

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Friday, August 1, 2003
State Investment Board
2100 Evergreen Park Drive
Olympia, WA

MINUTES

HECB staff in attendance:

Betty Lochner, GET Director
Larry Lee, GET Operations Manager
Debra Blodgett, Office Manager
Denise Fry, Outreach Coordinator

Guests in attendance:

Diana Will, State Investment Board
Nancy Calkins, State Investment Board
Wendy Dore, The Marketing Partners
Cathy Stevens, The Marketing Partners

WELCOME

Marc Gaspard, Chair of the GET Committee, called the meeting to order at 10:10 a.m. with introductions of the Committee Members, staff and guests in attendance. Committee members in attendance, in addition to the Chair, included Elaine Emans, (designated representative for Michael J. Murphy, State Treasurer); Marty Brown, Director of OFM; Beth Stecher Berendt, Citizen Member; and Mooi Lien Wong, Citizen Member.

There were no changes to the agenda as presented. Changes to the minutes presented included a correction to the senate committee represented by Karen Barrett, a guest in attendance, and a typo on page two.

APPROVAL OF MINUTES

The revised minutes from the April 14, 2003 GET Committee Meeting were reviewed and a motion was made to adopt the minutes by Berendt and seconded by Emans. The minutes were approved and carried unanimously.

DIRECTOR'S REPORT

Betty Lochner asked Brown to make a special presentation to the chair, Marc Gaspard, who will be leaving the Higher Education Coordinating Board and the GET Committee to take a position in the private sector. Brown gave a brief recap of the event held for Gaspard the previous evening as well as his career throughout state government. Brown presented Gaspard with a certificate of appreciation for his service to the GET Committee and the citizens of Washington State.

Lochner went over the program statistics, as of June 30th, 2003. Total accounts are at 36,319, with total payments received at \$257 million and total fund value (including future payments expected) at \$366.6 million. Also included in the packets were annual statistics including matriculation numbers, active contracts, purchaser demographics and contracts by geographic area. Lochner noted the Governor's proclamation of College Savings Month for September 2003. Lochner also reported that GET has filled the 4 positions that were approved by the Committee due to program growth. Denise Sadler and Dawn Eychaner were hired as customer service specialists, Angela Brown was hired as a financial assistant, and Kim Blattner was hired as a records coordinator. The hiring for a computer analyst was postponed and Shakib Kamal was hired on a personal services contract in the interim. Kamal was previously with SCT.

Gaspard reminded the Committee that SCT, the vendor that GET contracted with for database administration and maintenance, has decided to discontinue their support of college savings plans and will be no longer servicing GET and their programming needs. Therefore, we have been working on other options to continue development and maintenance of the Banner database system.

GET MARKETING UPDATE

Lochner introduced Wendy Dore of The Marketing Partners to give a brief update on the fall marketing kick off. Dore explained that the radio advertising campaign will begin September 15, with the start of the enrollment period. The radio ads will target the primary demographic areas of the GET Program. However, in Vancouver, some newspaper advertising and outdoor boards will be utilized. Dore indicated that parent publications will also be utilized. The TV advertising will begin mid January and will run through the end of the enrollment period. There will also be a marketing campaign launched to go along with College Savings Month beginning September 2003.

Dore presented the draft of the new enrollment brochure for the 2003-2004 enrollment period. Changes to this year's brochure include a larger booklet size as well as larger print. The changes were due to customer feedback based on last year's brochure.

GET INVESTMENT UPDATE

Lochner introduced Diana Will, Senior Investment Officer with the State Investment Board. Will explained that for the quarter ending June 30, 2003, the GET portfolio size is at \$271.5 million with growth of over \$70 million dollars from last quarter. There was \$26.5 million earned from market returns and \$43.7 million from purchaser contributions. We are within the target range for all ranges. The one-quarter return was 11.3%, which was the best performance for a quarter since the GET Program started. Both equities and TIPS did exceptionally well. All long-term figures are positive. The Equity return for the quarter was 17.34%, which was a bit below the benchmark. However, TIPS outperformed their benchmark.

GET VENDOR SELECTION PROCESS

Lochner reviewed the process being used to solicit competitive bids for actuarial services for the GET Program. The current contract with Milliman USA ends December 31, 2003. The Request for Proposals (RFP) will be issued on August 4th, with proposals due on September 19, 2003. The review committee will bring a recommendation to the Committee at the next meeting (November 3, 2003). Brown asked how many bidders participated in the first RFP process. Lochner indicated that there were two bidders in the last process, with only one meeting the minimum requirements. Lochner added that there are currently three national firms that work with the states as actuaries for college savings plans. Brown asked if the Washington State Actuary has been considered. Lochner responded that they had been notified and are not interested in getting into this area of actuary services at this time.

MOTION

Brown moved that the Committee approve the RFP for actuarial services. Wong seconded the motion. The motion was approved and carried unanimously.

GET ANNUAL UNIT PRICE SETTING

Gaspard gave an overview of the current unit price and the assumptions that were used to determine the price that was adjusted in at the April Committee Meeting. The Committee will need to consider whether a change will be made to the price for the annual price setting, effective September 1st.

Lochner reported that based on the June 30, 2002 valuation report, our deficit was at \$21.6 million and it is now down to \$8 million, due to better than expected investment returns and the high number of units that were sold when the market was down. Gaspard reminded the Committee that when last year's tuition was set at 16%, it created the deficit, or unfunded liability for the program.

At the April 14th Committee meeting the price was adjusted from \$52 to \$57, based on several assumptions, including an expected 9% tuition increase for each of the next two years. Final tuition setting authority was set at 7% for each of the next two years and investments are currently doing very well. Therefore, staff is recommending that the unit price remain at \$57 for the 2003-04 enrollment year. In April, the price could be adjusted, if necessary, effective May 1st (as was the case this year). Lochner reviewed the information provided in the packets by Milliman USA. They have recommended a price increase to \$58 to speed up building a reserve.

Emans asked Lochner to recap the recommendation by Milliman at the April meeting regarding their recommendation for the unit price. Lochner indicated that they recommended anywhere from \$56 as a low to \$60 as a high, based on different scenarios and assumptions.

Berendt commented that she would be comfortable with the \$57 unit price, but would like the Committee to discuss the goals of the Program in regards to what level of a reserve we would like to achieve, and how soon we would like to get there. Berendt requested that this item be added to the November GET Committee agenda. Lochner commented that that discussion would work well with the annual program valuation report that will be presented at the next meeting.

MOTION

There was a motion made by Emans to set the annual price for GET units at \$57 per unit for the 2003-2004 enrollment period. Brown seconded the motion. The motion carried unanimously.

Gaspard introduced Ruta Fanning who has been appointed interim Executive Director of the HECB. Fanning has an extensive background in state government. She will be working with the committee as the Chair until the permanent Executive Director is appointed.

NEXT MEETING

The next meeting of the GET Committee is scheduled for November 3, 2003 from 3:00 p.m. to 5:00 p.m. at the State Investment Board (2100 Evergreen Park Drive SW, Olympia, WA 98502).

ADJOURNMENT

There being no other business, the meeting was adjourned at 10:41 a.m.

**Proposed Regular Meeting Schedule
2004 Calendar Year**

November 3, 2003

Background

As outlined in RCW 28b.95.030, WAC 14-104-010, the GET Committee shall hold regular meetings as needed. Additional special meetings may be scheduled if needed. The following is a proposed regular meeting schedule for the 2004 calendar year.

DATE	TIME	PLACE
February 10, 2004 Tuesday	2:00 – 5:00 p.m.	Olympia, State Investment Board (Board Room)
April 20, 2004 Tuesday	2:00 – 5:00 p.m.	Olympia, State Investment Board (Board Room)
July 27, 2004 Tuesday	2:00 – 5:00 p.m.	Olympia, State Investment Board (Board Room)

Recommendation

Staff recommends that the proposed regular GET Committee meeting be approved.

Approval of Weighted Average Tuition for 2003-04

November 3, 2003

Background

The GET committee is required by statute [RCW 28B.95.030(6)] to annually determine the value of the weighted average tuition. The weighted average tuition (WAT) is used in calculating the value of refunds in certain circumstances and is included in the current Cancellation and Refund Policy adopted by the committee. The approved WAT for the 2002-03 academic year was \$40.26 per unit.

WAT Calculation

At the January 23, 2001 committee meeting, the calculation methodology was approved as follows:

The committee shall set the value of the weighted average tuition annually, generally by September 30 of each year. “The amount shall be calculated as the sum of the undergraduate tuition and services and activities fees for each four-year state institution of higher education, multiplied by the respective full-time equivalent student enrollment at each institution divided by the sum total of undergraduate full-time equivalent student enrollments of all four-year state institutions of higher education, rounded to the nearest whole dollar.” RCW 28B.95.020(16)

For purposes of the calculation, undergraduate, tuition and services and activities fees shall be the tuition and services and activities fees established for the academic year commencing in the fall of the fiscal year for which the weighted average tuition is calculated.

For purposes of the calculation, resident undergraduate full-time equivalent student enrollments shall be calculated using the Higher Education Enrollment Report provided from the Office of Financial Management (OFM HEER Data), averaged over the previous three academic years.

Staff Recommendation

Staff recommends approval of the value of the WAT for the 2003-04 academic year as \$42.93 per unit (see attached spreadsheet for calculation).

**Weighted Average Tuition - Based on Annual Average Enrollment
Using Three-Year Average FTE Data
Calculated for 2003-04**

Calculation of Resident Enrollment:

"WAT shall be calculated as the sum of the UG tuition and S&A fees for each four-year institution multiplied by the respective full-time equivalent student enrollment at each institution divided by the sum of student enrollments of all four-year institutions rounded to the nearest whole dollar."

	(a) 3-Year Average Resident Undergraduate Student FTEs (academic years: 2000-2001, 2001-2002, 2002-03)	(b) 2003-04 Resident Undergraduate Tuition & Fees
U of W - Seattle*	20,301	4,749
U of W - Bothell	1,017	4,716
U of W - Tacoma	1,257	4,749
WSU - Pullman	12,373	4,836
WSU - Spokane	147	4,836
WSU - TriCities	389	4,836
WSU - Vancouver	779	4,836
CWU	7,060	3,654
EWU	6,642	3,582
TESC	2,855	3,651
WWU	10,124	3,638
TOTAL/ AVERAGE	62,944 (c)	

Calculated WAT 2003-04:	\$	4,293
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The WAT is derived from the total of the 4-year institutions' most recent 3-year average resident undergraduate divided into the total dollar amount of tuition and student & activities fees: (d) divided by (c).

Notes:

* Includes Seattle evening.

Source:

*OFM: Annual Average FTEs calculated using Higher Education Enrollment Reports (HEER).
Calculation of Annual Average FTEs who are Washington residents is based on
fall residency data from OFM's Higher Education Enrollment Reports. (HEER).*

it

total of UG FTE

(a*b)	
Total Dollars	

\$ 96,409,449
4,796,172
5,969,493

59,835,828
710,892
1,881,204
3,767,244

25,797,240
23,791,644
10,423,605
36,831,112

\$ 270,213,883 (d)

graduate FTE's,

Guaranteed Education Tuition Program
Proposed Revised FY 2004 Budget (See Note 1)
July 1, 2003 - June 30, 2004

	<u>FY2004 Approved</u>	<u>FY2004 Revised</u>	<u>Difference</u>
Projected Available Funds	3,549,691	3,549,691	-
Salaries & Benefits - 17.5 FTE Approved	950,000		
19.5 FTE Proposed Revised		1,100,000	150,000 (2)
Goods & Services	580,000	825,006	245,006 (3)
Travel	45,000	45,000	-
Actuarial Contract	100,000	100,000	-
Call Center Contract	-	5,200	5,200 (4)
Marketing Contract	630,000	630,000	-
Records Administration Software Contract (SCT)	844,485	844,485	-
Projected Expenses	3,149,485	3,549,691	400,206
Projected Available Funds less Projected Expenses	400,206	-	
 Unallocated Available Funds	 400,206	 -	

Notes

(1) A revised budget is requested to use previously unallocated available funds. These funds are requested due to program growth greater than anticipated.

(2) Salaries and benefits are increased by \$150,000 to include 2.0 FTE records assistants for data entry. Also provides additional funds to support temporary staff that may be hired during peak enrollment.

(3) Goods and services are increased by \$245,006 to provide funding for remodeling and reconfiguring of leased space, furniture and equipment to accommodate additional staff. Also provides additional resources for costs associated with unanticipated growth.

(4) Increase in Call center contract to pay final payment not previously budgeted.

GET Legislative Issues
2004 Legislative Session

November 3, 2003

Background

The statute that governs the GET program (RCW 28B.95) has not been revised for needed technical changes since the 2001 legislative session. There are a few sections that staff recommends should be improved upon and considered for revisions by the legislature.

Proposed Changes to Statute

- **Residency**

Change the residency requirement from student beneficiary only to include an eligible purchaser. This will allow for parents who have children living out of state to enroll in the GET program.

- **Definition of “Academic Year”**

Change the definition of a regular academic year from the period occurring between “July 1st and June 30th” to “August 1st and July 31st”. This will more accurately align issuance of GET benefits with academic terms used by most colleges.

- **Change the Weighted Average Tuition (WAT) to Current Value for all Payouts**

Remove weighted average tuition from the following:

- Definitions [RCW 28B.95.020(15)]
- Administration of program [RCW 28B.95.030] (eliminates the requirement of calculating the WAT)
- Calculation of refunds for discontinuation of program [RCW 28B.95.090(2) and (3)]
- Calculations of refunds for non- attendance [RCW 28B.95.110 (1)(a)]

- **Non-Bankruptcy**

Change current statute [RCW Title 6] governing bankruptcy to ensure that GET units purchased more than two years prior to the date of a bankruptcy filing or declaration are considered excluded from personal assets.

Staff Recommendation

Staff recommends taking the proposed statutory changes forward during the 2004 legislative session.

RFP Process and Recommendation

Actuarial Services

November 3, 2003

Background

The current contract for actuarial services for the GET program is with Milliman USA, located in Wayne, Pennsylvania. The contract ends December 31, 2003. At the August 1, 2003 GET Committee meeting, staff were directed to issue a Request for Proposals (RFP) to select a vendor for Actuary Services.

RFP Development and Distribution

An RFP was issued on August 4, 2003. The RFP was placed on the Higher Education Coordinating Board website. Information about the RFP, where it could be downloaded and where paper copies could be requested was advertised in the Seattle Daily Journal of Commerce over a two-week period. Notification was also sent to the College Savings Plan Network (CSPN), and to recognized providers of actuarial services for prepaid tuition programs across the country.

Pre-proposal Teleconference

August 20, 2003

All potential vendors were invited to attend a pre-proposal teleconference to ask questions regarding the background, scope, and intent of the project. Two potential bidders participated in the pre-proposal teleconference.

Proposals Received

Proposals were due on September 19, 2003, but an extension to September 24 was provided as a result of Hurricane Isabel's grounding of Federal Express planes on the East Coast.

Two proposals were received:

Milliman USA

Richard M. Kaye & Associates with PricewaterhouseCoopers.

Review Process

Proposal Review Committee Members

GET staff: Betty Lochner, Larry Lee
HECB staff: Joann Wiszmann, Associate Director for Administrative Services
Elaine Emans, Deputy State Treasurer

Review of Proposals

The members of the review committee independently reviewed each of the proposals and scored each according to the criteria stated in the RFP. Members of the review committee then contacted provided references from prepaid tuition programs across the country regarding their experience with each of the proposing vendors.

Since only two proposals were submitted, the review committee determined that oral presentations would be replaced with separate telephone conferences on October 9, 2003. These separate teleconferences gave the members of the review committee an opportunity to get clarification of items in the proposals and to ask questions formulated from a review of the proposals and the responses of the reference checks.

As a result of the proposal reviews, the reference checks and the teleconferences, the review committee determined that it is in the best interest of the program to accept the proposal of Milliman USA.

Recommendation

It is the recommendation of the staff that the proposal from Milliman USA be accepted, for a two-year period from January 1, 2004 through December 31, 2005, with the possibility of two 2-year extensions at the discretion of the Committee.



WASHINGTON STATE
INVESTMENT BOARD


GET


Prepaid College Tuition Program Quarterly Investment Report September 30, 2003

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Dated: October 20, 2003


Diana Wiff
Investment Officer - Asset Allocation


Gary Bruebaker
Chief Investment Officer

GET - Prepaid College Tuition Program

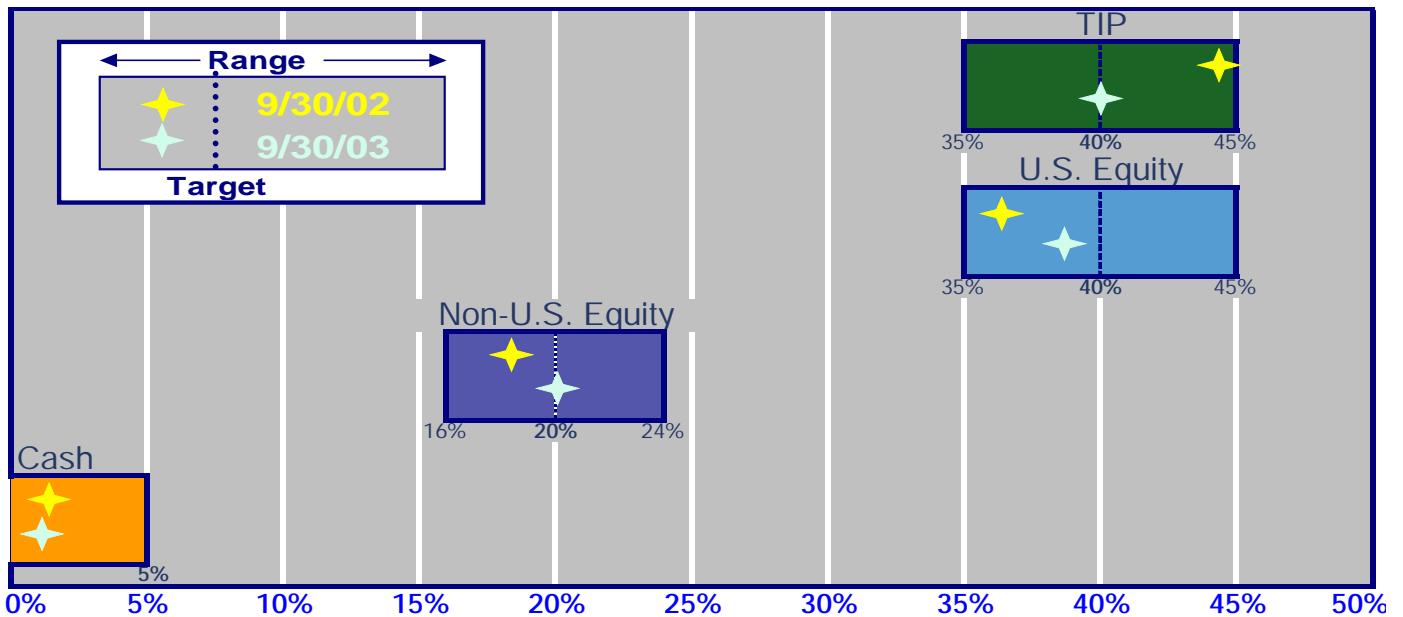
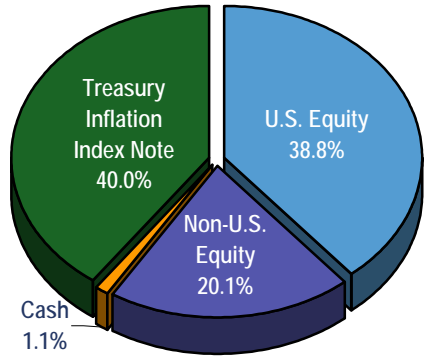
September 30, 2003

Portfolio Size

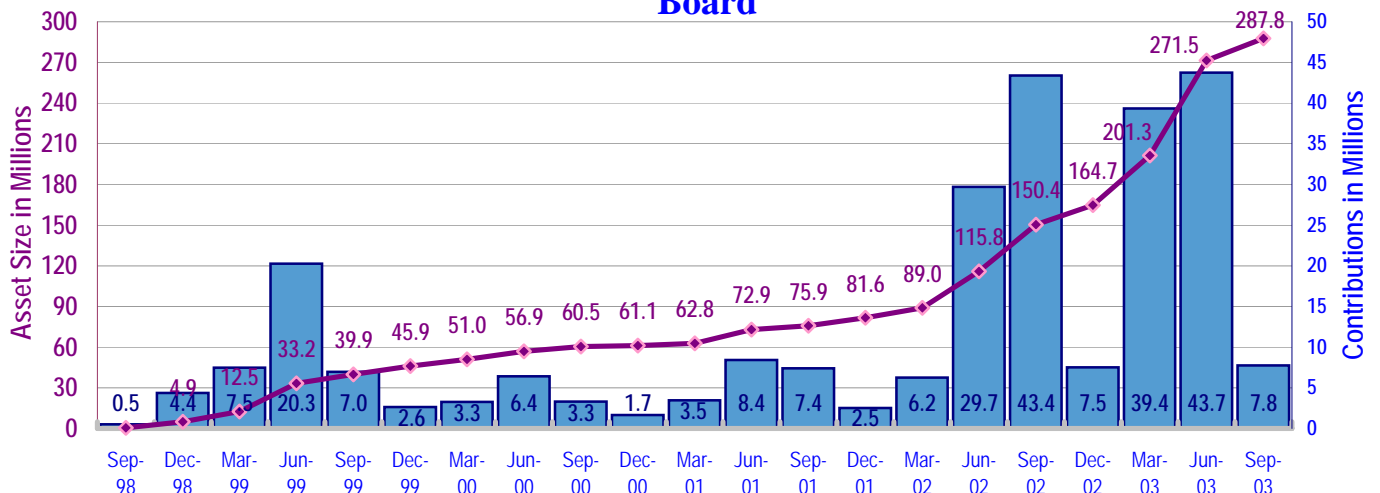
Total **\$287,796,160**

Cash	3,297,545
Treasury Inflation Index Note (TIP)	114,986,333
U.S. Equity	111,741,031
Non-U.S. Equity	57,771,251

Actual Asset Allocation



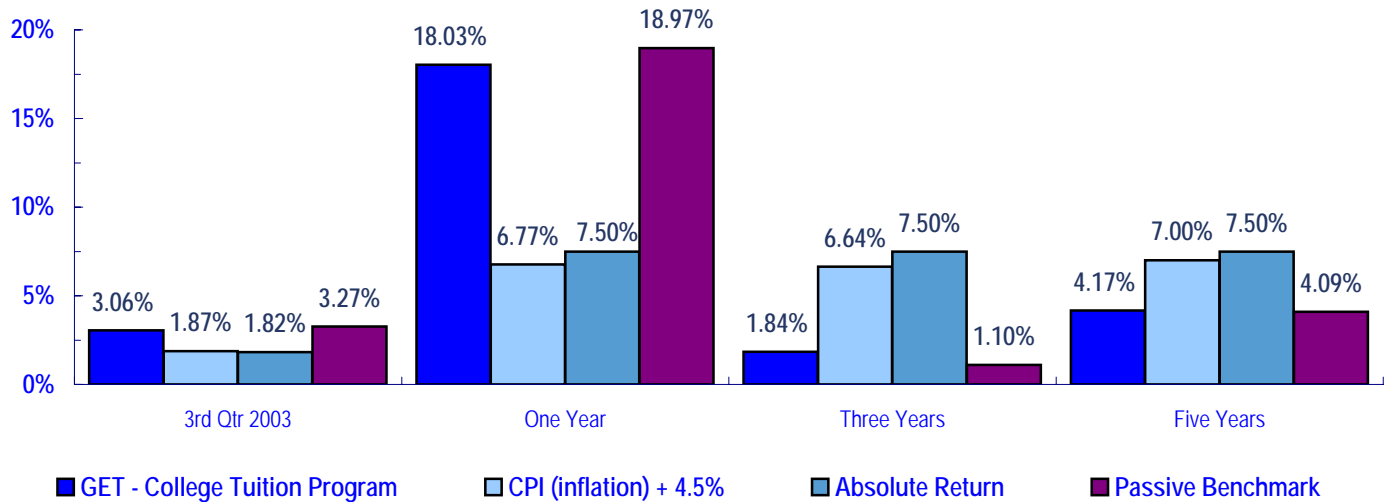
Assets Under Management by the Washington State Investment Board



GET - Prepaid College Tuition Program Performance

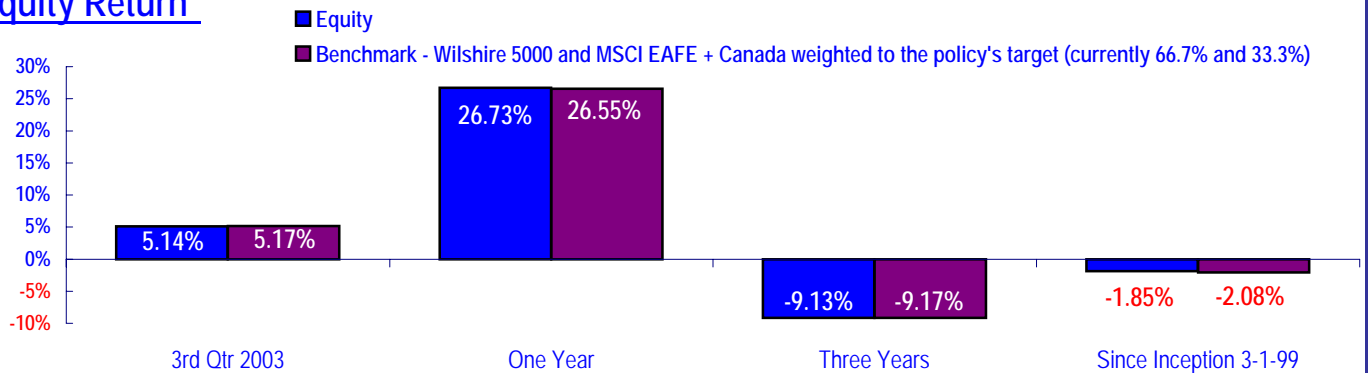
September 30, 2003

Total Return*

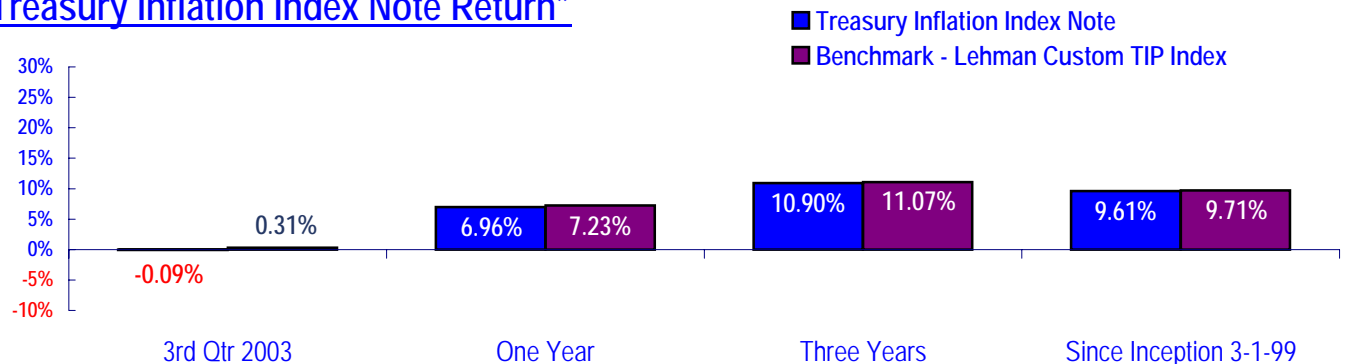


Return Breakdown

Equity Return*



Treasury Inflation Index Note Return*



Inception date is when the Board first invested in the asset class.

* The return numbers above are net of manager fees and other expenses that can be directly debited from the account for portfolio management but do not include the WSIB management fee.