

GUARANTEED EDUCATION TUITION COMMITTEE MEETING

Wednesday, August 9, 2006

State Investment Board

2100 Evergreen Park Drive SW, Suite 100

Olympia, WA

MINUTES

HECB staff in attendance:

Betty Lochner, GET Director

Larry Lee, GET Deputy Director

Heidi Auderer, GET Finance Manager

Heidi Jones, GET Records Manager

Jackie Ferrado, GET Customer Service Manager

Dawn Eychaner, GET Marketing Assistant

Elizabeth St. George, GET Records Coordinator

Whitney DalBalcon, GET Associate Director for Marketing and Communications

Betsy Hagen, GET Special Assistant

Guests in attendance:

Shad Pruitt, State Treasurer's Office

Wendy Dore, Marketing Partners

Cathy Stevens, Marketing Partners

Joe Dear, State Investment Board

WELCOME

GET Committee chair Jim Sulton called the meeting to order at 2:00 p.m. Members of the GET Committee in attendance were Jim Sulton, Chair; Michael J. Murphy, State Treasurer; Mooi Lien Wong, citizen member; and Beth Stecher Berendt, citizen member. Victor Moore, Director of OFM was absent.

Jim Sulton recognized and welcomed new employees to the GET Program staff - Whitney DalBalcon, Associate Director for Marketing and Communications, and Betsy Hagen, GET Special Assistant.

APPROVAL OF APRIL 19, 2006 MEETING MINUTES

The minutes of the April 19, 2006 GET Committee Meeting were reviewed. Betty Lochner presented a change to the minutes, page 4 of 6, 5th paragraph, 4th sentence. down. Beth Stecher Berendt requested the sentence be struck as it was not a comment she made. Revised minutes were distributed to everyone. A motion was made by Mooi Lien Wong to adopt the revised minutes as presented. The motion was seconded by Beth Stecher Berendt. The motion was approved unanimously as presented.

APPROVAL OF NEXT YEAR'S MEETING CALENDAR

The GET Committee Meeting 2006-2007 dates were presented for review. Meeting dates: November 8, 2006, February 7, 2007, April 18, 2007, and August 7, 2007. These meetings will be from 2:00 to 4:00 p.m. at the State Investment Board Conference Room. Mooi Lien Wong motioned and Berendt seconded. Sulton asked for discussion. Berendt reminded everyone that due to the legislative session, the February 7 meeting date may cause scheduling difficulties for members. Lochner stated that the February meeting date was moved back a few weeks to accommodate the legislative session this year. Sulton

reminded everyone to place the dates on their calendars as soon as possible. **Voting commenced on the motion and was approved unanimously as presented.**

WASHINGTON LEARNS UPDATE

Jim Sulton presented information on the Governor's Washington Learns Commission. Washington Learns is an 18-month effort to look at the entire state educational network. This study began in June 2005. The organization of the commission consists of three committees: Early Learning, K-12 Education, and Higher Education. The steering committee is currently on a two-day retreat at Cedarbrook at SeaTac. They are considering separate reports by consultants. They will issue a draft in the next few weeks and follow up with public hearings around the state to discuss the project. The committee's final report will be issued in November. There will be recommendations from the final report that will result in various bills for legislation. Victor Moore sits on the steering committee and is participating in the retreat.

ANNUAL PRICE INCREASE UPDATE

The price was set last April at \$70 per unit. The committee voted to keep the \$70 price in effect through April 30, 2007 unless there was an unexpected change in any of the assumptions used in the pricing model. Since there have been no significant changes since the April meeting, the price will remain at \$70 until April 30, 2007.

A new price will be set at the April 2007 meeting and go into effect May 1, 2007.

DIRECTOR'S REPORT

Betty Lochner had visiting GET staff introduce themselves.

Lochner shared that the "sunset" has been removed from the tax exemption for 529 prepaid and college savings plans. This has been a national effort for several years. The 2011 sunset would have taken away the tax exemption status and returned it to a deferment. The president is expected to sign the bill soon.

Murphy added that it is part of a much larger bill. He suggested we do press on this and use it as a strong marketing tool. It was decided that GET will send out a press release when the president signs the bill.

Lochner reviewed the annual statistical reports with everyone. Reports included:

- GET Account Information as of 7/31/06
- Contracts by County, Enrollment Years 1998-2005
- Active Contracts by Contract Year
- How Purchasers Learned about GET
- Relationship of Beneficiary to Purchaser
- Age Range of Purchaser at the Time of Enrollment
- Age of Beneficiary at the Time of Enrollment
- Expected Number of New Students Eligible to Use Benefits

Murphy added that we don't find a lot of people who do not know about GET. He used to have to explain the program and now doesn't have to do that.

Lochner announced that \$2.1 million have been distributed to colleges since August 1, 2006. This is an increase of \$1.3 million over last year. This is the largest amount we have sent to colleges in the history of GET.

PAYOUT VALUE 2006-2007

This year, Washington State University's tuition rate is \$5,888.00 – just a few dollars above the University of Washington's rate of \$5,757.00. Therefore, the payout value this year is \$58.88 per unit.

NATIONAL CSPN CONFERENCE REPORT

Betty Lochner, Larry Lee, and Michael J. Murphy all attended the College Savings Plan Network Conference in West Virginia in July. Lochner added that she has been attending for six years and this was by far the best yet. The content, information exchange, issues and roundtable were all excellent. We learned that we are still the fastest-growing prepaid program in the nation. We are on the cutting-edge for online registration and learned that our customer service is way above par. Our call center is very good compared to other states. GET's plan is to have a teleconference with other prepaid programs every two months to discuss customer service concerns and ways to address them. We also learned a great deal about media, marketing, and collaborating with other states.

Lee noted that there are only 15 active state prepaid programs right now. The prepaid forum, which was organized and facilitated by Larry, was invaluable.

Murphy stated that he is on the executive committee as president elect for NAST. He is also a liaison for the State Debt Management Network. The input that was learned at CSPN will be beneficial for the conference in December in New Orleans. The CSPN Conference housed more than 500 delegates.

Lochner requested that the following two agenda items be switched. Duly noted.

GET 2006-2007 MARKETING PLAN

Wendy Dore and Cathy Stevens of the Marketing Partners presented a PowerPoint presentation regarding the marketing plan for 2006-07.

Wendy sent kudos to the GET staff. She contacted GET personally for her child's college tuition payment for the fall. They do a wonderful job!

Kick off plans for activities for this fall will begin on September 20, due to the primary election on September 19.

The goal for this year is to increase GET enrollments to 6,000 new accounts. The message is: GET is a positive program for families. We will be targeting under-enrolled areas of the state and continue to build awareness statewide. Primary components include radio ads, outdoor boards, and print ads in newspapers and select northwest magazines.

Cathy Stevens presented budget information: \$174,500 – about 25 percent of the total 2006-07 advertising budget – will be used for the fall kickoff campaign. .

Radio gives the opportunity for immediate information. We will have a new radio spot and a new Spanish spot this year. Look to the future for high definition radio. We have 38 radio stations in our area right now. That amount will double in coming years.

Whitney DalBalcon also distributed draft copies of the new GET brochure.

GET INVESTMENT UPDATE

Joe Dear, executive director of the State Investment Board, presented the GET investment update. The report is relatively brief but positive.

Total assets are at \$707 million. The “football” chart indicates that the assets are well within the policy ranges. Returns are positive above benchmark and are relatively good. The breakdown of the return is in the bar chart.

Murphy asked, “What happened in the second quarter?” Dear responded that emerging markets and international markets saw down months. They came back in June though.

Berendt questioned the recent problems in our world and asked if they will affect the return on investment. Dear did not see anything to worry about at this time. He stated that the best way to address these concerns is to maintain a diverse portfolio.

Lee added that \$52.7 million in contributions came in during the last quarter. That’s the biggest quarterly increase yet.

Murphy inquired as to how much money the investment board has made for GET. He asked Dear to provide the numbers to Lochner. He added that when the program first began, there was definitely low visibility. Since 1998, we have doubled our price and participation continues to grow. Withdrawals at this time are .2 percent of the assets. Murphy said he believes we’ll continue to grow and added that he is very proud of the SIB and the work they do.

Sulton asked for a motion to adjourn. Murphy motioned and Wong seconded.

NEXT MEETING

The next meeting of the GET Committee is scheduled for November 8, 2006 from 2:00 p.m. to 4:00 p.m. at the State Investment Board, located at 2100 Evergreen Park Drive SW in Olympia.

ADJOURNMENT

The meeting was adjourned at 3:55 p.m.

Respectfully Submitted,

Betsy Hagen
GET Special Assistant



GET Prepaid College Tuition Program

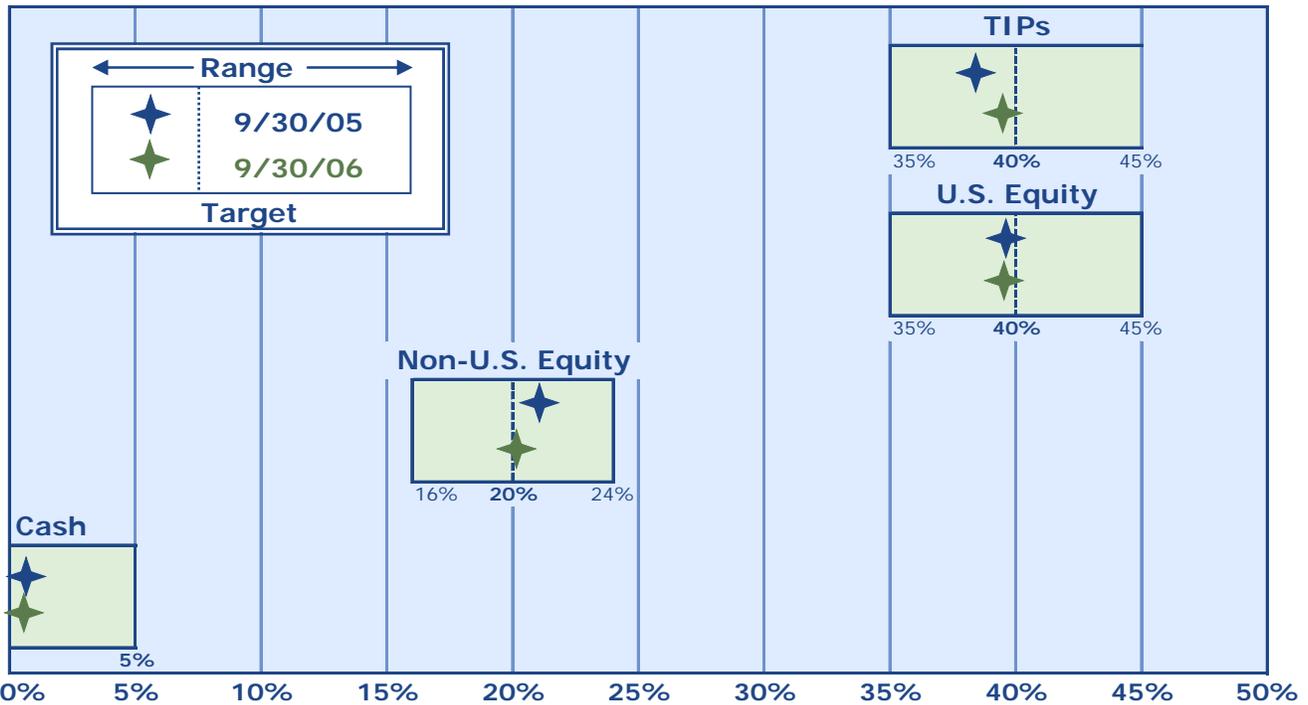
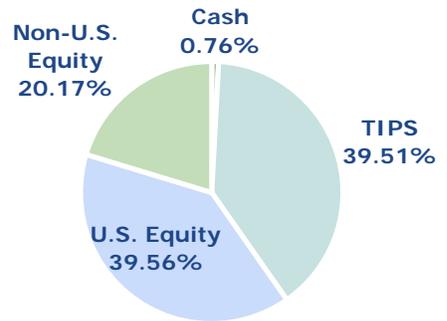
Quarterly Report – September 30, 2006

Portfolio Size, Allocation, and Assets Under Management	1
Performance	2

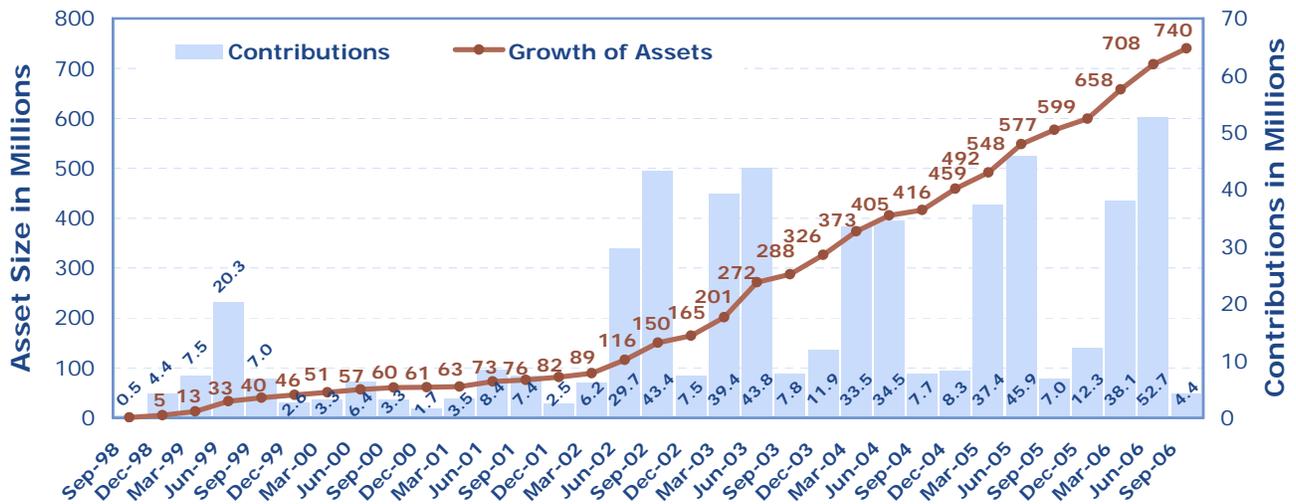
Dated: October 20, 2006

Portfolio Size **Actual Asset Allocation**

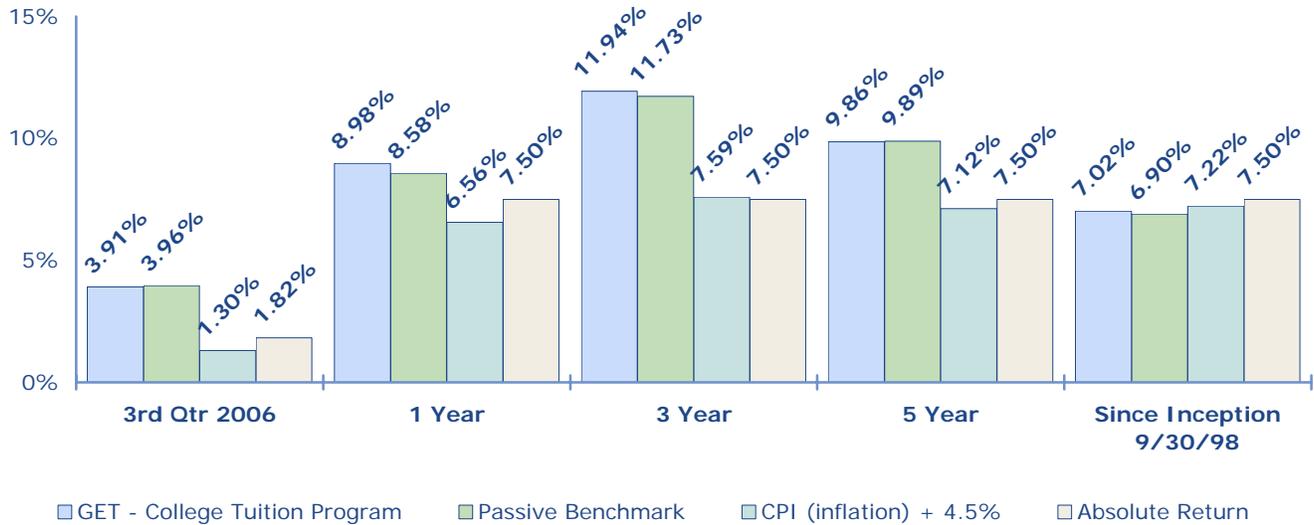
Total	\$740,160,290
Cash	5,620,938
Treasury Inflation Index Note (TIPS)	292,411,010
U.S. Equity	292,821,617
Non-U.S. Equity	149,306,725



Assets Under Management



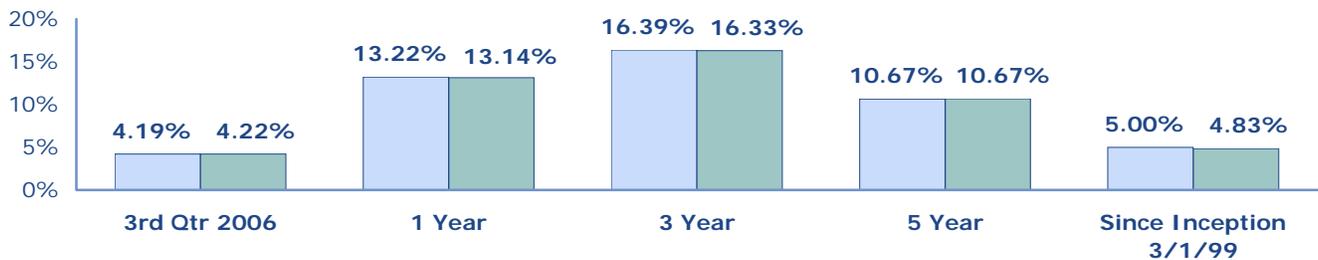
Total Return *



Return Breakdown

Equity Return *

- Equity
- Benchmark - DJ Wilshire 5000 and MSCI EAFE + Canada weighted to the policy's target (currently 66%% and 33¼%)



Treasury Inflation Index Note Return *

- Treasury Inflation Index Note
- Benchmark - Lehman Custom TIPS Index



* 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. Inception date is when the WSIB first invested in the asset class.

Marketing Proposal and Recommendation

November 8, 2006

Background

With the Program’s current marketing contract scheduled to expire on June 30, 2007, GET staff are re-examining the way the Program contracts for various marketing services. Staff is proposing a new approach to structuring marketing responsibilities, with the goal of significantly reducing overall costs and increasing measurable results. At the November meeting, the GET Committee will be asked to review this new approach and give direction to staff so they can begin work on the new Request(s) for Proposals (RFP) for the 2007-2008 enrollment year.

When the GET Program opened its doors in 1998, it hired an advertising agency to oversee all of its marketing and communications initiatives. The Program gradually has brought many marketing and communications functions in-house, including direct mail, Web site management, publications and, most recently, media relations. In addition, it has contracted directly for some services, such as Web site design/programming. The result has been greater control over Program messages and positioning in the marketplace, and more effective Program materials and products.

Currently, the Program’s marketing firm consults on marketing/creative development and then subcontracts with various Puget Sound area firms for the actual graphic design, media production, and media buying (television/radio). The marketing firm coordinates the work of its subcontractors and serves as the liaison between these subcontractors and GET staff.

In the 2005-2006 enrollment year, the GET Program paid its marketing firm \$26,600 for direct services and the firm received more than \$87,700 in agency commissions – 15 percent of the paid media buy (television/radio/print/outdoor) – for a total of \$114,300. This total is projected to exceed \$118,000 in the 2006-2007 enrollment year and be even higher in future enrollment years.

GET has gradually shifted marketing responsibilities over the years

Responsibility	1998-1999	2000-2003	2004-2006	2007-2008 (Proposed Approach)
Marketing Agency	Graphic design Advertising/creative development Media buying Direct mail Publications Media relations Web site	Graphic design Advertising/creative development Media buying Direct mail Publications Media relations	Graphic design Advertising/creative development Media buying	
Direct Contracts (GET staff contracts directly with vendors)			Some Web site programming	Graphic design Advertising/creative development Media buying Some Web site programming
In-house		Web site	Direct mail Publications Media relations Web site	Direct mail Publications Media relations Web site Some advertising/creative development Some media buying

Marketing Options

As we look forward to the 2007-08 enrollment year and beyond, the GET Program has two options: (1) Adopt a new “unbundled” approach to marketing, or (2) Continue the current “bundled” approach to marketing.

Option 1: Adopt a New “Unbundled” Approach

Under this new “unbundled” approach, GET staff would hire and manage contractors directly and bring in-house other functions currently done by the Program’s marketing firm. Staff would contract directly for the following services: (1) creative development/graphic design, (2) media buying, (3) radio advertising production, and (4) television advertising production.

By contracting directly with a media buyer and paying the buyer an hourly rate, the Program could capture the 15 percent agency commission that media outlets traditionally give to the agency that places the advertising buy.

Pros

- **Annual savings.** Staff estimates this approach would result in more than \$120,000 in annual savings, including about \$90,000 in agency commissions. The Program could then pass these savings on to GET customers in the form of lower unit prices.
- **Greater control.** Staff would have more control over the hiring of contractors, message development, media buying decisions, and the final products.

- **Stronger communication.** Staff would be able to communicate and work directly with its contractors, rather than having the marketing firm serve as the “go-between.”

Cons

- **The need to reprioritize the work of current staff.** Program staff does not anticipate the need to hire additional permanent staff at this time, but would need to reprioritize the work of current staff in order to meet the increased workload demands.

Option 2: Continue the Current “Bundled” Approach

The GET Program could decide to continue the current “bundled” approach to marketing, and contract with an advertising agency to provide – or subcontract for – all of the needed services. Program staff would issue a major Request for Proposals (RFP) for an advertising agency to provide all of the required services. The advertising agency then would subcontract, as needed, for any services it couldn’t provide.

Pros

- **No need to reprioritize staff workloads.** Program staff would not need to reprioritize current workloads and could complete additional marketing/communications initiatives in the areas of media relations, direct mail, the Web site, and publications.

Cons

- **Significantly higher costs.** This approach is projected to cost an estimated \$120,000 annually if the Program contracted with its current marketing firm and more than \$200,000 if the program hired a larger, full-service agency.
- **Less control.** Staff would have little control over which subcontractors the marketing firm hired and less control over message development, media buying decisions, and the final products.
- **Potential communication challenges.** Staff have experienced some difficulties in the past in communicating key goals and expected results to subcontractors through a marketing firm that serves as a “go-between.” These difficulties have resulted in some products that miss the mark or fail to meet staff expectations.

Staff Recommendation

While the current “bundled” approach to marketing has served the GET Program well for many years, staff believes the Program is ready to bring more marketing services in-house and manage direct contracts with vendors. Staff recommends that the GET Committee adopt Option 1, the “unbundled” approach, for the 2007-2008 enrollment year and delegate authority to the GET director to approve Requests for Proposals (RFP) as necessary.