levels and PMPM rates. For example, policy decisions such as the resumption of the redetermination process for Medicaid eligibility, which had been paused during the pandemic, is expected to reduce CountyCare membership levels. However, economic factors, such as unemployment, also have been shown to have a relationship with overall Medicaid enrollment.[3] The County should assess the sensitivity of CountyCare enrollment forecasts to alternative economic scenarios as measured by the unemployment rate and other economic indicators; PMPM forecasts to alternative assumptions about member types and growth rates in state reimbursement rates; and CountyCare revenues to alternative forecasts for enrollment and PMPM rates.

Forecasts for NPSR focus on the proportion of gross revenues charged to each payor type (Medicaid, private, Medicare) and the percentage of gross charges reimbursed as NPSR. The revenue forecast centers around making assumptions about future service volumes, payor mix, the level and rates of contractual payments from various insurers, and inability of self-pay patients to pay the full gross charges. These assumptions are driven by several factors, including policy decisions. For example, the resumption of the redetermination process is anticipated to result in lower Medicaid revenue due to fewer enrolled patients, while increasing uncompensated care because fewer patients are expected to have insurance. The County should leverage its comparisons of actual revenues generated to the new accounts as well as best practices research to work with CCH to reassess the impacts of historical trends, expected policy changes, and other conditions that may affect service volumes, payor mix, or reimbursements rates.

The new revenue accounts, as well as recent efforts to ensure consistency in the actual revenues posted to these accounts, provide opportunities to improve CCH revenue forecasting. Next steps include:

- During the 1st quarter of FY2024, OCFO should work with CCH staff to review literature, scope potential data needs, and perform analysis to determine what economic metrics should be analyzed as potential drivers of overall Medicaid membership
- During 2nd quarter of FY2024, OCFO and CCH should collaborate to perform sensitivity tests to determine whether economic factors have a material impact on the CountyCare forecast relative to factors used in the current forecast
- During 1st quarter FY2024, OCFO and CCH should collaborate to reexamine the inputs and assumptions used for the NPSR forecast, by comparing against actual revenues to see whether there are any gaps within the factors used to develop the forecast or its assumptions
- During 2nd quarter FY2024, if there is a need to integrate new factors or inputs into the forecast, the OCFO should work with CCH to integrate these into the forecast

[3] For example, see: KFF, Rising Unemployment, Medicaid and the Uninsured, 2009, https://www.kff.org/wp-content/uploads/2013/03/7850.pdf#:~:text=Growth%20in%20the%20unemployment%20rate%20drives%20up%20the,costs%20associated%20with%20greater%20need%20for%20health%20coverage; KFF, Medicaid and State Financing: Key Indicators to Watch Through Pandemic and Recovery, 2021, https://www.kff.org/medicaid/issue-brief/medicaid-and-state-financing-key-indicators-to-watch-through-pandemic-and-recovery.

Engage with Illinois Department of Revenue (IDOR) to access detailed sales tax data

The County should pursue access to countywide, taxpayer level sales tax data from IDOR. Currently, the County has access to MyLocalTax via reciprocal agreement, which is an online portal that provides tax data to local governments.[4] However, the dataset only provides information on businesses within unincorporated Cook County, an exceptionally small portion of the County's total tax base. During FY2022, Cook County generated $1.1 billion through its home rule sales tax. Cook County relies on its sales tax for more than half of its General Fund and, accordingly, puts significant resources into analyzing and forecasting this revenue source.

The County needs access to the same data that other local governments with sales taxes receive to improve its forecasting and ensure compliance. Examples of potential improvements include:

Reflect remote sales in its home rule sales tax forecast more accurately. According to Illinois Department of Revenue data, revenues from the County's home rule sales tax represented 369,480 taxpayers in 2022, which has nearly quadrupled since 2019. In the same timeframe, revenue has increased by $250 million. According to IDOR data, about $100 million of the increase is attributable to SIC 5999 - Miscellaneous Retail Stores, NEC. Several other SIC categories have increased significantly as well. The County needs access to detailed data by taxpayer to perform the variance analysis necessary to unpack these trends and incorporate the impact of remote sales into revenue forecasting.

Use trends in the geographic distribution of sales tax revenues by specific industries in revenue forecasting. Cook County has a diverse economic base, which varies significantly across its jurisdiction, including within the City of Chicago. Countywide data by SIC code available on the IDOR website indicates that revenues in many industries have not increased significantly over the past three years, despite record inflation growth. With detailed data by taxpayer, the County could use geospatial analysis to better understand subregional trends in sales tax revenues across industries.

Avoid future liability and flawed forecasts associated with sales tax collections outside Cook County borders. The County needs to analyze sales taxpayer data to confirm that its sales tax is not being applied to taxpayers outside of its jurisdiction. Beyond the future liability of having to return revenues, building erroneously collected revenues into the forecast presents a material risk to the County's long-term financial planning.

Accessing this taxpayer data will allow County finance staff to better monitor this vital revenue source, reducing risk to the County's long-term financial stability. The County needs the details provided within the MyLocalTax portal to be expanded to include all taxpayers within its borders. Next steps include:

- Engage with IDOR to request access to countywide sales tax data
- Work with IDOR to pursue the steps necessary to gain access

[4] Illinois Department of Revenue, Reciprocal Agreement on Exchange of Information, https://tax.illinois.gov/localgovernments/reciprocalagreementoninformationexchange.html

Continue to consider options to sustain ARPA programs in the long term

The County should explicitly prepare for the FY2027 “fiscal cliff” generated by the American Rescue Plan Act (ARPA), under which the County will receive and expend about $1 billion to support its policy priorities through 2026.[5] As discussed at its July 26, 2023 meeting, the IRFC understands the County is undertaking an extensive process to assess the overall program sustainability of these ARPA-funded initiatives, and the IRFC recommends that process continue. Many of these programs have only just been initiated, and approximately $157 million has been expended on community programs through July 2023. Therefore, the program sustainability process is inherently iterative, and will require that the County update the analysis on a regular basis. The initial assessment will be complete during the 2nd quarter of FY2024.

To the extent that initiatives identified as priorities lack a source of funding, alternative options would have to be identified to fund the program. The IRFC recommends that the OCFO develop and engage in a process to consider revenue options for programs that will remain after 2026. Such revenue options could involve grants, existing revenues forecast to grow faster than the cost of current public services, or other revenues that could be implemented or enhanced to provide ongoing support. Next steps include:

- During 1st quarter FY2024, OCFO should develop a process for evaluating revenue options for funding these programs after 2026 based on expected fiscal, economic, equity, and other impacts.
- In 2nd quarter FY2024, OCFO should provide an updated analysis of the potential impact on the fund balance of providing funding support to initial list of programs initiatives determined via the program sustainability process to continue after 2026
- During 3rd quarter FY2024, OCFO should identify revenue options for funding these programs

Update and enhance tax history and methodological reports

The IRFC recommends that the OCFO build on its previous work and continue updates and enhancements to its documentation of forecasting methodologies, as well as its tax history.[6] The County intends to publish methodologies for several revenue sources during the 4th quarter of FY2023. Including additional General Fund tax and fee revenue as well as incorporating existing alternative scenario methodology is important for financial transparency. In addition, the tax history document requires updating for changes in the County’s financial structure, and currently lacks sections on fee revenue. Next steps include:

- During the 4th quarter of FY2024, OCFO should continue to enhance and expand its forecasting methodology document and publish an updated version
- During the 2nd quarter of FY2024, OCFO should update its tax history and incorporate selected sources of fee revenue and publish an updated version

[5] Cook County of Illinois, State and Local Fiscal Recovery Funds, 2023 Recovery Plan Report, https://www.cookcountyil.gov/sites/g/files/ywwepo161/files/documents/2023-07/2023%20Cook%20County%20American%20Rescue%20Plan%20Performance%20Report.pdf.

[6] See documentation at https://www.cookcountyil.gov/service/independent-revenue-forecasting-commission.