

## AGENDA ITEM 6.

### ***COLLEGE ILLINOIS!™ FISCAL YEAR 2009 BUDGET REQUEST***

<b><u>Submitted for:</u></b>	Action
<b><u>Summary:</u></b>	<p>Each year the Commission is asked to review the planned administrative budget for the <i>College Illinois!</i> Prepaid Tuition Program. The proposed Fiscal Year 2009 administrative budget has been developed to adequately cover administrative costs including those costs associated with increasing program participation. Table I outlines the administrative budget request and also includes a breakdown of anticipated investment expenses that previously have not been included as part of the administrative budget.</p> <p><i>College Illinois!</i> celebrated a significant anniversary in FY2008 during the program's 10th annual enrollment period and enjoyed the first increase in contract sales in several years. The 2007-2008 enrollment period resulted in more contracts being purchased (4,493) than the previous year (4,113); thus reversing the trend of the previous four years. The proposed budget is requesting approval of expenditures to build on the current success of the program. At the same time, it includes funds to maintain the level of service all of our customers, both current and prospective have come to expect.</p> <p>The projected revenue generated by purchases made between October 2007 and May 2008 is approximately \$133 million, \$14 million more than the previous enrollment. In the month of June, it is expected that \$80 million will be received in payments from new purchasers as well as those continuing to make payments on plans purchased over the years.</p> <p>Last year (FY2007) slightly over \$28 million in tuition payments was issued to schools; for FY2008 that number is expected to exceed \$45 million and next year (FY2009) it may approach \$65 million. The 2008-2009 academic year will see approximately 8,000 <i>College Illinois!</i> students claiming their benefits to pay tuition and fees, an increase of 1,400 over the 2007-2008 academic year.</p> <p>The program's FY2009 budget request totals \$4,330,000, reflecting a decrease of 8.1% from the FY2008 budget. The marketing budget, which represents 36 percent of the total budget, was established to continue the program's current marketing and public relations efforts, including the Web site and all interactive marketing. It is important to continue to build on the successful efforts of the most recent enrollment while maintaining a reasonable level of spending in anticipation of the hiring of a Chief Marketing and Communications Officer for the agency that will be instrumental in guiding the program's marketing efforts in the future.</p> <p>As in past years, many of the line item increases in the FY2009 budget are the result of unavoidable cost increases such as increased postage costs, formula-driven audit expenses, and the costs of adding additional staff members.</p>
<b><u>Action requested:</u></b>	That the Commission approve the FY2009 <i>College Illinois!</i> administrative budget set forth in Table I.

**ILLINOIS STUDENT ASSISTANCE COMMISSION  
COLLEGE ILLINOIS! FISCAL YEAR 2009 BUDGET REQUEST**

**PROGRAM UPDATE AND OVERVIEW**

*College Illinois!* celebrated a significant anniversary in FY2008 during the program's 10th annual enrollment period and enjoyed the first increase in contract sales in several years. The 2007-2008 enrollment period resulted in more contracts being purchased (4,493) than the previous year (4,113); thus reversing the trend of the previous four years. The proposed budget is requesting approval of expenditures to build on the current success. At the same time, it includes funds to maintain the level of service all of our customers, both current and prospective, have come to expect.

The projected revenue generated by purchases made between October 2007 and May 2008 is approximately \$133 million, \$14 million more than the previous enrollment. In the month of June, it is expected that \$80 million will be received in payments from new purchasers as well as those continuing to make payments on plans purchased over the years.

On the other side of the balance sheet, last year (FY2007) tuition payments of slightly over \$28 million were made to schools; for the current FY2008 that number is expected to exceed \$45 million and next year (FY2009) it may approach \$65 million. The 2008-2009 academic year will see approximately 8,000 *College Illinois!* students claiming their benefits to pay tuition and fees, an increase of 1,400 over the 2007-2008 academic year.

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

- ◆ More than 62,000 *College Illinois!* contracts have been purchased for over 58,000 student beneficiaries;
- ◆ Program participation represents a commitment of almost \$1.2 billion in contributions once all currently active contracts are paid-in-full;
- ◆ Contract benefits have been paid out to over 8,000 students at nearly 600 colleges and universities in Illinois and across the nation.

As the program enters its second decade of operation with the current level of funds under management and committed to the program, *College Illinois!* remains in an asset accumulation stage of its development, with more dollars flowing into the program than are annually paid out in benefits.

*College Illinois!* was created to be a self-sustaining program and designed to operate independent of state appropriations and other external support. In this sense, *College Illinois!* is financially self-sufficient. Even so, *College Illinois!* does utilize and pay for intra-agency resources, and the program also remains an integral part of, and contributor toward, ISAC's mission of making college affordable for Illinois students.

The FY2009 *College Illinois!* administrative budget request presented for Commission approval totals \$4.33 million while representing slightly less than one-half of one percent (0.43 percent) of total program assets, estimated to be \$1 billion at fiscal year end on June 30, 2008. When the cost of investment services is included, total administrative costs for the *College Illinois!* program remain at .79 percent, less than 1.0 percent of program assets.

## **FY2009 ADMINISTRATIVE BUDGET REQUEST**

The program's FY2009 budget request totals \$4,330,000, reflecting a decrease of 8.1 percent from the FY2008 budget. The decrease is largely a result of a 31% reduction in dollars allocated for the contract of the central marketing agent for FY2009. This reduction is possible because last year's marketing budget included dollars to create new television and radio commercials with a totally new look and theme that can easily be used again during this year's enrollment period.

Following is a narrative summary of major budgetary objectives for FY2009, including comparisons to the prior year's budget, as well as implementation plans. Table I documents the FY2009 *College Illinois!* budget request compared with the FY2008 program budget. The anticipated investment expenses for FY2009 are indicated separately; these costs have not previously been presented as part of the administrative budget.

### **Marketing**

The *College Illinois!* marketing budget request for FY2009 totals \$1,500,000, a decrease of \$675,000 (31.0 percent) compared with the amount budgeted in FY2007. Each year, funding to market the program represents a critically important component of the program's budget request, as well as a large percentage of the entire budget amount (approximately 35 to almost 50 percent in some years).

As described above, this year's marketing budget is designed to keep the program out in the public domain and promote the sale of prepaid tuition contracts throughout the next enrollment period. TV and radio spots created during FY2008 will continue to be placed in media outlets around the state. Enrollment materials will be updated (e.g., prices) but probably not completed redesigned as they were this past year. The Web site will continue to play a major role in reaching out to new participants, as well as serving our current customer base. The online application, material request option, reports and forms, and emessaging are all handled via the central marketing agent contract. In terms of promotions and public relations, it is important that the program maintain a significant public presence. TV and radio appearances will be scheduled and program representatives will participate at fairs and expositions where the public has grown to expect to see *College Illinois!* (and our mascots) on a regular basis. These efforts allow the "face to face" contacts that have proven to be very beneficial to increased program participation. Some direct mail and special projects will be designed to reach out to certain population segments that may not be reached by our other mainstream efforts. We are not undertaking any major new initiatives this year, pending a new direction for the 2009 enrollment period.

The \$1,500,000 amount shown here is actually the dollars allocated for the contract with the central marketing agent. There are obviously other costs associated with marketing the program that are included throughout the rest of the administrative budget.

### **Contractual Services**

The FY2009 request calls for a modest increase in the program's Contractual Services area. The costs for records administration show only a slight increase because of additional account servicing requirements and some projects related to matriculation that our school partners have suggested to help maintain better student security. In FY2009 over 1,400 new beneficiaries will be eligible to begin using prepaid tuition benefits, increasing servicing costs over current levels.

The costs for the telephone customer service center will remain level. While some new outgoing telephone activity may be implemented as a sales tool, it will be an undertaking of current and new agency staff members.

The FY2009 budget request for Lockbox Services remains at the same dollar level: \$40,000. The actual costs for FY2008 were closer to \$35,000. And while these costs for payment and application processing are volume-driven, new contracts generating additional installment payments are offset by other contracts maturing and being paid-in-full. The lockbox will be also involved in the implementation of payroll deduction for state employees but those costs will be minimal.

The FY2009 request for Investment Consultant Services (provided by Marquette Associates of Chicago) reflects a 4.8 percent increase to \$130,000. The Investment Consultant's fee is all-inclusive, covering completely the costs associated with oversight of investment managers, asset allocation studies and searching for new or replacement investment managers.

The budget request for Legal and Audit Services is based upon the estimate provided by staff and based on the costs for the most recent audit. The cost of the FY2008 audit (which is paid in FY2009) could be as much as \$65,000. 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.

Other services and fees contained under Contractual Services are approximately the same level as FY2008. This includes Actuarial Services which will generate the program's soundness report and determine appropriate pricing for the next enrollment period.

The budgeted amounts for Records Administration and Lockbox Services are predicated on similar contract sales during the upcoming enrollment period. Additional administrative costs may be incurred if projections are significantly exceeded. As always, if these costs are higher than anticipated and cannot be covered by reallocation within the approved FY2009 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 FY2009 is \$925,000, an increase of \$300,000 (48 percent) in comparison to FY2008. The increased dollars will provide funding for two recently added positions, a sales and marketing manager and the Chief Investment Officer. Another portion of the increase represents the cost of two additional employees to be added during FY2009, an additional marketing and outreach representative and an administrative support position for the marketing team and Associate Director in the Deerfield office. An increase in the cost for providing employee fringe benefits for the program's full-time positions is also included.

### **Additional Line Items**

Increases in the support lines of Telecommunications, Travel, Commodities and Equipment are a result of more staff members needing additional resources to support their job assignments. Increasing sales and outreach efforts will require a significant increase in the travel budget.

The FY2009 budget request of \$25,000 for Postage and Freight reflects a notable increase of \$3,000 (13.6 percent). This increase is due to increased postage rates, additional costs that will be incurred to mail the program's annual newsletter to additional program participants added in the last year

and increasing the bulk mailing of materials to schools, churches, and community groups as a result of increased outreach.

The Printing budget was increased to provide funds to allow the use of in-house or local resources for less complex printing jobs that previously were handled by the central marketing agent.

### **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; 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 by the Budget and Finance Division. The FY2009 budget includes \$431,700 for Intra-agency services, the same amount as allocated in FY2008. The majority of the expenses for Intra-agency support are in the area of Personal Services to cover the salaries of agency personnel assisting with accounting, legal and procurement services, and other administrative tasks.

**TABLE I**  
**COLLEGE ILLINOIS!**  
**FY2009 ADMINISTRATIVE BUDGET REQUEST**

	<u>Approved FY2008 Budget</u>	<u>Requested FY2009 Budget</u>	<u>FY2008 Budget - FY2009 Budget \$ Change</u>	<u>FY2008 Budget - FY2009 Budget % Change</u>
<b>MARKETING</b>	<b>\$2,175,000</b>	<b>\$1,500,000</b>	<b>-\$675,000</b>	<b>-31.0%</b>
Account Service, Strategic Planning & Expenses	115,000	90,000	-\$25,000	-21.7%
Creative/Collateral and Production	300,000	150,000	-\$150,000	-50.0%
Public Relations/ Promotional Events	360,000	190,000	-\$170,000	-47.2%
Paid Media (TV, radio, print)	1,080,000	800,000	-\$280,000	-25.9%
Internet Marketing, Enrollment & Emessaging	220,000	225,000	\$5,000	2.3%
Direct Marketing	80,000	35,000	-\$45,000	-56.3%
Special Projects	20,000	10,000	-\$10,000	-50.0%
<b>CONTRACTUAL</b>	<b>\$1,421,500</b>	<b>\$1,398,000</b>	<b>-\$23,500</b>	<b>-1.7%</b>
Records Administration Services	1,120,000	1,070,000	-\$50,000	-4.5%
Telephone Customer Service	30,000	30,000	\$0	0.0%
Investment Consultant Services*	124,000	130,000	\$6,000	4.8%
Actuarial Services	55,000	56,000	\$1,000	1.8%
Lock Box Services	40,000	40,000	\$0	0.0%
Legal and Audit Services	45,000	65,000	\$20,000	44.4%
Misc. Expenses	7,500	7,000	-\$500	-6.7%
<b>PERSONAL SERVICES**</b>	<b>625,000</b>	<b>925,000</b>	<b>\$300,000</b>	<b>48.0%</b>
<b>TELECOMMUNICATIONS</b>	<b>12,000</b>	<b>15,000</b>	<b>\$3,000</b>	<b>25.0%</b>
<b>POSTAGE &amp; FREIGHT</b>	<b>22,000</b>	<b>25,000</b>	<b>\$3,000</b>	<b>13.6%</b>
<b>PRINTING</b>	<b>1,000</b>	<b>4,000</b>	<b>\$3,000</b>	<b>300.0%</b>
<b>COMMODITIES</b>	<b>1,300</b>	<b>2,000</b>	<b>\$700</b>	<b>53.8%</b>
<b>EQUIPMENT</b>	<b>3,000</b>	<b>4,000</b>	<b>\$1,000</b>	<b>33.3%</b>
<b>TRAVEL</b>	<b>17,500</b>	<b>25,000</b>	<b>\$7,500</b>	<b>42.9%</b>
<b>INTRA-AGENCY SERVICES: ADMIN.</b>	<b>431,700</b>	<b>432,000</b>	<b>\$300</b>	<b>0.1%</b>
<b>TOTAL ADMINISTRATIVE BUDGET</b>	<b>\$4,710,000</b>	<b>\$4,330,000</b>	<b>-\$380,000</b>	<b>-8.1%</b>

\*\*Includes retirement, social security and group insurance.

<b>*OTHER INVESTMENT EXPENSES</b>	<b>\$3,390,000</b>
Investment Manager Fees	\$3,200,000
Custodial Bank Fees	\$190,000

<b>TOTAL ADMINISTRATIVE AND INVESTMENT EXPENSES</b>	<b>\$7,720,000</b>
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