

## AGENDA ITEM 12.

### ***COLLEGE ILLINOIS! FY2006 BUDGET REQUEST***

**Submitted for:** Action

**Summary:** The *College Illinois!* prepaid tuition program completed its seventh annual enrollment period on March 31, 2005, during which over 5,200 contracts were purchased. These new contracts represent a commitment of \$128.4 million, of which an estimated \$67.4 million is attributable to one-time lump-sum contracts, annual payments, down payments and regular installment payments, payable in June 2005. This dollar level of contract purchases is almost identical to revenues generated in the previous (2004-2005) enrollment period. The program's proposed FY2006 administrative budget has been developed to secure a similar level of success during the 2005-2006 enrollment period.

*College Illinois!* will commence its eighth year of operation on July 1, 2005. The program's next enrollment period is scheduled to begin on October 31, 2005, and conclude on April 3, 2006. The program's FY2006 budget request totals \$3,830,000, an increase of \$352,500 (10.1%) in comparison with the total FY2005 budget. This administrative budget request represents slightly over one-half of one percent (0.59%) of total program assets estimated to be \$650 million in June 2005.

While the distribution of increases and decreases is spread over several line items in the FY2006 budget, about half (46%), or \$159,500, of the net \$352,500 increase is attributed to unavoidable cost increases, comprised of: (1) volume-driven expenditures for records administration; (2) formula-driven audit expenses; and (3) intra-agency expenses.

All uniform budget assumptions (i.e., salary increases, postage rates, etc.) are the same as those previously reviewed or approved by the Commission in the FY2006 budget requests for appropriated funds and IDAPP.

**Action requested:** That the Commission approve the FY2006 *College Illinois!* administrative budget set forth in Table I.

## ILLINOIS STUDENT ASSISTANCE COMMISSION

### COLLEGE ILLINOIS! FY2006 BUDGET REQUEST

#### PROGRAM UPDATE

The *College Illinois!* prepaid tuition program completed its seventh annual enrollment period on March 31, 2005, during which over 5,200 contracts were purchased. These new contracts represent a commitment of \$128.4 million, of which an estimated \$67.4 million is attributable to lump-sum contracts, annual payments, down payments and regular installment payments, payable in June 2005. While the number of contracts purchased was approximately 12 percent lower than in 2003-2004, the dollar value of contracts purchased is almost identical to revenues generated in the previous enrollment period. The program's proposed FY2006 administrative budget has been developed to: (1) adequately cover administrative costs while providing outstanding customer service; and (2) secure a similar level of success during the 2005-2006 enrollment period.

The program's financial stability has been enhanced by another year of solid contract sales. The Commission approved *College Illinois!* pricing for the 2004-2005 enrollment period that included an average 16 percent increase in the cost of public university plans (approximately 85 percent of contract purchases) and, for the fourth consecutive year, a modest premium was included in the contract prices, in this instance, approximately 2.5 percent. This continuation of strong demand for *College Illinois!* prepaid tuition contracts suggests that the security offered by *College Illinois!* remains attractive and important to families so long as there remains uncertainty about the future cost of a college education.

In total, after seven *College Illinois!* annual enrollments:

- ◆ nearly 48,000 *College Illinois!* contracts have been purchased by more than 26,000 Illinois families;
- ◆ program participation represents a commitment of more than \$800 million dollars once all currently active contracts are paid-in-full;
- ◆ by the end of FY 2005, an estimated \$650 million will be invested on behalf of program participants; and
- ◆ contract benefits already have been paid out to 2,205 students at 300 colleges and universities in Illinois and across the nation.

*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!* operating budget is predicated solely upon the revenue derived from participant contributions and fees. Plan contributions provide roughly 70 percent of administrative funding, whereas fees collected comprise approximately 30 percent. While at its inception, *College Illinois!* needed start-up funding in the form of loans from external sources (the Illinois General Assembly and IDAPP), both of these loans were fully repaid two years ago, at the end of FY2003, eliminating more than \$350,000 of annual loan repayments. Currently the self-generated dollars held by the program within the Prepaid Tuition Trust Fund are the source of all program resources.

## **FY2006 ADMINISTRATIVE BUDGET REQUEST**

*College Illinois!* will commence its eighth year of operation on July 1, 2005. The program's next enrollment period is scheduled to begin on October 31, 2005, and conclude on April 3, 2006. The program's FY2006 budget request totals \$3,830,000, an increase of \$352,500 (10.1%) in comparison with the total FY2005 budget. *This administrative budget request represents slightly more than one-half of one percent (0.59%) of total program assets, estimated to be \$650 million in June 2005.* Following is a narrative summary of major budgetary objectives for FY2006, including comparisons to the prior year's budget, as well as implementation plans. Table I documents the FY2006 budget request compared with the FY2005 program budget.

### **Marketing**

The *College Illinois!* marketing budget request for FY2006 totals \$1,800,000, an increase of \$178,000 (11.0%) compared with the amount budgeted in FY2005. Each year, funding to market the program represents a critically important component of the program's budget request. For FY2006, funding increases for marketing are directed primarily to four areas: paid media, public relations and promotional events, direct marketing, and Internet marketing activities. The decrease in funding for creative and collateral results from last year's significant expenditure associated with design and production costs for a new television commercial.

▶ **Creative/Collateral/Production.** During FY2005, staff and our marketing consultants developed new broadcast materials (television and radio), as well as print collateral that reflected a more "human" element in contrast to the previous animated style. Consequently, design and production costs were significant. Since research shows that this strategy has been well received, the plan is to continue that style of marketing during the next enrollment period, thereby reducing new expenditures for design and production in FY2006. Monies have been allocated for production of some new print collateral to continue replacing dwindling supplies of animated-themed materials and to create additional marketing tools to supplement those already in place. The FY2006 marketing budget provides \$280,000 for creative/collateral production. This amount is a decrease of \$35,000 relative to FY2005.

▶ **Public Relations and Promotional Events.** The FY2006 budget request provides \$275,000, an increase of \$25,000 (10.0%) for public relations and promotions. The 2004-2005 public relations activities resulted in significant public exposure for the program via promotional events, article placement, print interviews and broadcast radio and television interviews, as documented in the FY2005 Marketing Report supplied to Commissioners under separate cover. This past enrollment period, the program's relationships with Radio Disney, the Chicagoland Children's Expo, American Baby Faire, and the Chicago Wolves provided great family-friendly venues for successful promotional events. The intention in FY2006 is to replicate and then expand upon this success with increased efforts at developing media and corporate relationships, enlisting financial professionals' support and securing other event venues.

▶ **Special Projects.** A total of \$15,000 is included in this request for marketing projects that may be deemed helpful during the upcoming year. For example, such projects may include some form of after-enrollment testing, designed to evaluate the effectiveness of one or more aspects of the FY2006 marketing campaign. Likewise, alternatively, if an unforeseen opportunity for expanding into a new venue or geographic area arises, funds will be available.

► **Paid Media.** Sufficient funding for paid media is always an essential component of the program’s marketing effort. For FY2006, \$925,000 is requested, an increase of \$115,000 (14.2%). Purchased media prices are expected to increase by 5 percent in FY2006. Approximately \$55,000 of this increase will accommodate the expected increase in media buy prices. This level of funding will enable the program to meaningfully expand the amount of media coverage that was purchased in FY2005, including significant broadcast coverage in the Chicago area during the final month of enrollment. As always, paid media is necessary to ensure that *College Illinois!* will deliver its message effectively throughout major metropolitan areas statewide.

► **Direct Marketing.** This year’s marketing budget includes a significant increase in the dollars allocated for direct marketing. In previous enrollment periods, use of direct marketing has been limited. The marketing agent for the program is recommending increased use of this marketing tactic to: (1) continue mailings to parents and grandparents; (2) contact and follow-up with “professional influencers,” e.g., financial planners; (3) distribute materials to parents via students in elementary and middle schools; and (4) include program materials in pre-packaged mailings, e.g., Valupak.

► **Internet Marketing and E-messaging.** Internet marketing and e-messaging is an increasingly significant component of the program’s marketing effort. Its impact becomes more critical to *College Illinois!*’ continued success with each passing year. During the 2004-2005 enrollment period, 73 percent of new contracts were purchased online—that means *that nearly three of every four College Illinois! customers this past year purchased their contracts online.* This represents yet another significant increase in Web usage, compared to the 62 percent of online purchases in 2003-2004, confirming the central importance of the Web site and online application within the program’s overall marketing strategy. The new online chat feature added to the Web site is yet another example of the enhancements to our Internet marketing strategy that was well received by visitors to our Web site. This service allows Web site visitors to ask and receive an immediate answer to their question during most business hours. While introduced initially on a trial basis, this online feature will be retained but will require some additional refining to maintain customer service levels using current agency and external vendor resources.

For FY2006, \$155,000 is requested for the program’s Internet marketing function, of which \$5,000 is specifically earmarked for the *College Illinois!* component of an agency-wide e-messaging initiative. Of the \$27,500 increase for FY2006, \$22,500 will be used to further refine the online application, expand permission-marketing efforts, and support additional customer service and customer care features.

### **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 FY2006, 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 FY2006 budget request for Records Administration is \$939,000, an increase of \$40,000 (4.4%). This increase is attributable to volume: that is, the additional costs associated with more contracts under management. Costs per service performed by InTuition Solutions, the program’s record administrator, will remain at the same level with the exception of a reduced fee for the processing of online applications.

Since the program's inception, InTuition Solutions staff has been responsible for responding to telephone inquiries from existing customers. Several years ago, InTuition Solutions began providing comprehensive phone center support, which has enabled *College Illinois!* to better integrate this function without increasing the cost of the service. The amount budgeted for telephone customer service remains at \$26,000, unchanged for FY2006.

The FY2006 budget request for Lock Box Services remains flat at \$45,000. While these costs for payment processing are volume-driven, new contracts generating additional monthly payments are offset by other contracts maturing and being paid-in-full. With sales at the current level there is only a small increase in actual number of monthly payments being processed that can be covered by the same budget allocation as FY2005.

The FY2006 request for Investment Consultant Services (provided by Marquette Associates of Chicago) remains unchanged from last year, at \$80,000. FY2006 is the second year of an agreement negotiated last year that keeps the FY2006 cost for investment advisor services from Marquette the same as FY2005. Marquette's fee is all-inclusive, covering completely the costs associated with searching for new or replacement money managers. This approach results in considerable cost savings for the program with an annual cost considerably lower than in the early years of the program when each manager search resulted in additional costs.

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 FY2006 could cost as much as \$25,000. It is difficult to estimate audit expenses over which ISAC has no direct control, but it appears that because audit costs are tied to asset size, they will increase each year (sometimes significantly) as the program's assets continue to increase.

As in previous years, a minimal amount (\$2,000) also is budgeted for Legal Services in the event it is necessary to retain outside counsel. Actuarial services are contracted at \$50,000 for FY2006, the same amount as budgeted for both FY2004 and FY2005. 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.

As noted earlier in this item, Records Administration costs will continue to increase each year as the program expands. More contracts under administration mean 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 FY2006 budget, staff would formally request Commission approval next spring for additional budgetary authority to cover such volume-driven increases.

### **Personal Services**

The program's Personal Services budget for FY2006 is \$415,000, an increase of \$25,000 (6.4%) in comparison to FY2005. The majority of this increase is partly 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. The level of salary increases in the FY2006 personal services funding included in the agency's appropriated budget is 2.5 percent. Consistent with agency policy used when developing the ISAC and IDAPP budgets for FY2006, the *College Illinois!*

program's Personal Services request includes the identical 2.5 percent salary increase for all program employees.

The *College Illinois!* FY2006 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. A fifth position (previously for Marketing and Outreach) is not funded at this time and there are no plans or funding requested to fill this position in FY2006.

### **Additional Line Items**

The amount budgeted for Telecommunications in FY2006 is less than the FY2005 amount. At this stage of the current fiscal year, Telecommunications costs are well below the amount budgeted for FY2005 as a result of changes implemented by the Department of Central Management Services. However because of the uncertainty of these new practices continuing or of adjustments being made over the next fiscal year, it is difficult to project actual expenditures in this category. In addition, the impact of the increased Internet usage by potential and current customers is difficult to gauge. The FY2006 budget request of \$13,500, however, is expected to fully cover telecommunications costs for the program.

The FY2006 budget request for Postage and Freight reflects a significant reduction of \$7,000 (35.0%). This reduced request is based on FY2005 postage costs that were considerably less than the amount budgeted. The postage costs for mailing informational materials has declined in recent years because of the availability of materials, applications, forms, etc. on the *College Illinois!* Web site. The printing budget's reduction is based on the current inventory of printed supplies and the allocation of part of the marketing budget to cover printing that is overseen by the program's marketing agent. The amount requested for Travel in FY2006 remains level. As always, out-of-state travel for *College Illinois!* staff is kept to a minimum in order to stay within the amount allocated. This funding level should be sufficient to allow the same level of in-state travel, and allow for staff travel to one annual out-of-state conference (for the College Savings Plan Network) scheduled during the fiscal year.

### **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 Division 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 FY2006 budget includes \$400,000 for intra-agency services, a significant increase of \$102,500 (34.5%). As the program has matured and assets have grown, many of the activities requiring intra-agency support have increased significantly, especially over the past few years. There are more payments to process, more colleges receiving student payments, more Requests for Proposals for services being issued, and consequently, more contracts being negotiated and processed. Procurement requirements have become more complex and contract regulations more extensive. In earlier years when the program was being established, a lower assessment for agency-related expenditures was imposed because the program was new, intra-agency services were not always routinely needed, and in some instances the level of intra-agency assistance required was indeterminate. The FY2006 budget request documents a current, more accurate assessment of the level of agency support for *College Illinois!* program operations.

**TABLE I**  
**COLLEGE ILLINOIS!**  
**FY2006 ADMINISTRATIVE BUDGET REQUEST**

	<b>Approved FY2005 Budget</b>	<b>Requested FY2006 Budget</b>	<b>FY2005 Budget - FY2006 Budget \$ Change</b>	<b>FY2005 Budget - FY2006 Budget % Change</b>
<b>MARKETING</b>	<b><u>\$1,622,000</u></b>	<b><u>\$1,800,000</u></b>	<b><u>\$178,000</u></b>	<b><u>11.0%</u></b>
Account Service, Strategic Planning & Expenses	77,500	80,000	\$2,500	3.2%
Creative/Collateral and Production	315,000	280,000	-\$35,000	-11.1%
Public Relations/ Promotional Events	250,000	275,000	\$25,000	10.0%
Paid Media (TV, radio, print)	810,000	925,000	\$115,000	14.2%
Internet Marketing, Enrollment & Emessaging	127,500	155,000	\$27,500	21.6%
Direct Marketing	20,000	70,000	\$50,000	250.0%
Special Projects	22,000	15,000	-\$7,000	-31.8%
<b>CONTRACTUAL</b>	<b><u>\$1,117,000</u></b>	<b><u>\$1,173,000</u></b>	<b><u>\$56,000</u></b>	<b><u>5.0%</u></b>
Records Administration Services	899,000	939,000	\$40,000	4.4%
Telephone Customer Service	26,000	26,000	\$0	0.0%
Actuarial Services	50,000	50,000	\$0	0.0%
Investment Consultant Services	80,000	80,000	\$0	0.0%
Lock Box Services	45,000	45,000	\$0	0.0%
Legal Services	2,000	2,000	\$0	0.0%
Audit Services	8,000	25,000	\$17,000	212.5%
Registration, Subscription Fees & Misc. Expenses	7,000	6,000	-\$1,000	-14.3%
<b>PERSONAL SERVICES*</b>	<b>\$390,000</b>	415,000	\$25,000	6.4%
<b>TELECOMMUNICATIONS</b>	<b>15,000</b>	13,500	-\$1,500	-10.0%
<b>POSTAGE &amp; FREIGHT</b>	<b>20,000</b>	13,000	-\$7,000	-35.0%
<b>PRINTING</b>	<b>2,000</b>	1,500	-\$500	-25.0%
<b>COMMODITIES</b>	<b>1,500</b>	1,500	\$0	0.0%
<b>EQUIPMENT</b>	<b>1,500</b>	1,500	\$0	0.0%
<b>TRAVEL</b>	<b>11,000</b>	11,000	\$0	0.0%
<b>INTRA-AGENCY SERVICES: ADMIN.</b>	<b>297,500</b>	400,000	\$102,500	34.5%
<b>TOTAL BUDGET</b>	<b><u>\$3,477,500</u></b>	<b><u>\$3,830,000</u></b>	<b><u>\$352,500</u></b>	<b><u>10.1%</u></b>

\*Includes retirement, social security and group insurance.