

AGENDA ITEM 9.

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FY2005 BUDGET REQUEST**

Submitted for: Action

Summary: Annually IDAPP is required by the indentures with bond holders 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 FY2005 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 FY2005, staff is recommending Commission approval of a budget request which includes:

- \$11,185,000 for Personal Services
- \$3,455,000 for Contractual Services
- \$20,700,000 for External Servicing
- \$470,000 for Telecommunications, Data Processing, and Equipment
- \$395,000 for an Integrated Information Management System

Action requested: That the Commission approves the:

- FY2005 IDAPP budget request of \$36,315,000; and
- Withdrawal of \$395,000 from 1993 Series D Taxable Student Loan Revenue Bonds to fund a contract with an outside vendor to build an integrated information management system.

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FY2005 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 used to originate and purchase student loans and to make alternative investments are derived from the sale of nineteen series of tax-exempt revenue bonds, Series O, CC, DD, FF, GG, KK, LL, OO, RR, UU, XX, 1996A, 1997A, 1998A, 1999A, 2001A, 2003A, Series 6, 2002 III; from a tax-exempt revenue note, lettered BB; from thirty-one taxable bond issues, Series D, HH, II, JJ, MM, NN, PP, SS, VV, YY, Note 1, Note 2, Note 3, Note 4, Note 5, Note 7, Note 8, Note 9, Note 10, Note 11, Note 12, 1996B, 1997B, 1998B, 1999B, 2001B, 2003B, 2002I, 2002II, 2002IV and 2002V; and from a taxable revenue note, lettered EE (see Table V). The budget request assumes the sale in FY2005 of an additional \$750 million in taxable and tax-exempt student loan revenue bonds with the tax-exempt issues subject to the availability of gubernatorially-allocated bond cap.

During the year, the secondary market will receive principal payments on student loans. In addition, total interest and special allowance receipts in FY2005 are projected to be \$121.08 million. From student loans, the revenues will consist of the following: \$76.31 million from student loan interest received directly from borrowers; \$20.95 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 a student pays; and \$12.34 million from Federal Interest Benefits (FIB) representing payments made to IDAPP by the Department of Education for subsidized Stafford loans on behalf of the student during the in-school, grace or deferment period. From alternative investments, the projected revenues in FY2005 are \$11.48 million. Interest expense on the bonds and notes is estimated to be \$51.54 million in FY2005.

Current environmental and economic assumptions were used to estimate FY2005 revenues and expenses included in the request. It should be emphasized, however, that there are at least six key factors that may have the potential to impact revenue and expense projections:

- (1) the variable interest rate nature of the student loan program and outstanding financings, and the anticipated increase in short-term interest rates which are expected to increase borrowing costs and revenues from student loans;
- (2) significant unanticipated student loan originations, purchases and operational initiatives that may require a supplemental budget request;
- (3) the continuation of student loan prepayments due to the availability of consolidation loans;
- (4) the borrower interest rate reset effective July 1, 2004 which could significantly erode existing net interest margins; borrower rates are based on short-term rates currently set at 2.82% during the in-school period and 3.42% during the repayment period; such rates are currently projected to reset at 2.65% and 3.25%, respectively, for the period of July 1, 2004 through June 30, 2005;

- (5) Governor and Office of Management and Budget initiatives that may impact IDAPP operations; and
- (6) Changes in the student loan program resulting from the reauthorization of the federal Higher Education Act that should occur during FY2005.

There has been consistent and significant growth of the IDAPP portfolio. From a balance of \$2.578 billion as of June 30, 2003, IDAPP's loan portfolio has grown considerably, increasing to an estimated \$2.980 billion as of June 30, 2004. This represents an increase of 16 percent.

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 FY2003, FY2004 and the request for FY2005. Tables III through VI provide additional financial and statistical information which impact the administrative expenses of the program. Budgetary objectives for FY2005 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 Governor mandates.

As outlined below, the total administrative expenses for IDAPP are projected to increase by \$3,081,000 in FY2005 over anticipated expenditures for FY2004.

Total Personal Services: \$789,000 (7.59%)

The following factors contribute to the increase in Personal Services for FY2005:

- IDAPP's internally serviced portfolio continues to grow. From a balance of \$725 million as of June 30, 2003, IDAPP projects a balance of \$900 million as of June 30, 2004 and \$1.1 billion as of June 30, 2005. This represents a 24 and 22 percent increase respectively. As a result, IDAPP will hire additional staff in order to support this growth and not jeopardize the service levels schools, lenders and borrowers expect.
- as of March 31, 2004, IDAPP employed and funded 135 full-time and four part-time employees. IDAPP also funded 30 full-time ISAC employees using a cost allocation methodology for shared services. The FY2005 budget request assumes that the hiring freeze currently imposed by the Governor is lifted and that IDAPP will employ and fund 145 full-time and four part-time employees. It also assumes IDAPP will continue to fund the 30 full-time ISAC employees. The total personal services budget item includes funds for vacant positions on a prorated basis depending on when they are expected to be filled;
- annualization of performance-based salary increases and adjustments granted in FY2004;

- funding to grant an average FY2005 performance-based salary increase of 4.0 percent and implement market-driven range adjustments aimed at keeping the secondary market's salaries competitive; and
- in support of the above, corresponding increases to the Retirement, Social Security and Insurance line items.

Non-Personal Services: \$2,292,000 (10.04%)

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

Rental – Real Property: \$50,000 (4.08%)

The FY2005 budget request of \$1,275,000 represents IDAPP's share of the overall ISAC costs for building, property, maintenance, and electricity fees. IDAPP's share is determined via a cost allocation methodology and is based upon square footage.

Management and Professional Services: \$5,000 (0.31%)

The FY2005 budget request of \$1,600,000 will fund management and professional services for fees paid to firms to perform required audits, assist with the transition to a different student loan servicing software, and technology initiatives to meet school and borrower expectations.

External Servicers: \$2,209,000 (11.95%)

IDAPP uses seven 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 January 31, 2004, Nelnet is servicing \$575 million in student loans for IDAPP. ACS Education Services, Inc. has been servicing student loans for IDAPP since 1988. As of January 31, 2004, ACS is servicing \$261 million in student loans for IDAPP. Sallie Mae has been servicing student loans for IDAPP since 1995. As of January 31, 2004, Sallie Mae is servicing \$740 million in student loans for IDAPP. National Education Servicing (NES) has been servicing student loans for IDAPP since 2000. As of January 31, 2004, NES is servicing \$346 million in student loans for IDAPP. Pennsylvania Higher Education Assistance Agency (PHEAA) has been servicing student loans for IDAPP since 1997. As of January 31, 2004, PHEAA is servicing \$19 million in student loans for IDAPP. Great Lakes Higher Education Servicing Corporation (GLHEC) has been servicing student loans for IDAPP since 1998. As of January 31, 2004, GLHEC is servicing \$10 million in student loans for IDAPP. EdAmerica has been servicing student loans for IDAPP since 2003. As of January 31, 2004, EdAmerica is servicing \$3 million in student loans for IDAPP. The increase in budgeted expenditures for the External Servicers expense line item is based upon projected increases in the portfolios serviced by these seven and other potential servicing companies.

Included in this increase are costs associated with IDAPP's utilization of Nelnet's student loan servicing system as a remote user. During December 1998 IDAPP converted all of the internally serviced loans from the computer system that had been used since 1978 to Nelnet's servicing system. During FY2003 IDAPP converted all of the loans currently serviced on Nelnet's system to a new system that Nelnet moved to. As of January 31, 2004, IDAPP staff is servicing \$686 million of IDAPP owned student loans and \$183 million in student loans for its external customers on the Nelnet system.

Withdrawal of \$395,000 to fund an Integrated Information Management System:

Under this proposed initiative, ISAC is in the process of contracting with an outside vendor to build an integrated information management system that establishes and maintains an internet-based database of grade school, high school and college students. Such a system will provide students and their families with a simpler and friendlier way to choose a career, select a college, apply for admission, and finance their college education and will also provide students a secure and confidential vehicle for communicating directly with their college of choice.

IDAPP requests authorization to work with the credit enhancer and other parties as needed to perform the necessary cash flows and gain the needed approvals to remove the \$395,000 from a credit enhanced bond issue in order to fund half of the second year's cost for such a system. The other half of the funds will come from ISAC's appropriated fund.

TABLE I

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FY 2005 BUDGET REQUEST
Administrative Expenses**

<u>ITEM</u>	<u>FY 2003 ACTUAL</u>	<u>FY 2004 BUDGET</u>	<u>FY 2004 ESTIMATED</u>	<u>FY 2005 REQUEST</u>	<u>\$ Increase over FY2004 EST</u>	<u>% Increase over FY 2004 EST</u>
<u>PERSONAL SERVICES COSTS:</u>						
PERSONAL SERVICES	\$6,983,000	\$8,200,000	\$7,400,000	\$8,010,000	\$610,000	8.24%
RETIREMENT	988,000	1,090,000	1,015,000	1,065,000	50,000	4.93%
SOCIAL SECURITY	531,000	575,000	541,000	560,000	19,000	3.51%
INSURANCE	<u>1,353,000</u>	<u>1,590,000</u>	<u>1,440,000</u>	<u>1,550,000</u>	<u>110,000</u>	<u>7.64%</u>
TOTAL PERSONAL SERVICES	\$9,855,000	\$11,455,000	\$10,396,000	\$11,185,000	\$789,000	7.59%
<u>NON-PERSONAL SERVICES COSTS:</u>						
CONTRACTUAL SERVICES	\$3,321,000	\$3,405,000	\$3,360,000	\$3,455,000	\$95,000	2.83%
OTHER CONTRACTUAL-EDP	17,000	25,000	14,000	15,000	1,000	7.14%
OTHER CONTRACTUAL-EXTERNAL SERVICERS	16,570,000	18,500,000	18,491,000	20,700,000	2,209,000	11.95%
TRAVEL	188,000	230,000	220,000	150,000	-70,000	-31.82%
COMMODITIES	283,000	280,000	270,000	280,000	10,000	3.70%
PRINTING	35,000	40,000	53,000	75,000	22,000	41.51%
TELECOMMUNICATIONS	328,000	350,000	320,000	335,000	15,000	4.69%
CAPITAL EXPENDITURES	<u>91,000</u>	<u>135,000</u>	<u>110,000</u>	<u>120,000</u>	<u>10,000</u>	<u>9.09%</u>
TOTAL NON-PERSONAL SERVICES	\$20,833,000	\$22,965,000	\$22,838,000	\$25,130,000	\$2,292,000	10.04%
TOTAL ADMINISTRATIVE EXPENSES	<u>\$30,688,000</u>	<u>\$34,420,000</u>	<u>\$33,234,000</u>	<u>\$36,315,000</u>	<u>\$3,081,000</u>	<u>9.27%</u>

TABLE II

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FY 2005 BUDGET REQUEST
Contractual Services Detail**

<u>ITEM</u>	<u>FY 2003 ACTUAL</u>	<u>FY 2004 BUDGET</u>	<u>FY 2004 ESTIMATED</u>	<u>FY 2005 REQUEST</u>	<u>\$ Increase over FY2004 EST</u>	<u>% Increase over FY 2004 EST</u>
RENTAL-REAL PROPERTY	\$1,190,000	\$1,245,000	\$1,225,000	\$1,275,000	\$50,000	4.08%
MGMT. AND PROF. SERVICES	1,580,000	1,625,000	1,595,000	1,600,000	5,000	0.31%
POSTAGE	65,000	100,000	130,000	150,000	20,000	15.38%
SUBSCRIPTIONS AND INFO. SERVICES	70,000	80,000	75,000	80,000	5,000	6.67%
REGISTRATION AND CONFERENCES	121,000	145,000	135,000	140,000	5,000	3.70%
OTHER CONTRACTUAL	<u>295,000</u>	<u>210,000</u>	<u>200,000</u>	<u>210,000</u>	<u>10,000</u>	<u>5.00%</u>
TOTAL CONTRACTUAL SERVICES	<u>\$3,321,000</u>	<u>\$3,405,000</u>	<u>\$3,360,000</u>	<u>\$3,455,000</u>	<u>\$95,000</u>	<u>2.83%</u>

TABLE III

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
Financial Highlights
(\$ In Millions)**

	<u>Projected FYE 2004</u>	<u>Actual FYE 2003</u>	<u>Actual FYE 2002</u>	<u>2004 vs. 2003 Percent Change</u>
Net Income	\$15.00	\$14.15	\$21.29	6.01%
Total Assets	3,605.00	3,356.84	2,748.45	7.39%
Student Loans Receivable	2,805.00	2,428.49	2,049.80	15.50%
Program Equity - Retained Earnings - Reserved	157.62	142.62	128.47	10.52%
Interest Income on Student Loans	65.00	82.01	82.78	-20.74%
Special Allowance and Interest Benefits on Student Loans from the Department of Education	27.00	28.49	30.39	-5.23%
Investment Income	8.00	9.73	13.78	-17.78%
Interest Expense on Bonds and Notes	45.00	56.72	67.54	-20.66%

Table IV

Illinois Student Assistance Commission
Illinois Designated Account Purchase Program
Student Loan Portfolio Information as of 01/31/04
(\$ in Millions)

<u>By Servicer:</u>	<u>\$</u>	<u>%</u>
Sallie Mae	740	28
IDAPP	686	26
Nelnet	575	22
NES	346	13
ACS	261	10
PHEAA	19	1
GLHEC	10	0
EdAmerica	<u>3</u>	<u>0</u>
Total	<u>\$2,640</u>	<u>100</u>
<u>By Interest Rate Type:</u>	<u>\$</u>	<u>%</u>
Variable	2,149	81
Fixed	<u>491</u>	<u>19</u>
Total	<u>\$2,640</u>	<u>100</u>
<u>By Aging:</u>	<u>\$</u>	<u>%</u>
In-School / Grace	825	31
Deferment / Forbearance	492	19
0-30 days	1,110	42
31-90 days	115	4
91-150 days	39	1
151-270 days	41	2
Over 271 days & default pending	<u>18</u>	<u>1</u>
Total	<u>\$2,640</u>	<u>100</u>
<u>By Loan Type:</u>	<u>\$</u>	<u>%</u>
Stafford	1,726	65
Consolidation	481	18
Alternative	283	11
SLS/PLUS	<u>150</u>	<u>6</u>
Total	<u>\$2,640</u>	<u>100</u>

TABLE V

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FINANCING HISTORY & SUMMARY AS OF 04/01/04
(\$ 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	2005	variable	35,294	0	35,294
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	7.06	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	6.91	33,200	33,200	0
Series M	1992	n/a	6.15	58,690	58,690	0
Series N	1994	n/a	4.59	1,000	1,000	0
Series O	1995	2005	6.13	2,045	1,860	185
Series AA	1992	n/a	n/a	35,335	35,335	0
Series BB	1992	n/a	6.49	65,605	65,605	0
Series CC	1992	2015	6.88	7,330	0	7,330
Series DD	1994	2006	variable	65,000	0	65,000
Series EE	1994	n/a	5.01	39,860	39,860	0
Series FF	1994	2006	5.60	30,000	0	30,000
Series GG	1995	2005	variable	47,650	30,550	17,100
Series 1996A	1996	2006	variable	49,900	5,700	44,200
Series KK	1997	2006	variable	40,900	0	40,900
Series LL	1997	2007	5.75	3,365	0	3,365
Series 1997A	1997	2031	variable	33,700	5,900	27,800
Series 1998A	1998	2032	variable	24,000	7,300	16,700
Series OO	1998	2028	variable	10,300	0	10,300
Series QQ	1999	n/a	3.57	11,110	11,110	0
Series RR	1999	2006	4.09	23,440	15,280	8,160
Series 1999A	1999	2034	variable	35,000	0	35,000
Series TT	2000	n/a	4.66	13,690	13,690	0
Series UU	2000	2008	5.35	21,100	8,815	12,285
Series 6	2000	2034	variable	10,100	0	10,100
Series WW	2000	n/a	4.50	12,480	12,480	0
Series XX	2000	2008	5.00	17,000	5,320	11,680
Series 2001A	2001	2036	variable	33,600	9,600	24,000
Series 2003A	2003	2038	variable	19,000	0	19,000
Series 2002 III	2003	2011	variable	<u>50,450</u>	<u>5,200</u>	<u>45,250</u>
TOTAL TAX-EXEMPT				<u>\$1,567,189</u>	<u>\$1,103,540</u>	<u>\$463,649</u>

TABLE V (cont.)

**ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FINANCING HISTORY & SUMMARY AS OF 04/01/04
(\$ 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	2025	variable	45,000	0	45,000
Series I I	1995	2025	variable	20,000	0	20,000
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	2026	variable	60,000	0	60,000
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	2028	variable	50,000	0	50,000
Series NN	1998	2028	variable	40,000	0	40,000
Series 4	1999	2030	variable	105,000	0	105,000
Series PP	1999	2029	variable	65,450	0	65,450
Note EE	1999	2029	variable	65,000	0	65,000
Series 1999B	1999	2034	variable	65,000	0	65,000
Series SS	2000	2035	variable	65,000	0	65,000
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	2035	variable	120,550	0	120,550
Series 9	2001	2035	variable	180,000	0	180,000
Series 10	2001	2035	variable	20,000	0	20,000
Series YY	2001	2041	variable	200,000	0	200,000
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 2002 IV	2003	2043	variable	264,550	0	264,550
Series 2002 V	2003	2043	variable	<u>35,000</u>	<u>0</u>	<u>35,000</u>
TOTAL TAXABLE				<u>\$3,063,950</u>	<u>\$160,000</u>	<u>\$2,903,950</u>
GRAND TOTAL				<u>\$4,631,139</u>	<u>\$1,263,540</u>	<u>\$3,367,599</u>

TABLE VI
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
2005 (projected)	\$3,180	\$200	\$3,380	13%	\$1,050
2004 (projected)	2,805	175	2,980	16	950
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
1993	486	0	486	10	149
1992	440	0	440	n/a	121