

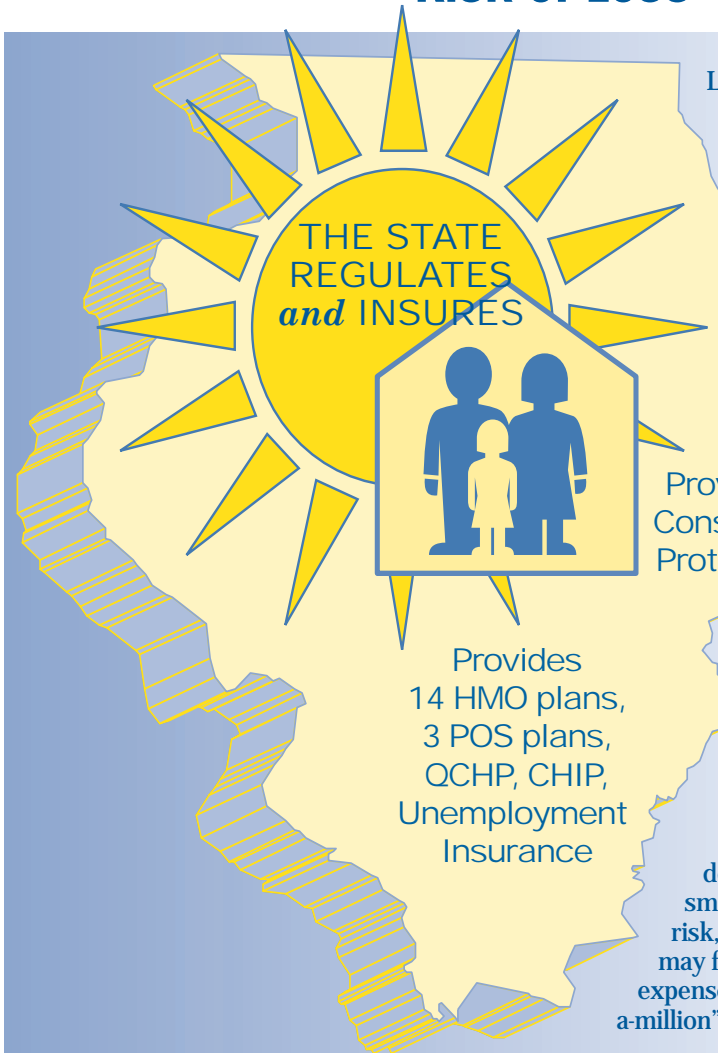
Fiscal Focus

Comptroller Loleta A. Didrickson

June 1998

State of Illinois

COVER STORY: Insurance – Managing The Risk of Loss



Life is filled with risks. People get sick. Automobiles get into accidents. Buildings can burn and tornadoes can flatten entire neighborhoods. A common element to these events is the possibility of loss—financial loss, or even the loss of life.

Another common element is uncertainty, or the likelihood of having to deal with the costs associated with risks.

For an individual, the likelihood of getting sick or getting into an accident may be extremely small. However small the risk, the same individual may face enormous expenses if they are the “1-in-a-million” to whom something

In This Issue...

Fiscal Smarts:

“Truth in Budgeting”

... page 3

Stacks Up:

“Average Unemployment

Compensation” ... page 5

Focus on Revenue:

“Insurance Taxes and Fees”

... page 10

happens. Dealing with this exposure can take many different approaches.

One technique is to closely review the relevant activities and see if there are opportunities to reduce the probability of something bad happening. For example, having wiring and chimneys in older homes inspected and installing smoke detectors can reduce the potential for fire in the home. Taking driver’s education classes and behind-the-wheel training can reduce the chances of being involved in an automobile accident. Businesses go through similar exercises to determine where their exposures are and what steps can be taken to minimize the risks.

Even with the best efforts, it is still usually not possible to eliminate all risks. More importantly, it is usually not practical financially to eliminate all risks. The cost of prevention needs to be weighed against the costs to be protected against. For individuals, the answer is often to seek protection within a larger group, or pool, of individuals. While it may not be possi-

A Message To You... from Comptroller Loleta Didrickson



Greetings!

Insurance is a big industry here in the State — Illinois insurance company payroll has increased 45% since 1977 and the industry reports \$39.7 billion in premiums paid here. In this June issue of *Fiscal Focus*, we look at how Illinois regulates the 1,947 licensed insurance companies through the Department of Insurance and the Department's \$23 million budget; and how the State functions as an insurer both through state employee health care plans and CHIP (Comprehensive Health Insurance Plan) for those that are "uninsurable."

Also, with the General Assembly passing the fiscal year 1999 budget, we explain in

Fiscal Smarts the positive impact Truth In Budgeting had on this year's budget process. For the first time, the Governor had to propose, and the General Assembly had to pass, a true balanced budget that shows revenues when they are earned and costs when they are incurred. Truth In Budgeting will do a great service to those taxpayers who want to honestly know how the State is spending their tax dollars.

Enjoy!



Fiscal Focus



State of Illinois Employee Health Insurance Coverage

Fiscal Focus is one of the ways the Comptroller's Office strives to assist taxpayers and the people of Illinois. This monthly report is designed to provide fiscal information of general interest and in compliance with state statutes.

Editorial staff: Robert Brock and Kim Clarke Maisch.

Writers & Analysts: Kevin Fitzpatrick, Loren Iglarsh, William Dracos, Jim Ofcarcik, Bonnie Ettinger and Frank Hartmann.

Production: Butch Shoopman, Brenda Voyles and Janet Irlam.

Fiscal Focus is published by Comptroller Loleta A. Didrickson, 201 State House, Springfield, Illinois, 62706. Questions or comments may be directed to (217) 782-6000.

Web Address: <http://www.comptroller.state.il.us>

In compliance with the Americans with Disabilities Act, this document may be requested in alternative formats by contacting the Office of the Comptroller at (217) 782-6000 or calling the IOC Telecommunications Device for the Deaf (TDD) number, (217) 782-1308, or by visiting the Illinois State Capitol Building, 201 State House, Springfield, Illinois.

The Illinois Office of the Comptroller is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, marital status, national origin, ancestry, age or disability in employment or in the provision of any services, programs or activities.

Printed by the Authority of the State of Illinois 6/98 3550 Job 32110

Printed with Soyloil Based Ink
Reproduction of articles from this issue or portions thereof is allowed with proper attribution to *Fiscal Focus*, Illinois Office of the Comptroller.

Retired and current employees of the State of Illinois and their dependents are among the groups that are eligible for a variety of health, dental, life and other insurance programs and benefits made available through the state. (Other groups include retired teachers and local governments.) Individuals may choose from a variety of managed care programs or they may choose the state's self-insurance program, Quality Care Health Plan (QCHP), which is administered by the Department of Central Management Services (CMS). The cost of the employee monthly premiums, the coverage provided and the deductible levels vary depending on which plan is selected and the annual salary of the employee.

Although the data reveals a migration away from the state's indemnity plan by various member groups, in fiscal year 1998 a majority of state members (55 percent) enrolled in the QCHP and the remaining 45 percent enrolled in managed care programs.

Table 1 illustrates the monthly premium costs for employees choosing the state's self-insurance program, QCHP. Table 2 indicates the range of monthly premium costs under various plans for dependent coverage. The state's portion of the premium costs vary depending on the type of plan selected. According to a report by the Illinois Economic and Fiscal Commission (3/98), the state's fiscal year 1999 monthly premiums average from \$172 to \$294 per employee.

Table 1

Monthly Employee Health Plan Contributions (State of Illinois)	
Employee Annual Salary (As of April 1, 1998)	Monthly Employee Contribution
\$24,400 or less	\$15.00
\$24,401-\$36,700	\$20.00
\$36,701-\$48,900	\$22.50
\$48,901-\$61,200	\$25.00
\$61,201 and over	\$27.50

Source: "State of Illinois Benefit Choice Options, July 1, 1998 - June 30, 1999," IL Dept. of Central Management Services

Table 2

Monthly Dependent Health Care Plan Premiums

Provider	Medicare A & B Primary			
	One Dependent	Two or More Dependents	One Medicare Dependent	Two or More Medicare Dependents
Quality Care Health Plan	\$115	\$145	\$61	\$122
HMO	\$20-\$72	\$34-\$124	\$19-\$67	\$34-\$124
Point of Service Plan (POS)	\$59-\$64	\$101-\$110	\$53-\$60	\$101-\$110

Source: "State of Illinois Benefit Choice Options, July 1, 1998 - June 30, 1999," IL Dept. of Central Management Services



Truth In Budgeting – Increasing State Accountability to its Taxpayers

Amid the annual hoopla that accompanies the passage of the state budget each spring, a significant change in the budget process has largely gone unnoticed. For the first time, the state is now required to prepare a budget on the basis of revenue and expenditure measurement concepts in concert with Generally Accepted Accounting Principles (GAAP) for governments.

The Truth In Budgeting Act (Public Act 90-479), of which Comptroller Loleta Didrickson was a leading proponent, was enacted in August 1997 to give taxpayers a clear and honest view of the state's budget.

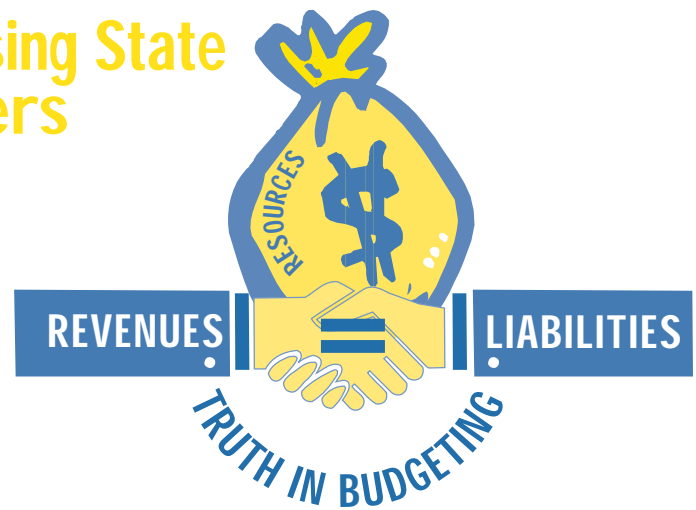
The new law requires the Governor to propose, and the General Assembly to enact, a true balanced budget that shows revenues when they are earned and costs when they are incurred. Six funds are affected by the new law: General Revenue Fund; Common School Fund; Education Assistance Fund; Road Fund; Motor Fuel Tax Fund; and, Agricultural Premium Fund (in all about 70% of non-federal/non-fiduciary budgetary resources).

Truth in Budgeting is really a very simple concept—it requires that budgets be built by matching the revenue and liabilities within a given fiscal year. Although the idea may be simple, the actual process is somewhat more complicated.

The state fiscal year spans twelve months—July 1 through June 30. Although there are cash-based transactions that the state engages in every day, not all of those are part of that fiscal year's activities. To get a better idea, consider the examples that follow.

If you buy a new car on June 25, 1998, the sales tax that you owe is based on a transaction that occurred during fiscal year 1998. However, by the time that payment makes its way to the Department of Revenue and ultimately into the State Treasury, it may be July—of fiscal year 1999. Before Truth in Budgeting, those sales tax dollars would have been counted as part of the new fiscal year's revenue, even though the tax liability was from the prior fiscal year. Under Truth in Budgeting, the dollars from a prior year's tax liability that are collected by the state after the start of the new fiscal year are to be considered part of the prior year's resources. Any tax liabilities that occur within the new fiscal year but are expected to be collected after the start of the following fiscal year are to be counted as part of the new fiscal year's resources.

On the spending side, a similar calculation occurs. Any payment that is issued after June 30th for activity that occurred during the fiscal year also needs to be counted as part of that year's spending. Under the State Finance Act, there are two basic types of spending that would qualify. The first is lapse period spending, which consists of payments that are issued after June 30th and charged to a prior year appropriation. The other type of payment consists of a series of exceptions to Section 25 of the State Finance Act that allows certain bills from prior



years to be paid from appropriations in the new fiscal year. (For example, the Department of Central Management Services is authorized to use fiscal year 1999 Health Insurance Reserve Fund appropriations to pay for state employee health care services rendered during fiscal year 1998.)

In the past, this practice gave rise to periods when the traditional measures of the state's financial health, namely the budgetary balance (end of year available balance minus lapse period spending), failed to adequately reflect the state's fiscal condition. In those years, the budgetary balance calculation did not reflect these prior year liabilities as lapse period spending for the simple reason that they were not charged to the prior year's appropriation. Truth in Budgeting is intended to recognize this deficiency in cash-based measures such as the budgetary balance by requiring that all costs for a given year's operations and activities be tied back to that year and compared with the revenue generated within the 12 months of the fiscal year.

In his fiscal year 1999 budget proposal the Governor succeeded in outlining a plan that meets the letter of the Truth in Budgeting Act.

See *FISCAL SMARTS* back page





Local Governments

Managing Risk at the Local Level

Born out of necessity, risk pooling or self-insurance is becoming the wave of the future for local governments. Programs such as Township Officials of Illinois Risk Management Association (TOIRMA), Intergovernmental Risk Management Agency (IRMA), and Illinois Municipal League Risk Management Association (IMLRMA) have taken the initiative by stepping forward and managing insurance coverage to counties, municipalities and townships.

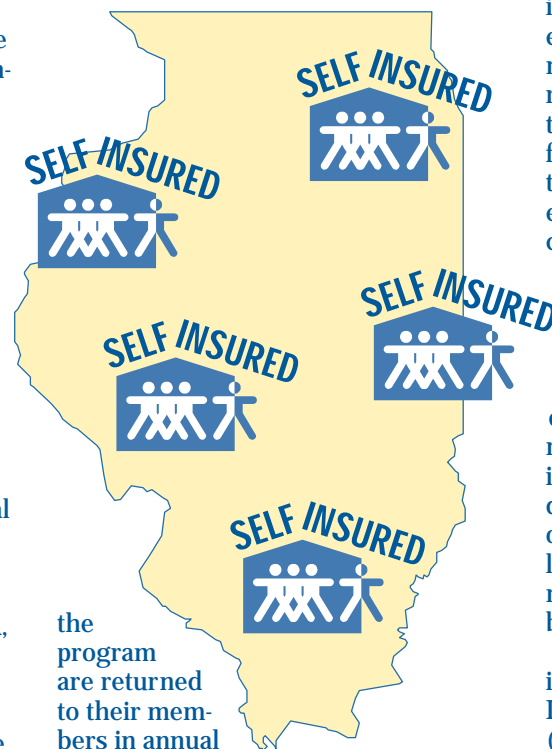
In the late 1970's the insurance industry could not provide insurance to local governments because of increasing costs. This led to passage, by the Illinois Legislature, of the "Intergovernmental Cooperative Contracts Act," which authorized public agencies to form self-insured, joint insurance pools. The Act requires all joint insurance pools to file an annual audited financial report with the Department of Insurance immediately preceding the pool's fiscal year. Currently the Department of Insurance has 41 intergovernmental risk pools, including three local governmental risk pools: TOIRMA, IRMA, IMLRMA.

While TOIRMA originally started as a planning initiative after the Act passed, today it has become one of the largest and fastest growing self-funded governmental risk pool programs in the nation.

TOIRMA is a self-funded pool that insures over 70% of all Illinois townships. The program is directed by an Operating Committee composed of five township officials responsible for providing association members with the broadest, most cost-effective coverage for township property, liability and workers compensation. Other types of coverage include: risk management, claims management, underwriting,

loss control, reinsurance placement, financial and marketing.

Members of TOIRMA pay on average \$8,000 yearly for insurance coverage, a cost that has remained stable for 12 years, and remains lower than comparable costs of commercial insurance. Funds that are no longer needed for



the program are returned to their members in annual dividends.

TOIRMA currently has a \$12 million reserve fund, as well as \$3.5 million provisional reserve fund for current claims.

Like townships, certain municipality associations have developed self-insured programs as well. The Illinois Municipal League (IML) started Illinois Municipal League Risk Management Association (IMLRMA).

IMLRMA is a not-for-profit association that operates for the purpose of providing a risk management, loss cov-

erage and claims administration for its members. The pool began in 1981 with 48 member cities and \$3 million in contributions; today, the pool has 580 cities and \$25 million in contributions, with an \$8 million surplus. At the end of 1996, IMLRMA had \$83 million in investments in cash equity.

Unlike a commercial insurance provider where decisions are influenced by financial board members or stock holders, IMLRMA is a program run by mayors who have experience with particular issues involving their own municipality's liability.

Another self-insured program dedicated to municipalities is Intergovernmental Risk Management Association (IRMA).

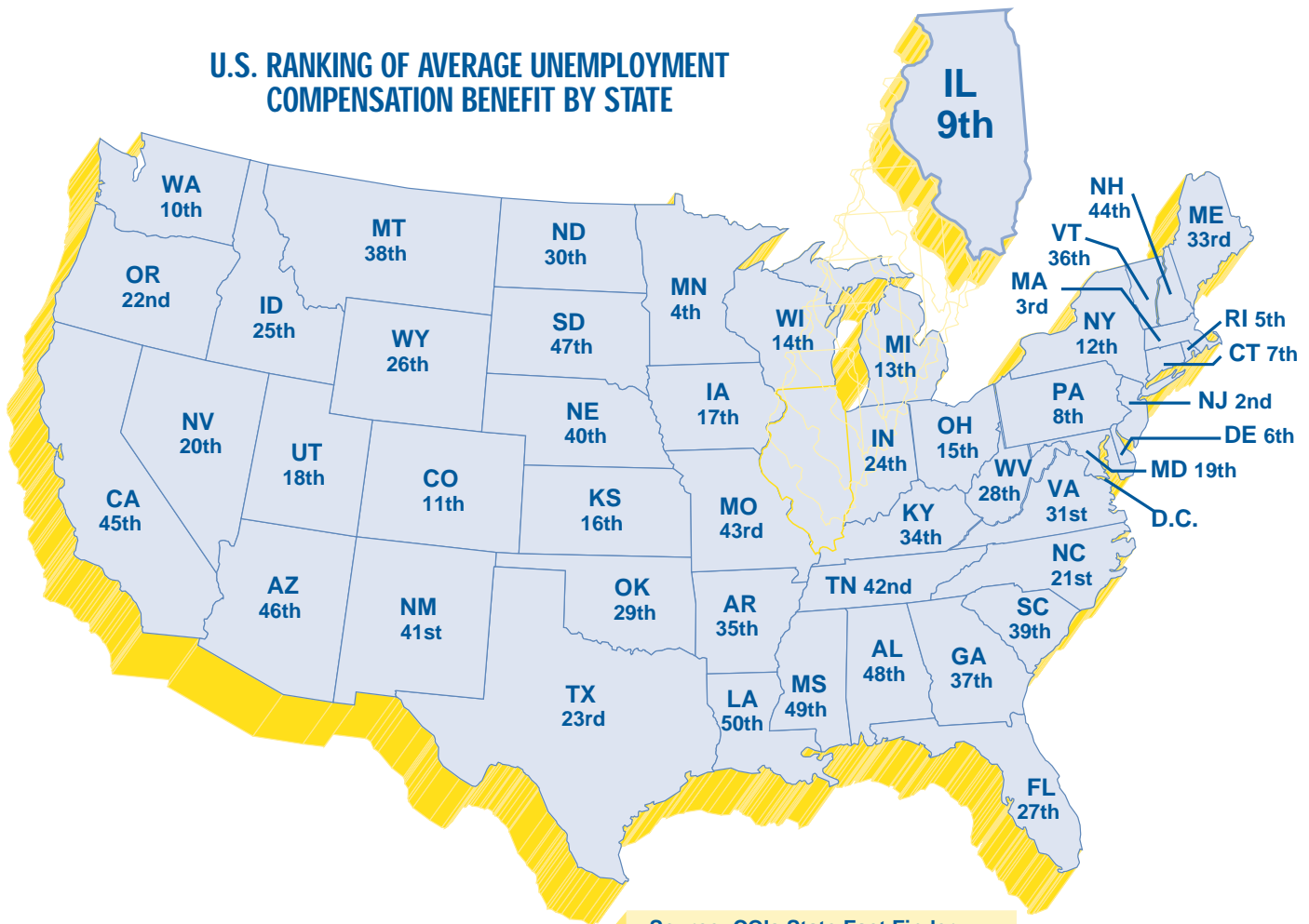
In 1977 IRMA started as a study group to measure the effectiveness of insurance pools, and within two years started its own risk pool. Today IRMA insures over 68 counties and is experiencing constant growth, adding a minimum of four new members a year. Its reserves are well over \$100 million and they have even established a surplus fund for economic downturns similar to what local governments experienced during the late 1970's insurance crunch.

IRMA, like IMLRMA, is a self-funded Association composed of municipalities that pay out yearly premiums. Similar to IMLRMA's program, all decision making power is divided among its members. IRMA's members will occasionally receive interest income credits similar to dividends that are paid to members. Types of coverage include; property, general liability, claims administration and risk management – all of which are handled by each of the members.

Counties have dabbled with the idea of risk pools. Currently, the Illinois Association of County Officials (IACO) has developed a task force similar to IRMA's 1977 study group. The IACO plans to initiate an insurance pool this November.

The advantages of moving to a self-insured pool are apparent. Local governments in Illinois are taking advantage of state statutes and forming joint insurance pools suitable for their needs. The attractions of intergovernmental risk pooling allows local governments the ability to manage their own insurance by making their own decisions based on coverage, claims, liability and their financial stability.

U.S. RANKING OF AVERAGE UNEMPLOYMENT COMPENSATION BENEFIT BY STATE



Source: CQ's State Fact Finder, Rankings Across America 1998

HOW ILLINOIS STACKS UP

Illinois Ranks 9th in Average Weekly Unemployment Benefits

Due primarily to comparably higher wages, Illinois ranked 9th in the nation in average weekly unemployment cash benefits. Illinois' average of \$213 in 1996 exceeded the national average of \$189 by \$24 or 12.7%. Illinois had a higher average weekly cash benefit level than all of its neighboring states.

Most of the states with higher average weekly benefits were concentrated in the East and Northeast portion of the U.S. The state of Hawaii had the highest average benefit of the fifty states with \$270 followed by New Jersey with \$255 and Massachusetts with \$254. Other states exceeding the Illinois average were Minnesota, Rhode Island, Delaware, Connecticut, and Pennsylvania.

Conversely, the three lowest states in terms of average weekly cash benefits were all in the Southeast and include: Louisiana (\$128); Mississippi (\$141); and Alabama (\$142).

Alabama	\$142	Nebraska	\$161
Alaska	172	Nevada	194
Arizona	151	New Hampshire	153
Arkansas	170	New Jersey	255
California	152	New Mexico	157
Colorado	208	New York	206
Connecticut	222	North Carolina	193
Delaware	224	North Dakota	175
Florida	178	Ohio	202
Georgia	166	Oklahoma	175
Hawaii	270	Oregon	191
Idaho	182	Pennsylvania	219
Illinois	213	Rhode Island	228
Indiana	187	South Carolina	165
Iowa	200	South Dakota	150
Kansas	202	Tennessee	155
Kentucky	171	Texas	189
Louisiana	128	Utah	198
Maine	171	Vermont	168
Maryland	195	Virginia	173
Massachusetts	254	Washington	210
Michigan	205	West Virginia	176
Minnesota	234	Wisconsin	202
Mississippi	141	Wyoming	181
Missouri	154	U.S. Average	189
Montana	165		



COVER STORY: *continued...*

Insurance—

ble to determine which particular member of a group will incur a loss, the probability of a certain number of occurrences can often be estimated with a reasonable degree of accuracy.

Consider the following example. In a group of 10,000 individuals, the odds may be such that 3 out of the 10,000 will face a loss totaling \$100,000 per individual, or \$300,000 in total. If each member of the group contributes \$30 to a common pool, then a group of 10,000 would raise \$300,000 in total resources. On an individual basis, the \$30 contribution (or premium) provides protection against the possibility of being one of the three individuals who would be expected to face a cost of \$100,000. Individuals (and businesses) buy insurance when the cost of coverage seems to be reasonable for the risk of loss involved.

The State of Illinois is involved in the insurance industry in two ways: first, as a regulator of the industry whose business is assuming risk, and second, as an insurer itself, providing group health insurance coverage to state employees and retirees, acting as the insurer of last resort for Illinois residents that cannot find health insurance anywhere else, and providing unemployment insurance to Illinois workers. By self-insuring the state's group health plans, the state assumes the risk of pay-

risk) and insurance producers (those individuals and agencies that sell insurance).

The Department is organized into four major divisions: Administrative Services, Legal, Consumer-Market, and Financial-Corporate Regulatory.

The Administrative Services Division oversees the Department's \$23 million budget, as well as its revenue collection activities which generated \$209 million in 1997. The Legal division serves as legal counsel to the Director and Department staff on regulatory issues and promulgates the Department's administrative regulations.

The Consumer-Market Division is responsible for consumer protection and education programs, as well as non-financial regulatory functions. To accomplish these tasks, the division oversees the activities of insurance producers and monitors the marketplace operations of insurance companies by analyzing insurance policy filings, investigating complaints, and periodically conducting on-site examinations of market conduct. In 1997, the Department closed 14,081 complaints, conducted 16,542 licensing exams for producers, issued 93,290 producer licenses, conducted 1,752 financial examinations and investigations of producers which resulted in 634 regulatory orders and \$317,200 in fines. The Division also

completed 46 market conduct examinations of insurance companies.

The Financial-Corporate Regulatory Division is responsible for monitoring the financial condition of insurance companies and other risk-bearing entities operating in Illinois. The

overriding purpose of this monitoring activity is to identify as soon as possible any companies that may have financial difficulty in order to protect the interests of Illinois policy holders. The Division conducts detailed reviews of annual statements, performs a variety of actuarial analyses, conducts on-site financial examinations as required by state law, and licenses insurance entities. The Division also monitors the administration of all public employee retirement systems in the state.

In 1997, the Division performed approximately 1,943 actuarial reviews

and conducted 155 on-site financial examinations. There were 1,947 licensed insurance companies operating in Illinois in 1997.

The State As Insurer

The state is similar to individuals and businesses that are faced with the risk of loss. However, the advantage that the state has over individuals and most businesses is that, in many instances, the state is a big enough entity to create its own pool of risks. Consider the health insurance program as an example.

The state used to buy commercial health insurance for its employees and retirees. However, with over 100,000 state employees it is possible to determine the likelihood of occurrence of health-related claims within that population. And, by setting coverage for various procedures/events, the state should also be able to reasonably estimate the costs that are likely to be incurred. Combining these two factors, plus the fact that the state does not have to earn a profit the way a private health insurance operator does, it is possible to arrive at a premium to charge beneficiaries for the coverage that is being offered. Since 1985, the state has self-insured for health care coverage, which has given the state some degree of control over the cost of providing public services.

Today, current and retired state employees and their dependents have two types of health care coverage they can choose from: the state's self-insured program, Quality Care Health Plan, and Managed Care Plans which include Health Maintenance Organizations (HMOs) or Point of Service plans (POS).

The differences in the two types of coverage generally revolve around the question of choice and cost. Those who enroll in an HMO must choose a primary care provider from the list

1997 Illinois Licensed Insurance Companies

	Domestic	Foreign	Alien	Total
Property and Casualty	302	777	20	1,099
Life, Accident and Health	162	678	8	848
	464	1,455	28	1,947

Domestic companies are those that are headquartered in Illinois.
Foreign companies are those that are headquartered outside Illinois but within the United States.
Alien companies are those that are headquartered outside the United States.

ing benefits. As a provider of unemployment insurance, the assumption of risk is less clear, with the state acting like an insurance company by collecting premiums (taxes) from employers and paying benefits.

The State As Regulator

The Illinois Department of Insurance is charged with protecting the rights of Illinois citizens in their insurance transactions and monitoring the financial solvency of all regulated entities. Illinois licenses and regulates both insurance companies (those that underwrite insurance policies and assume the



included in the HMO's health plan, must get prior approval for the use of specialists, and are usually only charged a "copayment" after services are provided. Under a POS, enrollees have the option of choosing a care giver that is either "in" the network or "out" of the network, with those choosing someone "out" of the network incurring greater costs. The Quality Care Health Plan (QCHP), the state's self-insured program, allows employees to choose any provider or hospital and change doctors or hospitals at any time, but may have to pay for the total cost of the services upfront as opposed to a copayment plan. Today, state employees may choose from 14 HMO's, three POS's and QCHP. Employees have the ability to change their health care provider once every year during the Benefit Choice Period.

Managed care, both reviled and beloved, has become a way for employers to provide health care at a more reasonable cost by keeping expenses down. It appears that state employees, at least in Illinois, are also choosing managed care more often as well. According to figures from the Economic and Fiscal Commission study, "Report on the Liabilities of the State Employees' Group Insurance Program, FY 1999", QCHP membership has steadily declined while employees and their dependents have opted for an HMO-style system instead. From fiscal year 1994 to fiscal year 1998, the number enrolled in QCHP has decreased from 197,524 to 155,294. Subsequently, during the same time period, membership in HMOs increased from 90,346 to 156,162 and POS plans experienced a decrease from 16,237 to 11,464. In total, the number of those enrolled in one of the state's health care plans has increased from 304,107 in fiscal year 1994 to 322,920 in fiscal year 1998.

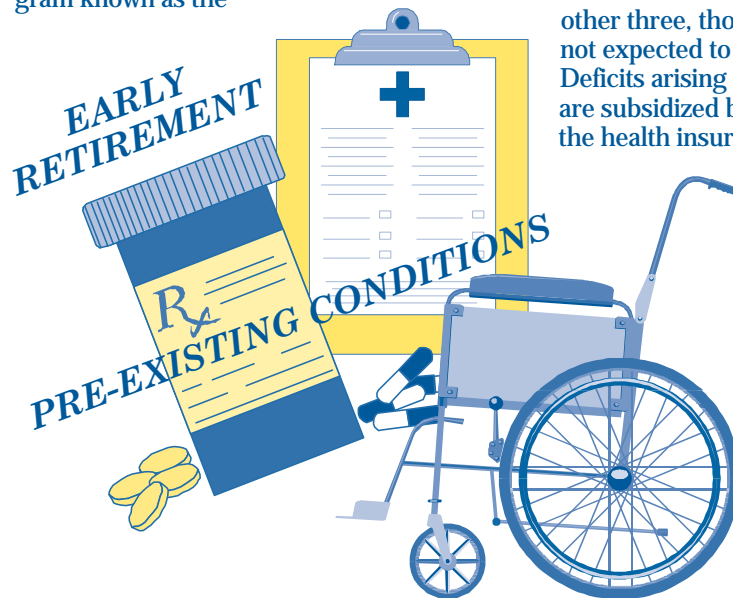
However, the declining figures for QCHP may be a good thing for the state of Illinois. The Economic and Fiscal Commission reports that in fiscal year 1998 the average annual cost per participant in the state's indemnity plan (\$2,562) is 40 percent higher than the cost of the POS plan (\$1,823) and 60 percent higher than the cost of the HMO plan (\$1,619).¹

What is the overall price tag on providing health care services to employees, retirees and their dependents? In fiscal year 1994, the state received just under \$648 million mostly from fund transfers and employee payroll deductions, while expenditures totaled \$664.5 million. The figures were slightly better in fiscal year 1995, with receipts equaling \$676.7 million and expenditures at

\$669.8 million. That trend continued through fiscal year 1996 and fiscal year 1997, with the latter experiencing \$735.5 million in receipts and \$731.2 million in expenditures.

CHIP: The Insurer of Last Resort

Until just eight years ago, uninsurable Illinoisans had few, if any, options. Since May 1, 1989, however, nearly 15,000 Illinois residents have been able to obtain health insurance coverage through the taxpayer-supported program known as the



Comprehensive Health Insurance Plan (CHIP). There are 5,986 people currently enrolled and there is no waiting list.

This \$40 million-plus per year program was created to serve persons with pre-existing medical conditions who have lost their health insurance through early retirement, become self-employed or are ineligible for any group or individual health insurance coverage. CHIP participants must pay premiums which average \$330 per month or \$4,000 per year for this coverage. Claim's average \$8,000 per year with maximum lifetime benefits of \$1 million per enrollee. Since 1989, \$265 million in benefits have been paid out from the CHIP program.

While the premiums may seem steep to a healthy person, they actually only represent about 45% of the total cost of this state insurance program. The remainder of the cost for CHIP is paid out of the State's General Revenue Fund (GRF). The fiscal year 1998 GRF contribution to the CHIP program was \$17.3 million.

Before July 1, 1997, CHIP offered three insurance plans. With the enactment of the Illinois Health Insurance Portability and Accountability Act

(HIPAA), CHIP now offers two new plans to federally eligible individuals. These plans were established to comply with the individual market requirements of the federal HIPAA (also known as "Kassebaum-Kennedy"). Portability of coverage and the elimination of waiting periods for pre-existing conditions, while also maintaining a stable and viable private health insurance market, are key to the new plan's effectiveness. Although premiums for the new plans

are similar to those charged for the other three, those premiums are not expected to cover costs. Deficits arising from the new plans are subsidized by an assessment on the health insurance industry

which for fiscal year 1998 totaled \$7.5 million.

While 28 states offer insurance to the high-risk pool of individuals, Illinois was the first to pledge the use of its General Revenue Fund to cover plan deficits.

Unemployment Insurance

The Unemployment Insurance System was developed during the Great Depression to help alleviate economic insecurity resulting from involuntary unemployment. Financed by a payroll tax on employers, the system was designed to be counter-cyclical, with revenues exceeding benefit payments during economic expansions and benefits exceeding revenues during recessions.

The Illinois unemployment system makes financial transactions through the Illinois account in the Federal Unemployment Trust Funds and bank accounts used to clear deposits and pay benefits. In recent years, the major source of deposits into the Illinois account have been from employer contributions and interest income. Other sources of income to the system in the 1970's and 1980's included federal grants to pay a portion of extended and special unemployment programs and federal loans to temporarily bridge shortfalls between other receipt sources and benefits. Disbursements from the fund are benefits paid to individuals who satisfy system requirements.

See COVER STORY, page 14





CENTERPIECE

Insurance and the Illinois Economy

Through the purchase of insurance, Illinoisans obtain financial protection from a wide variety of risks. Insurance income provides protection for the unexpected death or incapacitation of a family member. Insurance can be a major part of an employee's benefit package as illustrated in the significant portion of health care payments made through employer provided health insurance. Risks of loss from auto accidents are reduced by the state law that requires drivers to have auto insurance. The many types of business insurance that are available protect businesses from a wide variety of risks that could distract them from their primary business activity and perhaps bankrupt an otherwise healthy operation. Although the government has taken over several large portions of the insurance market, including health care for the poor, disabled, or elderly (through Medicaid and Medicare) and income support for the unemployed or disabled (through Social Security and Unemployment Insurance), Illinois continues to have a vibrant private insurance sector.

Besides the sense of security that the ownership of insurance provides to Illinois families and businesses, the insurance industry plays a major role in the Illinois economy. The insurance industry provides employment to thousands of Illinoisans. The money insurance companies hold as a reserve to meet potential claims is a major source of funds for long-term investments in the housing and business sectors of the Illinois economy.

Insurance Transactions in Illinois

Unlike many industries where only a handful of companies provide a product in Illinois, the Illinois insurance industry is very competitive. In 1997, 1,947 insurance companies were licensed to operate in Illinois. These are divided between 1,099 property

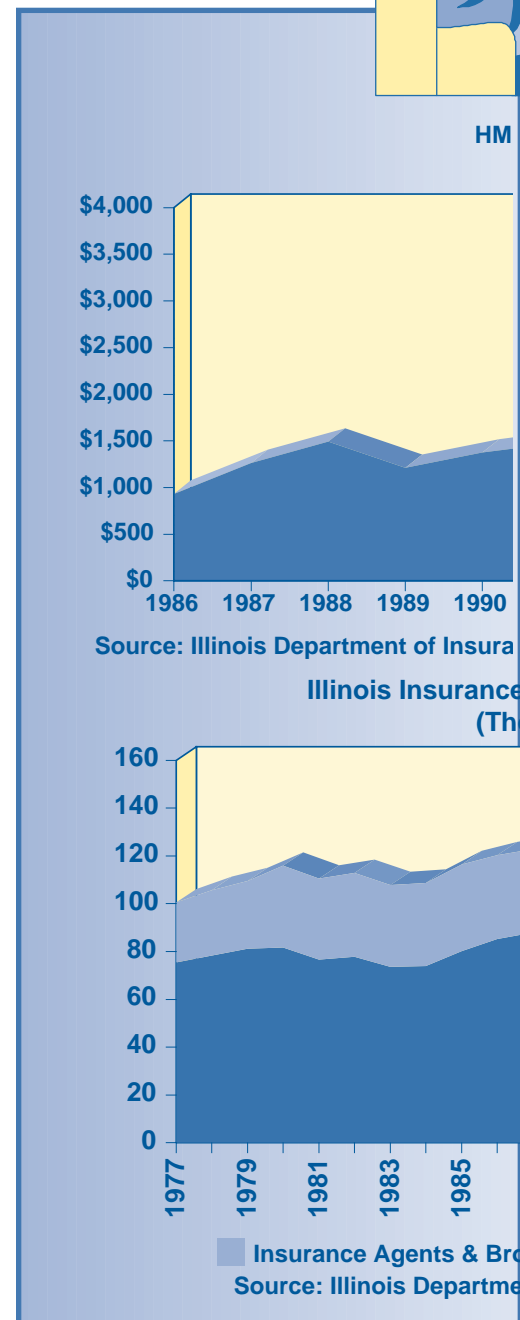
and casualty insurance companies and 848 life, accident, and health insurance companies including 34 health maintenance organizations and 20 other health service plans. It should be noted that a large insurance holding company can operate through several licensed subsidiaries.

Funds flow into insurance companies through the payment of premiums. The importance of insurance transactions within the Illinois economy is revealed by the value of premiums paid by Illinoisans each year to insurance companies. In 1996, insurance companies registered in Illinois reported a total of \$39.7 billion in Illinois premium receipts.

The Department of Insurance distinguishes premium payments by type of insurance company. Life and health insurance companies received \$23.3 billion in premiums or 58% of the total. These premiums include payments for individual and group life and health insurance as well as payments for retirement annuities. Property and casualty insurance company premiums were \$12.6 billion and accounted for 32% of the total.

HMO's, including dental plans, received \$3.8 billion in premiums and accounted for 10% of the total. Between 1986 and 1996 premiums collected by HMO's have quadrupled reflecting the rapid growth in the management of health care by these organizations.

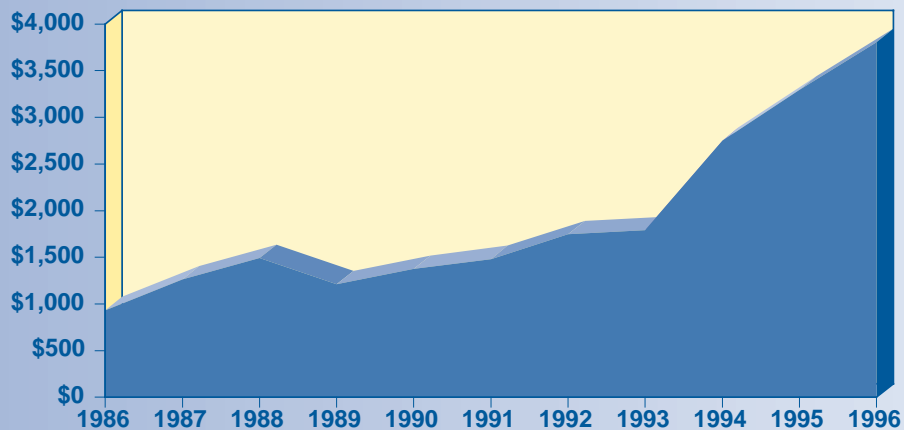
Each year, Illinoisans receive a significant amount of cash from their life insurance and annuity policies. According to the American Council of Life Insurance, Illinoisans received \$9.9 billion in life insurance and annuity benefits or \$834 per person in 1996. Payments included \$4.3 billion in the surrender value of policies, \$2.7 billion in annuity payments, \$1.8 billion in death payments, and \$1.0 billion in policy and contract dividends.



CENTERPIECE

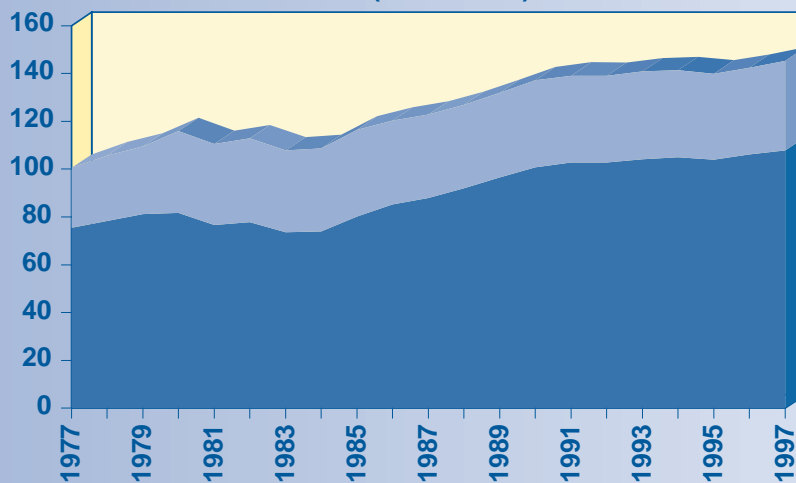


HMO's Premiums
(Millions)



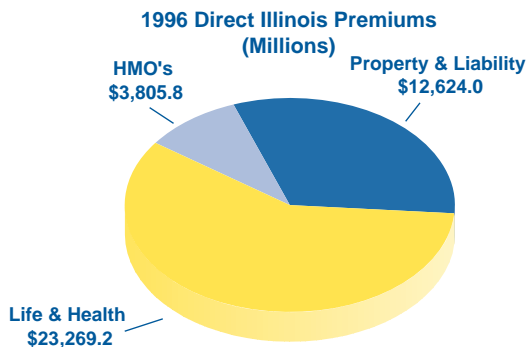
Source: Illinois Department of Insurance

Illinois Insurance Industry Employment
(Thousands)



Insurance Agents & Brokers Insurance Carriers

Source: Illinois Department of Employment Security



Source: Illinois Department of Insurance

Illinois is particularly prominent as the home to several of the country's largest property and casualty firms. Four of the top twenty U.S. property and casualty insurers are headquartered in Illinois. These are State Farm, Allstate, CNA, and Kemper Insurance. Zurich Insurance (also one of the top twenty property and casualty companies) has its U.S. operations headquartered in Illinois, but most of its U.S. subsidiary companies are domiciled elsewhere. State Farm was the largest Fortune 500 firm based in Illinois and ranked 13th largest among all the Fortune 500 firms. Allstate was the fifth largest Fortune 500 firm based in Illinois and ranked 39th largest among the Fortune 500 firms.

Insurance Employment Trends

The insurance industry is a major and growing employer in Illinois. In the last twenty years, the number of workers on insurance company payrolls increased 45% from 100 thousand in 1977 to 145 thousand in 1997. Nationally, employment in the industry was up 46% from 1.5 million in 1977 to 2.2 million in 1997. In 1997, there were 108 thousand Illinoisans employed by insurance carriers with an additional 37 thousand employed at insurance agencies, brokerage, or service firms.

Employment figures provide further evidence of Illinois' specialty as home to major property and casualty insurance companies. Nationally, 24% of insurance industry employment is at fire, marine, and casualty insurance companies. In Illinois, 33% of insurance industry employment is with companies with these specialties including 11,400 Illinois jobs with State Farm and 10,500 Illinois jobs with Allstate.

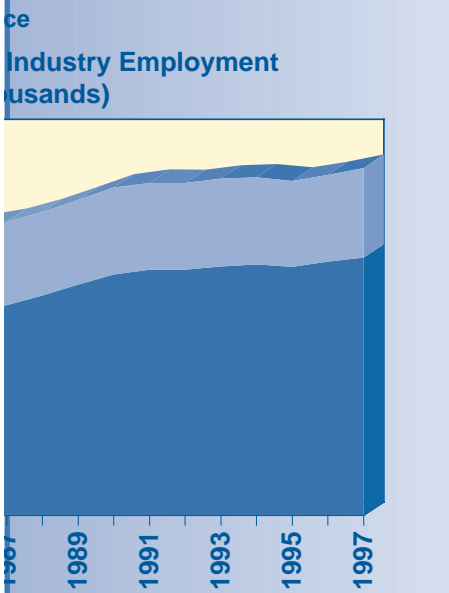
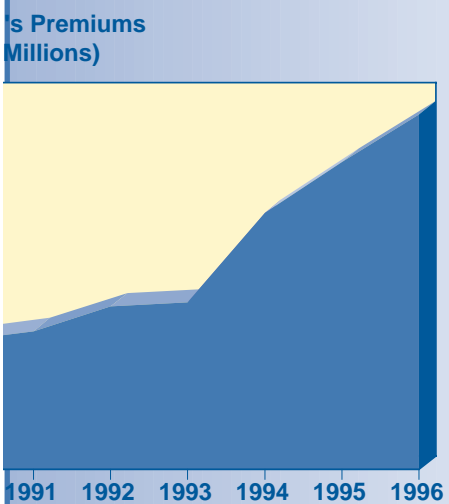
Illinois' position as one of the best locations to locate an insurance business has been based on its business friendly business climate for insurance companies. In 1997, Illinois was the location of 6.5% of the nation's insurance employment. In comparison, 4.7% of all non-agricultural jobs were located in Illinois. A recent report by Conning and Co. (a specialist in insurance research) finds that the best opportunities for commercial and personal insurance carriers are in the South and Southwestern United States. Illinois will have to continue to compete aggressively to maintain its leading role in the insurance industry.

The above company payroll figures do not capture self-employed workers in the insurance industry. Thus they exclude the many self-employed insurance sellers among the 93,290 insurance producers licensed by the Illinois Department of Insurance during 1997.

Insurance Company Investments

The greater the return insurance companies can receive from investing the reserves they accumulate for the payment of benefits, the greater their profitability and the more competitive they can be in setting premium rates. This search for profitable investments has made the insurance industry a major source of long term investment funds in the economy. According to Federal Reserve Bank computations, U.S. insurance companies held financial assets totaling \$3.4 trillion in 1997. Corporate and foreign bonds accounted for 34% (\$1.2 trillion) with 22% (\$800 billion) in corporate equities, 15% (\$500 billion) in U.S. government securities, and 6% (\$200 billion) in mortgages.

Data from the American Council of Life Insurance details the value of mortgages and real estate owned by life insurance companies by state. In 1996, life insurance companies held \$10.3 billion in Illinois mortgages and owned real estate in Illinois valued at \$3.7 billion.



Workers Insurance Carriers
 of Employment Security





Focus on Revenue

Insurance Taxes and Fees

Court Case Finds Insurance Privilege Tax Violates Constitution

The state imposes a number of taxes and numerous licenses and fees on insurance companies. Administered by the Department of Insurance, these taxes and fees generated \$207 million in fiscal year 1997. Of this total, the insurance privilege tax accounted for

the fee has been paid under protest this year.

In fiscal year 1997, over 70% of taxes and fees imposed on insurance were deposited into the General Funds. Insurance taxes and fees into the General Funds totaled \$146 million in fiscal year 1997, with \$105 million from the privilege tax. The remaining \$29 million in privilege taxes was

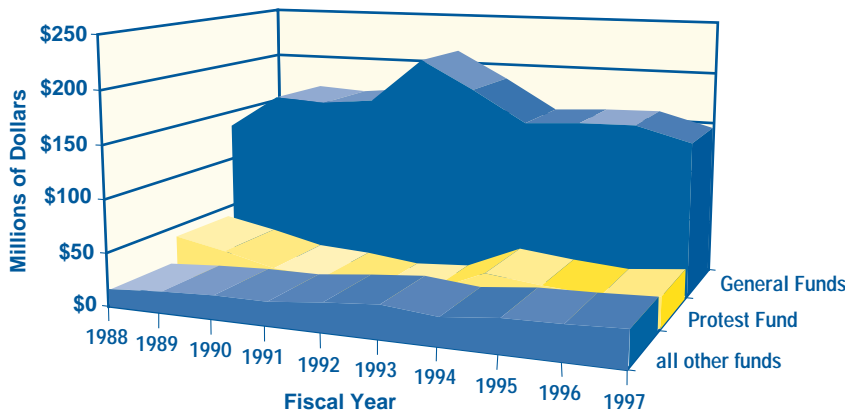
The retaliatory tax, that nearly every state has enacted, is calculated in aggregate for all insurance taxes and fees. This tax imposes higher tax rates on insurers from any state that taxes Illinois insurers at a higher rate than its own insurers.

Numerous fees imposed on insurance companies and the fire marshal tax account for the bulk of revenues (\$32 million) deposited into other funds in fiscal year 1997. Receipts from the fire marshal tax, 1% of premiums on fire or fire-related insurance policies, totaled \$10 million and are deposited into the Fire Prevention Fund. This fund supports the operations and programs of the State Fire Marshal. Fees generated \$20 million and are deposited into the Insurance Producer Administration and Insurance Financial Regulation Funds. These funds provide for the operations of the Department of Insurance.

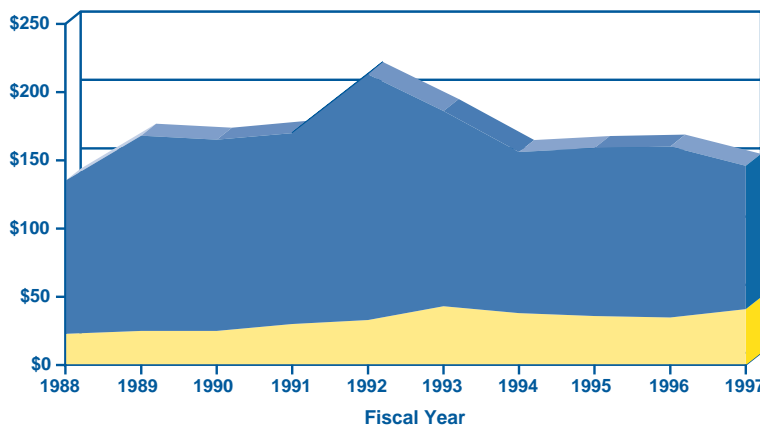
However, it is fiscal year 1998 revenues that are impacted by the court ruling. As of the end of May, General Funds revenues from insurance taxes and fees were \$38 million less than the prior year. While privilege taxes were down \$35 million, this was partially offset by an increase of \$23 million in retaliatory taxes. When the privilege tax was struck down, the state asserted that the insurance companies liability for the retaliatory tax would

increase. Also, revenues from life insurance policy fees are down \$24 million. Consequently, over \$63 million in insurance taxes and fees has been

Insurance Taxes & Fees



Insurance Taxes & Fees General Funds (in millions)



\$134 million. In October 1997, the Supreme Court issued a decision finding the insurance privilege tax violates the Illinois Constitution.

The privilege tax was imposed on foreign companies (outside Illinois) at a rate of 2% of net insurance premium income from policies issued in Illinois. It was the treatment of foreign companies different from domestic companies that led to the court ruling.

In addition, the fee for valuation of life insurance policies was assessed at 3 cents per \$1,000 of direct life insurance policies in force at the end of the year. Since this fee was levied on domestic companies, it also would be invalid because of the court ruling. As a result, most of

deposited in the Protest Fund. Other General Funds revenues include: \$26 million from life insurance policy fees, \$12 million from the retaliatory tax, and \$3 million in fines or penalties.



Focus on Spending

Department of Insurance – The Cost of Being the Watchdog

In fiscal year 1997, the Department of Insurance spent approximately \$21.7 million to protect the interests of Illinois residents. The bulk of the revenue collected by, and used to run, the Department of Insurance comes from fees paid by the insurance industry into two dedicated funds. The fees (set by Illinois statute) are levied on insurance companies based upon the amount of annual premiums collected and their assets.

Revenue from these two funds, The Insurance Producer Administration Fund and the Insurance Financial Regulation Fund covered most (97%) of the Department's entire operating expense in fiscal year 1997.

The revenue generated by the aforementioned fees pays for the regulation process, which includes examining and analyzing the companies operations, both on site and through reports filed with the Department. State statute requires that the companies being examined or audited pay for the examiners time (salary), their travel and lodging expenses, and the cost of compiling necessary reports under this fee schedule.

In fiscal year 1997, 64.9% of the Department's total expenditures (\$21.695 million) went for staff (including benefits and travel expenses) in the Consumer, Financial Corporate Regulation and Pension Divisions, a percentage that has hovered around 65% for the past several budget years. The oversight and regulation of about

2,000 companies understandably requires a good deal of travel by Department staff. In fiscal year 1997, travel in those three divisions amounted to over \$750,000.

As with many other regulatory agencies, the Department of Insurance must maintain accreditation with a national or industry-wide regulatory authority. Among other criteria,



the National Association of Insurance Commissioners (NAIC) rates the Department on staffing levels relative to the number of companies being regulated. Maintaining the staff/company ratio has accounted for the growth in the Department's number of personnel over the past decade (from 312 in fiscal year 1988 to 372 in fiscal year 1997). Fiscal year 1993 was a watershed year for the Department showing the largest increase in the number of staff needed to maintain national standards of examination. Additions in subsequent years enabled the Department to maintain the five-year examination cycle for companies as required by the NAIC. Additionally, staff increases allowed the Department to continue the level of insurance company sol-

veny surveillance required to maintain accreditation with NAIC.

In fiscal year 1997, only \$542,400 of the Department's budget allocation came from the state's General Revenue Fund (GRF). GRF money has played a decreasing role in the Department's budget, from 2.8% in fiscal year 1993 to 2.5% in fiscal year 1997.

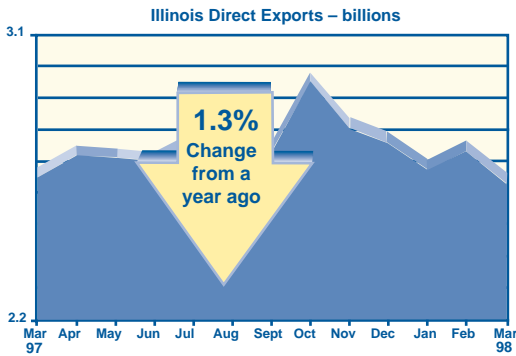
Reorganization of Department functions and a shift in funding to the Department's dedicated funds accounted for the large drop in GRF usage between fiscal years 1992 (33.4%) and 1993 (2.8%). All but one (Pension Division) of the Department's "watchdog"

functions have now been switched to funding from fees levied by the Department.

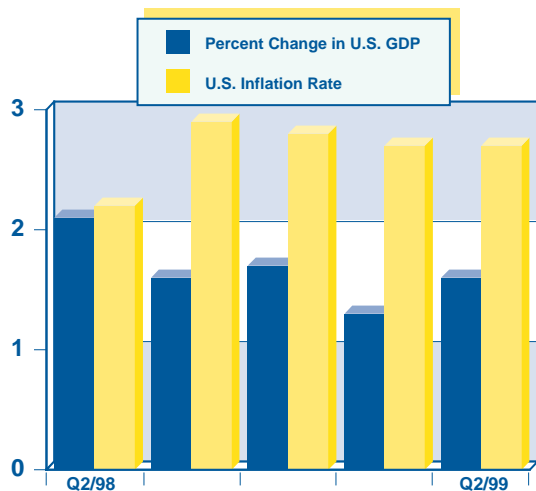
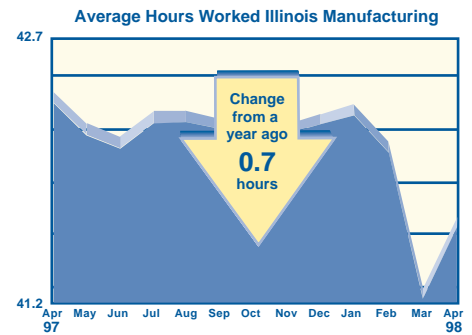
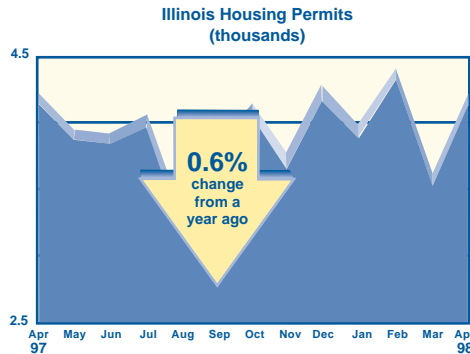
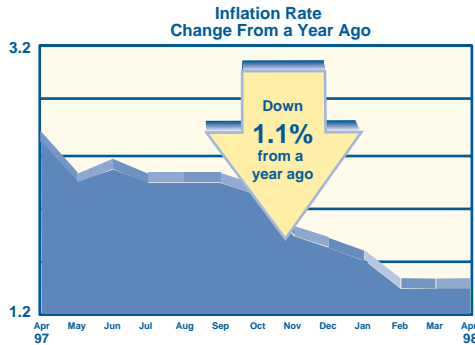
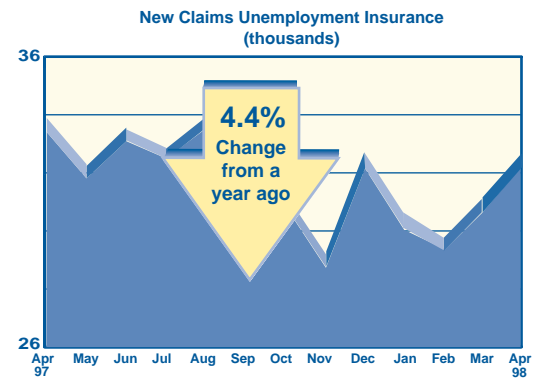
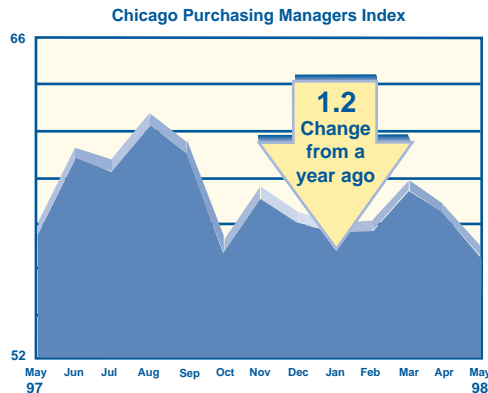
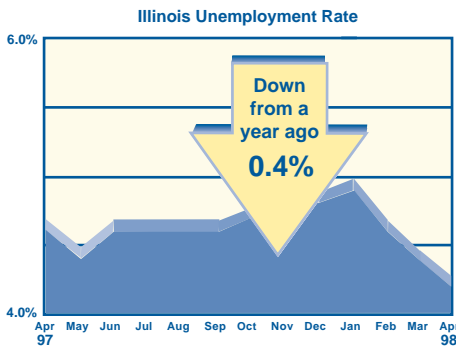
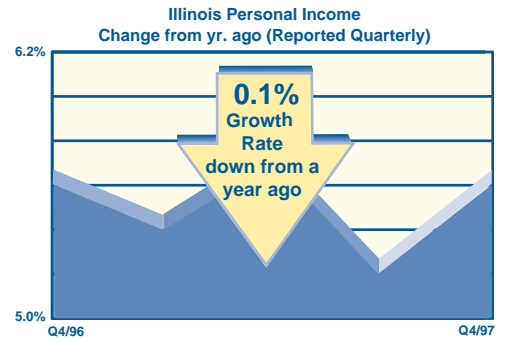
Since fiscal year 1994, the Department of Insurance's entire allocation of GRF money has gone to fund the Public Pension Division. The Pension Division examines and audits the myriad of public employee pension funds in Illinois. From the State Employee Retirement System, to the Chicago and Cook County employee retirement systems, through the variety of systems for retired teachers, police, firemen, judges, and legislators, the Department regularly examines close to 600 pension funds to assure that public employees retirement funds are protected. The investments of public pension funds (in excess of \$46 billion in fiscal year 1997) are also scrutinized to assure compliance with the law.



ILLINOIS STATS: Economic and Financial



Labor markets are continuing to tighten in Illinois. The Illinois unemployment rate was 4.2% in April, the lowest level since October 1974. It was 0.4% below its year earlier level, 0.3% below the March rate, and 0.1% less than the 4.3% national unemployment rate for April. The Illinois unemployment rate has been below 5% for fifteen consecutive months. At the same time, inflation remains extremely low as the April 1998 Consumer Price Index was only 1.4% greater than its year earlier level.

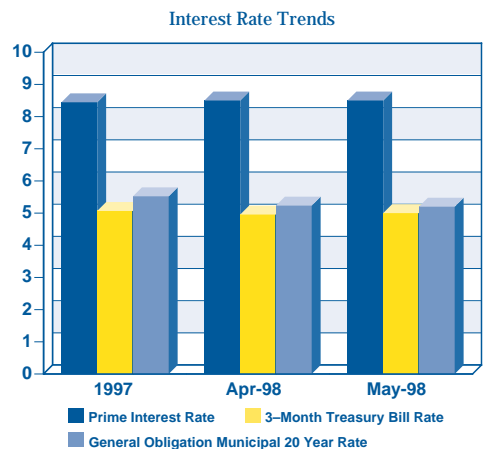


The latest DRI/McGraw-Hill economic forecast expects the Asian financial crisis to have a continuing negative impact on the U.S. economy into 1999. The growth rate for the U.S. economy is expected to decline from a 2.1% rate during the current quarter to 1.6% and 1.7% rates during the final two quarters of 1998. Economic growth is expected to remain at these modest levels during the first half of 1999. Slower economic growth and competition from lower priced Asian goods will help keep inflation under control as the inflation rate is forecast to remain below 3% throughout calendar 1998 and the first half of 1999.

SOURCES:
Illinois Department of Employment Security: Hours Worked in Manufacturing, Unemployment Insurance Claims

U.S. Census Bureau: Direct Exports, Housing Permits

U.S. Bureau of Labor Statistics: Unemployment Rates, Consumer Price Index



U.S. Bureau of Economic Analysis: Personal Income

Purchasing Managers Association of Chicago: Purchasing Managers Index

DRI/McGraw-Hill: Economic Forecasts

Federal Reserve System: Interest Rates

Vital Statistics

The Heartbeat of Illinois' Finance

General Funds Balance Soars to Record Level

At \$1.216 billion, the end of May General Funds balance was the highest balance ever recorded in the General Funds and the twelfth consecutive month of record end-of-month balances when compared to the same month in previous fiscal years. Compared to last May, the balance in the General Funds was up \$669 million or 122.3% with the General Revenue Fund up \$607 million while the cumulative balance in the school funds increased \$62 million. In addition to the fact that the General Funds recorded the highest balance ever, the balance in the General Revenue Fund, which is the main component of the General Funds, surpassed the \$1 billion mark for the first time in May and ended the month with a balance of \$1.021 billion.

General Funds Revenues Through Eleven Months - Up 6.2%

Through eleven months of fiscal year 1998, General Funds revenues totaled \$18.201 billion, \$1.057 billion or 6.2% higher than last year. For the month, revenues increased \$36 million or 2.1%. Individual income tax receipts continued their phenomenal growth for the year as May receipts increased by \$105 million or 15.8% while sales taxes were up \$22 million or 5.2%. Federal source revenues declined \$87 million or 24.0% from the prior year.

For the year, individual income tax receipts of \$6.208 billion are up \$644 million or 11.6% while corporate income taxes of \$967 million are \$48 million or 5.2% higher than last year. Sales taxes through eleven months of the fiscal year total \$4.804 billion, up \$255 million or 5.6%. Despite declining by \$213 million cumulatively in March,

April and May, total federal revenues of \$3.103 billion are still \$82 million or 2.7% ahead of last year. These four major sources of revenue to the General Funds are up an aggregate \$1.029 billion or 7.3% for the year.

All other sources of revenue are up \$28 million or less than 1%. Cigarette and public utility tax receipts are up \$41 million and \$24 million, respectively, with all of the increase in cigarette receipts due to a tax rate and allocation increase while a portion of the public utility tax growth is due to a rate increase. Both inheritance tax receipts and investment income are up in excess of 23% this year with high General Funds balances enabling the growth in investment income. Offsetting these increases is a decline of \$99 million in Cook County Intergovernmental transfers (due to the timing of last year's deposits), decreases in Lottery and Riverboat Gambling transfers (down \$33 million and \$18 million respectively), and insurance taxes and fees (down \$38 million - See Focus on Revenue, page 10).

General Funds Spending Up 4.5% Through Eleven Months

Through May, General Funds cash expenditures totaled \$17.791 billion, \$768 million or 4.5% higher than last year. For the year, total revenues exceed total spending (on a cash basis) by \$410 million resulting in an increase in the available balance from \$806 million at the beginning of the year to \$1.216 billion at the end of May.

Compared to last fiscal year, total grant spending from the General Funds has increased \$606 million or 5.7%. The newly formed Department of Human Services, which consolidated all or parts of six different agen-

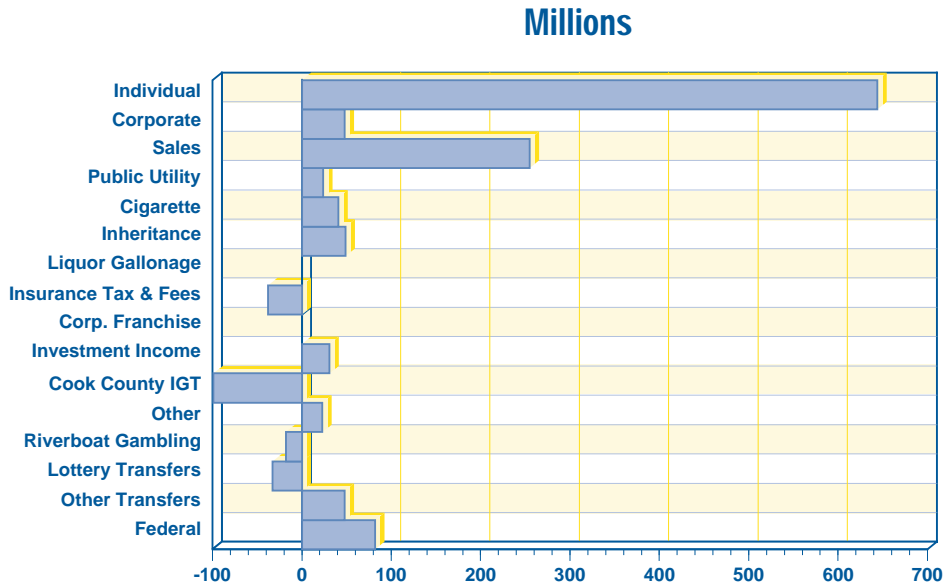
cies, recorded grant spending of \$1.919 billion through May. This explains the decrease of \$711 million in grant spending by the Department of Public Aid as a significant portion of this Department was consolidated into Human Services. Also reflective of the consolidation is the \$1.013 billion decline in all other grants as the Departments of Mental Health and Developmental Disabilities, Alcoholism and Substance Abuse, and Rehabilitation Services were merged in whole in Human Services.

Education grant spending is up an aggregate \$411 million through eleven months of fiscal year 1998. State Board of Education grants for elementary and secondary education are up \$319 million or 9.7% due to significantly increased appropriations (up \$400 million). Higher education grants have increased by \$22 million or 3.6% with appropriations up \$34 million. Grants for teacher's retirement contributions have grown \$70 million or 21.6% over last year with appropriations up \$75 million.

The thriving economy has played a major role in the financial improvements of the state's General Funds over the last several years. Not only has revenue performance, particularly in individual income taxes, benefited from a strong economy, but the demand for social services has softened. Throughout most of the 1990's the focus of budgetmakers was one of regaining fiscal stability. Now that financial stability in the General Funds has been attained, the focus should shift to maintaining that stability.

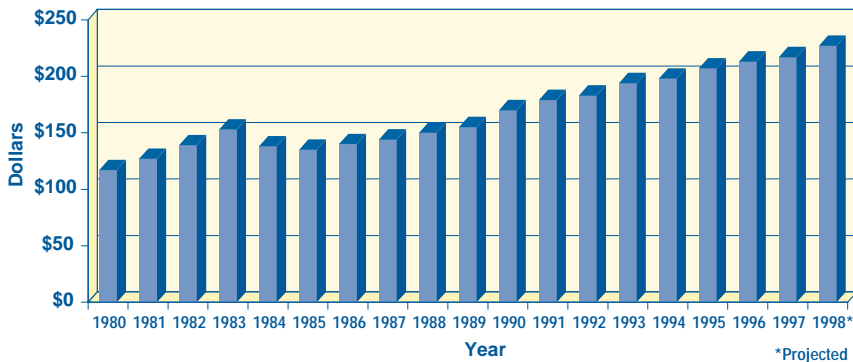


REVENUES: Year-To-Date Changes From Prior Year



Cover Story continued from page 7

Average Weekly Unemployment Cash Benefit



Throughout the latter part of the 1970's and early 1980's the Illinois system was mired in debt. Borrowing from the federal government began in fiscal year 1976, and by 1983, total debt was \$2.392 billion. The negative \$2.418 billion net trust fund balance in fiscal year 1983 marked the low point for the system.

After four consecutive years of economic expansion, Illinois' net trust fund balance finally turned positive in fiscal year 1987, and with three more years of expansion, that balance reached \$1.425 billion in 1990. In that seven year time frame, the Illinois Unemployment Trust Fund Account experienced a \$3.843 billion positive turnaround.

With the balance reaching historic levels, the General Assembly enacted legislation in February 1996 which cut the level of employer contributions by

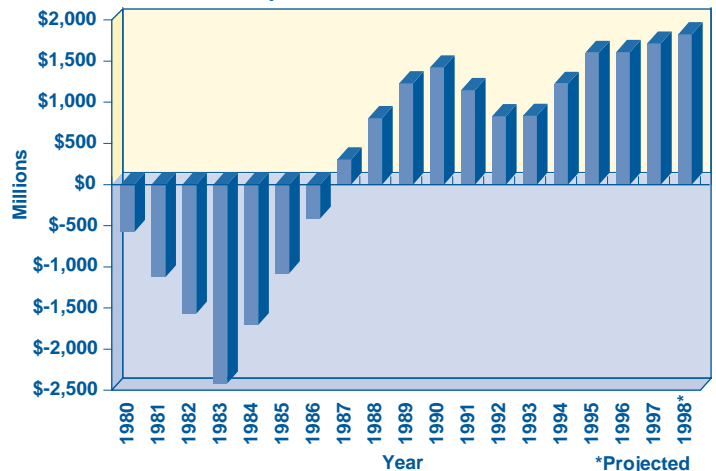
\$128 million. Even with this tax cut, however, the balance rose to \$1.714 billion at the end of 1997, and is projected to reach \$1.826 billion by the end of 1998.

Absent tax changes, the biggest variable in maintaining fiscal stability is the demand on the trust fund's resources. During periods of high unemployment, the demand for benefits generally outstrips incoming revenues. Over the past ten years, the Trust Fund balance has declined only once (1991).

While the number of Illinoisans on the unemployment rolls has decreased significantly from the 1980's, the average weekly benefit has nearly doubled. For 1997, the average weekly benefit paid to beneficiaries was \$217, compared to the average benefit of \$170 in 1990 and \$117 in 1980. For 1998, the average weekly benefit is projected to be \$227.

¹ FY 1999 Report on the Liabilities of the State Employees' Group Insurance Program, The Illinois Economic and Fiscal Commission, page 6. Note: Indemnity includes medical and dental claims, and prescriptions and HMO include medical and dental claims.

Net Balances in the Illinois Unemployment Compensation Trust Fund Account



GENERAL FUNDS TRANSACTIONS
(\$ In Millions)

	May		Change	Eleven Months		Change	
	1997	1998		FY 1997	FY 1998	Amount	Percent
AVAILABLE BALANCE, BEGINNING	\$ 440	\$ 958	\$ 518	\$ 426	\$ 806	\$ 380	89.2 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 664	\$ 769	\$ 105	\$ 5,564	\$ 6,208	\$ 644	11.6 %
Corporate	49	40	-9	919	967	48	5.2
Total, Income Taxes	713	809	96	6,483	7,175	692	10.7
Sales Taxes	423	445	22	4,549	4,804	255	5.6
Other Sources:							
Public Utility Taxes	70	66	-4	813	837	24	3.0
Cigarette Taxes	25	33	8	275	316	41	14.9
Inheritance Tax (gross)	13	18	5	186	235	49	26.3
Liquor Gallonage Taxes	5	4	-1	52	52	...	...
Insurance Tax and Fees	28	1	-27	127	89	-38	-29.9
Corporation Franchise Tax and Fees	9	9	...	108	108	...	...
Investment Income	14	15	1	133	164	31	23.3
Cook County IGT	...	...	...	251	152	-99	-39.4
Other	13	15	2	175	198	23	13.1
Total, Other Sources	177	161	-16	2,120	2,151	31	1.5
Total, Cash Receipts	\$ 1,313	\$ 1,415	\$ 102	\$ 13,152	\$ 14,130	\$ 978	7.4 %
Transfers In:							
Lottery Fund	\$ 47	\$ 48	\$ 1	\$ 521	\$ 488	\$ -33	-6.3 %
State Gaming Fund	14	13	-1	171	153	-18	-10.5
Protest Fund	1	3	2	4	8	4	100.0
Other Funds	15	34	19	275	319	44	16.0
Total, Transfers In	\$ 77	\$ 98	\$ 21	\$ 971	\$ 968	\$ -3	-0.3 %
Total, State Sources	\$ 1,390	\$ 1,513	\$ 123	\$ 14,123	\$ 15,098	\$ 975	6.9 %
Federal Sources:							
Cash Receipts	\$ 354	\$ 263	\$ -91	\$ 2,964	\$ 3,039	\$ 75	2.5 %
Transfers In	9	13	4	57	64	7	12.3
Total, Federal Sources	\$ 363	\$ 276	\$ -87	\$ 3,021	\$ 3,103	\$ 82	2.7 %
Total, Revenues	\$ 1,753	\$ 1,789	\$ 36	\$ 17,144	\$ 18,201	\$ 1,057	6.2 %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 263	\$ 286	\$ 23	\$ 3,273	\$ 3,592	\$ 319	9.7 %
Public Aid	521	304	-217	4,305	3,594	-711	-16.5
Human Services	...	141	141	...	1,919	1,919	...
Teachers Retirement	29	36	7	324	394	70	21.6
Higher Education	74	76	2	614	636	22	3.6
All Other Grants	206	105	-101	2,207	1,194	-1,013	-45.9
Total, Awards and Grants	1,093	948	-145	10,723	11,329	606	5.7
Operations:							
Other Agencies	315	308	-7	3,468	3,540	72	2.1
Higher Education	77	99	22	1,285	1,306	21	1.6
Total, Operations	392	407	15	4,753	4,846	93	2.0
Transfers Out	159	175	16	1,524	1,613	89	5.8
All Other (Includes Prior Year Adjustments)	2	3	1	23	29	6	26.1
Total, Expenditures	\$ 1,646	\$ 1,533	\$ -113	\$ 17,023	\$ 17,817	\$ 794	4.7 %
Adjustment for Vouchers Payable	...	-2	-2	...	-26	-26	...
Total, Cash Expenditures	1,646	1,531	-115	17,023	17,791	768	4.5
AVAILABLE CASH BALANCE, ENDING	\$ 547	\$ 1,216	\$ 669	\$ 547	\$ 1,216	\$ 669	122.3 %



Fiscal Smarts

continued from page 3

However, while the Act calls for the estimates to be prepared for six named funds, the budget presentation continues the past practice of lumping the General Revenue, Common School, and Education Assistance Funds into the General Funds Group (thus failing to disclose a budgetary deficit in both the Common School Fund and the Education Assistance Fund). The presentation also goes through the formality of reconciling revenues collected after the end of the fiscal year and Section 25 obligations, but indicates that absolutely nothing will change in any of those calculations.

A truly critical analysis of changes in Section 25 spending is an especially important component of Truth in Budgeting. Requiring recognition of Section 25 liabilities creates a powerful disincentive against employing tactics such as stretching out the Medicaid cycle to disguise budget shortfalls.

It is important to note that Truth in Budgeting requires both the Governor to propose and the General Assembly to enact a budget prepared according to GAAP concepts. The General Assembly sent a budget to the Governor that calls for an ending balance of \$700 million for fiscal year

1999, \$50 million short of the \$750 million outlined by Governor Edgar in his budget request. Legislative budgeteers cited the large amount of one-time expenditures and the possibility of a higher-than-anticipated end of year balance in settling on the \$700 million figure. Only time will tell how the budget enacted by the General Assembly will meet the test of Truth in Budgeting.

Focus on Revenue

continued from page 10

protested so far (\$18 million from the retaliatory tax, \$17 million from the privilege tax and \$28 million from the life insurance policy fee).

In response to the court ruling, legislation was passed during the past session to replace the privilege tax. This legislation imposes a privilege tax as of July 1, 1998 on health and accident insurers (HMO's are taxed as of

January 1, 1999) and as of January 1, 1998 on all other insurers. Tax rates established are 0.4% of net taxable premium for accident and health insurance and 0.5% for all other types of insurance. By applying equitably to domestic and foreign insurers, this new tax should avoid the constitutional problems of the old privilege tax. In addition, the new tax should

generate revenues comparable to what would have been collected under the 2% privilege tax. Also, the legislation eliminates the life insurance policy fee and stipulates that the moneys paid under protest be returned to the taxpayer.

Contact us at our web address: <http://www.comptroller.state.il.us>



Fiscal Focus

Loleta A. Didrickson

COMPTROLLER

Capitol Building
Springfield, Illinois 62706

Bulk Rate
U.S. Postage
P a i d
Springfield, IL
Permit No.367