

AGENDA ITEM 11.

COLLEGE ILLINOIS![®] 529 PREPAID TUITION PROGRAM FISCAL YEAR 2011 BUDGET REQUEST

Submitted for: Action

Summary: Each year the Commission is asked to review the planned administrative budget for the College Illinois! 529 Prepaid Tuition Program. The proposed Fiscal Year 2011(FY2011) administrative budget has been developed to adequately cover administrative costs including those costs associated with the new year-round enrollment cycle. The new pricing period crosses fiscal years because it began November 1, 2009 and runs until October 31, 2010. Table I outlines the administrative budget request and also includes a breakdown of anticipated investment expenses.

The projected dollar value of contributions from purchases made for first six months (November 2009 through April 2010) of the 12-month pricing period is approximately \$56 million. In the month of May, it is expected that \$11 million will be received in payments from new purchasers as well as those continuing to make payments on plans purchased over the years.

In FY2010, it is projected that nearly \$66 million in tuition payments will be issued to schools. For FY2011, the number of students to be paid is expected to be approximately 8,400 however, due to tuition and fee increases, tuition payments are expected to grow by approximately 9.5 percent to approximately \$72 million.

The program's FY2011 administrative budget request totals \$7,626,726, reflecting an increase of 27.4% from the FY2010 budget. The majority of the increase is attributable to changing to year-round enrollment and decentralization of administrative functions that occurred in FY2009. The marketing budget, which represents 21 percent of the total budget, was established to continue the program's marketing and public relations efforts, including the Web site, interactive marketing, and special projects with emphasis on creating social media campaign infrastructure, as well as, interactive mobile media technology which will be key to reaching audiences across diverse socioeconomic, geographic, and demographic groups.

Action requested: That the Commission approve the FY2011 College Illinois! 529 Prepaid Tuition Program administrative budget set forth in Table I.

ILLINOIS STUDENT ASSISTANCE COMMISSION
COLLEGE ILLINOIS! 529 PREPAID TUITION PROGRAM
FISCAL YEAR 2011 BUDGET REQUEST

PROGRAM UPDATE AND OVERVIEW

Each year the Commission is asked to review the planned administrative budget for the College Illinois! 529 Prepaid Tuition Program. The proposed Fiscal Year 2011 administrative budget has been developed to adequately cover administrative costs including those associated with the decentralization of administration of the program that occurred in FY2009 and the change to year-round enrollment in FY2010. Table I outlines the administrative budget request and also includes a breakdown of anticipated investment expenses.

The projected dollar value of contributions from purchases made for first six months (November 2009 through April 2010) of the 12-month pricing period is approximately \$56 million. In the month of June, it is expected that \$11 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, it is projected that in FY2010 that nearly \$66 million in tuition payments will be issued to schools. For FY2011, the number of students to be paid is expected to be approximately 8,400, however, due to tuition and fee increases, tuition payments are expected to grow by approximately 9.5 percent to approximately \$72 million.

College Illinois! enrollment totals since the program began in 1998 are as follows:

- ◆ More than 68,000 College Illinois! contracts have been purchased;
- ◆ Program participation represents a commitment of over \$1.3 billion in contributions once all currently active contracts are paid-in-full;
- ◆ Contract benefits have been paid out to over 13,800 students at approximately 770 colleges and universities in Illinois and across the nation.

As the program proceeds through 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 accessible and affordable for all Illinois students.

The FY 2011 College Illinois! administrative budget request presented for Commission approval totals \$7.63 million while representing more than one-half of one percent (0.62 percent) of total program assets, estimated to be \$1.2 billion as of June 2011. When the cost of investment services is included,

total administrative costs for the College Illinois! program remain at 1.3 percent of estimated program assets.

FY2011 ADMINISTRATIVE BUDGET REQUEST

The program’s FY2011 budget request totals \$7,626,726, reflecting an increase of 27.4 percent from the FY2010 budget. The increase is largely a result of the decentralization of administration of the program and its impact on intra-agency administrative expenses and changing to year-round enrollment.

Following is a narrative summary of major budgetary objectives for FY2011, including comparisons to the prior year’s budget, as well as implementation plans. Table I documents the FY2011 College Illinois! budget request compared with the FY2010 program budget. The anticipated investment expenses are indicated separately.

Marketing

The marketing budget request for FY2011 totals \$1,600,000, an increase of \$170,000 compared to the amount budgeted in FY2010. Each year, funding to market the program represents a critically important component of the program’s budget request, representing 21 percent of the entire budget amount.

Increases in this year’s budget are designed to make up a portion of the funds that were lost when the budget was cut from \$2,175,000 in FY08 to \$1,500,000 in FY09 and then to \$1,430,000 in FY10. Historic program sales figures show that contract sales correlate positively with fluctuations in the marketing budget, 65% of which has historically gone to paid broadcast and print media purchases.

	Budget	Contracts	Dollars	Advertising cost per contract
2005-06	\$1,811,200	4,972	\$134,512,798	\$364.28
2006-07	\$1,700,000	4,386	\$128,433,602	\$387.60
2007-08	\$2,127,316	4,860	\$143,768,221	\$437.72
2008-09	\$1,500,000	3,669	\$129,082,100	\$408.83

The budget requested for FY11 was designed keeping in mind the cost-saving measures realized by bringing many marketing and communications tasks in-house and the combined impact it will have with a proposed new third party marketing agent eager to extend to the agency the expertise and buying power of their media planning team.

This combination will allow the marketing and communications team to stretch every dollar even further than in the current fiscal year, and enable the agency to continue the program’s marketing and public relations efforts, including the Web site, interactive marketing, and special projects with emphasis on maintaining evenly-distributed, long-term flights on broadcast and print media across the state. This will support the goal to increase contract sales by making audiences across diverse socioeconomic, geographic, and demographic groups aware of the program and push those previously familiar with the program to commit to a contract purchase.

Contractual Services

The FY2011 request calls for a modest increase in the program's Contractual Services area. The costs for records administration show an increase because of additional account servicing requirements required for year-round enrollment.

The costs for the telephone customer service center will also increase slightly, again in anticipation of increased usage caused by offering year-round enrollment.

The FY2011 budget request for Lockbox Services remains at the same dollar level: \$40,000. The actual costs for FY2010 were closer to \$33,000. 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 budget request for legal services of \$300,000 is based upon the estimate provided by the legal department. The Audit Cost is based on the costs for the most recent external audit. The cost of the FY2010 audit (which is paid in FY2011) could be as much as \$65,000. It is difficult to estimate audit expenses over which ISAC has no direct control, because audit costs are tied to asset size. It is expected that both audit and legal costs will increase as the program's assets continue to increase.

The budgeted amounts for Records Administration and Lockbox Services are predicated on a contract sales estimate of 5,500. Additional administrative costs may be incurred if projections are significantly exceeded.

Personal Services

The program's Personal Services budget for FY2011 is \$1,653,326, an increase of \$615,026 (59 percent) in comparison to FY2010. The increased dollars provide funding for the upcoming fiscal year for recently added positions of Director of Beta Management and an Associate Counsel for legal services. An increase in the cost for providing employee fringe benefits for the program's full-time positions is also included.

Additional Line Items

There are decreases of \$35,700 (47.6 percent) in the support lines of Telecommunications, Travel, Commodities and Equipment, Postage and Freight, and Printing.

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; Budget and Finance Division; Program Services and Compliance Division; and Marketing and Communications 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 FY2011 budget includes \$2.5 million for intra-agency services, an increase of \$500,000 (25 percent) as compared to FY2010. The majority of the expenses are to properly allocate intra-agency support in the area of Personal Services to cover the salaries of agency

personnel assisting with accounting, legal services, marketing, communications, procurement services, and other administrative tasks.

Investment Expenses

The FY2011 request for Investment Consultant Services (provided by Marquette Associates of Chicago) remains the same. 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 FY2011 request for Investment Manager Fees has increased from \$4.8 million for FY 2010 to \$7.4 million. This is primarily due to expansion and diversification of the portfolio to alternative investments (Hedge Funds, Private Equity, Real Estate and Infrastructure).

TABLE I
COLLEGE ILLINOIS! 529 PREPAID TUITION PROGRAM
FY2011 ADMINISTRATIVE BUDGET REQUEST

	<i>Approved FY2010 Budget</i>	<i>Requested FY2011 Budget</i>	<i>FY2010 Budget vs. FY2011 Budget \$ Change</i>	<i>FY2010 Budget vs. FY2011 Budget % Change</i>	<i>% of Total Admin Budget</i>
MARKETING	<u>\$1,430,000</u>	<u>\$1,600,000</u>	<u>\$170,000</u>	<u>11.9%</u>	20.98%
Account Service, Strategic Planning & Expenses	\$10,000	\$40,000	\$30,000	300.0%	
Creative/Collateral and Production	\$120,000	\$90,000	(\$30,000)	-25.0%	
Public Relations/ Promotional Events	\$200,000	\$190,000	(\$10,000)	-5.0%	
Paid Media (TV, radio, print)	\$700,000	\$900,000	\$200,000	28.6%	
Internet Marketing, Enrollment & Emessaging	\$300,000	\$300,000	\$0	0.0%	
Direct Marketing	\$50,000	\$30,000	(\$20,000)	-40.0%	
Special Projects	\$50,000	\$50,000	\$0	0.0%	
CONTRACTUAL	<u>\$1,442,000</u>	<u>\$1,834,100</u>	<u>\$392,100</u>	<u>27.2%</u>	24.05%
Records Administration Services	\$1,210,000	\$1,276,500	\$66,500	5.5%	
Telephone Customer Service	\$40,000	\$52,000	\$12,000	30.0%	
Actuarial Services	\$80,000	\$100,000	\$20,000	25.0%	
Lock Box Services	\$40,000	\$40,000	\$0	0.0%	
Legal and Audit Services	\$65,000	\$365,000	\$300,000	461.5%	
Misc. Expenses	\$7,000	\$600	(\$6,400)	-91.4%	
PERSONAL SERVICES*	<u>\$1,038,300</u>	<u>\$1,653,326</u>	<u>\$615,026</u>	<u>59.2%</u>	21.68%
TELECOMMUNICATIONS	<u>\$15,000</u>	<u>\$18,500</u>	<u>\$3,500</u>	<u>23.3%</u>	0.24%
POSTAGE & FREIGHT	<u>\$25,000</u>	<u>\$13,000</u>	<u>(\$12,000)</u>	<u>-48.0%</u>	0.17%
PRINTING	<u>\$4,000</u>	<u>\$1,500</u>	<u>(\$2,500)</u>	<u>-62.5%</u>	0.02%
COMMODITIES	<u>\$2,000</u>	<u>\$2,000</u>	<u>\$0</u>	<u>0.0%</u>	0.03%
EQUIPMENT	<u>\$4,000</u>	<u>\$0</u>	<u>(\$4,000)</u>	<u>-100.0%</u>	0.00%
TRAVEL	<u>\$25,000</u>	<u>\$4,300</u>	<u>(\$20,700)</u>	<u>-82.8%</u>	0.06%
INTRA-AGENCY SERVICES: ADMIN.	<u>\$2,000,000</u>	<u>\$2,500,000</u>	<u>\$500,000</u>	<u>25.0%</u>	32.78%
TOTAL ADMINISTRATIVE BUDGET	<u>\$5,985,300</u>	<u>\$7,626,726</u>	<u>\$1,641,426</u>	<u>27.4%</u>	

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

<i>INVESTMENT EXPENSES</i>	<u>\$5,064,500</u>	<u>\$7,757,500</u>	<u>\$2,693,000</u>	<u>53.2%</u>
<i>Investment Consultant Services</i>	\$140,000	\$140,000	\$0	0.0%
<i>Custodial Bank Fees</i>	\$150,000	\$250,000	\$100,000	66.7%
<i>Investment Manager Fees</i>	\$4,774,500	\$7,367,500	\$2,593,000	54.3%
<i>GRAND TOTAL - COLLEGE ILLINOIS BUDGET</i>	<u>\$11,049,800</u>	<u>\$15,384,226</u>	<u>\$4,334,426</u>	<u>39.2%</u>