

## AGENDA ITEM 9.

### ***COLLEGE ILLINOIS! FY2005 BUDGET REQUEST***

**Submitted for:** Action

**Summary:** The *College Illinois!* prepaid tuition program completed its sixth annual enrollment period on March 31, 2004, during which approximately 5,900 contracts were purchased. These new contracts represent a commitment of \$126 million, of which an estimated \$67 million is payable in June 2004. This level of contract purchases is consistent with expectations set forth in the program's most recent Annual Report. The program's proposed FY2004 administrative budget has been developed to secure a similar level of success during the 2004-2005 program enrollment.

*College Illinois!* will commence its seventh year of operation on July 1, 2004. The program's next enrollment period is scheduled to begin on October 27, 2004, and conclude on March 31, 2005. The program's FY2005 budget request totals \$3,477,500, an increase of \$252,500 (7.8%) in comparison with the total FY2004 budget. This administrative budget request represents approximately one-half of one percent (0.5%) of the total dollars committed to the program, estimated to be \$675 million.

Over 40 percent of the net \$252,500 increase can be attributed to the program's primary volume-driven expenditures for account servicing. The increases and decreases that result in the net increase are distributed over several line items in the FY2005 budget. All uniform budget assumptions (e.g., salary increases, postage rates) are the same as those previously reviewed or approved by the Commission in the FY2005 budget requests for appropriated funds and IDAPP.

**Action requested:** That the Commission approve the FY2005 *College Illinois!* administrative budget set forth in Table I.

## ILLINOIS STUDENT ASSISTANCE COMMISSION

### COLLEGE ILLINOIS! FY2005 BUDGET REQUEST

#### PROGRAM UPDATE

The *College Illinois!* prepaid tuition program completed its sixth annual enrollment period on March 31, 2004, during which approximately 5,900 contracts were purchased. These new contracts represent a commitment of \$126 million, of which an estimated \$67 million is payable in June 2004. This level of contract purchases is consistent with expectations set forth in the program's most recent Annual Report. The program's proposed FY2005 administrative budget has been developed to secure a similar level of success during the 2004-2005 program enrollment.

The program's financial stability has been enhanced by another year of strong contract sales. The Commission approved *College Illinois!* pricing for the 2003-2004 enrollment period that included an average 12 percent increase in the cost of public university plans (approximately 85 percent of contract purchases). For the third consecutive year, a modest premium was included in the contract prices (approximately 2.5 percent in this instance) to amortize the fund's current actuarial deficit. This continuation of strong demand for *College Illinois!* prepaid tuition contracts suggests that the program's appeal transcends economic conditions. The security and certainty offered by *College Illinois!* contracts remain attractive and important to families during periods of economic expansion and periods of economic distress.

In total, after six *College Illinois!* enrollment periods:

- ◆ more than 42,000 *College Illinois!* contracts have been purchased by more than 23,000 Illinois families;
- ◆ program participation represents a commitment of \$675 million dollars once all currently active contracts are paid in full;
- ◆ in June 2004, an estimated \$480 million will have been invested on behalf of program participants; and
- ◆ contract benefits already have been paid out to 1,100 students at nearly 200 colleges and universities in Illinois and across the nation.

It should be noted, as well, that the program's Web site continues to be significantly and continuously expanded, revised and enhanced, including refinements to the on-line application process that was utilized for the second straight year by more than 60 percent of contract purchasers.

*College Illinois!* was created to be a self-sustaining program administered by the Illinois Student Assistance Commission (ISAC) and designed to operate independent of state appropriations and other external budgetary support. Consequently, the *College Illinois!* budget for FY2005 and for all subsequent years is predicated solely upon revenue derived from participant contributions and fees. Contributions provide roughly 70 percent of administrative funding; fees comprise approximately 30 percent. At its inception, *College Illinois!* received start-up funding in the form of loans from external sources (the Illinois General Assembly and IDAPP), but both of these loans were fully repaid a year ago, in June 2003.

At that time the program eliminated more than \$350,000 of annual loan repayments and, consequently, today all monies held by the program within the Prepaid Tuition Trust Fund are self-generated.

As documented in the 2003-2004 Marketing Report provided to Commissioners in advance of this meeting, continued strong interest in *College Illinois!* this past enrollment period can be attributed to several factors. Staff believes that the most important of those factors are: (1) anticipated tuition increases at Illinois public universities and institutions across the country; (2) a focused and integrated marketing campaign emphasizing the security aspect of the program; (3) increasing consumer confidence in the economy coupled with higher levels of interest in safe investment products; (4) positive word-of-mouth endorsement; and (5) availability of the program's user-friendly on-line application. The program's FY2005 administrative budget has been developed to secure a similar level of success during the 2004-2005 program enrollment.

## **FY2005 ADMINISTRATIVE BUDGET REQUEST**

*College Illinois!* will commence its seventh year of operation on July 1, 2004. The program's next enrollment period is scheduled to begin on October 27, 2004, and conclude on March 31, 2005. The program's FY2005 budget request totals \$3,477,500, an increase of \$252,500 (7.8%) in comparison with the total FY2004 budget. This administrative budget request represents approximately one-half of one percent (0.5%) of total dollars committed to the program, estimated to be \$675 million.

Following is a narrative summary of major budgetary objectives for FY2005, including comparisons to the prior year's budget, as well as implementation plans. Table I documents the FY2005 budget request compared with the FY2004 program budget. Note that the costs for Records Administration and Lock Box Services in particular are volume-driven costs predicated upon the purchase of between 5,000 and 7,000 contracts during the 2004-2005 enrollment period.

### **Marketing**

The *College Illinois!* marketing budget request for FY2005 totals \$1,622,000, an increase of \$122,000 (8.1%) compared with the amount budgeted in FY2004. Each year, funding to market the program represents a critically important component of the program's budget request. For FY2005, funding increases for marketing are directed primarily to three areas: new creative materials, more promotional events, and extending the depth and scope of the program's Internet marketing activities.

- ◆ **Creative/Collateral/Production.** *College Illinois!* will continue to utilize a balanced and comprehensive multi-media marketing approach, using broadcast and cable television as well as radio and print to reach citizens throughout the State. The program will benefit from a stronger brand identity established principally during the past three years. The program's Rex and Tony animated mascots are now recognized by the public because for three consecutive enrollment periods, *College Illinois!* TV, radio and print ads have been featuring Rex and Tony's likenesses and/or voices. The FY2005 marketing budget includes \$315,000 for creative, collateral materials and production, an increase of \$80,000 (34%). This significant increase is requested because staff is proposing a shift in marketing strategy for the upcoming enrollment period that will require additional monies for the development of new broadcast materials, as well as print collateral. While Rex and Tony will still appear (but in a much reduced role) in the *College Illinois!* marketing materials, it is felt that a shift toward more of a "human" element in marketing would be a wise strategic move at this point in the program's history. This strategy is based partly on focus group research conducted by the program's incumbent marketing agent. Therefore, much of the increase in this line item is for production of a new *College Illinois!* television commercial and related collateral materials to take the marketing

strategy in a direction that involves additional creative energies and higher production costs than the animation utilized in the past three fiscal years.

- ◆ **Public Relations.** The FY2004 budget request provides \$250,000, an increase of \$30,000 (13.6%), for public relations and promotions. The 2003-2004 public relations effort for the third straight year returned excellent results in terms of promotional events, article placement, print interviews and broadcast radio interviews, as documented in the FY2004 Marketing Report supplied to Commissioners under separate cover. This past enrollment period, the program's relationships with Radio Disney, the Chicagoland Children's Expo, the Chicago Bears, the Chicago Bulls and two separate Hispanic family fairs provided great family-friendly venues for successful promotional events. The intention in FY2005 is to replicate and then expand upon that success.
- ◆ **Special Projects.** A total of \$22,000 is included in this request for marketing opportunities that are indeterminate at this time. This amount is requested to cover unexpected initiatives that develop over the course of the enrollment period as well as research costs associated with testing the new creative materials developed as the program uses more "human" content.
- ◆ **Paid Media.** Sufficient funding for paid media is always an essential component of the program's marketing effort. For FY2005, \$810,000 is requested, an increase of \$20,000 (2.5%). Purchased media prices are expected to increase slightly in FY2005 if conditions within the advertising industry improve at the same rate as the Illinois economy. This level of funding will enable the program to purchase an amount of media coverage similar to what was purchased in FY2004, including significant broadcast coverage in the Chicago area during the final month of enrollment. This level of funding is necessary to ensure that *College Illinois!* will deliver its message effectively throughout major metropolitan areas statewide.
- ◆ **Internet Marketing and E-messaging.** The budget request for Internet Marketing and E-messaging is a highly significant component of the program's marketing effort and critical to the program's continued success. During the 2003-2004 enrollment, 64 percent of new contracts were purchased on-line. This is similar to 62 percent of on-line purchases in 2002-2003, confirming the central importance of the Web site and on-line application within program's overall marketing strategy. For FY2005, \$127,500 is requested for this purpose, of which \$4,800 is specifically earmarked for the *College Illinois!* component of an agency-wide e-messaging initiative. This \$7,500 (6%) funding increase for FY2005 will be used to further refine the on-line application, further expand the program's permission-marketing effort, and refine the customer care section of the Web site.

### **Contractual Services**

Each year a substantial part of the program's Contractual Services budget is volume-driven. Specifically, as the size of the program expands, there are additional unavoidable administrative costs associated with managing more contracts and more assets. For FY2005, more funding is needed to cover costs for Records Administration Services in order to maintain additional accounts and pay benefits to a growing number of program beneficiaries. The FY2005 budget request for Records Administration and Telemarketing Services is \$925,000, an increase of \$99,000 (12.0%). The entire amount of this increase is attributable to volume: that is, the additional costs associated with more contracts under management and more student beneficiaries claiming their benefits. There is no increase in the unit prices charged for services to administer records in FY2005, because a two-year pricing agreement was negotiated last year with InTuition Solutions, the program's record administrator. That agreement ensured that records administration charges per account would remain in effect for both FY2004 and FY2005.

Since the program's inception, InTuition Solutions staff has been responsible for responding to telephone inquiries from existing customers. In FY2004, however, their customer service activities were expanded to include the program's enrollment call center, handling calls from potential customers during the enrollment period. The budgeted amount for this service is \$26,000, the same amount as FY2004 again due to the level pricing which was negotiated for both fiscal years. This \$26,000 is included within the overall contractual amount requested for the vendor. Having InTuition Solutions provide comprehensive phone center support has enabled *College Illinois!* to better integrate this function without increasing the cost of the service.

The FY2005 budget request for Lock Box Services is \$45,000, an increase of \$5,000 (12.5%). Although the program will see slight increases for application and payment processing charges on a per item basis, the overall increase is primarily volume driven as new contracts generate additional annual and monthly payments.

As noted earlier in this item, Records Administration costs will continue to increase each year as the program expands. More contracts under administration means more transactions handled by the vendor providing this service. Records Administration costs also increase each year as a consequence of matriculation, wherein more and more students each year use their program benefits to pay for college. The budgeted amounts for Records Administration and Lock Box Services are predicated on a similar public response during the upcoming enrollment period. Although the financial integrity of the *College Illinois!* program is enhanced by the purchase of more contracts, additional administrative costs may be incurred if projections are exceeded. As always, if these costs are higher than anticipated and cannot be covered by reallocation within the approved FY2005 budget, staff would formally request Commission approval next spring for additional budgetary authority to cover such volume-driven increases.

The FY2005 request for Investment Consultant Services is \$80,000, an increase of \$5,000 (6.7%). This increased amount has been negotiated for two years, so the cost for investment consultant services from Marquette Associates of Chicago will remain the same for both FY2005 and FY2006. Marquette Associates' fee is all-inclusive, covering in full the costs associated with searching for new or replacement money managers for the program and results in considerable annual cost savings. The fee budgeted for Marquette Associates is nearly 50 percent lower than the amount paid to the previous consultant for similar services during FY2003.

The budget request for other miscellaneous contractual services reflects changes as follows. ISAC's Budget and Finance Division estimates that the program's annual audit for FY2005 could cost approximately \$8,000. (Even so, it is difficult to estimate these expenses over which ISAC has no direct control and, consequently, in the past these costs have varied from budget projections.) As in previous years, a minimal amount also is budgeted for Legal Services in the event it is necessary to retain outside counsel due to unexpected program or customer issues that cannot be addressed as needed by in-house counsel. Actuarial services are contracted at \$50,000 for FY2005, the same amount as budgeted for FY2004. Rick Kaye and Associates provides services, as needed, under an inclusive fee agreement that covers all actuarial services requested during the year and any subsequent years for which the contract can be renewed.

### **Personal Services**

The program's Personal Services budget for FY2005 is \$390,000, an increase of \$62,000 (11.4%) in comparison to FY2004. The majority of this increase is attributable to unanticipated higher costs for employee fringe benefits (retirement benefits and group insurance) that have been imposed upon ISAC and all state agencies during the past fiscal year. At the time this budget was developed, the level of FY2005 personal services funding for ISAC remains indeterminate, but consistent with agency policy

used when developing the ISAC and IDAPP budgets for FY2005, the *College Illinois!* program's Personal Services request includes a 4.0 percent salary increase for all employees.

The *College Illinois!* FY2005 Personal Services budget provides funding for four full-time positions. Three of these positions are based in Springfield: the Director, the Operations Manager and the Program Assistant for Customer Service. The Associate Director position is based in Deerfield.

### **Additional Line Items**

The Telecommunications budget request for FY2005 reflects a significant decrease of \$8,500 (-36.2%) compared with the FY2004 request. Actual expenditures in this line for FY2004 are expected to be nearly \$9,000 less than budgeted, due to increased reliance upon the Web site by both potential purchasers and current contract holders. During FY2004, on-line account access became available for contract holders to use to monitor and review their individual accounts. A FY2005 budget request of \$15,000 is expected to fully cover telecommunications costs for the program.

The FY2005 budget request for Postage and Freight also reflects a significant reduction of \$10,000 (-33.3%). The two contributing factors are: 1) the central marketing agent has assumed responsibility for numerous direct mail projects, including the related postage costs; and 2) the number of potential purchasers relying on the Web site for information rather than requesting material be mailed to them.

The Printing budget is based on current inventory of printed supplies. Also, the amount requested for Travel in FY2005 will remain unchanged at \$11,000. This funding level should be sufficient to allow the same level of in-state travel, while once again keeping out-of-state travel for *College Illinois!* staff to a minimum.

### **Intra-agency Administrative Services**

The Intra-agency Administrative Services component of the *College Illinois!* budget represents those ISAC personnel and other agency resources used to support the program. Internal operating units such as the Print Shop; Mail Center; Information Services; Client Relations; Administrative Services; Research, Planning and Policy Analysis (RPPA); Legal Services; and Business and Finance provide ongoing support for *College Illinois!*. These indirect costs have been determined through the agency's cost allocation study, conducted annually by the Budget and Finance Division. The FY2005 budget includes \$297,500 for intra-agency services, the same amount budgeted in each of the past two fiscal years.

**TABLE I**  
**COLLEGE ILLINOIS!**  
**FY2005 ADMINISTRATIVE BUDGET REQUEST**

	<u>Approved FY2004 Budget</u>	<u>Requested FY2005 Budget</u>	<u>FY2004 Budget - FY2005 Budget \$ Change</u>	<u>FY2004 Budget - FY2005 Budget % Change</u>
<b>MARKETING</b>	<b><u>\$1,500,000</u></b>	<b><u>\$1,622,000</u></b>	<b><u>\$122,000</u></b>	<b><u>8.1%</u></b>
Account Service, Strategic Planning & Expense:	80,000	77,500	(2,500)	-3.1%
Creative/Collateral and Production	235,000	315,000	80,000	34.0%
Public Relations/ Promotional Events	220,000	250,000	30,000	13.6%
Paid Media (TV, radio, print)	790,000	810,000	20,000	2.5%
Internet Marketing & Enrollment	120,000	122,700	2,700	2.3%
Direct Marketing	35,000	20,000	(15,000)	-42.9%
Special Projects	20,000	22,000	2,000	10.0%
Emessaging	0	4,800	4,800	n/a
<b>CONTRACTUAL</b>	<b><u>\$1,008,000</u></b>	<b><u>\$1,117,000</u></b>	<b><u>\$109,000</u></b>	<b><u>10.8%</u></b>
Records Administration Service:	800,000	899,000	99,000	12.4%
Telephone Customer Service	26,000	26,000	0	0.0%
Actuarial Services	50,000	50,000	0	0.0%
Investment Consultant Service:	75,000	80,000	5,000	6.7%
Lock Box Services	40,000	45,000	5,000	12.5%
Legal Services	2,000	2,000	0	0.0%
Audit Services	8,000	8,000	0	0.0%
Registration, Subscription Fees & Misc. Expenses	7,000	7,000	0	0.0%
<b>PERSONAL SERVICES*</b>	<b><u>\$350,000</u></b>	<b><u>\$390,000</u></b>	<b><u>\$40,000</u></b>	<b><u>11.4%</u></b>
<b>TELECOMMUNICATIONS</b>	<b><u>23,500</u></b>	<b><u>15,000</u></b>	<b><u>(8,500)</u></b>	<b><u>-36.2%</u></b>
<b>POSTAGE &amp; FREIGHT</b>	<b><u>30,000</u></b>	<b><u>20,000</u></b>	<b><u>(10,000)</u></b>	<b><u>-33.3%</u></b>
<b>PRINTING</b>	<b><u>2,000</u></b>	<b><u>2,000</u></b>	<b><u>0</u></b>	<b><u>0.0%</u></b>
<b>COMMODITIES</b>	<b><u>1,500</u></b>	<b><u>1,500</u></b>	<b><u>0</u></b>	<b><u>0.0%</u></b>
<b>EQUIPMENT</b>	<b><u>1,500</u></b>	<b><u>1,500</u></b>	<b><u>0</u></b>	<b><u>0.0%</u></b>
<b>TRAVEL</b>	<b><u>11,000</u></b>	<b><u>11,000</u></b>	<b><u>0</u></b>	<b><u>0.0%</u></b>
<b>INTRA-AGENCY SERVICES: ADMIN.</b>	<b><u>297,500</u></b>	<b><u>297,500</u></b>	<b><u>0</u></b>	<b><u>0.0%</u></b>
<b>TOTAL BUDGET</b>	<b><u>\$3,225,000</u></b>	<b><u>\$3,477,500</u></b>	<b><u>\$252,500</u></b>	<b><u>7.8%</u></b>

\*Includes retirement, social security and group insurance.