

AGENDA ITEM 9.

COLLEGE ILLINOIS! 529 FIXED RATE TUITION PLAN FISCAL YEAR 2008 BUDGET REQUEST

Submitted for: Action

Summary: *College Illinois!* will celebrate a significant anniversary in the upcoming fiscal year when the program's 10th annual enrollment period opens on October 29, 2007 and continues through April 29, 2008. The program's proposed Fiscal Year 2008 administrative budget has been developed to improve upon the success achieved in the previous enrollment periods and to adequately cover administrative costs while competing effectively in the ever-changing college savings financial marketplace. Over 4,100 contracts were purchased in the program's 2006-2007 general enrollment period and contracts continue to be accepted during our extended newborn enrollment period ending August 1, 2007. These new contracts represent a commitment of \$119 million to the program, of which an estimated \$58 million is attributable to contract payments due in June 2007, including one-time lump-sum contracts, annual payments, and down payments.

The program's FY2008 budget request totals \$4,710,000, reflecting an increase of 23 percent over the FY2007 budget. This budget request represents the program's first overall administrative budget increase in two years while representing slightly less than one-half of one percent (0.48 percent) of total anticipated program assets, estimated to be \$990 million at fiscal year end on June 30, 2007. The current budget request includes a significant increase (27.9 percent) in the dollars spent for marketing the *College Illinois!* program. A decision was made to develop a new marketing campaign for the upcoming enrollment period and commit more resources to all facets of the integrated marketing plan in FY2008.

As in past years, many of the line item increases in the FY2008 budget are the result of unavoidable cost increases comprised of: (1) volume-driven expenditures for records administration, (2) formula-driven audit expenses, and (3) personal services increases. All uniform agency budget assumptions (i.e., proposed salary increases, increased retirement contributions and insurance costs) have been applied to the *College Illinois!* FY2008 budget request. Other increases are attributable to new employee positions requested for FY2008 and expenses associated with those positions.

Action requested: That the Commission approve the FY2008 *College Illinois!* administrative budget set forth in Table I.

ILLINOIS STUDENT ASSISTANCE COMMISSION
COLLEGE ILLINOIS! 529 FIXED RATE TUITION PLAN
FISCAL YEAR 2008 BUDGET REQUEST

PROGRAM UPDATE AND OVERVIEW

College Illinois! will celebrate a significant anniversary in the upcoming fiscal year when the program's 10th annual enrollment period opens on October 29, 2007 and continues through April 29, 2008. The program's proposed Fiscal Year 2008 administrative budget has been developed to improve upon the success achieved in the previous enrollment periods and to adequately cover administrative costs while competing effectively in the ever-changing college savings financial marketplace. Over 4,100 contracts were purchased in the program's 2006-2007 general enrollment period and contracts continue to be accepted during our extended newborn enrollment period ending August 1, 2007. These new contracts represent a commitment of \$119 million to the program, of which an estimated \$58 million is attributable to contract payments due in June 2007, including one-time lump-sum contracts, annual payments, and down payments.

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

- ◆ More than 57,400 *College Illinois!* contracts have been purchased for over 48,200 student beneficiaries;
- ◆ Program participation represents a commitment of more than \$1.0 billion in contributions once all currently active contracts are paid-in-full;
- ◆ By the end of June 2007, approximately \$990 million will be invested on behalf of program participants; and
- ◆ Contract benefits have been paid out to over 5,700 students at nearly 500 colleges and universities in Illinois and across the nation.

With completion of the most recent enrollment period, *College Illinois!* has achieved a milestone. Projected revenue generated from the recent contract purchases will result in the program's total assets (including future installment payments due) being valued at more than \$1.0 billion in FY2008. As the program enters its second decade of operation with this level of funds currently under management and committed to the program, *College Illinois!* nonetheless 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 administered by the Illinois Student Assistance Commission (ISAC) 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 to provide post-secondary financial assistance for all of Illinois' students and their families.

Consequently, the annual *College Illinois!* administrative budget is predicated solely upon revenue derived from participant contributions and fees. Administrative fees collected provide roughly 50 percent of operations funding, whereas participant contributions provide the remaining 50 percent. At its

inception, *College Illinois!* utilized start-up funding in the form of loans from external sources (a state General Revenue Funds appropriation and an IDAPP discretionary funds loan). Both of these loans were fully repaid four years ago at the close of FY2003. There are no state or federal revenues appropriated to the program.

The FY2008 *College Illinois!* administrative budget request presented for Commission approval totals just over \$4.7 million while representing slightly less than one-half of one percent (0.48 percent) of total program assets, estimated to be \$990 million at fiscal year end on June 30, 2007. When the cost of investment services (detailed in the Investment Performance Report sent separately to the Commission twice per year) is included, *total administrative costs for the College Illinois! program remain at .88 percent, less than 1.0 percent of program assets.*

FY2008 ADMINISTRATIVE BUDGET REQUEST

The program's FY2008 budget request totals \$4,710,000, reflecting an increase of 23 percent over the FY2007 budget. This budget request represents the program's first overall administrative budget increase in two years. As in past years, many of the line item increases in the FY2008 budget are the result of unavoidable cost increases comprised of: (1) volume-driven expenditures for records administration, (2) formula-driven audit expenses, and (3) personal services increases. All uniform agency budget assumptions (i.e., proposed salary increases, increased retirement contributions and insurance costs) have been applied to the *College Illinois!* FY2008 request. Other increases are attributable to new financial and marketing employee positions requested for FY2008 and expenses associated with those positions.

The volume-driven portion of the *College Illinois!* administrative budget is, as always, based upon the best estimates available at this time. Although it has never before been necessary, the Commission is advised that if these costs prove higher than anticipated and cannot be covered by minor reallocation within the approved FY2008 budget, staff would formally request Commission approval later in the fiscal year for additional budgetary authority to pay these obligations.

Following is a narrative summary of major budgetary objectives for FY2008, including comparisons to the prior year's budget, as well as implementation plans. Table I documents the FY2008 *College Illinois!* budget request compared with the FY2007 program budget.

Marketing

The *College Illinois!* marketing budget request for FY2008 totals \$2,175,000, an increase of \$475,000 (27.9 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. While the amount of new dollars committed to the program as a result of new purchases each year has remained stable, staff and the Commission have noted a gradual diminution of the number of new contract purchases in recent years. This is attributable in large part to the increased price of contracts that results from above-average tuition and fees hikes at Illinois public universities over the past five years (increases that are significantly higher than the national average).

Contract sales have also been impacted by increased competition for college savings dollars. Illinois citizens can choose from an array of out-of-state and broker-sold Section 529 savings programs, as well as two other in-state Section 529 programs, Bright Start and Bright Directions (a broker-sold program), both administered by the Office of the State Treasurer. *College Illinois!* does not have a sales force of brokers to generate contract sales, unlike most of its competitors. Instead, it is an internet-based, direct-sold program and shall continue to be so. As *College Illinois!* enters its second decade, however,

the FY2008 budget includes additional marketing dollars, as well as administrative funding to counter increased competition from out-of-state and broker-sold college savings programs. The Personal Services line includes funds for an additional marketing position. This new staff person will enhance the program's outreach dimension by providing greater capacity to interact with potential purchasers in person, at promotional events and through other outreach initiatives.

For FY2008, there is also a significant increase in funding for other aspects of the program's integrated marketing effort.

▶ **Account Service, Strategic Planning and Expenses.** To allow for increased costs of travel, postage, and shipping, and to pay for activity associated with growth in the overall account size, the allocation for Account Service has been increased from \$85,000 to \$115,000. Working with more outside vendors than in the past will also require additional resources. The current vendor charges the program a flat hourly rate for the services of all staff from the most senior to junior level which is advantageous because of the number of senior staff that service the account.

▶ **Creative/Collateral/Production.** The FY2008 marketing budget provides \$300,000 for creative/collateral production, an increase of \$80,000 relative to FY2007. Additional dollars are necessary to cover the costs of the development of a new creative concept/design and incorporation of it into all communications. A major creative expenditure will be the production of a new TV commercial for the 2007-'08 enrollment period. The industry average lifespan of an advertising campaign is generally two years and the current TV commercial has been used for the last two enrollment periods. Radio commercials currently used for program promotion will likely be replaced with ads that integrate with the newly developed campaign. Additional funds are also being requested for the production of newly designed collateral (brochures, enrollment materials, etc.) to present an integrated marketing image.

▶ **Public Relations and Promotional Events.** The FY2008 budget request provides \$360,000, an increase of \$80,000 for public relations and promotions. Each year, public relations activities have gradually increased, resulting in increased public exposure for the program. With the planned addition of two *College Illinois!* staff members during FY2008, it is expected that the program's capacity to offer and effectively staff public relations and promotional events will expand significantly. Outreach initiatives continue to increase *College Illinois!*' accessibility to the public by targeting employers and other professional organizations in addition to public libraries. This past enrollment period, the program's relationships with Radio Disney and the Chicago Wolves hockey team along with participation at events such as the American Baby Faire, two Chicagoland Kids Expos, and a Hispanic family financial fair provided excellent family-friendly venues for successful promotional events. The intention in FY2008 is to replicate and expand upon these endeavors. A portion of the program's public relations activities also includes outreach to press and media outlets via a variety of press releases across the state resulting in the numerous article placements and print interviews along with broadcast radio and television interviews conducted with staff year round. New this year will be anticipated corporate partnerships that will involve highly publicized promotions.

▶ **Paid Media.** Sufficient funding for paid media is always an essential component of the program's marketing effort. For FY2008, \$1,080,000 is requested, an increase of \$190,000. Paid media is necessary to ensure that *College Illinois!* will deliver its message effectively throughout major metropolitan areas statewide in order to continue brand building and promote additional program participation. In recent years, the program's paid media budget has seen both slight decreases and minor increases. Witnessing a trend of reduced new contract sales, it was decided

to use more paid media – much of it targeted -- in the upcoming enrollment period and assess the impact. Results from this past 2006-2007 enrollment period suggest that a significant bump in funding for paid media (roughly 20 percent over the inflation-adjusted level expended by the program in past years) is both affordable and wise at this time. Clearly, if the program is to hold, and gradually expand, its share of the college savings market in Illinois, it must spend the funds necessary to extensively and effectively reach its target purchasers.

► **Internet Marketing and E-messaging.** For FY2008, \$220,000 is requested for the program’s Internet marketing function, a \$45,000 increase over expenditures of last year. The increase in funds will be used to further refine the online application, aggressively expand permission-marketing efforts, and support additional customer service and customer care features. Resources will also be available for new tools and features requested/suggested via the online application customer survey. 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. The number of contracts purchased online – 80 percent during the 2006-2007 enrollment period -- means *that four of every five College Illinois! customers this past year purchased their contracts online.* This combined with the increasing usage numbers and unique visitors confirm the central importance of the Web site and online application within the program’s overall marketing strategy. E-messaging is being increasingly utilized to keep current and potential customers informed about new marketing initiatives, vital program deadlines, public educational presentations and promotional events along with important developments in program administration.

► **Direct Marketing.** This year’s marketing budget includes \$80,000 allocated for direct marketing, a substantial increase of \$45,000 compared with the FY2007 budget. In previous enrollment periods, direct marketing has been used to conduct mass mailings to parents and grandparents, and contact and follow-up with “professional influencers,” e.g., financial planners. There is evidence that these tactics have been successful and need to be continued and expanded. Additional dollars will allow a more direct and customized approach in reaching out to our target populations, using for example variable printing. The successful direct mail initiative from FY2006 that was greatly expanded in FY2007 reaching out to financial planners will also be continued for a third year, and enhanced in FY2008.

► **Special Projects.** A total of \$20,000 is included in this request for marketing projects that may be deemed helpful during the upcoming year but may not be clearly defined at this time. These dollars provide flexibility to explore new opportunities that arise. It is very likely that such projects may include some form of post-enrollment research, designed to evaluate the effectiveness of one or more aspects of the FY2007 marketing campaign. Likewise, alternatively, if an unforeseen opportunity for expanding into a new venue or geographic area arises, funds will be available.

Contractual Services

Each year a substantial part of the program’s Contractual Services budget is volume-driven. Specifically, as the program increases in size, there are additional unavoidable administrative costs associated with servicing more contracts. For FY2008, more funding is needed to cover costs for Records Administration Services in order to manage new accounts added during the most recent enrollment period and to process tuition benefit payments for additional program beneficiaries starting college. The FY2008 budget request for Records Administration is \$1,120,000, an increase of \$150,000 (15.5 percent). Costs per service performed by InTuition Solutions, the program’s record administrator, will not increase

for FY2008; additional costs will be incurred for new account servicing and matriculating accounts only. In FY2008 over 2,400 new beneficiaries will be eligible to begin using prepaid tuition benefits, increasing servicing costs over current levels.

Since the program's inception, InTuition Solutions staff has been responsible for providing customer service for telephone inquiries from existing customers. Several years ago, InTuition Solutions began providing comprehensive phone center support for both existing customers and those calling during the enrollment period to request program information be sent via mail or to ask questions about the program. This has enabled *College Illinois!* to better integrate this function with existing customer service representatives without increasing the cost paid for this service. The amount budgeted for telephone customer service in FY2008 is \$30,000, an increase of \$4,000 (15.4 percent). Although the vendor is not increasing the cost of the services provided, the program is requesting additional funds to explore implementation of additional strategic marketing services such as outgoing phone calls to follow up on inquiries received.

The FY2008 budget request for Lockbox Services remains at the same dollar level: \$40,000. These costs for payment and application processing are volume-driven; however, new contracts generating additional installment 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 the actual number of installment payments being processed that can be covered by the same budget allocation. In addition, the continuing trend toward increased online applications has reduced the number of paper applications being processed.

The FY2008 request for Investment Consultant Services (provided by Marquette Associates of Chicago) reflects a 36.4 percent increase to \$124,000. FY2008 marks the first year of a new contract with this consultant. The previous contract resulted in only a \$12,500 increase over the past three years. During that time, the amount of assets under management, the number of investment managers hired by the program and the number of manager searches conducted has increased significantly. This growth in volume and complexity will continue as the program moves into its tenth year of managing assets. The Investment Consultant's fee is all-inclusive, covering completely the costs associated with searching for new or replacement money managers.

The program's FY2008 Contractual Services budget no longer contains funds (\$10,000) to cover expenses that may occur as a result of the need for extra clerical support.

The budget request for Legal and Audit Services is based upon the estimate provided by ISAC's Budget and Finance Division (BFD). BFD staff believes that the program's annual audit for FY2007 could cost approximately \$40,000 to \$45,000. 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.

Actuarial services are contracted at \$55,000 for FY2008, an increase of \$5,000 (10 percent) over the amounts budgeted in each of the past two years. Richard M. Kaye and Associates in collaboration with Pricewaterhouse Coopers provides services, as needed, under an inclusive fee agreement that covers all actuarial services requested during the year. This amount is expected to remain level for FY2009.

As noted earlier in this item, Records Administration costs will continue to increase each year as the program expands. The budgeted amounts for Records Administration and Lockbox Services are predicated on similar contract sales 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 FY2008 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 FY2008 is \$625,000, an increase of \$185,000 (42 percent) in comparison to FY2007. Most of this increase (approximately \$156,000 or 85 percent) represents the cost of two new employees; one to work in the investment area and one to assist with marketing and outreach efforts. The remaining \$29,000 increase is attributable to proposed salary increases of 3.5 percent and increased costs for employee fringe benefits (retirement benefits and group insurance) for the program's four full-time positions and one shared position. Increases for Personal Services are consistent with those used in developing the ISAC and IDAPP budgets for FY2008.

Additional Line Items

The \$12,000 amount budgeted for Telecommunications in FY2008 is the same as the amount budgeted for FY2007, but still roughly 11 percent less than the FY2006 amount. At this stage of the current fiscal year, Telecommunications costs remain significantly below the amount budgeted for FY2007. This is most likely the result of two factors: 1) changes implemented three years ago by the Department of Central Management Services (CMS); and 2) increased use of the Internet by the program's current customers and potential customers to communicate with staff. It is expected that the additional telecommunications costs associated with adding new staff will result in telecommunications costs for FY2008 similar as that budgeted in FY2007.

The FY2008 budget request of \$22,000 for Postage and Freight reflects a notable increase of \$4,000 (22.2 percent). This increase is due to increased postage rates that will be in effect in FY2008 and additional costs that will be incurred to mail the program's annual newsletter to additional program participants added in the last year.

The categories of Printing, Commodities and Equipment, taken together, are funded at only slightly more (\$700) than during the last two fiscal years. The increase in equipment purchases is needed to provide additional equipment for new staff.

Travel funding requested for FY2008 is \$17,500, an increase of \$6,500 (59.1 percent). Additional funds are needed to provide for expected in-state travel for new staff, and to provide for out-of-state travel for several staff to attend out-of-state conferences (for the College Savings Plans 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; 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 FY2008 budget includes \$431,700 for Intra-agency services, a \$11,700 increase compared with FY2007. This increase is a result of the same principles underlying the increase in program Personal Services costs—the proposed salary increase and associated fringe benefit costs. 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! 529 FIXED RATE TUITION PLAN
FY2008 ADMINISTRATIVE BUDGET REQUEST

	Approved FY2007 Budget	Requested FY2008 Budget	FY2007 Budget - FY2008 Budget \$ Change	FY2007 Budget - FY2008 Budget % Change
MARKETING	<u>\$1,700,000</u>	<u>\$2,175,000</u>	<u>\$475,000</u>	<u>27.9%</u>
Account Service, Strategic Planning & Expenses	85,000	115,000	<u>\$30,000</u>	<u>35.3%</u>
Creative/Collateral and Production	220,000	300,000	<u>\$80,000</u>	<u>36.4%</u>
Public Relations/ Promotional Events	280,000	360,000	<u>\$80,000</u>	<u>28.6%</u>
Paid Media (TV, radio, print)	890,000	1,080,000	<u>\$190,000</u>	<u>21.3%</u>
Internet Marketing, Enrollment & Emessaging	175,000	220,000	<u>\$45,000</u>	<u>25.7%</u>
Direct Marketing	35,000	80,000	<u>\$45,000</u>	<u>128.6%</u>
Special Projects	15,000	20,000	<u>\$5,000</u>	<u>33.3%</u>
CONTRACTUAL	<u>\$1,224,500</u>	<u>\$1,421,500</u>	<u>\$197,000</u>	<u>16.1%</u>
Records Administration Services	970,000	1,120,000	<u>\$150,000</u>	<u>15.5%</u>
Telephone Customer Service	26,000	30,000	<u>\$4,000</u>	<u>15.4%</u>
Actuarial Services	50,000	55,000	<u>\$5,000</u>	<u>10.0%</u>
Investment Consultant Services	87,500	124,000	<u>\$36,500</u>	<u>41.7%</u>
Lock Box Services	40,000	40,000	<u>\$0</u>	<u>0.0%</u>
Legal and Audit Services	35,000	45,000	<u>\$10,000</u>	<u>28.6%</u>
Temporary Help	10,000	0	<u>-\$10,000</u>	<u>-100.0%</u>
Registration, Subscription Fees & Misc. Expenses	6,000	7,500	<u>\$1,500</u>	<u>25.0%</u>
PERSONAL SERVICES*	440,000	625,000	<u>\$185,000</u>	<u>42.0%</u>
TELECOMMUNICATIONS	12,000	12,000	<u>\$0</u>	<u>0.0%</u>
POSTAGE & FREIGHT	18,000	22,000	<u>\$4,000</u>	<u>22.2%</u>
PRINTING	1,500	1,000	<u>-\$500</u>	<u>-33.3%</u>
COMMODITIES	1,500	1,300	<u>-\$200</u>	<u>-13.3%</u>
EQUIPMENT	1,500	3,000	<u>\$1,500</u>	<u>100.0%</u>
TRAVEL	11,000	17,500	<u>\$6,500</u>	<u>59.1%</u>
INTRA-AGENCY SERVICES: ADMIN.	420,000	431,700	<u>\$11,700</u>	<u>2.8%</u>
TOTAL BUDGET	<u>\$3,830,000</u>	<u>\$4,710,000</u>	<u>\$880,000</u>	<u>23.0%</u>

*Includes retirement, social security and group insurance.