# FINANCIAL POLICIES

## INTRODUCTION

Cook County's financial policies provide the framework for the fiscal management of County affairs. Included in this section are policies for budgeting, revenues, capital and debt management, investment management, financial reporting and performance management. These policies are developed based on the Cook County code, Illinois statute and Government Finance Officers Association best practices to assist various county entities in evaluating current/future activities and proposals.

These policies express the County's commitment to maintaining internal controls, safeguarding assets and meeting fiduciary responsibilities while maintaining sufficient financial flexibility to address future economic conditions.

## ADOPTION OF A TIMELY BALANCED BUDGET

Cook County is committed to producing a balanced budget in a timely fashion. The County is required by statute to produce a budget by the end of the first quarter of each fiscal year. The County shall publish a budget forecast no later than June 30th in any given year, in order to identify both the expected year-end status of the current fiscal year, and provide an initial estimate for the ensuing fiscal year. An Executive Budget proposal shall be presented no later than October 31st, and be designed with the County's long-term financial outlook in mind, minimizing the use of non-recurring measures in favor of a structurally balanced budget. The final budget and appropriations are approved and adopted by the Cook County Board of Commissioners, with a target of adopting a balanced budget prior to the start of the ensuing fiscal year, thereby creating greater accountability and capacity to make mid-year adjustments.

## BALANCED BUDGET

The Cook County Board of Commissioners will adopt a resolution to be termed the Annual Appropriation. This resolution will appropriate sums of money to defray all necessary expenses and liabilities of Cook County as well as provide the following:

- An understanding of available funding
- Assess the level at which capital investment can be made
- Identify future commitments and resource demands
- Identify the key variables that cause change in the level of revenue

## REVENUE POLICIES

### TAX REVENUES

Prudent planning requires understanding the revenue stream that finances County operations. County revenue policies should stabilize service disruptions caused by revenue shortfalls through limiting the exposure to one-time revenues and conservatively estimating unpredictable revenues to fund ongoing expenditures.

The County requires a diversity of revenue sources in order to improve the ability to handle fluctuations in individual sources associated with economic conditions. The County will review its projected revenue stream annually in conjunction with the Executive Budget Proposal in order to (i) improve its revenue diversity to the extent feasible, and

(ii) ensure that taxes imposed do not pose an undue burden on County residents, businesses, and taxpayers or pose the risk of decreasing revenues in the long run by placing the County in an uncompetitive tax structure versus peers and neighboring jurisdictions.

**ONE-TIME REVENUES/UNPREDICTABLE REVENUES**

The County defines one-time revenues as revenues that cannot be relied on in future budget periods. In order to decrease the County's dependence on these types of revenues, as well as mitigate the risk of not having these revenues in the future, the County shall use one-time revenues sparingly. Prior to using one-time revenue, the County must ensure that the source is structurally sound and that other revenue sources have been identified and exhausted. The source of one-time revenues must be thoroughly vetted and a determination must be made whether it will be used for either general fund or capital expenditures. The County will identify the one-time non-recurring revenues and aggregate them within the Executive Budget Recommendation.

In the case of dealing with unpredictable revenues, revenue estimates must be made in a conservative manner, thoroughly vetted, and accompanied by a commitment to reduce expenditures at mid-year if the updated revenue estimates within the mid-year budget forecast show revenues not meeting projections.

**FEES**

Cook County imposes certain user fees to fund the provision of goods and services. A fee is imposed as a result of a public need to regulate activities, typically related to health, safety, or other protective purposes. Fees result in the purchase of a privilege or authorization and are applied to such activities as zoning and building permits and certain property tax related services.

The fee setting process will include: a formal policy regarding the adoption of fees; the full cost of providing a service should be calculated to provide the basis for setting the fee; a periodic review of the fees to ensure they are current, competitive rates.

**GRANTS**

Establishing administrative requirements for processing grants will ensure the uniform implementation and management of all grants and ensure that the County meets its responsibilities as the grant recipient. The County will only seek out grants that are consistent with the County's public mission and stated priorities, and when the cost of administering the grant is more than offset by the funds received.

## CAPITAL AND DEBT MANAGEMENT

The appropriation of the capital budget is part of the annual budget process. The capital budget will be directly linked to, and flow from, the multi-year capital improvement plan, however modifications may be necessary based on changes in the project scope, funding requirements, or other issues.

Any capital project or equipment funded through the issuance of bonds is financed for a weighted average period not to exceed the life of the project or equipment. In addition, the following criteria must be followed:

- Maintain communication with bond and credit rating institutions, as well as capital market participants and financial advisors, regarding current and future financial conditions.
- Timely and comprehensive disclosures to include third-party credit agreements, budgets and Comprehensive Annual Financial Reports (CAFR).

    - Post filings promptly within 15 days of execution.
    - In accordance with changes made in 2009 to Rule 15c2-12, those filings must be made electronically at the Electronic Municipal Market Access (EMMA) portal (www.emma.msrb.org).
    - Maintain an up to date Investor Relations Page.
    - Provide full and comprehensive disclosure of annual financial, operating and other significant information in a timely manner.
- Variable rate debt will not exceed 20% of the total debt portfolio without a commitment to an analysis of variable rate assets and liabilities reflected on the County's balance sheet. Variable rate debt will not exceed 25% of total debt at any time.
- The County will prudently manage the issuance of debt to ensure that debt does not unduly burden County taxpayers, nor pose a risk to the County's credit ratings and overall credit worthiness, accordingly the following self-imposed limitations will be observed:
    - Direct debt will not exceed 1.25% of the estimated market value of County property nor 4% of Equalized Assessed Valuation.
    - Direct debt measured per capita will not exceed $1,000.
    - Annual debt service costs associated with long-term debt obligations, as measured by the Bond and Interest Fund, should not exceed 15% of the all funds operating expenditures of the County in any given year.
- Use of Swaps/interest rate derivatives may only be used to achieve a specific objective consistent with the County's overall Debt Policy and as a measure to reduce or hedge interest rate risks the County is otherwise exposed to.
    - The County will not use interest rate swaps that are speculative in nature or increase the overall risk profile of the County.
    - The County will not execute such agreements with counterparties that are rated lower than A2/A/A from Moody's Investors Service/Fitch Ratings/Standard & Poor's, respectively, and will require collateral from any counterparties that are downgraded below such a threshold.

## OPERATING/CAPITAL EXPENDITURE ACCOUNTABILITY

On a semi-annual basis, operating expenditures will be reviewed via the budget forecast to ensure that they follow the plan set forth by the current year's Adopted Appropriation. If the budget forecast finds that operating expenditures will exceed the Adopted Appropriation, corrective actions, such as expenditure reductions, shall be implemented.

Regarding capital expenditures, an annual review of expenditures shall be completed. This shall include a review of capital expenditures and encumbrances in relation to both the current budget and over the entire life of its respective project. This will be completed in order to ensure that capital funding is being spent according to the original plan approved when funds were obtained. If funds are not being spent according to plan, corrective action shall be taken to avoid any issues. Corrective actions can include, but are not limited to, expenditure reductions, reallocation of capital funds and the pursuit of additional financial vehicles to ensure funding is commensurate with costs and average life of the funded projects.

## LONG-TERM FINANCIAL PLANNING

The County recognizes that long-term financial planning is a key process to the county's goal of being fiscally responsible. Within the Annual Appropriation, the County shall forecast general fund revenues and expenditures five years into the future. This forecast will help the county plan where to allocate resources in future budgets. This forecast shall be updated annually with each budget and published in the Revenue Estimates section of Volume I of the Annual Appropriation.

## INVESTMENT MANAGEMENT

Cook County recognizes the need for a prudent, professional, and practical approach to the investment of its funds. The County shall maintain liquid cash balances that reflect its cash flow needs. It is the policy of the County to manage public funds in a manner that will meet cash flow needs, ensure security of principal, and provide the highest investment return while voluntarily complying with the Illinois Public Funds Investment Act (30 ILCS 235), though the County as a home rule unit of government is not bound by the Act; an additional investment policy is maintained by the Cook County Treasurer's Office for investments under the Treasurer's discretion.

Cook County acknowledges three inherit risks associated with investing public funds: (1) credit risk, the risk of investing in instruments that may default; (2) market risk (liquidity), the risk of selling an investment prior to maturity at less than book value; and (3) opportunity risk (yield/return), the risk of investing long term and having rates rise or investing short term and having rates fall.

The County will at all times consider actions to mitigate these risks. These include voluntarily abiding by the set of permitted investments authorized in the Illinois Public Funds Investment Act to reduce credit risk, maintaining good cash flow estimates to reduce market risk, and integrating knowledge of prevailing and expected future market conditions with cash flow requirements to reduce opportunity risk. As with investment decisions made with other public funds, the balance is weighted heavily towards avoiding risk; accordingly safety first, liquidity second, and yield third.

## FINANCIAL RESERVE

Cook County will maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.

Cook County's financial reserve policy maintains an unassigned fund balance in the General Fund of no less than one month, with a targeted goal of two months, of the prior year audited General Fund operating expenditures. The policy requires a plan to replenish the General Fund balance that will be incorporated in budget preparation, should the balance dip below the level of one month of audited General Fund expenditures. The County recognizes that financial reserve funds provide the flexibility to respond to unexpected circumstances that may help the County achieve long-term fiscal objectives.

## FINANCIAL REPORTING

Regular monitoring of budgetary performance provides an early warning of potential problems and gives decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident. It is also an essential input in demonstrating accountability.

An open government is essential for citizen driven governance. The importance of this aspect in financial reporting cannot be overstated. Regular and frequent reporting is necessary to provide accountability, educate and inform stakeholders, and improve their confidence in County government. The financial reporting process should include the following criteria:

- The documentation of accounting policies and procedures will be evaluated annually and updated periodically, no less than once every three years, according to a predetermined schedule.
- Maintain an accounting system adequate to provide all of the data needed to allow for the timely preparation of financial statements for the entire financial reporting entity in conformity with GAAP and GASB standards.
- Issue timely audited financial statements, no greater than 180 days after the completion of the fiscal year in conformity with GAAP and GASB standards as part of a CAFR.
- Provide the County Board of Commissioners with monthly reports of revenue and separate monthly Trial Balance Appropriation reports.
- On or before June 30th of each year, the Department of Budget and Management Services shall issue an assessment of the fiscal condition of the County prior to the next year's budget cycle in the form of a budget forecast.
- On or before July 30th of each year, the Cook County Board President shall conduct a public hearing on the budget forecast to hear from the public on budget priorities. This input will be taken into account as the executive budget is prepared.
- The executive budget recommendation shall be presented to the Cook County Board of Commissioners by October 3lst of each year.

## PERFORMANCE MANAGEMENT

Cook County believes performance management can assess accomplishments and identify areas for improvement on an organization-wide basis. Performance management is used in both long-term and short-term strategic planning and decision-making processes that in turn drive financial performance. The goals and initiatives derived from performance management are used to appropriately determine the allocation of limited County resources.

Performance management utilizes a statement of program mission that identifies the goals and objectives of functional areas within the County. The goals and objectives are prioritized in order to allocate resources over a specific period of time. The outcomes from the objectives must be verifiable, understandable and timely. These benchmarks are evaluated for program efficiency and effectiveness, which are constantly assessed for improvement. A transparent outcome evaluation is produced which allows for managerial decision making. The performance management decision- making process should be consistent throughout the strategic plan, budget, accounting and reporting systems.