Cook County ends FY14 with USD 4.5bn deficit; CFO vows expense reductions
By Gunjan Banerji
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Cook County will grapple with its two biggest expenses in FY16 in order to climb out of a USD 4.5bn deficit incurred in FY14, said Cook County CFO Ivan Samstein.

As the county released its FY14 comprehensive annual financial report (CAFR) yesterday, it revealed progress with trimming two of its biggest expenses but nonetheless sunk deeper into a deficit. For the FY16 budget, **Illinois**' largest county will shave expenses where possible, but how it will address its widening deficit and bleeding pension fund remains unclear.

Cook County is not in as much financial trouble as the city of Chicago, but it still has to watch its finances, said Tamara Lowin of Belle Haven Investments.

For the next budget cycle, the county will focus on its health system and court system, its two largest drains, said Ivan Samstein, chief financial officer of the county.

The county's operating revenues increased by 78% to USD 1.26bn in FY14 from USD 709.5m in FY13 due to the Medicaid Expansion program spearheaded in FY13. By expanding Medicaid, which the federal government pays for, Cook County tax payers subsidize less charitable care, said Samstein. The county has already started whittling subsidies to its health system and will continue to do so, Samstein said.

For the FY16 budget, the county will assess eliminating vacancies and reducing pre-trial detainee population in the court system, Samstein said. This has already borne fruit, Samstein said. The county's courts expense declined by 6% to USD 1.1bn in FY14 from USD 1.2bn in FY13. The county will also look into demolishing several buildings and reducing its vehicle fleet.

This could constitute over USD 100m in spending reductions, Samstein said.

Despite improvements in operating costs, the county's deficit continued to widen. Its overall deficit widened by 18% to USD 4.5bn in FY14 from USD 3.8bn in FY13.

In light of this, the county is wise to spring for the sales tax increase despite the public outcry, a municipal credit analyst said. It is the responsible public policy decision, the analyst said.

The sales tax increase faced much debate at a Cook County Board meeting, as previously reported. Local politicians and community stakeholders sparred regarding passing a sales tax months before the budget had to be finalized.

Others pointed to the neighboring distressed municipalities that could use a boon from the sales tax more than Cook County.

This will bring in between USD 308m and USD 470m for the county.

Pensions continue to weigh on county

The County Employees' and Officers' Annuity and Benefit Fund of Cook County's unfunded actuarial accrued liability is USD 5.3bn and has a 62.3% funded ratio, according to the fund's annual financial report, also released yesterday.

The county made a fraction of its required ARC payment as the plan's investment rate of return slid. It made a USD 146m contribution to the County Employees' and Officers' Annuity and Benefit Fund of Cook County, or 28% of its USD 515m ARC.

Meanwhile, the plan's investment rate of return fell to 5.9% in FY14, down from 15.1% in FY13. The county's net OPEB obligation has steadily grown since FY12, hitting an all-time high of USD 875m in FY14. Cook paid only USD 45m of its USD 189m ARC payment in FY14.

Pension reform for the Cook County plan currently floats in the Illinois legislature, part of a package of bills that includes access to municipal bankruptcy for Illinois locals and reform for Chicago, the Chicago Board of Education and Cook County.

Cook County has a total of USD 3.7bn in outstanding general obligation debt, USD 480m of which is variable rate debt. The variable rate is susceptible to a default rate if the county's ratings drop to Baa3 by Moody's, BBB- for Standard & Poor's, and BBB- for Fitch.

Moody's downgraded the county to A2 from A1 with a negative outlook in June 2015. S&P gives the bonds an AA rating with a stable outlook, effective 10 January 2014. Fitch rates the bonds at A+ with a negative outlook, effective 11 July 2014.

While the county recently hired PFM Group and Sycamore Advisors for debt-related matters, a refinancing is not on the horizon at the moment, Samstein said. The county will continue to monitor market conditions and its credit rating in managing its debt, Samstein said.