

MINUTES  
SCHOLARSHARE INVESTMENT BOARD

April 18, 2003, 2:00 PM  
Teleconference

Chair Anne Stausboll called the meeting to order at 2:15 PM.

Present: Anne Stausboll for Philip Angelides, State Treasurer  
Sean Miller for Kerry Mazzoni, Office of the Secretary for Education  
Allison Jones  
Sabrina Kay  
Maria Elena Serna

Staff: Francisco Lujano, Interim Executive Director, ScholarShare Investment Board  
Marian Cohen, Manager, Governor's Scholarship Programs  
John Middlebrook, TFI  
Carla Raffin, TFI  
Allan Emkin, PCA  
Neal Rue, PCA  
Tom Noguerola, State Treasurer's Office Legal Counsel

Public Comment: Dawn McCoy, Edfund, California Student Aid Commission  
Steve Caldwell, California Student Aid Commission.

The Chair declared a quorum present.

**Board Agenda Item Number One**  
**Approval of Minutes of the December 16, 2002 Teleconference**

The minutes from the December 18, 2002 ScholarShare Investment Board (SIB) meeting were approved as submitted.

**Board Agenda Item Number Two**  
**Approval of Minutes of the February 20, 2003 Teleconference**

The minutes from the February 20, 2003 SIB meeting were approved with correction to page 7, 2<sup>nd</sup> paragraph to remove the word "thru" following the National Council for La Raza, and change the "National Council of Bilingual Education" to the "California Association of Bilingual Education."

**Board Agenda Item Number Three**  
**Staff Report**

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*Report by: Mr. Francisco Lujano, Interim Executive Director*

**Update on ScholarShare Program:**

Mr. Lujano began by providing updated figures as of March 31, 2003 from the ScholarShare Activity Report:

- 8,216 new accounts were opened; 3,888 were opened via telephone and 4,328 were opened online
- Contributions from new and existing account holders totaled \$76.3 million.
- 11,472 enrollment packets were requested; 4,504 were requested via telephone, 5,423 were requested online and 1,545 were requested from business reply.
- Web site hits totaled 173,969.

**Fund Performance Status Report:**

TIAA CREF, Tuition Financing, Inc. (TFI) will report fund monitoring procedures and benchmark criteria under Agenda Item Number Six.

Pension Consulting Alliance (PCA) will present the proposed format for the Fund Performance Status Report under Agenda Item Number Seven. If the format is approved, PCA will present the final status report including PCA recommendations at the June Board Meeting.

**Annual Report Card:**

The Annual Report Card is presented under Agenda Item Number Nine, which was mailed with the individual account statements to participants on March 1, 2003, as required by statute.

The report contained information on the new tax benefits, college cost trends, and legislative contact information. The report is included in the board packet along with a letter from the Treasurer.

**Deficiency Notice:**

Staff mailed a Notice of Deficiency for the 3<sup>rd</sup> and 4<sup>th</sup> Quarter Performance to TFI, as directed by the Board. TFI plans to change the format of their quarterly report to align with the Administrative Performance Criteria and the Outreach and Marketing Performance Criteria. TFI will propose a plan to address performance deficiencies by close of business today. They plan to raise fund performance to the Minimum Performance Criteria by June 30, 2003.

### **Advisor Sold Series Request For Proposal:**

Staff has been working with Mr. Allan Emkin and State Treasurer's Office (STO) Legal Staff to finalize the Advisor Sold Series '*Request For Proposal*' (RFP) for early spring release and early summer submission deadline for bids. Vendor selection will occur approximately mid-summer 2003, and the program is anticipated to launch in 2004.

### **Money Magazine Survey:**

TFI completed a 529 survey for *Money Magazine*, which was published in the May 2003 issue. The ScholarShare Program was rated with a "recommended" status.

### **Hispanic Outreach Plan:**

SIB Staff met with TFI and Ogilvy Public Relations to review the Hispanic Outreach Plan on April 8, 2003. TFI will present the Hispanic Outreach Plan at the August 2003 Board Meeting. Plan highlights include contacting Spanish-language media regarding ScholarShare's availability and benefits, developing a campaign for College Savings Month, and reaching the target audience at home, work, and play.

#### *Discussion:*

Member Sean Miller asked if Ogilvy has offered any examples of creditable grass roots channels. Mr. Lujano confirmed that examples of grass root channels were listed in the TFI plan outline and these examples would be included in presentation at the August 2003 Board Meeting.

### **Update on Governor's Scholarship Programs**

#### **2003-2004 Budget Proposals:**

There are three Budget proposals that could impact the Governor's Scholarship Programs (GSP). One proposal is by the Governor, and two are by the Legislative Analyst's Office (LAO).

- The Governor's proposal defers funding of awards until students are in the 12<sup>th</sup> grade and allocates \$43 million for awards.
- The first proposal by LAO eliminates the GSP.
- The second proposal by LAO would convert the program to a Pay-As-You-Go system and transfer administration to the California Student Aid Commission (CSAC). The number of awards and their amounts would be set annually, depending on the budget.

#### *Discussion:*

Members suggested the Board had a fiduciary responsibility for the administration of the program to review the proposals to determine the appropriate Board action. It was believed that additional information and time was necessary to perform this review.

The Board directed staff to provide members with more information on the budget proposals and scheduled a meeting continuance for April 24, 2003 at 11:30 a.m. Mr. Lujano confirmed staff would provide a summary of the fiscal year 2003-04 budget proposals affecting GSP by close of business Tuesday, April 22.

### **The Governor's Scholarship Programs' Web site:**

TFI's legal department finally completed its review of the web site text provided by TFI's sub-vendor, Big Rocks. The release date for the new web site, [www.cagovernorsscholars.org](http://www.cagovernorsscholars.org), has not been scheduled, but should be soon. Students can currently claim their awards on the ScholarShare website, [www.scholarshare.com](http://www.scholarshare.com).

### **Update on Governor's Distinguished Mathematics and Science Scholars Award**

#### **2002 List Of Students With Qualifying Scores**

The College Board is requiring a legal agreement be in place before releasing student data on Advanced Placement tests for the Governor's Distinguished Mathematics and Science Scholars Award (Governor's Math and Science Award). SIB staff, TFI, and our Legal Department are currently drafting an agreement with the College Board. Students will be able to claim math and science awards following the finalized agreement.

#### **Board Agenda Item Number Four**

#### **Approval of ScholarShare College Savings Program Permanent Regulations**

*Report by: Ms. Marian Cohen, Manager, Governor's Scholarship Programs*

Ms. Cohen presented the final permanent regulations for approval. The regulations implement changes required when Assembly Bill 3045 was enacted conforming state law to federal and make additional technical changes to the ScholarShare program.

1. Eliminates the one percent penalty requirement imposed by the Board in Section 30953(a) and references to the penalty in 30954(d).
2. Re-defines the term "cash" as not including money orders and cashier's checks in Section 30950(b), and excludes them as an option for the payment of investment funds. This is due to the passage of the Federal Patriot Act of October 26, 2001.

3. Changes the term “maximum contribution limit” referenced in Sections 30953(c) and 30958(a) and (d) to “maximum account balance limit” to more clearly define the term as it relates to other documents and materials within the program.

**Board Action:**

The ScholarShare College Savings Program Permanent Regulations were approved as submitted.

**Board Agenda Item Number Five**  
**2003 Meeting Calendar for ScholarShare Investment Board**

*Report by: Mr. Francisco Lujano, Interim Executive Director*

Mr. Lujano presented the 2003 meeting calendar of activities for SIB. The calendar serves as a planning tool to help establish priorities and objectives for the Board and Staff.

**Board Agenda Item Number Six**  
**ScholarShare 2002 Annual Investment Performance**

*Report by: Mr. John Middlebrook, TIAA-CREF, Tuition Financing, Incorporated*

Fund Monitoring Procedures and Criteria were established at the December 2002 meeting. Review of the fourth quarter and Year-End Investment Performance data for 2002 showed the Institutional Growth & Equity Fund has fallen below its short and long term benchmark criteria. Two other funds, the Institutional Growth & Income Fund and Institutional Equity Index Fund are close to falling below the “1<sup>st</sup> 1 - 12-months”, “short-term” and “medium-term” time periods as set in the benchmark criteria and are being monitored closely.

Mr. John Middlebrook, TFI, provided a written report summarizing the 2002 Investment Performance and began his presentation by describing the method TIAA-CREF employs to manage investment fund performance. He highlighted management methods that are being refined to enhance TFI’s ability to reach or succeed the benchmark criteria. Specifically, TFI’s Dual Investment Management Method is now better balanced between passive and active investing during the quantitative selection process (when they select companies to invest in). This approach ensures that TFI’s investments are not slanted in favor of one sector or one particular segment of market capitalization.

**Board Agenda Item Number Seven**  
**Pension Consulting Alliance (PCA) Fund Review Report Format**

*Report by: Mr. Allan Emkin, Pension Consulting Alliance (PCA)*

PCA submitted the Fund Review Report format for Board approval as required in PCA's contract. The format illustrates performance relating to applicable benchmark criteria for each TIAA-CREF mutual fund used in Golden State ScholarShare College Savings Trust Accounts and advises the current status of funds as "positive", "caution", or "warrants probation." This report would also show the status of any funds on probation.

Mr. Emkin, PCA, reported the objective for the Fund Review Report is to supply the Board with an independent third party analysis to assist with the guidelines that were established for fund performance.

Discussion:

Member Kay asked for explanation of page 7 and page 11 of the report. Page 7 indicates Growth Equity Fund current status as "warrants probation" for the long term-criteria, yet page 11 does not reflect that probation.

Mr. Neal Rue, PCA, explained that page 11 indicates Board action only and PCA will update this chart to reflect Board decisions.

Member Kay summarized the report did not reflect PCA's opinion or recommendation and requested PCA provide the Board with excel reports based on PCA's recommendation.

Mr. Emkin agreed to supply the Board with the addition of excel reports reflecting the PCA recommendation and including it on the page 11 format.

Board Action:

The PCA Fund Performance Status Report format was approved with a Board recommendation to include a chart summarizing PCA fund performance recommendations within the report.

**Board Agenda Item Number Eight**  
**Governor's Scholarship Programs**  
**Governor's Scholars Award Claiming Report**

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*Report by: Ms. Marian Cohen, Manager, Governor's Scholarship Programs*

Ms. Cohen presented the claiming rate for both the Governor's Scholars Awards (GSA) and the Governor's Math and Science Awards (GSM).

The first six months after students are notified, the claiming rate tends to slow significantly and then decline even further after twelve months. As of March 31, 2003, the claim rate for both the 2000 and 2001 test years was 83%. The first quarter claim rate for 2002 is 5% higher than the first quarter claim rate for 2001, indicating that notification for this year is doing well. As of April 14, 2003, the claim rate for 2002 has already reached 50%. Notification packets for the 2002 test year were sent to 1,156 schools in January 2003.

Currently there are 224 schools with a 0% claim rate, which is not unexpected this early in the year. The higher claiming rate this year indicates the majority of the schools notified students immediately. Assuming the trends remain constant, staff anticipates the claim rate to peak in March and April as schools coordinate student notification with the beginning of STAR testing and again at the end of the year when students are notified at “Award Nights.” SIB staff will be contacting principals and superintendents with suggestions to improve claiming, and TFI will send schools a list of students to who have not claimed awards along with a newsletter they can use to promote the Governor’s Scholars Award.

**Discussion:**

Member Serna asked what factors contributed to students not claiming awards for the 2000 and 2001 test years.

Chair Stausboll stated that the claim rate could still be improved, the Treasurer plans to sponsor legislation that would require direct notification to the students’ home to encourage claiming in the 17% unclaimed margin.

Member Miller asked if we have communication with financial aid offices and higher education that would work with the student to determine if they qualify or received a Governor’s Scholars Awards.

Ms. Cohen responded that we worked with the University of California, State and Community Colleges financial aid offices last year. The Office of the Secretary of Education was instrumental in putting together a committee of advisors that assembled a guideline for financial aid administrators that was subsequently distributed to universities and colleges in California. The California Student Aid Commission (CSAC) also sent the guidelines to financial aid people through out the state. This memo is available on CSAC web site.

Mr. Lujano advised that the listed 85% targeted claiming rate item should be deleted. The claiming rate will not be targeted until sufficient data is collected to determine the cause for a 17% unclaimed rate.

**Public Comment:**

Dawn McCoy, EDFUND, California Student Aid Commission

Ms. McCoy stated that information about ScholarShare is included on the CSAC web site and complimented Ms. Cohen on the detailed information included on Agenda Item Number Eight report specifically the improving your claims suggestions. She also serves as a member of the Sacramento City School Board and was interested in the follow up efforts through newsletters and parent notification, and suggested the School Board Association as a resource for those efforts.

In regards to the LAO recommendations, Ms. McCoy stated that EDFUND and CSAC are analyzing the bills in question. Ms. McCoy then asked when unclaimed reports would be notifications would be sent out.

Mr. Lujano responded that 2<sup>nd</sup> unclaimed reports would be mailed to the districts in approximately three weeks. Individual Schools will also receive a list of students who have not claimed awards.

## **Board Agenda Item Number Nine**

### **Annual Report Card**

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*Report by: Ms. Marian Cohen, Manager, Governor's Scholarship Programs*

Ms. Cohen referred to California Education Code 69990(c) (5) requirement that the Golden State ScholarShare College Saving provide specific information on tuition and fee trends in higher education to all participants annually by March 1. The report includes changes in higher education for the prior year; proposals by the Governor, the legislature, or the three public educational segments to change fees or tuition for the next fiscal year; and provides the participant with information to contact Senate and Assembly members.

The Annual Report Card is a newsletter featuring a collection of articles on education and education funding accompanied by a letter from the State Treasurer. The article entitled '*California Public Higher Education Systems Are Still A Great Deal*' addresses the trends in higher education and its costs, highlighting costs for the University of California System in relation to it's counterparts in other areas of the nation. The report featured some of the program's tax benefits, such as the ability to change beneficiaries among cousins and a reminder that tax benefits are scheduled to expire December 31, 2010. Additionally, information was included for the increase in maximum account balance limits for ScholarShare Accounts.

#### *Discussion:*

Board members expressed an interest in the Annual Report Card development process, including:

- Statutory requirements
- March 1 statutory deadline
- Article content selection
- Review process timeline

Chair Stausboll suggested staff report back on the Annual Report Card development process in the fall.

## **Other Business**

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Member Miller asked, as a new board designee, if there was an opportunity to go over the fiduciary responsibilities as a board as well as some of the history items.

Chair Stausboll closed meeting discussion for the day on April 18, 2003 at 4:10 p.m. and confirmed the resumption of discussions on Agenda Item Number Three for Thursday, April 24 at 11:30 AM.

### **April 24, 2003 Board Meeting Continuation**

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#### *2003-2004 Budget Proposal Discussion:*

Chair Anne Stausboll resumed the meeting at 11:30 AM.

Present: Anne Stausboll for Philip Angelides, State Treasurer  
David Takashima for Steve Peace, Department of Finance  
Sean Miller for Kerry Mazzoni, Office of the Secretary for Education  
Allison Jones  
Sabrina Kay

Staff: Francisco Lujano, Interim Executive Director, ScholarShare Investment Board  
Marian Cohen, Manager, Governor's Scholarship Programs  
Tom Noguera, State Treasurer's Office Legal Counsel

#### Discussion:

Member Jones asked if it would be possible to identify administrative issues that might arise under the proposals without taking a position on the proposals themselves.

Member Takashima commented that the GSP are a very high priority for the administration.

Chair Stausboll stated that the Board has a responsibility to inform the legislature of the operational implications of the budget proposals. For example, the GSP contract is an amendment to the ScholarShare Program contract with TFI and, if program administration were transferred, a new contract with TFI might be required. Additionally, the Board should advocate for adequate resources to operate the program regardless of where the program is administered. Staff was directed by the Board to draft a statement that identifies administrative issues that legislators should be aware of during their discussion of the proposals

The next meeting is scheduled for June 20, 2003 at 2:00 PM.

The April 24, 2003 Board Meeting Continuation adjourned at 12:09 PM.

Respectfully submitted by,

Francisco Lujano, Interim Executive Director  
SCHOLARSHARE INVESTMENT BOARD