

# MINUTES

## SCHOLARSHARE INVESTMENT BOARD

October 27, 2000 – 3 PM-4:20 PM

915 Capitol Mall, Room 587

Sacramento, CA 95814

The meeting was called to order at 3:12 p.m. by Chair Philip Angelides.

Present: Philip Angelides, Chair  
Annette Porini for B. Timothy Gage, Department of Finance  
Diana Fuentes-Michel for John Mockler, Office of the Secretary for Education  
Allison Jones  
Sabrina Kay  
Maria Elena Serna

Staff: Carrie Douglas Fong, Executive Director, ScholarShare Investment Board  
Sue Mapes, Manager, ScholarShare Investment Board  
Jennifer Rockwell, Deputy Attorney General

The Chair declared a quorum present.

The minutes from the ScholarShare Investment Board June 16, 2000 meeting were approved as submitted.

### Item # 2

#### Staff Report

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Ms. Sue Mapes reported that, although the program has not reached original estimates, it has its successes. Since July, ScholarShare has become one of the fastest growing 529 programs in the nation and has been independently ranked as a top 5 program. As of October 22, 2000, more than 21,744 accounts had been opened and the trust had approximately \$91 million in assets. The new investment options account for 50% of the total accounts.

Staff presented the new maximum contribution limits that will be reflected in program material that will be distributed beginning January, 2000.

On September 11, 2000, Governor Davis signed SB 1688 to establish the Governor's Scholars program. Since this time, Staff has been working in partnership with the Department of Finance, Office for the Secretary for Education, California Department of Education, as well as various testing entities and TIAA-CREF. The ScholarShare Investment Board will have responsibility for the investment of scholarship funds, establishment of accounts for each student who claims his or her award, communication of the information about the program to the students, and distribution of the funds to the colleges and universities when the students request distribution. Notification letters to award recipients will be distributed in late November or early December.

In June, Staff, with TIAA-CREF and Runyon Saltzman & Einhorn conducted a media tour that generated a number of free press stories in both the California and national press. Staff also worked with members of the state legislature to send information to constituents about the program. The campaign yielded

approximately 7,300 requests for additional information. The ScholarShare web site also saw an increase in traffic.

Staff has begun a mail campaign targeting public and private K-6 principals throughout the state. Last week, approximately 5500 letters cosigned by the Chair of the ScholarShare Investment Board and the Superintendent of Public Instruction were sent to public elementary school principals and public school superintendents. TIAA-CREF's phone center staff will begin following up on the mailing with phone calls to the principals and PTA's. A similar mailing is planned for 3200 private school principals statewide.

Staff is working with TIAA-CREF on developing a 2001 business plan. A major portion of this plan will be dedicated to marketing.

Staff gave an update on the two assembly bills that pertained to ScholarShare. The ScholarShare tax credit bill, AB 2095 (Lempert), was held in Committee. Staff will continue to work to promote a tax credit in the next legislative session. AB 2384 (Assembly Higher Education Committee), the bill that contained clean up language for several different programs, including two minor provisions clarifying the ScholarShare act was vetoed by the Governor.

At the June board meeting, members asked staff to revise the projected account numbers. Staff presented the revised numbers to the Board.

Chair Angelides emphasized the importance of a complete and well-developed marketing plan before the \$4.5 million marketing budget can be spent. He noted that he has asked staff to work diligently on this matter so that it can be brought back to the Board early in the year. Chair Angelides also asked Staff to consider direct mailings to teachers.

Member Kay asked Staff to prepare a graph detailing account demographics. Mr. Chris Lynch, TIAA-CREF assured the Board that this information is readily available. TIAA-CREF uses U.S. census data and account holder information, such as address and zip code, to determine account demographics. Member Kay also asked staff to prepare a report for each month of ScholarShare's existence that details how many leads have been generated, how many accounts have been opened, the average account balance, marketing activities undertaken, and marketing dollars spent. Staff will also detail when and where free press stories ran. These month-by-month reports as well as reports for varying periods, will be distributed to the board by December 1.

Members Serna and Jones also echoed Member Kay's desire to see account demographics. Member Jones also suggested that ScholarShare form links with other programs such as GEAR-UP, a federal program ran in schools in which 50% of the students qualify for free or reduced lunches.

Chair Angelides asked about the possibility of sampling the program participants for additional demographic information such as ethnicity and income levels. Participation in the survey would be voluntary and participant's privacy would be protected.

### **Item # 3**

#### **Appointment of Executive Director of the ScholarShare Investment Board**

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Chair Angelides nominated Ms. Carrie Douglas Fong for the position of Executive Director of the ScholarShare Investment Board.

Member Jones moved that the Board name Carrie Douglas Fong Executive Director. Member Serna seconded. The motion was passed by a unanimous vote.

**Item # 4****Approval of Contract with State Treasurer's Office for Administrative Services**

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Each year the Boards, Authorities, and Commissions that have operations at the State Treasurer's Office (STO) enter into a contract with the STO for administrative services. The contract is for services that include, but are not limited to, accounting, budgeting, personnel, business services, and information technology support. The cost to ScholarShare for the fiscal year 2000-01 contract is \$63,076.

Member Kay moved that the board approve the contract for administrative services with STO. Member Jones seconded. The motion was approved unanimously.

**Item # 5****Authorization of the Executive Director to Sign Contracts for Amounts of \$100,000 or Less**

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In order to standardize the operations and improve the efficiency of the ScholarShare Investment Board, Staff recommends the Board authorize the Executive Director to sign contracts for amounts of \$100,000 or less. Staff noted that this amount is far less than other boards, commissions, and authorities chaired by the Treasurer. Staff also noted that major contracts that exceed a total cost over a multi-year period of \$100,000 will continue to be presented to the Board for approval.

At the request of Member Porini, Chair Angelides amended the item to state that the Executive Director should have authority to sign contracts for amounts of \$100,000 or less with the exception of the contract with STO for administrative services, which will continue to be brought before the Board for approval.

Member Serna moved that the Board authorize the Executive Director sign contracts for amounts of \$100,000 or less, with the exception of the contract with STO for administrative services. Member Porini seconded. The motion, as amended, was passed by a unanimous vote.

**Item # 7****Review of July and August Investment Performance of Investment Options**

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Allan Emkin, Pension Consulting Alliance (PCA), presented a review of July and August investment performance of the investment options. He stated that there were no negative surprises in the investment performance. All of the options either met or exceeded their targets. Mr. Emkin noted that in the future, the Board will not see this review on a monthly basis. Reports will be provided on a periodic basis.

**Item # 6****Investment Policy Change: Approval of Investment for Governor's Scholarship Program**

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The Board must approve an amendment to the current Investment policy to specify that TIAA-CREF Life Insurance Company be the investment for the Governor's Scholars Award Program. Staff noted that the funding agreement with TIAA-CREF includes a five-year payout provision. After discussion with legal counsel, TIAA-CREF, and PCA, Staff is satisfied that this provision is standard for this type of investment.

Member Porini moved that the Board approve an amendment to the current Investment Policy to specify that the guaranteed funding agreement with TIAA-CREF Life Insurance Company be the investment for the Governor's Scholars Award Program. Member Michel seconded. The motion was passed by a unanimous vote.

**Item # 8****Change to Asset Allocation for Age-Based Investment Option Beginning in 2001**

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At the last meeting of each calendar year, the Board reviews the asset allocation of the age-based option to determine if any changes are necessary to continue to meet its investment objective. TIAA-CREF recommends a 5% increase in equity exposure to all age groups, most of it going into international funds. TIAA-CREF is recommending this change because they no longer assume that all funds will be distributed at age 18, rather than withdrawn over a 4-year horizon starting at age 18.

Member Michel asked how this allocation compares to other college savings programs in the nation. It was noted that other program managers tend to be more aggressive.

Member Serna moved that the Board approve the new asset allocation recommended by TIAA-CREF. Member Porini seconded. The motion was passed by a unanimous vote.

**Item # 9****Approve Emergency Regulations Governing Entity Account Ownership  
Clarify Account Rollover Requirements and Qualified Scholarship Accounts and  
Provide Start-Up Regulations for the New Governor's Scholarship Programs.**

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Staff presented a set of regulations that would further enhance the ScholarShare program by allowing entity account ownership by State and local government agencies, custodians under the California Uniform Transfer to Minors Act, and Trustees. The proposed regulations also clarify the requirements for rollover distributions and qualified scholarships accounts, as well as repeal two provisions. One is the maximum length of time a ScholarShare account may remain open, and the second is the requirement that accounts must be opened for a period of at least 12 months before a qualified distribution may be made. It is recommended that these provision be repealed in order to make ScholarShare as flexible as possible. It was noted that other programs do not have provisions such as these.

The proposed regulations also contain emergency regulations necessary for the start-up of the Governor's Scholarship Programs. These regulations include the bare essential rules necessary for scholarship recipients to claim their awards under the new program. This is the first of several emergency regulation packets expected in the coming months.

Member Porini expressed concerns by the Department of Finance that regulations pertaining to disbursement are not included in the proposed regulation packet. Member Porini felt the most prudent action would be to hold the entire regulation packet until a more complete package could be presented. Staff noted that work is moving forward on the distribution process, however the process needs to be better defined. Qualified distributions will not begin until August or September of 2001.

Chair Angelides noted that due to the timeframe of the Governor's Scholars Program, the Board had two choices; either approve the regulations as they were presented with the understanding that the additional regulations pertaining to disbursements and an appeals process be added at a later date; or schedule a teleconference meeting at a later date after Staff has revisited those issues. If a complete set of regulations could not be written before a November 10<sup>th</sup> teleconference call, the Board would be presented with some bare essential regulations for approval proposed at this meeting because the program couldn't begin without the minimum provisions in place.

The Board decided to defer this item to a teleconference call to allow more preparation by Staff.

**Item # 10****Approve Regulation Amendment to Revise Participation Agreement**

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In June, the Board approved an emergency regulation to revise the ScholarShare Participation Agreement to include the three new investment options. Staff is now prepared to complete the certification process on this regulatory amendment and the Board must approve all regulatory changes.

Member Kay moved that the Board approve the regulatory amendment to incorporate the new investment options into the Participation Agreement. Member Jones seconded. The motion was passed unanimously.

**Item # 11****Approval of Contract Amendment with TIAA-CREF for Governor's Scholarship Programs**

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At the June 2000 meeting, the Board approved a resolution to authorize the Executive Director to negotiate and sign a contract amendment with TIAA-CREF for program management services for the new Governor's Scholarship Programs. This authority was granted in the event the Governor signed the authorizing legislation before the Board's September meeting. Since the Governor did not sign the legislation until after the scheduled September Board meeting (later postponed), Staff requested that the Board, once again, give the authorization.

Member Porini stated that Department of Finance had concerns about signing the contract before all of the processes are in place. She stated that it would be unwise to launch the program with such a deficiency and suggested that the amendment be bifurcated so that TIAA-CREF has a contract for investment management. TIAA-CREF noted that the funding agreement the Board approved earlier would provide sufficient safeguards for the fund transfer. Chair Angelides pointed out that the issue before the board is the authorization of the Executive Director to sign the contract amendment and that Member Porini's suggestion would require Staff to bring this matter before the Board again.

It was decided that this matter would be presented to the Board at the teleconference meeting at which time, Staff could report on the substance of the contract.

**Other Business**

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Chair Angelides directed Staff to present a comprehensive business and marketing plan to the Board at the January 2001 meeting and asked that a draft be circulated before then for comments. There being no further business before the Board, the Chair adjourned the meeting at 4:20 p.m.

Respectfully submitted by,

Carrie Douglas Fong  
Executive Director, ScholarShare Investment Board