RECOMMENDATIONS OF THE IRFC

Statutory Report to the Cook County Board of Commissioners

August 29, 2022

COOK COUNTY
GOVERNMENT
Bureau of Finance

Introduction

The Office of the Chief Financial Officer (OCFO) presented the FY2023 Preliminary Forecast[1] and long-term revenue forecast to the Independent Revenue Forecasting Commission (IRFC) at their June 30, 2022 meeting. The IRFC analyzed the forecast and met on July 28, 2022 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 FY2021,[2] reflecting the need to document and monitor the implementation of previous recommendations. These recommendations are described in detail below:

1. Continue to improve quality and consistency of Health Fund revenue modeling
2. Deepen and extend use of recent data on national, state, and local economic activity
3. Document revenue forecasting methodology
4. Explore opportunities to improve fee revenue forecasting
5. Incorporate new analysis and data reflecting short- and long-term changes in work and spending patterns
6. Explore revenue options to sustain selected ARPA programs in the long term

Recommendation 1: Continue to improve quality and consistency of Health Fund revenue modeling

The County should continue its ongoing efforts to revise charts of accounts related to the Cook County Health and Hospitals System (CCHHS), which accounts for $4.0 billion of the County's FY2023 preliminary forecast.[3] Revisions will make is easier to track, monitor, and ultimately forecast revenues from CCHHS,

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[1] Cook County, FY2023 Preliminary Forecast Report, https://www.cookcountyil.gov/sites/g/files/ywwepo161/files/documents/2022-06/FY2023%20Cook%20County%20Preliminary%20Forecast.pdf.

[2] Recommendations of the IRFC, Statutory Report to the Cook County Board of Commissioners, August 31, 2021, https://cook-county.legistar.com/View.ashx?M=F&ID=9817587&GUID=07E1B307-1724-4621-845D-3A832057F604.

[3] Cook County, "FY2023 Cook County Preliminary Forecast," June 23, 2022, 30, https://www.cookcountyil.gov/sites/g/files/ywwepo161/files/documents/2022-06/FY2023%20Cook%20County%20Preliminary%20Forecast.pdf?utm_medium=email&utm_source=govdelivery.

particularly Health Plan Services revenues (essentially capitation revenues from CountyCare) and Net Patient Service Revenues (fee-for-service revenues from the County's health facilities and providers).

- To improve transparency and forecasting, CCH and the County is on track to implement 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 for the FY2023 executive budget recommendation. This change will represent a cumulation of work during FY2023 to collaborate with CCH on the restructuring and testing of the new accounts. Moving forward, full implementation of the new accounts will require significant effort and coordination between the County's Bureau of Finance, CCH's Finance staff, and application/system administrators to ensure the changes are reflected in the budget, the annual comprehensive financial report, and other unaudited financial statements.

- Moreover, the new accounts have been integrated into the OCFO's long-term revenue modeling and forecasting. OCFO staff has collaborated with CCH via biweekly meetings to refine modeling and forecasting assumptions that will allow the revenue to be forecasted based on the new accounts. These forecasting assumptions detail CountyCare membership and per member per month rates, as well as hospital gross revenues, payors, collection rates, and other factors driving NPSR, by facility. The modeling will have to be monitored throughout the fiscal year to ensure that actual revenues associated with the new accounts are consistent with the assumptions.

- Explicit assumptions about factors driving CCH revenues can be assessed for internal consistency with assumptions driving the County's general funds forecast. While CountyCare revenues are largely driven by regulatory and political decisions made by others (e.g., capitation rates, re-determination status, etc.), new CountyCare enrollments and NPSR will also reflect in part the same economic conditions affecting some general funds revenues.

To achieve this, monthly information must be recorded properly under the new accounts. Next steps include:

- OCFO should compare monthly financial and income data from CCH, as well as monthly revenue data booked in EBS to forecasting assumptions
- OCFO should work with CCH staff during biweekly meetings to verify modeling assumptions based on monthly data reporting
- OCFO and CCH should collaborate to resolve any inconsistencies by adjusting monthly revenue reporting, the new accounts, or modeling assumptions, as appropriate

Recommendation 2: Deepen and extend use of recent data on national, state, and local economic activity

The County should continue its efforts to monitor, track, and exploit weekly, monthly, and quarterly data releases on sales, output, prices, and labor markets to inform its near-term outlooks and forecasts. This is particularly important in the current inflationary environment.

- Several of the County's General Fund revenue sources are economically sensitive. The County's Home Rule Sales Tax has a significant relationship with Gross Metropolitan Product for the Chicago Metropolitan Statistical Area,[4] and is used as a direct input into the forecast. Other taxes, such as the County Use Tax and the Amusement Tax, also tend to be economically sensitive, and forecasted according to different economic scenarios to understand how the County's General Fund balance may be affected in the future.

- Because high rates of inflation affect different revenue sources in different way, the County should investigate inflation's impacts on selected revenue categories and adjust forecasting techniques as indicated. When the increases in the price of goods outpaces downward pressure on demand, inflation drives revenues generated from taxes imposed as a percent of the price. For example, Use Tax revenues are a product of demand for titled property and the price of those products. Currently elevated levels of inflation are driving up tax revenues even as sales fall. However, for volume-based taxes, when price increases put downward pressure on demand, revenues decline. For example, increases in motor fuel prices are reducing demand for gas, which reduces the County's per-gallon gas tax revenue.

The current inflationary environment calls for a reexamination of how changes in price affect General Fund revenues as compared to changes in demand for the product that is taxed, revising forecasting techniques as need to avoid having high rates of inflation growth inappropriately applied to the long-term forecast. Next steps include:

- OCFO should create a calendar of economic data releases and integrate that calendar into the OCFO forecasting schedule for FY2023. The following represent a preliminary list of items that will be considered for inclusion:
  - Economic indicators: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, U of I Flash Index
  - Economic forecasts: Moody's Analytics, Federal Open Market Committee, Congressional Budget Office, Wall Street Journal, Survey of Professional Forecasters
  - Revenue data: Illinois Department of Revenue, CCH monthly financial reports
- OCFO should analyze FY2023 revenue estimates for the FY2023 Executive Recommendation to ensure that forecasting assumptions to do not improperly apply inflation growth
- OCFO should reexamine long-term revenue and expense forecast methodology to disconnect the impacts of high inflation from other growth for the FY2023 Executive Recommendation

[4] The Chicago-Naperville-Elgin IL-IN-WI Metropolitan Statistical Area is defined by the U.S. Census Bureau as Cook, DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry, and Will counties in Illinois, Jasper, Lake, Newton, and Porter counties in Indiana, and Kenosha County, Wisconsin. See https://www2.census.gov/geo/maps/metroarea/us_wall/Mar2020/CBSA_WallMap_Mar2020.pdf.

Recommendation 3: Document revenue forecasting methodology

The IRFC recommends that the OCFO build on its previous work and publish a document explaining General Fund revenue forecasting methods and data sources for assumptions. [5] This should include explanations of statistical methodologies, as well as qualitative assumptions used in the long-term forecasting. The document could be updated regularly to reflect new or revised forecasting methods. This methodology document would build from the document the OCFO completed during FY2022 that outlined the methodology used to develop alternative forecasting approaches and techniques [6]. Next steps include:

- OCFO should draft an outline of the methodological report during the 1st quarter of FY2023
- OCFO should draft methodology for several key revenue sources and publish a preliminary methodology report during the 2nd quarter of FY2023
- OCFO should add additional revenue sources and revise the document to reflect methodology used for the FY2024 budget, and publish by the end of FY2023

Recommendation 4: Explore opportunities to improve fee revenue forecasting

The IRFC recommends that the County sharpen and deepen its analysis for forecasting revenues from fees and licenses. Many Cook County offices under the President, as well as offices of separately elected officials, impose a multitude of fees to recoup the cost of performing public services and other purposes; such fees are forecast to exceed $200 million in FY 2023 [7].[8] Currently, General Fund forecasts of fee revenue are aggregated by department. Obtaining data on the rates of each fee and the volume of each type of fee paid would allow for a more robust long-term revenue forecast. Forecasts of fee volume could leverage economic data, or even time-series data if fee volumes were collected over time. The IRFC recommends exploring whether data on fee volumes is available on key fee revenue sources, prioritizing those generating significant revenues. If data can be collected, the IRFC recommends determining the feasibility of changing methodologies around forecasting these fee revenue sources, particularly those that are economically sensitive and less driven by regulatory and policy decisions. The IRFC also recommends using data obtained on fees to publish a corresponding fee history document that outlines fees, rates, statutory authority, and the history of the fee, as a future step. Next steps include:

- OCFO should prioritize an initial set of fees to explore and collaborate with the offices that impose the fees to obtain data on fee rates and volumes, as well as other relevant data, including information around the services associated with the fee. These efforts should begin during the 1st quarter of FY2023.
- If data on fee rates and volumes are available, OCFO should test new forecasting methodologies during the 3rd quarter of FY2023, for potential utilization for the FY2024 forecast

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[5] Cook County, "Revenue Forecasting Methodologies," May 2021, https://www.cookcountyil.gov/sites/g/files/ywwepo161/files/service/revenue_forecasting_methodologies.pdf.
[6] Cook County.
[7] Cook County, "FY2023 Cook County Preliminary Forecast," 29.
[8] Cook County Code of Ordinances, Chapter 32, https://library.municode.com/il/cook_county/codes/code_of_ordinances?nodeId=PTIGEOR_CH32FE.

- If data is available, the OCFO should incorporate into a fee history document, similar to the tax history document, following FY2023

Recommendation 5: Incorporate new analysis and data reflecting short- and long-term changes in work and spending patterns

The County should build on analysis and insights of others to explore how the COVID-19 pandemic has affected how people live, work, and spend money in Cook County.

During the first two years of pandemic, the County experienced reduced General Fund revenues because of stay-at-home orders and other public health mitigations. Previous forecasting has leveraged public health metrics to forecast the impact of these mitigations on revenues. While the County used federal relief funds to offset the revenue losses in the short-term, many of these economic and spending patterns that shifted or reduced County revenues may last beyond the pandemic. For example, for many workers, the shift to remote work for all or part of the work week may be permanent. Remote work impacts where and how much people make purchases and travel, economic development, and business operational decisions. Lasting changes in these patterns may impact county revenues in the long-term.

Many other agencies and organization have an interest in understanding long-term changes that stemmed from the pandemic. For example, the Regional Transportation Authority is incorporating such work into its strategic planning process,[9] the Chicago Metropolitan Agency for Planning has undertaken a project on mobility recovery,[10] and economic development organizations have been analyzing development and mobility trends.[11] The IRFC recommends that the OCFO identify existing insights and data that could be reasonably and practically integrated into forecasts of hotel, parking, amusement, or other tax revenues that may experience impacts from long-term changes in work and spending patterns. Next steps include:

- OCFO should research and identify data sources that are updated regularly and could be functionally integrated into revenue forecasts during 2nd quarter of FY2023
- If data sources are identified, the OCFO should create a methodology that integrates this data into relevant revenue forecasts during the 3rd quarter of FY2023

Recommendation 6: Explore revenue options to sustain selected ARPA programs in the long term

The County should explicitly prepare for the FY2026 "fiscal cliff" generated by the American Rescue Plan Act (ARPA), under which the County will ultimately receive and expend about $1 billion to support the

[9] Regional Transportation Authority, 2023 Regional Transit Strategic Plan, https://www.rtachicago.org/plans-programs/2023-regional-transit-strategic-plan.
[10] Chicago Metropolitan Agency for Planning, Mobility recovery: Reimagining regional transportation post-pandemic, https://www.cmap.illinois.gov/programs/mobility-recovery.
[11] For example, see Chicago Loop Alliance, Loop Operations – Monthly Reports, https://loopchicago.com/do-business/httpsloopchicago-comdo-businessinvestresearch-and-resources/loop-operations-monthly-reports.

County's policy priorities.[12] As discussed at its January 31, 2022 meeting, the IRFC understands the County is assessing the fiscal sustainability of these ARPA-funded initiatives, and the IRFC recommends that process continue [13].

In the near-term, the County will be working to identify which initiatives would leave community needs unmet if they were to be discontinued after FY2026. To the extent that these initiatives 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 potential 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:

- OCFO should provide an analysis of the potential impact on the fund balance of providing funding support to initiatives determined to be necessary after 2026 as soon as practical.
- OCFO should identify revenue options for funding these programs after 2026 and develop a process or methodology for considering and evaluating the options throughout the ARPA eligible spending period. Fiscal, economic, and equity impacts should be considered as a part of the process.

Conclusion

Beyond the recommended methodological improvements identified above, the OCFO has worked closely with the IRFC to establish some significant changes in our revenue forecasting processes and procedures and performed significant levels of discovery to improve the breadth and detail of analysis within the long-term forecasts and scenarios. The OCFO is committed to collaborating with the IRFC on the continuous improvement of its forecasting methodologies and the development of scenario forecasts that both improve transparency and understanding of the risk associated with all the County's revenue forecasts.

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[12] For more information, see Cook County of Illinois, State and Local Fiscal Recovery Funds, 2022 Recovery Plan Report, https://www.cookcountyil.gov/sites/g/files/ywwepo161/files/documents/2022-07/2022%20Cook%20County%20American%20Rescue%20Plan%20Performance%20Report.pdf.

[13] Cook County Office of the Chief Financial Officer, "Quarterly Report to the IRFC," 19–24.