



The Civic Federation

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COOK COUNTY'S FY2018 REVENUE CRISIS: OPPORTUNITIES FOR SAVINGS

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The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

TABLE OF CONTENTS

INTRODUCTION.....	3
PRESIDENT’S RECOMMENDED BUDGET AND SWEETENED BEVERAGE TAX.....	4
HOW NOT TO CLOSE THE BUDGET DEFICIT	7
DIVERTING SUPPLEMENTAL PENSION PAYMENT	7
USING FUND BALANCE	8
POTENTIAL SAVINGS.....	9
REVISE COLLECTIVE BARGAINING AGREEMENTS	9
IMPLEMENT PROPOSED SAVINGS IN THE COOK COUNTY HEALTH AND HOSPITALS SYSTEM.....	10
EXPLORE OPPORTUNITIES FOR ADDITIONAL SAVINGS WITHIN THE HEALTH SYSTEM.....	12
ELIMINATE THE SUBSIDY PROVIDED TO UNINCORPORATED AREAS	13
<i>Estimated Cost of Cook County Services Provided to Unincorporated Areas</i>	<i>14</i>
<i>Estimated Revenues Collected in the Unincorporated Areas</i>	<i>15</i>
<i>Revenues Generated Solely Within the Unincorporated Areas.....</i>	<i>15</i>
<i>Revenues Generated in Incorporated and Unincorporated Areas.....</i>	<i>17</i>
<i>Impose Incident Response Fees</i>	<i>18</i>
<i>Increase the Wheel Tax.....</i>	<i>18</i>
<i>Impose a Real Estate Transfer Tax.....</i>	<i>18</i>
<i>Establish Intergovernmental Agreements for Police Protection of Unincorporated Areas.....</i>	<i>19</i>
<i>Establish a Storm Water Management Fee in Unincorporated Areas.....</i>	<i>19</i>
<i>Establish a Police Protection Fee in Unincorporated Areas.....</i>	<i>19</i>
<i>Explore Establishing Tax Increment Financing Districts in Unincorporated Areas.....</i>	<i>19</i>
<i>Explore Establishing Special Service Areas in Unincorporated Areas</i>	<i>20</i>
PURSUE OPPORTUNITIES TO REDUCE JAIL COSTS.....	20
OTHER POSSIBLE REFORMS.....	21
CREATE A UNIFIED OFFICE OF PROPERTY TAX ADMINISTRATION.....	21
CONCLUSION.....	22

INTRODUCTION

With a projected \$200 million loss in revenue for fiscal year 2018 due to the recent repeal of the sweetened beverage tax, the Cook County Board of Commissioners and County Agency officials now must identify ways to balance the budget without the expected funding.

Cook County Board President Toni Preckwinkle released a budget recommendation for fiscal year 2018 on October 5, 2017, a week before an impending vote on the controversial sweetened beverage tax. The sweetened beverage tax was estimated to bring in \$200.6 million in FY2018, which the President's budget included. The Board of Commissioners voted to repeal the sweetened beverage tax on October 11, 2017.

In order to help close the \$200 million budget gap, all of the department heads are being asked to submit a proposal to reduce their FY2018 departmental budgets by 10% from the levels in the President's budget recommendation. Commissioner Daley, Chairman of the County's Finance Committee, sent a letter to each of the separate offices on October 13, 2017 directing them to propose 10% cuts, indicating that the proposals submitted by each office would serve as starting points in departmental budget hearing conversations. The County is now in the midst of those departmental hearings, with only a few weeks to consider options and find a solution.

Final budget amendments from each department are due by November 13, 2017 and the Board of Commissioners is scheduled to vote on a final budget on November 21, in time for the start of the 2018 fiscal year on December 1, 2017. Under State law, the County must adopt its budget within the first quarter of the fiscal year by the end of February 2018. The County also has a self-imposed deadline through an executive order to adopt the budget by December 1st.

The Civic Federation believes the County's revenue crisis presents an opportunity for Cook County to explore ways to continue modernizing and streamlining government for more efficient and cost-effective service delivery. While the loss of revenue from the sweetened beverage tax is an immediate problem for the upcoming 2018 fiscal year, balancing the budget will continue to be a major challenge every year thereafter. Therefore, the Civic Federation encourages the County Board of Commissioners to approach the FY2018 budget with a long-term perspective. The County must not use this crisis as an excuse to use gimmicks and one-time revenue sources to balance the FY2018 budget.

The Civic Federation cautions Cook County to **NOT cut pension funding** for easy short-term relief to the revenue crisis. In the Board President's FY2018 budget recommendation, extra funding was allocated for pensions beyond the statutorily required pension amount for the third year. The extra contributions are intended to ensure the County Pension Fund does not go insolvent and are funded by the 2015 increase to the sales tax. Diverting those funds to balance the budget instead would be short-sighted and ill-advised. The additional pension contributions have been well received by credit rating agencies. Reducing the pension allocation could lead to credit downgrades that would increase the cost of borrowing. The Civic Federation also advises the County to not use fund balance to close the deficit, as it is a one-time revenue source and could also jeopardize the County's bond ratings.

The next section provides a summary of the current budget situation, followed by areas the Civic Federation believes merit further exploration for potential cost savings:

- Revise collective bargaining agreements;
- Implement the Health System's proposed reductions to the FY2018 budget recommendation and explore additional opportunities for savings in the Health System;
- Eliminate the unincorporated area subsidy;
- Create a unified property tax administration office;
- Assess opportunities for jail cost reductions; and
- Explore other reforms such as streamlining administrative functions.

PRESIDENT'S RECOMMENDED BUDGET AND SWEETENED BEVERAGE TAX

The Board of Commissioners approved the sweetened beverage tax with the passage of the FY2017 budget as a way to balance the budget over three years. It would have been collected starting July 1, 2017, but was delayed due to the start date being pushed back to August to allow extra time for retailers to comply with administrative rules, followed by a court challenge by the Illinois Retail Merchants Association that led to a temporary restraining order being placed on the tax. The sweetened beverage tax has been collected since September and will be collected through November 30. The County estimates a loss of \$17 million for each month the tax was not collected.

Cook County projected that total revenues across the County's two major operating funds – the General Fund and Health Fund – would total \$4 billion in FY2018 with the sweetened beverage

tax. Those revenues are detailed in the table below. Without the sweetened beverage tax revenue, the County must fill a \$200.6 million hole.

Cook County General and Health Fund Revenues FY2017 Adopted Budget Compared to FY2018 President's Recommendation (in \$ thousands)				
	FY2017 Adopted Budget	FY2018 President's Recommendation	Difference (#)	Difference (%)
Property Taxes				
Net Property Tax Levy	\$ 266,246.5	\$ 261,228.0	\$ (5,018.50)	-1.9%
TIF Surplus	\$ 9,040.0	\$ 7,000.0	\$ (2,040.0)	-22.6%
Subtotal Property Taxes	\$ 275,286.5	\$ 268,228.0	\$ (7,058.5)	-2.6%
Non-Property Taxes				
Sales Tax	\$ 823,000.4	\$ 779,200.0	\$ (43,800.40)	-5.3%
Use Tax	\$ 81,000.0	\$ 77,000.0	\$ (4,000.0)	-4.9%
Alcoholic Beverage Tax	\$ 37,250.0	\$ 37,000.0	\$ (250.0)	-0.7%
State Sales Tax (Retailer's Occupation)	\$ 2,930.0	\$ 2,450.0	\$ (480.0)	-16.4%
Non-Retailer Transactions	\$ 20,200.0	\$ 17,750.0	\$ (2,450.0)	-12.1%
Cigarette and Other Tobacco	\$ 133,190.0	\$ 131,000.0	\$ (2,190.0)	-1.6%
Gas Tax	\$ 91,500.0	\$ 92,000.0	\$ 500.0	0.5%
Retail Sale of Motor Vehicles	\$ 3,400.0	\$ 3,000.0	\$ (400.0)	-11.8%
Wheel Tax	\$ 4,200.0	\$ 4,100.0	\$ (100.0)	-2.4%
Amusement Tax	\$ 32,300.0	\$ 36,250.0	\$ 3,950.0	12.2%
Parking Lot / Garage Operations	\$ 47,300.0	\$ 49,000.0	\$ 1,700.0	3.6%
Gambling Machine Tax	\$ 2,100.0	\$ 2,100.0	\$ -	0.0%
Firearms and Ammunition Tax	\$ 1,210.0	\$ 1,650.0	\$ 440.0	36.4%
Non Titled Use Tax	\$ -	\$ -	\$ -	0.0%
Off Track Betting Commissions	\$ 1,000.0	\$ 1,150.0	\$ 150.0	15.0%
Illinois Gaming - Casino	\$ 8,500.0	\$ 8,550.0	\$ 50.0	0.6%
State Income Tax	\$ 13,160.0	\$ 10,500.0	\$ (2,660.0)	-20.2%
Hotel Accommodations Tax	\$ 31,500.0	\$ 31,750.0	\$ 250.0	0.8%
Sweetened Beverage Tax	\$ 73,667.0	\$ 200,600.0	\$ 126,933.0	172.3%
Subtotal Other Non-Property Taxes	\$ 1,407,407.4	\$ 1,485,050.0	\$ 77,642.6	5.5%
Fee Revenue				
Health System Fees*	\$ 1,480,430.8	\$ 1,943,100.0	\$ 462,669.20	31.3%
Clerk of Circuit Court	\$ 72,000.0	\$ 70,780.0	\$ (1,220.00)	-1.7%
Recorder of Deeds Fees	\$ 36,700.0	\$ 33,075.0	\$ (3,625.00)	-9.9%
Treasurer's Fees	\$ 54,000.0	\$ 60,000.0	\$ 6,000.00	11.1%
All Other Fees	\$ 54,804.0	\$ 53,917.0	\$ (887.00)	-1.6%
Subtotal Fee Revenue	\$ 1,697,934.8	\$ 2,160,872.0	\$ 462,937.2	27.3%
Intergovernmental Revenues	\$ 43,522.0	\$ 41,512.2	\$ (2,009.79)	-4.6%
Miscellaneous and Other Revenues	\$ 40,002.2	\$ 45,703.2	\$ 5,700.98	14.3%
Total	\$ 3,464,152.9	\$ 4,001,365.4	\$ 537,212.49	15.5%

*Health System Fees include revenues from patient fees and supplemental payments for care provided at County hospitals (including from Medicare, Medicaid, private payers and other carriers and the Cook County Managed Care Community Network, or CountyCare), including Benefits Improvement and Protection Act (BIPA) and Disproportionate Share Hospital (DSH) payments and incentives from the federal government.

Source: Cook County FY2018 Executive Budget Recommendation, Volume 1, p. 44.

The \$200.6 million from the sweetened beverage tax would have been allocated as follows: \$173.4 million would have been allocated to the Public Safety Fund and \$27.2 million would have been allocated to the Health Fund.

The President's budget recommendation projected that total operating expenses, which include the General Fund (consisting of the Corporate Fund and Public Safety Fund), Health Fund,

Election Fund, Special Purpose Funds and Grant Funds, would increase in FY2018 by approximately \$512.5 million. The majority of the increase, or \$461.2 million, is in the Health fund due to a \$424.1 million increase in CountyCare claims as a result the acquisition of the Family Health Network, as well as salary and step increases in previously approved collective bargaining agreements, rising costs for medical supplies and rental equipment and the purchase of new equipment.¹

The County's General Fund expenditures are expected to increase by \$76.0 million in FY2018 over FY2017, as shown in the table below. The increase is driven by \$21.5 million in rising personnel costs; moving \$27 million in short-life capital equipment purchases into operating funds rather than using debt funding; a \$9 million increase for claims for expected settlements; \$11.8 million for new debt service costs; and \$1 million for contractual services to support the decennial census.²

The projected operating expenditure increases in FY2018 compared to FY2017 are shown in the table below.

Cook County Operating Appropriations FY2017 Adopted Budget Compared to FY2018 President's Recommendation (in \$ millions)				
Operating Fund	FY2017 Adopted Budget	FY2018 President's Recommendation	Difference (#)	Difference (%)
General Fund	\$ 1,872.2	\$ 1,948.2	\$ 76.0	4.1%
Corporate Fund	\$ 624.4	\$ 693.2	\$ 68.82	11.0%
Public Safety Fund	\$ 1,247.8	\$ 1,255.0	\$ 7.2	0.6%
Health Fund	\$ 1,591.9	\$ 2,053.1	\$ 461.2	29.0%
Subtotal General and Health Funds	\$ 3,464.1	\$ 4,001.3	\$ 537.2	15.5%
Election Fund	\$ 22.0	\$ 43.1	\$ 21.1	95.9%
Special Purpose Funds	\$ 657.8	\$ 645.1	\$ (12.7)	-1.9%
Grants	\$ 257.9	\$ 224.8	\$ (33.1)	-12.8%
Total	\$ 4,401.8	\$ 4,914.3	\$ 512.5	11.6%

Source: Cook County FY2018 Executive Budget Recommendation, Volume 1, p. 64.

While the bulk of the sweetened beverage tax – \$173.4 million – was originally allocated to the Public Safety Fund in the FY2018 President's recommended budget, all offices were asked by the Board of Commissioners on October 13, 2017 to submit proposals that would cut 10% from each of their departmental budgets. The table below presents the amount that each department would need to cut if they were to reach 10% reductions. The Health Fund was originally

¹ Cook County FY2018 Executive Budget Recommendation, Volume 1, p. 62.

² Cook County FY2018 Executive Budget Recommendation, Volume 1, p. 59.

allocated to receive \$27.2 million from the sweetened beverage tax, so the Health System must cut \$27.2 million from its proposed FY2018 budget.

Cook County FY2018 Expenditures in President's Recommended Budget and 10% Cut from FY2018 Budget Recommendation		
	FY2018 President's Recommended Budget	10% Cut from Recommended Budget
Offices Under the President	\$ 287,828,578	\$ 28,782,858
Public Administrator	\$ 1,391,643	\$ 139,164
Assessor	\$ 30,470,200	\$ 3,047,020
Board of Review	\$ 11,454,765	\$ 1,145,477
Chief Judge	\$ 275,557,320	\$ 27,555,732
Clerk of the Circuit Court	\$ 124,159,416	\$ 12,415,942
County Clerk	\$ 38,118,512	\$ 3,811,851
Recorder of Deeds	\$ 12,476,420	\$ 1,247,642
Sheriff	\$ 627,461,790	\$ 62,746,179
State's Attorney	\$ 125,088,666	\$ 12,508,867
Treasurer	\$ 12,936,641	\$ 1,293,664
Inspector General	\$ 2,079,269	\$ 207,927
Office of the Cook County Commissioners	\$ 8,313,981.0	\$ 831,398
Subtotal	\$ 1,557,337,201.0	\$ 155,733,720.1
Cook County Health and Hospitals System: Original FY2018 Sweetened Beverage Tax Allocation		\$27,154,632
Total		\$ 182,888,352.1

Source: Cook County FY2018 Executive Budget Recommendation, Volume 1, pp. 65 and 45.

As the table above shows, even if all departments were to make the requested 10% cuts, the total cuts still would not quite reach \$200.6 million. Additionally, not all departments have complied with the Board's request. Therefore, it is imperative that the County not only make immediate spending cuts but also identify structural changes that would result in significant savings.

HOW NOT TO CLOSE THE BUDGET DEFICIT

As the County seeks ways to close the \$200 million budget deficit, the Civic Federation ***strongly urges the Board of Commissioners not to divert the supplemental pension payment or use fund balance to balance the budget.***

Diverting Supplemental Pension Payment

Cook County's statutory annual pension payment, calculated at 1.54 times employee contributions made two years prior, has long been insufficient to cover the cost of growing long-term pension liabilities. In FY2016 the County entered into a one-year intergovernmental agreement with the County pension fund and made a supplemental pension appropriation to start to address the pension fund's unfunded liability. The increased contributions in FY2016 and another in FY2018 were financed through the one percentage point increase in the County's

home rule sales tax rate implemented in 2015. In FY2016, the County contributed an additional \$270.5 million to the pension fund. The County allocated an additional \$353.8 million in FY2017 through another one-year intergovernmental agreement, and plans to appropriate an additional \$353.4 million in FY2018. The supplemental amounts are tied to a plan to reach 100% pension funding over 30 years.

While the County is making the increased pension contributions in the absence of State pension legislation authorizing the higher payments,³ it has so far been a successful way to begin to stabilize the pension fund and has been well received by the credit rating agencies. If the County were to consider decreasing the pension allocation, it would negatively impact the financial outlook of the County's pension promises and could result in a credit rating downgrade.

In a presentation to the County Board's Pension Committee on June 8, 2016, representatives from the Cook County Pension Fund testified that the increased contribution in FY2016 would allow the fund to avoid liquidating investments to make benefit payments, allowing funds to stay invested and adhere to a long-term investment strategy.⁴ A shortfall in pension payments compared to the actuarial needs of the fund in any one year creates a need for increased funding in future years and will necessitate extra payments to get back onto the County's self-imposed funding schedule of 100% funding in 30 years rather than insolvency by 2038.

In a June 2015 rating report, Moody's explained that it downgraded Cook County because of growing unfunded pension liabilities and uncertainty with the County's future pension funding framework, and that growth in unfunded liabilities could result in further downgrades.⁵ Then after the County approved an increase in the sales tax to pay down the pension fund's unfunded liabilities, three credit rating agencies, Moody's, Standard & Poor's and Fitch Ratings, upgraded Cook County's credit outlooks from negative to stable in June 2016.⁶

While the Civic Federation realizes the supplemental pension payment may seem like an easy target for closing the budget deficit, it could adversely impact the County's borrowing costs and pension sustainability, which would cost more in the long run and increase the cost to taxpayers in future years to fund pension obligations.

Using Fund Balance

Similar to the County's supplemental pension payment, using available fund balance from the General Fund may seem like an easy way to help close the budget gap. Fund balance is important to maintain because it serves as a government's "rainy day fund" and helps weather revenue

³ The Illinois Pension Code specifies that County pension contributions must come from the property tax, not the sales tax. See Illinois statute 40 ILCS 5/9-169.

⁴ Presentation of 2015 Actuarial Results presented by the Cook County Pension Fund to the Cook County Board of Commissioners Pension Committee on June 8, 2016. Meeting materials are available at <https://cook-county.legistar.com/MeetingDetail.aspx?ID=489618&GUID=327BF176-4F30-4632-A2B3-5DACE3325F9F&Options=info&Search=>.

⁵ Moody's Investors Service, "Moody's downgrades Cook County, IL's GO to A2 from A1; outlook negative," June 5, 2015.

⁶ Hal Dardick, "Morning Spin: Why Preckwinkle is doing better at credit rating than Emanuel," *Chicago Tribune*, June 13, 2016, <http://www.chicagotribune.com/news/local/politics/ct-toni-preckwinkle-rahm-emanuel-credit-rating-20160612-story.html>.

shortfalls or unexpected expenditures. Cook County's financial reserve policy states that its fund balance is meant to protect against temporary cyclical revenue shortfalls or unpredicted one-time expenditures.⁷ The policy states that the County will maintain an unassigned fund balance of at least one month of General Fund operating expenditures, which equates to about 8% of expenditures. The County has stuck to its General Fund reserve policy. As of the end of fiscal year 2016, which ended on November 30, 2016, the County had \$130.4 million in unassigned General Fund fund balance, which was exactly 8% of General Fund expenditures that year.⁸

In the FY2018 proposed budget, the projected amount of unassigned fund balance that will be used in FY2017 is \$14.9 million,⁹ with no use projected in FY2018, leaving \$115.5 million in unassigned General Fund fund balance at the end of FY2018.

Given that balancing the budget will be a challenge every year, not just for FY2018, fund balance is not a good option for closing the deficit. Using fund balance would put the County at risk in the event of a future economic downturn or unexpected expense, and could also result in a downgrade of the County's credit rating.

POTENTIAL SAVINGS

The Civic Federation offers the County several ideas to explore that would reduce costs and bring about lasting savings. Most are ideas that have been discussed during previous budget crises and in this year's departmental budget hearings. All would be painful, but there are few politically appealing choices left to the County if it wishes to balance the budget for the long term and ensure it regains fiscal sustainability.

Revise Collective Bargaining Agreements

The Civic Federation views the budget crisis as an opportunity for the County to reconsider the provisions included in the next round of collective bargaining agreements, which have not yet been approved by the Board of Commissioners. The County currently has 66 different contracts for the period 2012-2017.¹⁰

The County must look at compensation costs because the majority of the County's operating budget consists of personnel and salaries are a major driver of cost increases. Personnel accounts for 82.9% of the General Fund, which consists of public safety functions such as the courts and jail system, and the County's other administrative functions such as administering the property tax system. In FY2018 General Fund payroll (not including other personnel costs such as health insurance) is projected to increase by 8.8% over FY2017, from \$979.0 million to \$1.065 billion.¹¹ In the Health Fund, which accounts for the County's hospital and community health operations, payroll is projected to increase by 13.9% from \$520.3 million to \$592.4 million.¹²

⁷ Cook County FY2018 Executive Budget Recommendation, Volume 1, p. 373.

⁸ Cook County FY2016 Comprehensive Annual Financial Report, pp. 28 and 31.

⁹ Cook County FY2018 Executive Budget Recommendation, Volume 1, p. 23.

¹⁰ Cook County website, Collective Bargaining Agreements, <https://www.cookcountyil.gov/service/collective-bargaining-agreements>.

¹¹ Cook County FY2018 Executive Budget Recommendation, Volume 1, p. 17.

¹² Cook County FY2018 Executive Budget Recommendation, Volume 1, p. 17.

Increases in salaries and wages are partially offset by a decrease in employee health insurance costs.

As an immediate solution, the County should hold personnel expenditures in FY2018 flat from FY2017. The Civic Federation recommends that the County freeze all wage and step increases in FY2018 and explore other short-term savings such as furlough days. Some County elected officials including the Chief Judge and Sheriff have said they are open to imposing furlough days as a way to avoid layoffs. This strategy could result in significant one-year cost savings.

As a longer-term solution, the Civic Federation recommends that the County renegotiate the next round of collective bargaining contracts to ensure they are reasonable and affordable over their terms. Given that the contracts were negotiated with the expectation of revenue from the now defunct sweetened beverage tax, significant collective bargaining reforms will be needed to contain costs and ensure that growth in salaries does not outpace resources available.

Because collective bargaining with unions takes place behind closed doors, there is no opportunity for the public to see what is in the agreements well before they are approved, despite the fact that taxpayers directly fund the salaries and benefits of the County's employees. County officials should proceed with maximum transparency by providing information about the cost of the agreements over their terms to the Board of Commissioners and the public.

Implement Proposed Savings in the Cook County Health and Hospitals System

As part of its proposal to reduce its budget by \$27 million due to the sweetened beverage tax budget gap, the Health System proposed several cost-saving measures, totaling \$12.4 million.¹³ One of the included proposals is to close Oak Forest clinical care at an estimated savings of \$3 million and to move non-clinical services out of Oak Forest at an estimated savings of \$1 million.

According to the Cook County Real Estate Asset Strategic Realignment Plan produced in 2012, the Oak Forest Health Center campus occupies 1.1 million square feet across 53 buildings on 176 acres of land. The Report states "Oak Forest Health Center Campus is vastly underutilized; its buildings are expensive to operate and are generally in need of costly repairs; and the majority of the buildings are far older than is recommended for patient care by current healthcare design standards." Furthermore, the report states approximately 50% of the campus is vacant or used as inactive storage and its footprint could be reduced by as much as 75%. The Plan estimated that the Oak Forest Center campus had \$287 million in deferred maintenance as of 2012 and would likely need \$129 million in capital improvements over 20 years.¹⁴

The President's recommended FY2018 budget for the Oak Forest Health Center campus appropriates a total of \$10.2 million, which includes covering the salaries and benefits of 66 Full Time Equivalent (FTE) positions for non-clinical building operations and maintenance including building tradesman, security and landscaping personnel.¹⁵ An additional 57 clinical FTE

¹³ Letter submitted by Cook County Health and Hospitals System to Commissioner Daley on October 20, 2017.

¹⁴ Cook County Real Estate Assets Strategic Plan, 2012, p 39.

¹⁵ Cook County FY2018 Executive Budget Recommendation, Volume 2, p. N-114.

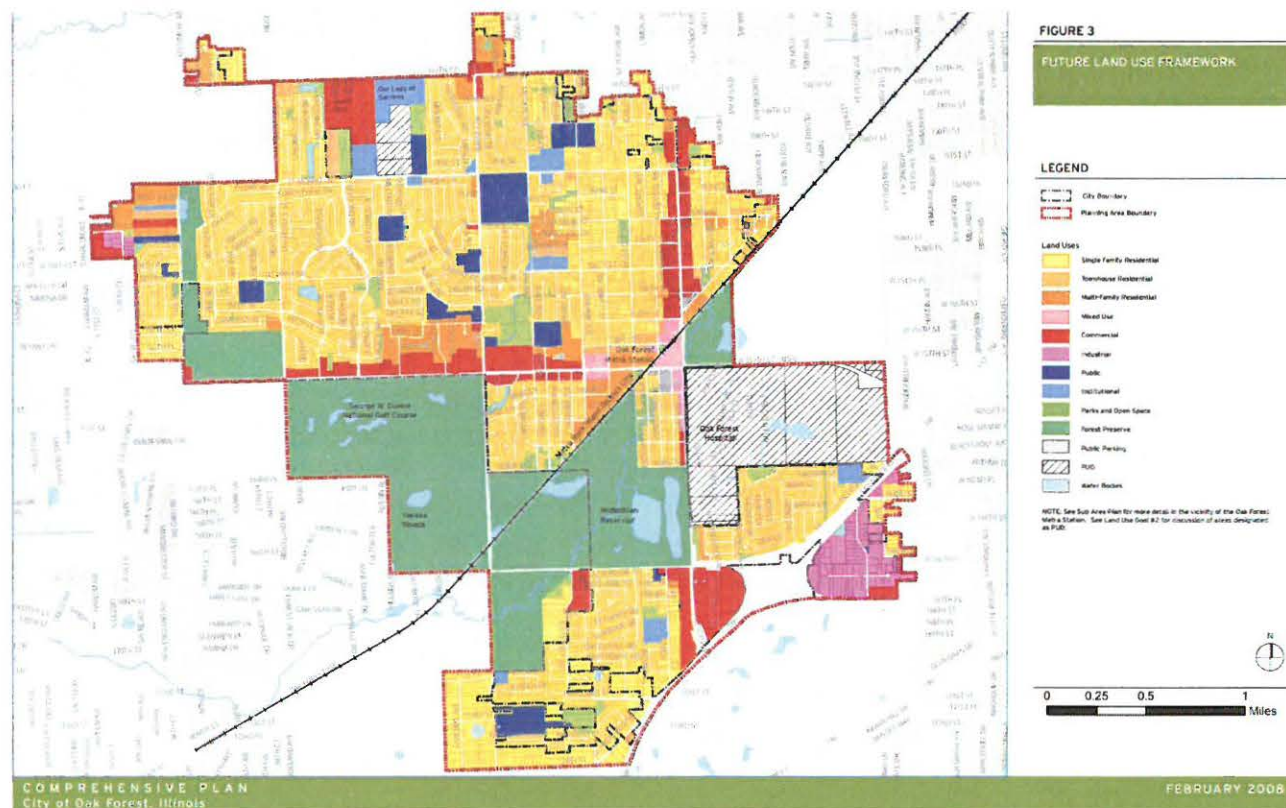
positions were budgeted for FY2018 to staff the outpatient facilities at the Oak Forest campus at a cost of \$4.0 million.¹⁶

The Civic Federation agrees that the Health System should consider closing the Oak Forest Health Center in order to reduce annual operating expenses as well as its short- and long-term capital expenses. Selling the valuable land upon which Oak Forest is situated would garner some one-time revenues and could have the added advantage of increasing desperately needed economic activity in the south suburbs and increasing the property tax base of overlying local government taxing authorities. To ensure there is continued access to quality health care, the Health System should work with existing health care institutions in the south suburbs and help transition current Oak Forest patients to healthcare services at other Cook County Health and Hospitals System locations.

The City of Oak Forest's 2008 Comprehensive Plan, which includes a future land use framework for the Cook County Oak Forest Health Center calls for a future planned unit development (PUD). Specifically, the Plan states "Should the opportunity arise, work closely with property owner(s) and potential developer(s) to create an environmentally sensitive and attractive mixed use development on some or all of the existing Cook County Oak Forest Hospital property integrating commercial and residential uses in a manner that protects existing natural resources

¹⁶ Cook County FY2018 Executive Budget Recommendation, Volume 2, p. N-55. Includes 33 FTEs at a cost of \$1.9 million at South Suburban Specialty Clinic-Oak Forest and 24 FTEs at a cost of \$2.1 million at South Suburban Specialty Care Center.

while benefiting from the site's high profile location and minimizing off-site impacts.”¹⁷ The map below shows the Oak Forest land use framework.



Explore Opportunities for Additional Savings within the Health System

The Cook County Health and Hospitals System operates a total of three main campuses: Stroger Central Campus (Illinois Medical District), Provident and Oak Forest, as well as a number of clinics throughout the County. The Civic Federation applauds the County's efforts to reduce its real estate foot print in recent years and its plan to demolish a number of buildings across its health care and public safety campuses in future years. Phase one of the demolition project includes the razing of four buildings at the Oak Forest Health Center campus, the Sengstacke building at the Provident Campus and Fantus Clinic at the Stroger Campus.¹⁸

The Civic Federation recommends that as a long-term solution, Cook County Board of Commissioners, Health System and Cook County budget office explore opportunities for further savings and efficiencies. An area the County Board of Commissioners could explore is the reduction of the Health System's real estate foot print at Provident Hospital. The FY2018 budget recommendation appropriates \$51.9 million to operate Provident Hospital. While the Civic Federation realizes that Provident Hospital receives Disproportionate Share Hospital (DSH) payments based on the patients that it serves, so cutting services could affect this funding source.

¹⁷ City of Oak Forest, 2008 Comprehensive Plan, p. 26.

¹⁸ Cook County FY2018 Executive Budget Recommendation, Volume 1, p. 270.

The Civic Federation recommends that the Health System conduct a cost-benefit analysis to determine if and how savings at Provident Hospital could be made.

Eliminate the Subsidy Provided to Unincorporated Areas

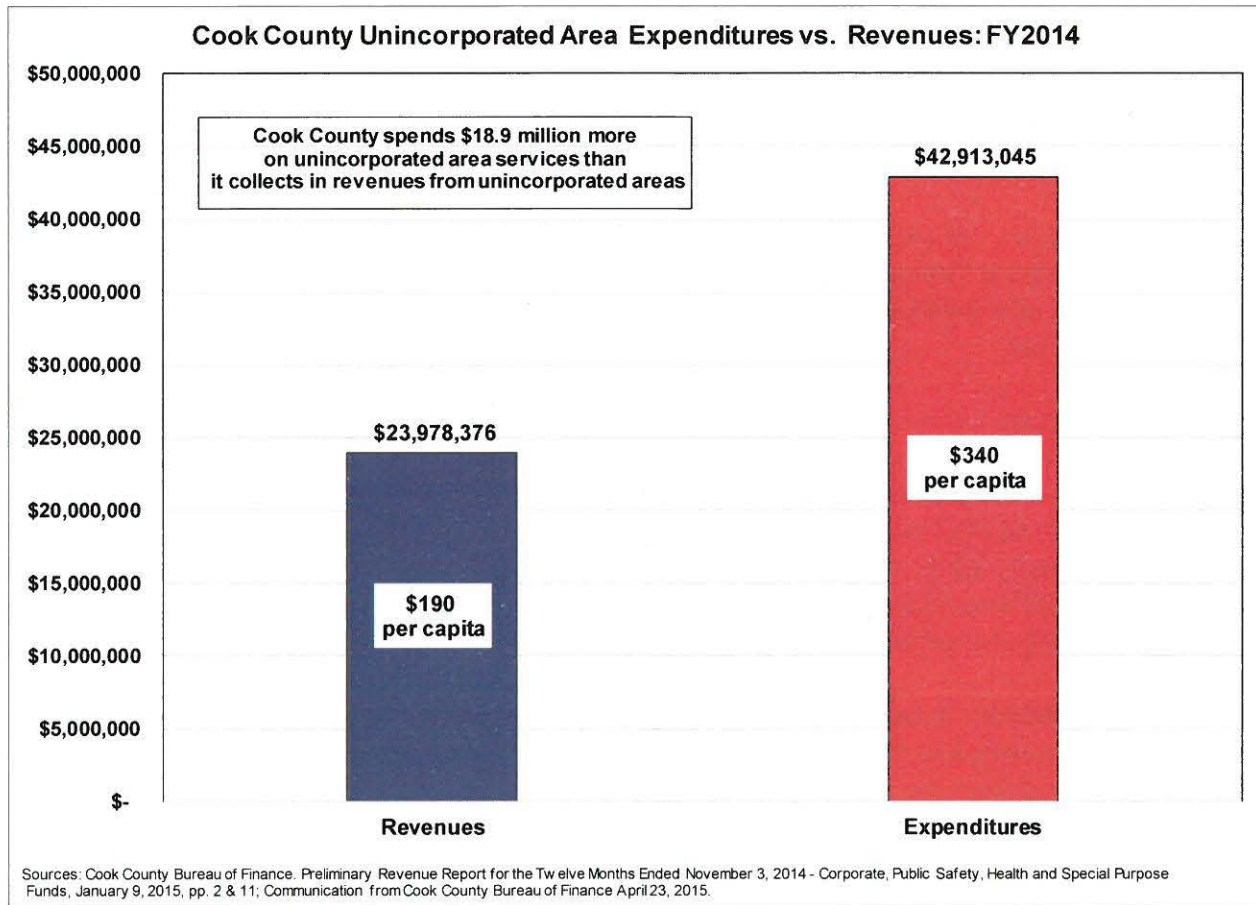
The Cook County Board of Commissioners has taken two significant steps towards improving the unincorporated areas in Cook County to better align the unincorporated areas with adjacent municipalities. These actions include:

- Adoption of Comprehensive Amendments to the Cook County Building and Environmental Ordinance; and
- Adoption of a Residential Rental Licensing Ordinance that Allows for the Inspection of Rental Units.

The Civic Federation supports these actions and is encouraged the County will continue to pursue meaningful actions that will improve the unincorporated areas and reduce barriers to incorporation. However, Cook County will likely continue to provide municipal-type services to unincorporated areas of Cook County for many years to come. As a result, the County should develop and formally adopt a multi-year plan to eventually eliminate all unincorporated areas. The County should also take steps in the near term that would reduce the cost of subsidizing the delivery of municipal-type services to unincorporated areas.

Cook County spent approximately \$18.9 million more on unincorporated area services than the total revenue it collected in those areas in FY2014. This includes nearly \$24.0 million in revenues generated from the unincorporated areas of the county and \$42.9 million in expenses related to the delivery of municipal-type services to the unincorporated areas of the county. In sum, all Cook County taxpayers provide an \$18.9 million subsidy to residents in the unincorporated areas. On a per capita basis, the variance between revenues and expenditures is

\$150, or the difference between \$340 per capita in expenditures versus \$190 per capita in revenues collected.¹⁹



Estimated Cost of Cook County Services Provided to Unincorporated Areas

In FY2014 Cook County's cost to provide law enforcement, building and zoning, animal control and liquor control services was approximately \$42.9 million or \$340.49 per resident of the

¹⁹ It is important to note that these figures do not include Cook County property and sales taxes because they are imposed at the same rate on both incorporated and unincorporated areas countywide and would continue to be collected if the unincorporated areas are annexed by a municipality. According to Civic Federation calculations, the unincorporated areas generated approximately \$12.6 million in property tax revenue in tax year 2013 (payable in 2014). The Cook County Home Rule Retailer's Occupation Tax generated approximately \$2.8 million in revenue within the unincorporated areas of the county. However, the property tax and sales tax is imposed on both incorporated and unincorporated taxpayers to fund general operations countywide, not specifically for the delivery of municipal-type services to the unincorporated areas of the county.

unincorporated areas. The following chart identifies the Cook County agencies that provide services to the unincorporated areas and the costs associated with providing those services.

Cook County FY2014 Estimated Unincorporated Area Expenditures		
Departmental Expenses	Amount	% of Total
Sheriff's Police ¹	\$ 37,653,787	87.74%
Building and Zoning ²	\$ 4,402,452	10.26%
Animal Control ³	\$ 670,806	1.56%
Liquor Control ⁴	\$ 186,000	0.43%
Total	\$ 42,913,045	100.00%

Note: Total costs include salary, fringe benefits and indirect costs.

¹Assumption made that 77% of total staff time of the Sheriff's Police Department is dedicated to policing unincorporated areas.

²Assumption made that 100% of staff time in the Building and Zoning Department is dedicated to serving unincorporated areas.

³Assumption made that 13.1% of total staff time in the Animal and Rabies Control Department is dedicated serving the unincorporated areas.

⁴Assumption made that 100% of staff time is dedicated to enforcing liquor control laws in the unincorporated areas.

Sources: Communication from Cook County Bureau of Finance, April 23, 2015; Information provided by the Cook County Deputy Liquor Commissioner, December 2, 2013; and FY2014 Adjusted Appropriations data obtained from FY2015 Annual Appropriation Budget, Volume II - Department Line Item Budgets.

Estimated Revenues Collected in the Unincorporated Areas

Services provided to Cook County's unincorporated areas are funded with a variety of taxes and fees. These include revenues generated from both incorporated and unincorporated taxpayers to fund operations countywide. Some revenue sources are generated or are distributed solely within the unincorporated areas, such as income taxes, building and zoning fees, state sales taxes, wheel taxes and business and liquor license fees. The unincorporated areas also generated revenues from the Cook County sales and property taxes, which totaled nearly \$15.5 million in revenue. However, those taxes are imposed at the same rate in both incorporated and unincorporated areas and are used to fund all county functions.

Revenues Generated Solely Within the Unincorporated Areas

Income Taxes. The State of Illinois allocates income tax funds to Cook County based on the number of residents in unincorporated areas. If unincorporated areas are annexed to municipalities, then the distribution of funds is correspondingly reduced by the number of inhabitants annexed into municipalities.²⁰ In FY2014 the County collected approximately \$12.0 million in income tax distribution based on the population of residents residing in the unincorporated areas of Cook County.

The Wheel Tax. The wheel tax is an annual license fee authorizing the use of any motor vehicle within the unincorporated area of Cook County. The annual rate varies depending on the type of

²⁰ 30 ILCS 115/2, section 2 (a).

vehicle as well as a vehicle's class, weight, and number of axles. Receipts from this tax are deposited in the Public Safety Fund. In FY2014 the tax generated an estimated \$3.8 million.²¹

Building and Zoning Department Fees: The Cook County Department of Building and Zoning assesses a number of permit and zoning fees, which generated nearly \$3.7 million in revenues in FY2014. These fees include:

- Contractor's Business Registration Fee: There is a fee of \$105 for initial registration and a fee of \$52.50 for renewal.
- Annual Inspection Fees: \$63 per hour per inspector for inspections by plumbing, electrical, building, fire, elevator and liquor and/or food dispensing establishments.
- Local Public Entity and Non-Profit Organization Fees: As of December 1, 2014, all organizations are required to pay 100% of standard building, zoning and inspection fees.
- In addition, there are a number of specific zoning, building permit, mechanical permit, electrical permit, plumbing permit and temporary permit fees.²²

State Retailer's Occupation Tax: The State of Illinois imposes a tax on the sale of certain merchandise at the rate of 6.25%. Of the 6.25%, 1.0% of the 6.25% is distributed to Cook County for sales made in the unincorporated areas of the County. In FY2014 this amounted to approximately \$2.8 million in revenue. However, if the unincorporated areas of Cook County are annexed by a municipality this revenue would be redirected to the municipalities that annexed the unincorporated areas.

Cable Television Franchise Fees: Cable television providers pay a fee to the County for the right and franchise to construct and operate cable television systems in unincorporated Cook County. In FY2014 the fee generated nearly \$1.3 million in revenue.

Liquor License Fees: Businesses located in unincorporated Cook County pay a fee in order to obtain a license that allows for the sale of alcoholic liquor. The fee is paid annually upon renewal of the application. The minimum required license fee is \$3,000 plus additional background check fees and other related liquor license application fees. In FY2014 these fees generated \$365,904.²³

General Business License Fees. Businesses in unincorporated Cook County engaged in general sales, involved in office operations, or are not exempt are required to obtain a Cook County general business license. The license fee is \$40 for a two-year license.²⁴ In FY2014 Cook County generated approximately \$32,160 in revenue from business license fees in unincorporated areas. The exhibit below provides an overview of revenues generated solely within the unincorporated

²¹ Cook County FY2016 Budget, p. 40.

²² A complete list of Cook County Department of Zoning and Building fees can be found at <http://www.cookcountyil.gov/wp-content/uploads/2014/06/14-5599-Building-Fee-Schedule.pdf>

²³ Cook County FY2016 Budget, p. 40.

²⁴ Cook County Ordinances. Article X. General Business Licenses, Sections 54-380-54-395. Effective March 1, 2011.

areas. The two largest revenue sources are income tax and wheel tax receipts. Together they totaled \$15.8 million, or 65.9% of all unincorporated area revenues generated in FY2014. Building and zoning fees generated roughly 15.3% of all revenues. The State of Illinois Retailer's Occupation Tax Distribution generated approximately \$2.8 million. Cable television franchise fees generated nearly \$1.3 million in revenue. Smaller sums were generated from liquor license fees and general business license fees, which totaled approximately \$398,000 in revenue.

Cook County FY2014 Estimated Revenues Collected in Unincorporated Cook County		
Revenue Source	Amount	% of Total
State Income Tax Distribution	\$ 11,963,348	49.9%
Cook County Wheel Tax	\$ 3,836,749	16.0%
Cook County Building and Zoning Fees	\$ 3,673,233	15.3%
State Retailer's Occupation Tax Distribution	\$ 2,828,396	11.8%
Cook County Cable Television Franchise Fees	\$ 1,278,586	5.3%
Cook County Liquor Licenses	\$ 365,904	1.5%
Cook County General Business License Fees	\$ 32,160	0.1%
Total	\$ 23,978,376	100.0%

Sources: Cook County FY2016 Budget, p. 40; and Communication from Cook County Bureau of Finance April 23, 2015.

Revenues Generated in Incorporated and Unincorporated Areas

Cook County Property Tax. Property owners in Cook County paid a 0.560% property tax rate on the equalized assessed value (EAV) of their properties in tax year 2013 (payable in 2014). The estimated EAV of all Cook County unincorporated properties in tax year 2013 was \$2.3 billion. That generated approximately \$12.6 million in property taxes.²⁵ However, the same tax rate is imposed on all property owners countywide and cannot be classified as a revenue collected to provide municipal-type services to the unincorporated areas because all Cook County residents pay the Cook County property tax rate. If the unincorporated areas were eventually annexed, Cook County would continue to collect the Cook County property tax to fund countywide operations and residents would then also be subject to a municipal property tax, which is typically much higher.

Cook County Home Rule Retail Occupation Tax. Cook County imposes a sales tax on the sale of tangible personal property at retail countywide at the rate of 0.75%. The sales tax generated approximately \$333.5 million in total revenue in FY2014. If the unincorporated areas of Cook County are annexed by a municipality, the County would continue to collect this revenue source for countywide operations.

In an effort to eliminate the subsidy paid by taxpayers who reside in municipalities, the Federation offers the following revenue recommendations the County could explore in reducing the subsidy and having unincorporated residents pay the full cost of the municipal-type services provided by Cook County. These revenues should also be used for planning and other

²⁵ Cook County Clerk's Office. Data were from tax year 2013.

professional services related to the unincorporated areas of the county. Some of the following recommendations may require changes to current state law. However, many revenue recommendations can be implemented through Cook County's home rule authority.

Impose Incident Response Fees

The Cook County Sheriff's Police Department is the primary first-responder for police matters in the unincorporated areas of Cook County.

Municipal and county governments throughout the United States have implemented incident response fees on individuals outside of their jurisdiction in an effort reduce the tax burden on local residents and recoup the costs of responding to incidents. Currently there are approximately 15 municipalities and fire protection districts within Cook County that impose incident response fees.

As a home rule county, Cook County should explore the feasibility of imposing incident response fees on non-Cook County residents when the Cook County Sheriff's Police Department attends to calls for service within Cook County. Similarly, if a municipal police department is contracted to provide police services by a township to the unincorporated areas of a township, it too should impose an incident response fee on people from outside the jurisdiction of the township.

Increase the Wheel Tax

Cook County currently imposes an annual license fee on motor vehicles that are registered within the unincorporated areas of Cook County. The rate of the annual home rule wheel tax varies from \$80 to \$230 depending on the vehicle type. This Cook County home rule tax generated \$3.8 million in revenue in FY2014. The revenue generated from the wheel tax is deposited into the Cook County Public Safety Fund, but is not dedicated specifically to the Cook County Sheriff's Police Department patrols of the unincorporated areas of Cook County.

Cook County should annually evaluate the wheel tax as part of the budget process. Any increases in the wheel tax should be tied to the costs associated with delivering municipal-type services in the unincorporated areas of the County.

Impose a Real Estate Transfer Tax

Cook County currently imposes a real estate transfer tax on all transactions countywide at the rate of \$0.25 per \$500 of the transfer price which is paid by the seller.

Cook County should explore imposing a real estate transfer tax on buyers in unincorporated areas. Future residents of the unincorporated areas are perpetuating the unincorporated areas' existence and should bear the burden of helping to cover the cost of municipal-type services provided by the County. Additionally, such a tax may incentivize current residents who want to sell their properties to become incorporated so that their property does not become less desirable to purchase because of the real estate transfer tax. This may require a change in state and local legislation.

Establish Intergovernmental Agreements for Police Protection of Unincorporated Areas

The Cook County Sheriff's Police Department is currently the primary first responders for police matters in the unincorporated areas. As mentioned previously, the current policing strategy of the Cook County Sheriff's Police Department is inefficient, inequitable and the most costly municipal-type service provided by Cook County to the unincorporated areas at approximately \$37.8 million annually.

Cook County should work with municipal officials to form intergovernmental agreements with municipalities to be the primary first-responders for police matters in the unincorporated areas. The amount of the fee determined in the intergovernmental agreement should be fixed at an amount that would compensate for the full cost of the salary, benefits, patrol cars and other relevant expenses required for all police officers utilized in this agreement. This would eliminate the subsidy provided by countywide taxpayers with the ultimate goal of removing Cook County from providing municipal-type police services to the unincorporated areas.

Establish a Storm Water Management Fee in Unincorporated Areas

Cook County should work with the appropriate local, state and federal agencies to explore establishing an annual fee on property owners in the unincorporated areas to fund stormwater and other drainage system improvements. This fee would allow the County to make stormwater and drainage improvements in the unincorporated areas. The infrastructure improvements made by the County would improve stormwater management and may make the unincorporated areas more appealing to municipalities for future annexation. The fee could be based on the current land use of the unincorporated parcel. The implementation of this fee may require a change in current state law.

Establish a Police Protection Fee in Unincorporated Areas

Cook County should explore establishing an annual fee for police protection on the property owners in the unincorporated areas for the delivery of municipal-type police services. The revenue generated from this annual fee should be used by the County to pay for the costs associated with the Cook County Sheriff's Office providing municipal-type police services to the unincorporated areas. Municipal-type police services provided by Cook County to the unincorporated areas is the most expensive municipal-type service provided the County at approximately \$37.6 million. The fee could be based on the current land use of the unincorporated parcel. The implementation of this fee may require a change in current state law.

Explore Establishing Tax Increment Financing Districts in Unincorporated Areas

Cook County should work with township officials, other local elected officials, residents and businesses to explore the creation of tax increment financing (TIF) districts within townships to promote economic development and fund infrastructure improvements within certain unincorporated areas. Townships located in Cook County may establish a TIF district if the county adopts an ordinance approving the township's redevelopment plan.²⁶

²⁶ 65 ILCS 5/11-74.4-3

In property tax TIF districts, the total equalized assessed value (EAV) within the district at the time of creation is measured and frozen. Then, revenues generated from the incremental growth in property taxes over the frozen baseline amount are used to pay for redevelopment costs or infrastructure improvements. Once a development project is completed and has been paid for, the TIF district is dissolved and the tax base is returned to full use by all eligible taxing bodies. In Illinois, TIF is authorized for a period of up to 23 years, with the possibility of renewal for an additional 12 years.

Explore Establishing Special Service Areas in Unincorporated Areas

Cook County should work with local elected officials, residents and businesses to explore the creation of special service areas (SSAs) in certain unincorporated areas to provide special services, such as police protection or fund infrastructure improvements. This financing tool allows for local governments to establish the districts to provide special services or infrastructure improvements without issuing debt or levying a tax on the entire jurisdiction.

Special service areas may be established within a contiguous areas within a municipality or county in which government services are provided to above the basic level of services already provided by that government body. The special service areas (SSAs) primary funding source is property taxes. The amount of the special assessment should be set at an amount that would fully fund the municipal-type services and improvements that would enhance the quality of life for residents of the unincorporated areas.

Pursue Opportunities to Reduce Jail Costs

The jail population has decreased from over 10,000 in August 2013 to just over 7,000 in August 2017, a more than 30% drop over four years.²⁷ Due to the reduction in the jail population, two jail buildings with combined capacity of 520 were demolished in 2017 and another building with capacity of 1,250 is expected to be torn down in 2018.²⁸ The closure of these divisions is expected to save more than \$3 million in building operating costs per year and avoid \$188 million in maintenance and renovations over the next decade.²⁹ However, the FY2018 proposed budget had only \$527,000 in savings related to the decline in the jail population.³⁰ The Sheriff has said there are plans to close another jail division if the number of detainees continues to fall.³¹

²⁷ Illinois Sentencing Policy Advisory Council, *Quantifying the County Adult Criminal Justice Costs in Illinois*, December 6, 2016, p. 5, http://www.icjia.state.il.us/spac/pdf/Quantifying_County_Adult_Criminal_Justice_Costs_in_Illinois_120616.pdf (last accessed on September 12, 2017). A study by the Cook County President's Office, obtained by the Civic Federation under the Illinois Freedom of Information Act, estimated total jail costs at \$528.0 million in FY2014, or \$162 per detainee per day.

²⁸ Communication between the Civic Federation and the Cook County President's Office, September 27, 2017.

²⁹ Cook County Government, "President Preckwinkle, Sheriff Dart Announce Demolition of Underutilized Jail Buildings," *news release*, November 30, 2016.

³⁰ Cook County FY2018 Executive Budget Recommendation, Budget Briefing, October 5, 2017.

³¹ Statement by Cook County Sheriff Tom Dart at Cook County Board of Commissioners Finance Committee meeting, October 26, 2017, <https://cook-county.legistar.com/Calendar.aspx#> (last accessed on October 29, 2017).

The Sheriff's total recommended budget for FY2018 was \$641.7 million, an increase of \$17.4 million or 2.8% over FY2017.³² According to budget documents, the Cook County Department of Corrections' appropriations for salaries and wages at the jail rose by 42.7% to \$274.9 million in FY2018 from \$192.7 million in FY2011. Budgeted overtime increased from \$13 million in FY2011 to \$23.0 million in FY2018, an increase of 76.9%.³³ These increases in salaries and overtime are occurring as the number of FTE positions within the Department of Corrections has fallen from 4,295 in FY2016 to 4,204.5 in the FY2018 recommended budget.³⁴

The cost of overtime at the Cook County Jail has been a widely discussed topic recently. Ideally as jail divisions are closed, the costs associated with jail personnel should decrease. The Civic Federation encourages the Cook County Board of Commissioners to request more information from the Sheriff to justify costs within the Department of Corrections and identify plans to produce larger savings based on closures of divisions in the jail.

Other Possible Reforms

Commissioners have proposed several ideas during the FY2018 departmental budget hearings that could make the County's administrative functions more efficient, such as streamlining human resources, information technology and procurement. The Civic Federation is encouraged that Commissioners are asking questions about these kinds of structural changes and that some elected officials have indicated they are open to these ideas. While streamlining these types of functions may not result in immediate savings, it would create more efficient service delivery. The Civic Federation recommends that the County continue to explore these ideas and implement changes to County Code and pursue changes to State statute where necessary to allow for merging functions as appropriate.

Create a Unified Office of Property Tax Administration

The Civic Federation recommended in its 2010 Cook County Modernization Report³⁵ that the County create a unified property tax administration office. The new office would merge the Treasurer's office; the County Clerk's tax extension, tax redemption and map divisions; the part of the Recorder of Deeds office dealing with property records (the entire Recorder of Deeds office will now be moved into the County Clerk's office in 2020); and the Auditor's property functions. It would be led by an appointed official. In 2010 the Civic Federation estimated that the merger would save 5% from the General Funds expenditures for the different offices, which totaled \$30.4 million at the time. Using the 5% estimate, up to \$1.5 million might have been saved.

³² Cook County FY2018 Executive Budget Recommendation, Volume 2, p. Y-1.

³³ Cook County FY2011 Appropriation Bill Volume 2, p. V-56; Cook County FY2018 Appropriation Bill, Volume 2, p. Y-3.

³⁴ Cook County FY2018 Executive Budget Recommendation, Volume 2, p. Y-51.

³⁵ The Civic Federation's Cook County Modernization Report is available at <https://www.civicfed.org/civic-federation/publications/cook-county-modernization-report>.

Several previous proposals had called for merging the assessor's office into a unified property tax administration office.³⁶ However, the Federation believes that this move could potentially compromise the integrity and independence of the property assessment process. Instead, assessment should be maintained separately from the property tax extension, redemption, collection and disbursement processes.

Since the release of the Modernization Report, an opinion from the Cook County State's Attorney's Office requested by Commissioners held that a change to State law would be required to implement this change. The Civic Federation continues to recommend that Cook County work to streamline property tax functions into a single office for better management and efficiency.

CONCLUSION

The Civic Federation's proposals are not intended to provide an alternative budget proposal, but are instead a starting point for potential savings. The County is confronted with a revenue crisis, but at the same time an opportunity to further modernize operations. Unfortunately, Cook County has run out of easy revenue options. The Civic Federation applauds the Board of Commissioners for presenting creative and constructive ideas and questioning elected agency officials about ways to restructure and reduce costs. The Civic Federation encourages Cook County officials to continue working together to demand the information they need to identify lasting savings as departmental hearings and budget deliberations continue over the next few weeks.

³⁶ See Cook County Commissioner Mike Quigley, *Reinventing Cook County*, Part I, December 2003, pp. 20-22 and Civic Federation Statement on House Bill 1346, Seventy-First Session, Illinois General Assembly (1959).