

AGENDA ITEM 5.

ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM BUDGET REQUEST

Submitted for: Action

Summary: Annually, IDAPP is required by the indentures with bondholders to submit a budget to each trustee by the end of April, for the fiscal year beginning July 1. The Commission approves IDAPP's budget request each year. The Commission can modify an approved budget at any time. At this time IDAPP is requesting approval of the FY2008 budget request.

In addition to the spending constraints on administrative operating expenses placed on IDAPP by this budget, most of the bond indentures contain limits on expenditures for operating expenses. These limits are required by the credit rating agencies and credit providers and are based on the cash-flow projections at the time of the bond issue.

For FY2008, staff is recommending Commission approval of a budget request which includes:

- \$11,164,000 for Personal Services
- \$3,948,000 for Contractual Services
- \$26,000,000 for External Servicing
- \$715,000 for Telecommunications, Commodities, Travel, etc.

Action requested: That the Commission approves the FY2008 IDAPP budget request of \$41,827,000 as detailed in table I.

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
BUDGET REQUEST**

Introduction

Since its inception, ISAC has financed its secondary market operations by means of revenues from student loans and alternative investments. The funds currently used to originate and purchase student loans and to make investments are derived from the sale of eight series of tax-exempt revenue bonds and 27 series of taxable revenue bonds, (See table IV). During the year, the secondary market will receive principal payments on student loans. In addition, total interest and special allowance receipts in FY2008 are projected to be \$243 million. From student loans, the revenues will consist of the following: \$170 million from student loan interest received directly from borrowers; \$32 million from Special Allowance Payments (SAP) representing payments made to IDAPP by the Department of Education for the difference between market rates and the interest rate that the borrower pays; and \$41 million from Federal Interest Benefits (FIB) representing payments made to IDAPP by the Department of Education for subsidized Stafford loans on behalf of the borrower during the in-school, grace or deferment period. From alternative investments, the projected revenues in FY2008 are \$13 million. Interest expense on the bonds and notes is estimated to be \$185 million in FY2008.

Current environmental and economic assumptions were used to estimate FY2008 revenues and expenses included in the request. It should be emphasized, however, that there are at least five key factors that may have the potential to impact revenue and expense projections:

- (1) Interest rate fluctuations, impacting both revenues and expenses.
- (2) Significant changes in student loan origination and/or purchase volume arising from normal fluctuations, non-recurring purchase opportunities, as well as additional loan sales.
- (3) The impact of legislative changes from the Higher Education Reconciliation Act of 2005 (HERA), Pub. L. 109-171 including reduction of origination fees; new fixed interest rates for Stafford and PLUS loans; changes to Special Allowance Payments, potentially requiring the repayment to ED of "excess interest" income; changes in loan limits; PLUS loans for graduate and professional students; changes in lender default reimbursement rates; and, changes in loan consolidation provisions. In addition, other changes are possible through Reauthorization of the federal Higher Education Act and additional legislation being introduced this year.
- (4) Changes in the competitive environment, including heightened competition in the areas of loan premiums, borrower benefits, and payment and/or waiver of fees.
- (5) Strategic alternatives currently under review and consideration by the Commission.

The IDAPP portfolio balances decreased from a balance of \$3.7 billion as of June 30, 2006, to \$3.2 billion as of February, 2007. This represents a decrease of 13.5 percent attributable to the recent loan sale.

As in previous years, staff is presenting a budget request for IDAPP's administrative operating expenses. The expenses are broken down into a Personal Services category and a Non-Personal Services category. Table I details these expenses and Table II details the Contractual Services expense items for FY2006, FY2007 and the request for FY2008. Tables III through V provide additional financial and statistical information which impact the administrative expenses of the program. Budgetary objectives for FY2008 include:

- meeting school and lender needs for the origination and purchase of loans;
- providing the highest quality customer service to students and schools;
- maintaining and improving technology options for the customers we serve;
- adhering to the ISAC cost allocation methodologies and other State budget mandates.

As outlined below, the total administrative expenses for IDAPP are projected to decrease by 13.6% in FY2008 compared to budgeted expenses for FY2007.

Total Personal Services: Decrease of \$446,000 (-3.84%)

The following factors contribute to the decrease in Personal Services for FY2008:

- IDAPP's internally serviced portfolio remained flat after the loan sale with a balance of \$1.3 billion as of June 30, 2006, and approximately the same balance at February 28, 2007. We expect the balance to decrease approximately \$421 million once conversion related to the loan sale is completed. This will represent a 30 percent decrease in internally serviced loans.
- as of February 28, 2007, IDAPP employed and funded 124 full-time and four part-time employees. IDAPP also funded 32 full-time ISAC employees using a cost allocation methodology for shared services. The FY2008 budget request assumes that IDAPP will continue to fund a similar number of full-time IDAPP and ISAC employees, less those lost through attrition.
- funding to grant an average FY2008 annual salary increase of 3 percent; and
- in support of the above, corresponding decreases to the Social Security and Insurance line items. It should be noted that it is anticipated the State-required retirement contribution for FY2008 will increase to 16.561 % from the 11.525% contribution required in FY2007.

Non-Personal Services: Decrease of \$6,149,000 (-16.7%)

The following provides a description of the largest line items included in this request for Non-Personal Services line items:

Rental – Real Property: Level funding

The FY2008 budget request of \$1,325,000 represents IDAPP's share of the overall ISAC costs for building, property, maintenance, and electricity fees. IDAPP's share, determined via a cost allocation methodology and based upon square footage, is unchanged from the FY2007 request.

Management and Professional Services: Decrease \$932,000 (-35.5%)

The FY2008 budget request of \$1,442,000 represents a 35.5 percent decrease from the FY2007 budget request. This decrease is the result of some estimated financial advisory, legal, and accounting fees in connection with the ongoing review of strategic alternatives being included in the loan sale transaction rather than in this administrative budget category. It should be noted that this figure also includes IDAPP's ongoing share of Agency expenses for the operation and maintenance of IllinoisMentor, ISAC's comprehensive, online interactive career and college planning tool for Illinois students, high schools and colleges.

External Servicers: Decrease of \$5,350,000 (-17.07%)

IDAPP uses seven primary external student loan servicing organizations in addition to servicing loans internally. IDAPP uses external servicers in order to accommodate school and student preferences and to avoid moving loans from the servicing system at which they were purchased to another system and cause disruptions for students. Nelnet has been servicing student loans for IDAPP since 1986. As of February 28, 2007, Nelnet is servicing \$520 million in student loans for IDAPP. ACS Education Services, Inc. has been servicing student loans for IDAPP since 1988. As of February 28, 2007, ACS is servicing \$151 million in student loans for IDAPP. Sallie Mae has been servicing student loans for IDAPP since 1995. As of February 28, 2007, Sallie Mae is servicing \$642 million in student loans for IDAPP. National Education Servicing (NES) has been servicing student loans for IDAPP since 2000. As of February 28, 2007, NES is servicing \$905 million in student loans for IDAPP. American Education Services/Pennsylvania Higher Education Assistance Agency (AES/PHEAA) has been servicing student loans for IDAPP since 1997. As of February 28, 2007, AES/PHEAA is servicing \$59 million in student loans for IDAPP. Great Lakes Higher Education Servicing Corporation (GLHEC) has been servicing student loans for IDAPP since 1998. As of February 28, 2007, GLHEC is servicing \$73 million in student loans for IDAPP. EdFinancial has been servicing student loans for IDAPP since 2003. As of February 28, 2007, EdFinancial is servicing \$28 million in student loans for IDAPP. The decrease in budgeted expenditures for the External Servicers expense line item is based upon projected decreases in the portfolios serviced by these seven and other potential servicing companies that may occur as related to loan sales.

Included in this decrease are costs associated with IDAPP's utilization of Nelnet's student loan servicing system as a remote user. As of February 28, 2007, IDAPP staff is servicing \$811 million of IDAPP owned student loans and \$585 million in student loans for its external customers on the Nelnet system. It should be noted that \$421 million will be removed from IDAPP servicing in the near future due to the January 2007 loan sale .

TABLE I

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FY 2008 BUDGET REQUEST
Administrative Expenses**

<u>ITEM</u>	<u>FY 2006 ACTUAL</u>	<u>FY 2007 BUDGET</u>	<u>FY 2007 ESTIMATED</u>	<u>FY 2008 REQUEST</u>	<u>\$ Increase over FY2007 BUDGET</u>	<u>% Increase over FY 2007 BUDGET</u>
<u>PERSONAL SERVICES COSTS:</u>						
PERSONAL SERVICES	\$7,430,958	\$7,970,000	\$7,770,000	\$7,400,000	\$(570,000)	-7.15%
RETIREMENT	575,840	957,000	862,000	1,226,000	269,000	28.11%
SOCIAL SECURITY	541,095	611,000	566,400	540,000	(71,000)	-11.62%
INSURANCE	<u>2,030,535</u>	<u>2,072,000</u>	<u>1,998,000</u>	<u>1,998,000</u>	<u>(74,000)</u>	<u>-3.57%</u>
TOTAL PERSONAL SERVICES	\$10,578,428	\$11,610,000	\$11,196,400	\$11,164,000	\$(446,000)	-3.84%
<u>NON-PERSONAL SERVICES COSTS:</u>						
CONTRACTUAL SERVICES	\$3,829,420	\$4,697,000	\$3,593,000	\$3,948,000	\$(749,000)	-15.95%
OTHER CONTRACTUAL-EDP	12,116	15,000	15,000	15,000	0	0.00%
OTHER CONTRACTUAL-EXTERNAL SERVICERS	25,201,487	31,350,000	27,000,000	26,000,000	(5,350,000)	-17.07%
TRAVEL	85,306	150,000	100,000	100,000	(50,000)	-33.33%
COMMODITIES	104,594	160,000	105,000	150,000	(10,000)	-6.25%
PRINTING	48,087	50,000	24,000	50,000	0	0.00%
TELECOMMUNICATIONS	283,416	330,000	345,000	330,000	0	0.00%
CAPITAL EXPENDITURES	<u>0</u>	<u>60,000</u>	<u>50,000</u>	<u>70,000</u>	<u>10,000</u>	<u>16.67%</u>
TOTAL NON-PERSONAL SERVICES	\$25,699,500	\$36,812,000	\$31,232,000	\$30,663,000	\$(6,149,000)	-16.70%
TOTAL ADMINISTRATIVE EXPENSES	<u>\$36,987,500</u>	<u>\$48,422,000</u>	<u>\$42,428,400</u>	<u>\$41,827,000</u>	<u>\$(6,595,000)</u>	<u>-13.62%</u>

TABLE II

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FY 2008 BUDGET REQUEST
Contractual Services Detail**

<u>ITEM</u>	<u>FY 2006 ACTUAL</u>	<u>FY 2007 BUDGET</u>	<u>FY 2007 ESTIMATED</u>	<u>FY 2008 REQUEST</u>	<u>\$ Increase over FY2007 BUDGET</u>	<u>% Increase over FY 2007 BUDGET</u>
RENTAL-REAL PROPERTY	\$921,773	\$1,325,000	\$1,325,000	\$1,325,000	\$0	0.00%
MGMT. AND PROF. SERVICES	1,730,704	2,625,000	1,442,000	1,693,000	(932,000)	-35.50%
POSTAGE	217,927	150,000	301,000	300,000	150,000	100%
SUBSCRIPTIONS AND INFO. SERVICES	70,523	85,000	60,000	80,000	(5,000)	-5.88%
REGISTRATION AND CONFERENCES	170,950	200,000	135,000	200,000	0	0.00%
OTHER CONTRACTUAL	<u>717,543</u>	<u>312,000</u>	<u>330,000</u>	<u>350,000</u>	<u>38,000</u>	<u>12.18%</u>
 TOTAL CONTRACTUAL SERVICES	 <u>\$3,829,420</u>	 <u>\$4,697,000</u>	 <u>\$3,593,000</u>	 <u>\$3,948,000</u>	 <u>(\$749,000)</u>	 <u>-20.85%</u>

TABLE III

ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
STUDENT LOAN PORTFOLIO INFORMATION AS OF 02/28/07
(\$ in Millions)

<u>By Servicer:</u>	<u>\$</u>	<u>%</u>
Sallie Mae	642	20.0
IDAPP	819	25.5
Nelnet	520	16.2
NES	905	28.2
ACS	152	4.7
AES/PHEAA	59	1.8
GLHEC	73	2.3
EdFinancial	28	.9
Other	<u>12</u>	<u>.4</u>
Total	<u>\$3,210</u>	<u>100</u>

<u>By Interest Rate Type:</u>	<u>\$</u>	<u>%</u>
Variable	1,926	60
Fixed	<u>1,284</u>	<u>40</u>
Total	<u>\$3,210</u>	<u>100</u>

<u>By Aging:</u>	<u>\$</u>	<u>%</u>
Current	2,906	91%
0-30 days	106	3%
31-90 days	100	3%
91-150 days	33	1%
151-270 days	40	1%
Over 271 days & default pending	<u>25</u>	<u>1%</u>
Total	<u>\$3,210</u>	<u>100</u>

<u>By Loan Type:</u>	<u>\$</u>	<u>%</u>
Stafford	1,633	51
Consolidation	930	29
SLS/PLUS	167	5
Alternative	<u>480</u>	<u>15</u>
Total	<u>3,210</u>	<u>100</u>

TABLE IV

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FINANCING HISTORY & SUMMARY AS OF 03/31/07
(\$ in Millions)**

<u>TAX-EXEMPT FINANCINGS</u>	<u>ISSUE DATE</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE</u>	<u>ORIGINAL AMOUNT</u>	<u>PRINCIPAL PAYDOWNS</u>	<u>REMAINING BALANCE</u>
Series A	1978	n/a	n/a	\$25,880	\$25,880	\$0
Series B	1980	n/a	n/a	25,000	25,000	0
Series C	1982	n/a	n/a	21,735	21,735	0
Series D	1983	n/a	n/a	40,000	40,000	0
Series E	1985	n/a	n/a	55,000	55,000	0
Note AA	1985	n/a	n/a	45,660	45,660	0
Note BB	1985	n/a	n/a	35,294	35,294	0
Note CC	1986	n/a	n/a	15,000	15,000	0
Series F	1986	n/a	n/a	111,050	111,050	0
Series G	1987	n/a	n/a	85,050	85,050	0
Series H	1988	n/a	n/a	85,050	85,050	0
Series I	1989	n/a	n/a	85,050	85,050	0
Series J	1989	n/a	n/a	40,000	40,000	0
Series K	1989	n/a	n/a	27,570	27,570	0
Note DD	1989	n/a	n/a	15,000	15,000	0
Series 1990A	1990	n/a	n/a	60,000	60,000	0
Series L	1991	n/a	n/a	33,200	33,200	0
Series M	1992	n/a	n/a	58,690	58,690	0
Series N	1994	n/a	n/a	1,000	1,000	0
Series O	1995	n/a	n/a	2,045	2,045	0
Series AA	1992	n/a	n/a	35,335	35,335	0
Series BB	1992	n/a	n/a	65,605	65,605	0
Series CC	1992	n/a	n/a	7,330	7,330	0
Series DD	1994	2006	n/a	65,000	65,000	0
Series EE	1994	n/a	n/a	39,860	39,860	0
Series FF	1994	2006	n/a	30,000	30,000	0
Series GG	1995	2005	n/a	47,650	47,650	0
Series 1996A	1996	2006	n/a	49,900	49,900	0
Series KK	1997	2006	n/a	40,900	40,900	0
Series LL	1997	2007	n/a	3,365	3,365	0
Series 1997A	1997	2031	variable	33,700	22,600	11,100
Series 1998A	1998	2032	variable	24,000	17,600	6,400
Series OO	1998	n/a	n/a	10,300	10,300	0
Series QQ	1999	n/a	n/a	11,110	11,110	0
Series RR	1999	2006	n/a	23,440	23,440	0
Series 1999A	1999	2034	variable	35,000	0	35,000
Series TT	2000	n/a	n/a	13,690	13,690	0
Series UU	2000	n/a	n/a	21,100	21,100	0
Series 6	2000	2034	variable	10,100	0	10,100
Series WW	2000	n/a	n/a	12,480	12,480	0
Series XX	2000	2008	n/a	17,000	17,000	0
Series 2001A	2001	2036	variable	33,600	28,600	5,000
Series 2003A	2003	2038	variable	19,000	0	19,000
Series 2002 III	2003	2011	variable	50,450	17,800	32,650
TOTAL TAX-EXEMPT				<u>\$1,567,189</u>	<u>\$1,447,939</u>	<u>\$119,250</u>

TABLE IV (cont.)
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FINANCING HISTORY & SUMMARY AS OF 03/31/07
(\$ in Millions)

<u>TAXABLE FINANCINGS</u>	<u>ISSUE DATE</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE</u>	<u>ORIGINAL AMOUNT</u>	<u>PRINCIPAL PAYDOWN</u>	<u>REMAINING BALANCE</u>
Series A	1989	n/a	n/a	\$50,000	\$50,000	\$0
Series B	1990	n/a	variable	60,000	60,000	0
Series C	1992	n/a	variable	50,000	50,000	0
Series D	1993	2023	variable	50,000	0	50,000
Series HH	1995	n/a	n/a	45,000	45,000	0
Series I I	1995	n/a	n/a	20,000	20,000	0
Series 1	1995	2011	variable	30,000	0	30,000
Series 2	1995	2011	variable	20,000	0	20,000
Series 1996B	1996	2016	variable	15,100	0	15,100
Series JJ	1997	n/a	variable	60,000	60,000	0
Series 1997B	1997	2031	variable	30,000	0	30,000
Series 3	1997	2013	variable	60,000	0	60,000
Series 1998B	1998	2032	variable	36,000	0	36,000
Series MM	1998	n/a	n/a	50,000	50,000	0
Series NN	1998	n/a	n/a	40,000	40,000	0
Series 4	1999	2030	variable	105,000	0	105,000
Series PP	1999	2029	n/a	65,450	65,450	0
Note EE	1999	n/a	n/a	65,000	65,000	0
Series 1999B	1999	2034	variable	65,000	0	65,000
Series SS	2000	n/a	n/a	65,000	65,000	0
Series 5	2000	2034	variable	64,900	0	64,900
Series 7	2000	2034	variable	240,000	0	240,000
Series 8	2000	2034	variable	10,000	0	10,000
Series VV	2000	n/a	n/a	120,550	120,550	0
Series 9	2001	2035	variable	180,000	0	180,000
Series 10	2001	2035	variable	20,000	0	20,000
Series YY	2001	n/a	n/a	200,000	200,000	0
Series 2001B	2001	2036	variable	216,400	0	216,400
Series 2002 I	2002	2042	variable	210,000	0	210,000
Series 2002 II	2002	2042	variable	40,000	0	40,000
Series 11	2002	2035	variable	190,000	0	190,000
Series 12	2002	2035	variable	10,000	0	10,000
Series 2003B	2003	2038	variable	281,000	0	281,000
Series 2003 IV	2003	2043	variable	264,550	0	264,550
Series 2003 V	2003	2043	variable	35,000	0	35,000
Series 2004 VI	2004	2044	variable	225,000	0	225,000
Series 2004 VII	2004	2044	variable	25,000	0	25,000
Series 2005B	2005	2039	variable	350,000	0	350,000
Series 2005 VIII	2005	2045	variable	560,000	0	560,000
Series 2005 IX	2005	2045	variable	40,000	0	40,000
TOTAL						
TAXABLE				<u>\$4,263,950</u>	<u>\$891,000</u>	<u>\$3,372,950</u>
GRAND TOTAL				<u>\$5,831,139</u>	<u>\$2,338,939</u>	<u>\$3,492,200</u>

Remaining balance of the debt shown in bold was refunded/defeased on 1/26/07.

TABLE V
ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
Summary Statistics
(\$ In Millions)

For The Fiscal Year Ended	IDAPP Student Loan Receivables	IDAPP Servicing For External Customers	Total Loans Serviced	Percent Increase	IDAPP Purchase & Origination Volume
2007 (projected)	\$3,210	\$164	3,374	-8%	1,200
2006	3,700	126	3,826	11%	1,470
2005	3306	146	3452	17	1,136
2004	2,801	152	2,953	15	955
2003	2,428	150	2,578	18	851
2002	2,050	136	2,186	22	675
2001	1,679	115	1,794	31	660
2000	1,266	102	1,368	18	384
1999	1,069	91	1,160	23	357
1998	895	50	945	27	316
1997	722	24	746	10	195
1996	677	0	677	20	242
1995	566	0	566	13	185
1994	501	0	501	3	128