

**ILLINOIS STUDENT ASSISTANCE COMMISSION
FISCAL YEAR 2022 INTERNAL BUDGET**

Appropriation

ISAC is required by statute to obtain appropriation authority from the Illinois General Assembly for expenditures from all the funds it administers. The only exceptions to this are the Prepaid Tuition Program (College Illinois!) and Illinois Designated Account Purchase Program (IDAPP), which are both classified as non-appropriated funds.

- **Appropriation (State Funded)**

ISAC's State-funded appropriation represents funding authority for all the scholarship and grant programs administered by ISAC and operational expenditures of the agency. The funding for this comes from the State General Revenue Fund or other State funds and is allocated for higher education from State resources.

- **Spending Authority (Other Sources)**

With the exception of IDAPP, the cash disbursements for all funds administered by ISAC are processed by the Illinois Office of the Comptroller. Without the spending authority, payments cannot be processed from these funds, except for College Illinois, which is a non-appropriated fund. **Note that the spending authority authorizes annual spending limits from the funds. It does not represent actual/estimated expenditures from the fund.**

- **Internal Budget**

The internal budget reflects the annual projected revenues and expenditures for the agency.

Illinois General Assembly Appropriation – Fiscal Year 2022 Budget Update

For FY 2022, based on Commission approval at the December 2020 meeting, ISAC recommended a budget totaling \$843 million.

The Illinois General Assembly passed a budget for FY 2022 in May 2021 with over \$862 million in funding for the agency. The agency's appropriation includes about \$480 million for MAP – 6% increase over the prior year. The appropriation also included \$3.5 million for agency outreach and research and an additional \$3.5 million for agency operations. This is in addition to the 2% of the MAP appropriation which can be utilized for agency operational expenditures.

The attached Table – FY 2020 - FY 2022 Appropriations, details the agency comparative appropriations by year.

Internal Budget Overview

The internal budget reflects the annual projected revenues and expenditures for the agency.

Please note the following about the overall ISAC operational budget:

Revenues:

- Much of the agency's administrative expenditures will be met by appropriated funding from the State General Revenue Fund (GRF).
- In FY 2022 ISAC will earn some revenue from its operations as a FFELP guarantor. However, it is expected that this will be the final year for ISAC as a FFELP guarantor. The revenue stream will wind-down to zero in FY 2023.
- Most of the cost of running the ISACorps will be paid from funding from the State General Revenue Fund.
- ISAC continues to administer the federal GEAR UP Grant for the fifth year – of approximately \$18 million over seven years for implementing a college access outreach program for middle school students.
- While we have budgeted estimated revenues from FFELP, there is a level of inherent uncertainty that is discussed later in this memo.

Expenditures:

- From the cost side, there are elements of ISAC's costs, such as pension, group insurance, and data processing, which are determined by the State. In past years, we have not received advance notice of changes in these costs before they were assessed, leading to additional uncertainty in budgeting for these areas.
- Some of the costs related to College Illinois! are volume driven, such as investment management fees that are tied to asset values, or investment gains and account maintenance fees that are tied to contract usage. We have tried to provide in the budget for some of these potential contingencies and will of course continue to be diligent in working to minimize costs and expenditures.

Attached for your reference are comparative financial statements reflecting FY 2020 actual, FY 2021 budget and estimated actual, and recommended FY 2022 budget for all the administrative funds for the agency. The expenditures not covered by these funds will be met with funding from the State GRF.

Student Loan Operating Fund (SLOF) - FFELP Guarantor

SLOF is the operating fund which accounts for the revenues and expenditures generated from ISAC's role as a FFELP guarantor. ISAC has been a FFELP guarantor for over 50 years. Effective July 2010, the Student Aid Fiscal Responsibility Act (SAFRA) ended the FFEL Program. Since then, ISAC as the guarantor has been overseeing the wind-down of the program.

Currently, ISAC has an outstanding FFELP portfolio of over \$1.9 billion in guarantees and over \$286 million in defaulted loans. ISAC plans to formally terminate its role as a FFELP guarantor in FY 2022.

Financial impact on the revenue from FFELP due to Covid-19 related borrower relief measures

The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed on March 27, 2020, provided flexibility and relief for many student loan borrowers during the Covid-19 outbreak. The CARES Act provisions originally did not apply to the federal loans under the FFELP program which are held and managed by ISAC as the guarantor. However, the new administration under President Biden has mandated that the CARES Act provisions will apply retrospectively going back to March 2020. The borrower relief measures that have been and will be implemented, will significantly impact revenues earned by ISAC in FY 2022.

ISAC management projects FY 2022 total revenues of approximately \$8 million including \$5.8 million from FFELP. Note that the FFELP revenues projection is for the whole year. If the agency decides to exit FFELP in the middle of the year, revenues from FFELP would decrease even further.

Expenditures

As FFELP winds down the agency continues the task of transitioning resources from the areas of the agency which will shrink and require fewer resources, to other areas which have a critical need for additional resources. ISAC will continue to examine its organizational structure and reallocate resources based on the agency's priorities. This is a very difficult, but necessary process for the agency.

The budget proposed in this item is \$8.9 million over FY 2021 expenditures on a comparative basis.

- Approximately 80% of the personnel costs are paid out of GRF and 20% from SLOF.
- Personnel costs are projected to increase by over \$6.7 million overall if allocated to SLOF. However, based on the planned fund allocation the effective increase will be \$1.5 in SLOF and \$1.8 million in GRF. This is because the retirement and group insurance for employees allocated to GRF are paid by the State Employee Retirement System and CMS and are therefore not charged to the appropriation.
- The budget numbers for increases in personnel costs do not include decreases in cost due to employee retirements or hiring lag during the year.
- The agency is implementing its strategic plan and working on succession planning across many divisions. As a result, the budget shows increased expenses for new hires of over \$2 million. All new hires are funded by GRF so, net of benefits, the increase will be \$1 million in GRF.
- The budget also includes approximately \$1.2 million in cost of living adjustment and provision for some promotional and administrative adjustments. Note that the promotional adjustments are not finalized and will be decided based on funding availability during the course of the year.

- The budget also includes approximately \$700,000 for increases in retirement and group insurance which again, are not applicable for GRF funded positions.
- FY 2022 budget shows a \$768,000 (10 new positions) increase in the ISACorps operations compared to FY 2021. These 10 positions are funded federally over the next two years.
- Lastly the budget includes \$2.3 million in contractual and other administrative costs. This includes \$1.5 million for FFELP deconversion costs and other system implementation.
- Note that due to the pandemic administrative and travel costs in the prior year were lower than normal.

It should be noted that, as in previous years, although these increases in expenses are included in the budget, the decision as to whether to implement them will be made in the future, as we see how the budget year is shaping up and take into consideration other relevant factors.

The major changes in budgeted FY 2022 costs versus FY 2021 estimated actuals are outlined in the tables below.

Inter-fund Allocation

From FY 2006 to FY 2014, all agency operational expenses were funded entirely through federal revenues from the FFELP program. Considering the wind-down of FFELP, beginning in FY 2014, the budget passed by the General Assembly included language to allow up to 2% of funds allocated to MAP to be used for operational expenses. ISAC has utilized this authority since FY 2015 and will continue to do so in FY 2022.

The budget passed by the General Assembly for FY 2022 includes a separate appropriation of approximately \$3.5 million for outreach expenditures to be used for operating the ISACorps and another additional line of \$3.5 million to be used for agency operations.

The agency plan for FY 2022 will be to use funding from FFELP revenues to meet costs associated with FFELP and transition the administrative costs of the agency to GRF funding as much as possible.

Fund Balance

The unrestricted fund balance at the end of fiscal year 2021 is estimated to be over \$61 million.

Fund reserves are critical for responsibly financing the wind-down of the FFELP.

- FFELP regulations require that ISAC perform certain services for which it is not directly compensated. Revenue generated in future years may not be sufficient to cover all the mandated functions for an extended period.
- ISAC has over 15,000 borrowers in the FFELP portfolio. ISAC's records retention policy mandates that ISAC retain the loan records for a minimum of seven years after closure of the loan. As a result, there could be significant data storage and IT security costs.
- There is a significant amount of personally identifiable data in these systems. The reserve will also ensure that we cover the cost of safely storing and transferring the portfolio back to the Department. This will help mitigate the significant risk to the agency from liabilities resulting from any loss of PII data—a potential loss that could be monetary and reputational for both the agency and the State.

ISAC’s reserves will be needed to cover expenses to ensure that the wind-down will advance smoothly, safely, and effectively, and will not become a financial liability and risk for the State.

STUDENT LOAN OPERATING FUND			
DETAILS OF INCREASES AND DECREASES IN PERSONNEL SERVICES			
2022 BUDGET OVER 2021 ESTIMATED ACTUAL EXPENDITURES			
	(Old format)	New Format	
	With Benefits SLOF	With Benefits SLOF	Net of Benefits GRF
Reserve for employees on leave of absence	193,500	-	96,100
Replacement and new hires net of hiring lag in FY22	2,043,100	-	1,093,300
Budgeted COLA including benefits	864,400	100,200	567,100
Increase in estimated retirement and group insurance cost	523,700	103,300	-
Reserve for FY22 promotions and administrative adjustments	500,000		328,300
Total Increases/(Decrease) in SLOF	4,124,700	203,500	2,084,800
ISACorps budgeted at full capacity without attrition	609,300	-	285,200
Recovery Corps-new funding	768,000	768,000	
	1,377,300	768,000	285,200.00
Total Payroll Increase/(Decrease)	5,502,000	971,500	2,370,000

STUDENT LOAN OPERATING FUND			
DETAILS OF INCREASES AND DECREASES IN CONTRACTUAL /BUILDING MAINTENANCE			
AND OTHER ADMINISTRATION EXPENSES			
2022 BUDGET OVER 2021 ESTIMATED ACTUAL EXPENDITURES			
Decrease in outside collection servicing costs	(500,000)		
Website development	250,000		
IT Consulting	1,500,000		
Net increase in other contractual services	504,100		
Decrease in building maintenance	(177,600)		
Increase in travel and other admin. expenses	458,300		
Increase in ISACorps contractual and travel expenses	202,200		
Total Net Increase/(Decrease)			\$2,237,000

Illinois Designated Account Purchase Program (IDAPP) – Lender of Student Loans

IDAPP is ISAC's lending arm for student loans. In the past, IDAPP directly originated loans; currently it services the remaining portfolio of FFELP and alternative student loans.

The FFELP student loan disbursements and purchases were funded by bonds issued by IDAPP and collateralized with the student loan portfolio. In 2007, IDAPP entered into a Mid Term Asset Backed Commercial Paper Program to fund its alternative loan program.

IDAPP's administrative costs are met through an administrative cost allowance from the Bond Trusts and the credit facility which originally funded the alternative loan program. IDAPP operations and loan portfolio continue to be in wind-down.

The CARES Act, passed on March 27, 2020, provisions do not apply to the federal commercial FFELP loans owned by IDAPP as a FFELP lender or to the private student loan portfolio. The federal regulations and audit requirements limit IDAPP's ability to offer any extended benefit or relief to their borrowers. ISAC has worked with the student loan servicers and Citi Bank which finances the private portfolio and implemented borrower relief measures which are allowable under the existing regulations and federal guidelines.

- Borrowers who call due to hardship will be granted up to 90 days of natural disaster forbearance.
- The interest will still be accrued but will not be capitalized at the end of the forbearance.
- If the borrower is delinquent, the forbearance will also cover the delinquent period.
- All late fees charged will be waived.
- Borrowers will be contacted by their preferred mode of communication to inform them of relief measures available under this if they have been impacted by Covid-19.
- All negative consequences of non-payment including negative credit reporting, late fees and assignment of delinquent loans to collection agencies will be suspended.
- All outbound collection calls will be suspended for delinquent borrowers.
- No new Administrative Wage Garnishments (AWGs) or State offsets will be initiated and for delinquent borrowers on forbearance, existing AWGs will be suspended for the 90-day period.

The impact of Covid-19 on IDAPP is a decrease in the cash collected on the underlying portfolios which support the outstanding debt. The payments required on the debt is linked directly to these cash flows and will adjust downward based on the decreased cash flow. This has the effect of stretching out the time it will take to repay the outstanding debt.

Prepaid Tuition Program – College Illinois!

Program Update and Overview

Each year the Commission is asked to review and approve the planned administrative budget for the College Illinois! 529 Prepaid Tuition Program. The proposed Fiscal Year 2021 administrative budget has been developed to adequately cover administrative costs of the program. The budget reflects estimated expenditures and includes increases for potential unexpected, unforeseen situations.

Personnel Services

The Personnel Services line includes direct expenses for staff who work for the benefit of College Illinois!. Consistent with past practice, payments charged to College Illinois! will be based on the cost allocation data from the Time Tracker system, using actual time spent on College Illinois! by these staff members. Any time spent on other ISAC programs will not be charged to College Illinois!.

Contractual Services

- **Records Administration and Call Center Services**
The program's records administration vendor handles lockbox services, account servicing, including application processing, customer service, financial transaction processing, and payment of contract benefits. These charges are largely volume driven.
- **Financial Services**
This includes costs related to custodial services, actuarial services, investment advisory services, insurance costs, legal services and audit costs.

Investment Expenses

Investment expense is the invoice fees paid to traditional managers (mostly equities and fixed income) and the fees paid to limited partner or subscription funds that are not the private equity/closed-end fund structure.

COLLEGE ILLINOIS!
DETAILS OF INCREASES AND DECREASES IN EXPENDITURES
FY 2022 BUDGET OVER FY 2021 ESTIMATED ACTUAL EXPENDITURES
FOR THE FISCAL YEAR ENDING JUNE 30.

PERSONNEL SERVICES		
Reserve for COLA with benefits cost increase in FY 2022	31,600	
Increase in retirement and group insurance	63,300	
TOTAL PERSONNEL SERVICES		\$94,900
CONTRACTUAL SERVICES		
Increase in records administration charges	\$16,700	
Increase in consulting and management fees	\$156,400	
TOTAL INCREASE CONTRACTUAL SERVICES		\$173,100
INVESTMENT EXPENSE		
Increase in investment expenses and advisory fees	90,000	
		\$90,000
OTHER ADMIN EXPENSES		
Increase in printing, equipment and travel	\$5,400	
TOTAL OTHER ADMIN EXPENSES		\$5,400
TOTAL INCREASE IN COLLEGE ILLINOIS BUDGET		\$363,400

GEAR UP Grant

ISAC has been awarded a federal grant – GEAR UP Grant of approximately \$18 million over seven years beginning FY 2017 for implementing a college access outreach program for middle school students. The grant requires a 100% match from non-federal sources. A portion of the expenditures related to the ISACorps and the College Access and Outreach division of the agency will qualify for this purpose.

The below table summarizes the variance in expenditures from the prior year to the current year budget.

GEARUP GRANT DETAILS OF INCREASES AND DECREASES IN EXPENDITURES FY 2022 BUDGET OVER FY 2021 ESTIMATED ACTUAL EXPENDITURES FOR THE FISCAL YEAR ENDING JUNE 30.	
PERSONNEL SERVICES	
Reserve for COLA increase in FY 2022	54,100
Increased Staff Positions in FY22 Net of Attrition	382,562
GEARUPCorps budgeted in full capacity	1,053,197
TOTAL PERSONNEL SERVICES	\$1,489,859
CONTRACTUAL SERVICES AND OTHER EXPENSES	
Maintain contractual services budget for business needs in FY22	\$215,226
Maintain normal travel/other admin budget for business needs in FY22	\$209,655
Maintain normal budget for grant to Schools	980,000
TOTAL INCREASE -CONTRACTUAL SERVICES AND OTHER EXPENSES	\$1,404,881
TOTAL INCREASE IN GEARUP GRANT BUDGET	\$2,894,740