INTRODUCTION

PURPOSE

Cook County is dedicated to providing a high level of public service delivery while minimizing the use of taxpayer resources. The County recognizes that the best method of achieving this goal is to incorporate strong, goal-oriented financial policies and practices into all of its operations. Through the use of strategic and business planning and a sound resource allocation process, the County strives for fiscal resiliency that will ensure its core functions and mission are met even in the face of economic adversity.

The Cook County financial policies contained in this section provide a framework for the efficient and fiscally responsible management of County operations. The financial policies have been developed to (1) conform to Government Finance Officers Association (GFOA) and National Advisory Council on State and Local Budgeting (NACSLB) best practices; (2) comply with Cook County code of ordinances and State of Illinois statutes; and (3) provide various County entities with sound direction in managing the County's operations in an efficient and fiscally responsible manner.

1. BUDGETING POLICIES

ADOPTION OF A TIMELY BALANCED BUDGET

Cook County is committed to producing a balanced budget in a timely fashion.

The Cook County Board of Commissioners, in accordance with the applicable County code ordinance, will adopt an annual appropriation, which will appropriate sums of money to defray all necessary expenses and liabilities of Cook County. The County is committed to adhering to a balanced budget under normal circumstances and will provide disclosure when deviations are expected in either the preliminary budget forecast and/or executive budget proposal before the start of the next fiscal year.

Illinois statute provides that the Board of Commissioners adopt the annual appropriation bill prior to or during the first quarter of each fiscal year. County ordinance requires a budget forecast to be published 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 to 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 approach. 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. Adopting a structurally balanced budget before the start of the fiscal year allows for greater accountability and enhanced capacity to make mid-year corrections.

The annual budget document will also include:

- An overview of all available funding in a "Revenue Section"
- Identification of the key variables that affect the level of revenue
- Assessments of the level at which capital investment can be made in a "Capital Budget"
- Identification of future commitments and resource demands in a long-term forecast

MULIT-YEAR FORECASTING OF REVENUES AND EXPENDITURES

The County recognizes the importance of forecasting revenues, other resources and expenditures in order to understand the level of funding available for services and investment in capital improvement and equipment. The County will employ a conservative, but realistic forecasting approach allowing it to forecast revenues and expenditures as accurately as possible, rather than dealing in worst or best case scenarios. Assumptions for expenditures forecasts are consistent with parallel revenue and program performance assumptions. Forecasting methodology will include the following criteria:

- Analysis of historical, demographic, micro-economic, macro-economic and regulatory trends
- Understanding of the impact of strategic operational initiatives on future revenue and expenditures
- Linear regression analysis for revenues to predict possible trends

FINANCIAL POLICY REVIEW AND ADOPTION

Cook County will review the financial policies contained herein and any potential new policies annually during the budget process to ensure continued relevance and to identify any gap areas that should be addressed by new policies.

2. REVENUES

REVENUE DIVERSIFICATION

Prudent planning requires understanding the revenue streams that finance County operations. County revenue policies aim to achieve financial resiliency and thus minimize or eliminate service disruptions caused by revenue shortfalls through (1) limiting the exposure to one-time revenues; (2) conservatively estimating unpredictable revenues that fund ongoing expenditures; and (3) by diversifying its revenue base to avoid a single point of failure or overreliance on a single revenue solution.

The County requires a diversity of revenue sources in order to improve its ability to handle fluctuations in individual revenue sources associated with economic conditions. The County will review its projected revenue stream annually in conjunction with the executive budget proposal in order to (1) improve its revenue diversity to the extent feasible, and (2) ensure that taxes levied do not pose an undue burden on County residents or businesses or result in adverse economic effects when measured against the associated public services provided.

ONE-TIME AND UNPREDICTABLE REVENUES

The County defines one-time revenues as those 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 for recurring expenses. Prior to using one-time revenue for recurring expenses, the County must ensure that the source is structurally sound and that other revenue sources have been ruled out or exhausted. The source of one-time revenues must be thoroughly vetted and a determination must be made whether the revenue 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.

When dealing with unpredictable revenues, revenue estimates must be made in a conservative manner, and accompanied by a commitment to reduce expenditures 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 the 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 building permits and certain property tax-related services.

Per County code, Cook County maintains a comprehensive list of County fees. Some fees may be set at levels sufficient to cover the entire cost of service delivery or the service may be subsidized, as the County deems appropriate. The County will systematically review user fees and rates and consider adjustments as necessary to take into account the effects of additional service costs and inflation and to ensure that the rates will continue to support direct and indirect costs of operations, administration, plant maintenance, debt service, depreciation of capital assets, and moderate system extensions. The fee setting process will include (1) a calculation of the full cost of providing a service to provide the basis for setting the fee; and (2) a periodic review of the fees to ensure they are set at competitive rates.

3. GRANTS

Cook County Grants Management Policies are developed and enforced to (1) strengthen the oversight and requirements for internal controls; (2) ensure accountability of County agencies managing grant funds; and (3) ensure compliance with applicable federal, state, and County laws and regulations.

Each County agency applies and implements grant programs based on agreed upon compensation, performance, regulations, and guidelines outlined by each granting agency through a written and executed grant agreement. The County will only seek out grants that are consistent with its public mission and stated priorities and when the cost of administering the grant is at least fully offset by the funds received.

All County agencies shall adhere to procedures outlined in the County's Grants Manual for general administration of the grant, including accounting, budgeting, revenue recognition, eligible expenditure and reporting.

4. ASSET MANAGEMENT, CAPITAL IMPROVEMENT PLANNING AND BUDGETING OF CAPITAL

The following policies establish the framework for the County's overall capital asset planning and management. They provide guidance for current practices and a framework for evaluation of proposals for future projects. These policies also seek to improve Cook County's financial stability by providing a consistent approach to long-term fiscal strategy.

CAPITAL BUDGET

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, the Long-Range Transportation Plan, and the annual Capital Equipment budget. Modifications, however, may be necessary based on changes in the project scope, funding requirements, or other issues.

CAPITAL IMPROVEMENT PLAN

The County's Capital Improvement Program (CIP) sets forth the plan for the design, construction and renovation of buildings and building systems, making them safe, functional, efficient, and cost-effective to deliver Cook County services to the public.

The CIP will be based on the capital renewal and deferred maintenance priorities of the County and will contain an analysis of the following:

- A 10-year plan for future investments
- The impact on future debt service costs
- The impact on the operating budget

CAPITAL FUNDING

Capital funding will be made using the following criteria:

- Use of debt to finance components of the capital budget will be used only when other financing sources have been evaluated and deemed unavailable
- To the extent possible, improvement projects and major equipment purchases will be funded on a pay as-you-go basis from existing or foreseeable revenue sources.
- All equipment with a useful life of less than 5 years will be funded through pay-as-you-go means
- The County will prioritize equipment/projects costing less than $150,000 and equipment/projects with lower useful life to be funded through pay-as-you-go means
- The County will seek to decrease the planned budgeted expenditure on debt supported capital equipment every year with the goal of eventually funding capital equipment through pay-as-you means entirely, with the exception of large non-recurring multi-year initiatives
- The County will limit and clearly identify any County personnel that are associated with a capital project to be funded from debt proceeds, and will avoid the funding of recurring personnel costs from debt proceeds

DEBT ISSUANCE

Because interest costs impact our taxpayers and long-term financial flexibility, debt financing should be utilized only for the creation or full replacement of capital assets. Debt (including capital leases) may only be used to finance capital, including land acquisition, not ongoing operations. Projects that are financed through debt must have a useful service life at least equal to the debt repayment period.

FIXED ASSET INVENTORY

The County shall have a policy to inventory and assess all major capital assets annually. Accurate inventories of all physical assets, their condition, life spans, and cost will be maintained to ensure proper stewardship of public property.

ACHIEVEMENT OF MAXIMUM USEFUL LIFE

Cook County shall operate and maintain its physical assets in a manner that protects the public investment and ensures achievement of the assets' maximum useful lives. Establishing clear policies and procedures for monitoring, maintaining, repairing and replacing County equipment and essential components are central to good management practices. The County will develop written policies and procedures that address:

- Determination of ideal inventory totals per asset category
- Multi-year planning for renewal and replacement cycles using steady state analysis
- Determination of the best available funding stream for asset classes
- Annual maintenance plans that avoid unnecessary deferred maintenance costs

NEW FACILITIES

New County facilities will be planned within the overall business and service objectives of Cook County. To ensure that the public gains the maximum utility from the new facility or capital asset, the County will identify the full cost of building and operating the facility throughout its useful life. Resources generated from its operation or other sources will be identified to meet these needs. Acquisition or construction of new facilities shall be done in accordance with County adopted facility and/or master plans. Prior to approving the acquisition or construction of a new asset, an estimate of the full cost to operate and maintain the facility through its useful life and the plan for meeting these costs will be established.

5. DEBT MANAGEMENT

The County will prudently manage the issuance of debt to ensure that debt does not unduly burden County taxpayers, or 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 or 4% of Equalized Assessed Valuation (EAV)
- 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 be reasonably projected to exceed 15% of all funds' operating expenditures of the County in any given year
- Any capital project or equipment funded through the issuance of bonds will be financed for a weighted average period not to exceed the life of the project or equipment

In addition, the following processes will be observed:

- Communication will be maintained with bond and credit rating institutions, as well as capital market participants, lending institutions and financial advisors, regarding current and future financial conditions
    - Timely and comprehensive market disclosures will be provided, 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's credit agreements will not contain immediate acceleration provisions and acceleration will only be allowed upon the completion of a tax levy, extension and collection cycle
- 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, furthermore:
    - 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 and will require collateral from any counterparties that are downgraded below such a threshold.

6. OPERATING/CAPITAL EXPENDITURE ACCOUNTABILITY

At a minimum on a quarterly 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.

An annual review of capital 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 the 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. Corrective actions can include, but are not limited to, expenditure reductions, reallocation of capital funds and the sweeping of associated funds.

ENCUMBRANCES

An encumbrance is an accounting transaction where funds from a specific budgetary account are claimed for a specific purpose. Encumbrances allow the County to properly fund services that have been rendered and invoiced, but not yet paid. A fiscally sound encumbrance policy allows the County to liquidate encumbrance balances that are no longer required, while ensuring that our financial obligations are fully funded.

Accordingly, all operating fund encumbrances are available for the fiscal year following the date they are issued. One year later, all associated purchase orders that have not been expended are cancelled, unless the Department of Budget and Management grants an extension per the using department's request. While capital improvement and capital equipment encumbrances tend to have a longer encumbrance period, they are still evaluated using the same methodology for operating fund encumbrances.

7. LONG-TERM FINANCIAL PLANNING STRATEGY

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.

The County's long-range financial planning will help recognize the effects of economic cycles on the demand for services and the County's resources. Cook County financial planning will help ensure the delivery of needed services (many of which become more critical during economic downturns) by assuring adequate reliance on ongoing resources in order to support continued County services during economic downturns. The County is a major force in a complex regional economic system; hence, it must understand and anticipate changes in both regional and national economic trends in order to engage in strategic financial and management planning. Therefore, to the extent possible the long term growth rate of the County's expenditures will be targeted to match the long term growth rate of the County's revenue sources.

8. 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), although the County as a home rule unit of government is not bound by the Act. A separate investment policy is maintained by the Cook County Treasurer's Office.

Cook County acknowledges three inherent 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, or foregoing investment income on a risk adjusted basis based on inefficient investment selection.

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.

9. FUND DIVERSITY AND STABILIZATION/FINANCIAL RESERVE POLICY

In its effort to achieve financial resiliency, Cook County has established a diversity of funds. Some of these different funds are used to account for non-current liabilities like workers' compensation while others are self-supporting internal funds that contribute to efficient overhead services. The diversity of funds helps reduce the burden on the general fund and keeps it from becoming a single source of fiscal stress.

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

Cook County's financial reserve policy is to maintain an unassigned fund balance in the General Fund of no less than one month, with a targeted goal not to exceed 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.

10. SELF-INSURANCE FUND

Cook County shall maintain a Self-insurance Fund for employee health benefits and workers compensation related claims. The County will establish a premium or premium equivalent to represent the actuarial cost of specific health plans; based on which, funds will be appropriated in Fixed Charges, Special Purposes Funds and Grants annually. On a monthly basis, the premium or premium equivalent will be charged to fixed charges, special purpose funds and grants, and credited to the Self-Insurance Fund to cover all of the actual claims and build up a reserve amount to the actuarially recommended levels. Premium equivalent calculation shall be revised as necessary at least annually.

Cook County recognizes that it is prudent to maintain a healthy level of financial resources to protect against reducing service levels or raising taxes or fees due to unpredicted, catastrophic financial events. The County shall strive to maintain a fund balance in the Self Insurance fund of not less than one and one half months of estimated current claims to provide financial support to cover unforeseen or catastrophic events and emergencies not covered by any stop-loss insurance procured by the County.

11. ACCOUNTING, AUDITING & 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
- 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 September 1st 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 31st of each year

12. PERFORMANCE MANAGEMENT

The use of performance measures and standards in the planning and resource allocation processes, as well as the public reporting of performance information, will result in a more efficient and effective utilization of County resources. Performance management will also yield improved results for the public and will ensure that the County as a whole is addressing its core functions and mission.

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.

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