

AGENDA ITEM 2.

MINUTES OF THE APRIL 28, 2006 MEETING

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

April 28, 2006

Parkland College
2400 W. Bradley Avenue
Building D, Room D244
Champaign, Illinois

COMMISSIONERS PRESENT:

Sharon Alpi
Dr. Lynda Andre
Warren Daniels, Jr.
Andrew Davis
Ashley Dearborn
Hugh Van Voorst
David Vaught

**COMMISSIONERS PRESENT
VIA TELEPHONE:**

Donald J. McNeil, Chair

PRESENT BY INVITATION:

Elmer Washington, Designated Liaison, IBHE

COMMISSIONERS ABSENT:

Robert Casey
Dr. Mary Ann Louderback

STAFF PRESENT:

Larry E. Matejka, Executive Director
Tom Breyer, Director, IDAPP
Marcia Thompson, Chief Operating & Administrative Officer
Wendy Funk, IDAPP
Chris Peterson, Chief Program Officer
Karen Salas, General Counsel
John Schwarm, IDAPP
Debora Calcara, Commission Secretary

PUBLIC ATTENDANCE:

Fred Ash, JPMorgan Chase
Meegan Bassett, Women Employed
Rex Bradfield
Charles Boudreau, Illinois State University
Bill Bushaw, Western Illinois University
Paula Carpenter, Lake Land College
Vincent Cimino, RBC Capital Markets
Kevin Conlon
Paul Eber, Chase
Bruce Foote, Harper College
Zelema Harris, Parkland College
Jack Lyons, Parkland College
Pat Krolak, Marquette Associates
Stratford Shields, Morgan Stanley
Joseph Starshak, Starshak, Welnhofer & Company
Tom Suffredin
Tina Stovall, Lake Land College
Mary Wienhoff, Robert Morris College

Item 1. Announcements

Chairman McNeil called the April 28, 2006 meeting to order 9:15 a.m., requesting that a roll call be taken, which established that a quorum was present. He then introduced Dr. Zelema Harris, President of Parkland College.

Dr. Harris provided the Commission with a brief overview of the programs and services of Parkland College. She stated that it would be difficult for Parkland College and the other 38 community college districts in Illinois to accomplish their mission of providing programs and services of high quality to their students if it were not for the important work and outreach services that ISAC provides. She indicated that 3,000 Parkland College students received \$2.7 million in financial assistance from ISAC and without the financial assistance, many of the students would not have been able to attend college. She thanked ISAC for the invaluable resources and for the commitment to helping the lives of millions of college students in Illinois.

Mr. Matejka presented Dr. Zelema Harris with a certificate of appreciation from ISAC as she retires as President of Parkland College after 16 years of service.

Chairman McNeil also congratulated Dr. Harris for her service. He then announced that the next regularly scheduled meeting of the Commission would be held on June 23, 2006.

Item 2. Minutes of the March 31, 2006 Meeting

Mr. Davis **MOVED THAT** the minutes of the March 31, 2006 meeting be approved as submitted. Mr. Daniels seconded the motion, which was approved unanimously.

Item 3. Executive Director's Report

Mr. Matejka asked Mr. Erford to give a brief overview of the legislative session. Mr. Erford did so, indicating that a state budget is likely to be considered soon and that ISAC is likely to be asked to administer at least two new programs.

Continuing his report, Mr. Matejka noted that ISAC has processed over 150,735 applications for MAP this year compared to 138,500 last year, which represents an increase of 8.8 percent and an increase of 7 percent for the Silas Purnell Incentive for Access program. He indicated that for 2006, 9.6 percent of the funds have been disbursed for the MAP and 97.2 percent for the IIA program.

Mr. Matejka indicated that staff would need to bring to the Commission a financing for the secondary market at the June meeting. Chairman McNeil noted that this financing is being done due to contractual obligations that require the secondary market to fund loans which have been originated.

Mr. Matejka informed the Commission that due to the new Federal Deficit Reduction Act, a default fee must be deposited into the Federal Student Loan Reserve Fund for all FFELP loans, Stafford Subsidized and Unsubsidized and PLUS loans that are guaranteed by July 1, 2006. Mr. Matejka was pleased to announce that ISAC will pay the one percent default fee for ISAC Federal Stafford and PLUS loans for that time period. He indicated that by subsidizing the fee on behalf of the borrower rather than passing the cost onto students and their families, it will result in a greater percentage of loan proceeds being available to offset educational expenses. He estimated that the subsidy will save the student borrowers approximately \$13 million during this academic year.

Item 4. IDAPP's Quarterly Investment Report

No action was required on this item.

Item 5. IDAPP's FY 2007 Budget Request

Mr. Matejka introduced the item by noting that the bond indentures require that an annual spending plan be approved by the end of April. He then referred to Mr. Breyer to present the FY 2007 budget request item.

Mr. Breyer then gave an overview of the budget request that the Commission is being asked to approve. Mr. Breyer noted that several factors were considered when preparing the budget request. Including current legislative changes regarding the Federal Deficit Reduction Act that include the reduction of origination fees, some loans moving from a variable rate to a fixed rate, and changes in the special allowance payment. He indicated that the major element of uncertainty in preparing the budget results from the set of strategic alternatives currently under review and consideration by the Commission.

Mr. Vaught expressed his appreciation to Mr. Breyer and the staff at IDAPP for the excellent work on the budget request and commended staff for their attitude and effort as the Commission moves forward in the strategic reevaluation. Mr. Breyer stated that staff continues to work hard under challenging circumstances and are very committed to the work that they do. Chairman McNeil stated that the Morgan Stanley team has praised the cooperation it received from all the employees of the Commission.

Responding to Mr. Davis' concern regarding the continuation of the highly valued services that IDAPP provides to students, Mr. Breyer indicated that the challenge will be in remaining financially competitive in the marketplace by running a lean operation while still maintaining the high level of services. Mr. Breyer believes that although IDAPP does not have the same cost advantages as some competitors in the industry, he believes IDAPP has a service advantage. Mr. Breyer indicated that he did not see any changes to services provided to IDAPP customers.

Chairman McNeil reiterated that the Commission is required by the bond indentures to present to the trustees a budget for IDAPP to assure them of its solvency, but this does not preclude the Commission from creatively retooling IDAPP and that the budget that is approved today can be adjusted in the future.

Mr. Daniels **MOVED THAT** the Commission approves the FY2007 IDAPP budget request of \$8,422,000 as detailed in Table I.

Ms. Dearborn seconded the motion, which was approved unanimously.

Item 6. College Illinois! Investment Performance Report

Mr. Pat Krolak of Marquette Associates gave a brief overview of the performance of the *College Illinois!* program thus far in 2006.

Mr. Davis inquired if there will be an effort to include women-owned minority-owned and emerging firms in the next review of passive mandate. Mr. Krolak indicated that a formal invitation has been extended but there are very few minority owned or women owned firms that do passive management and who would fit the criteria of the search. Several members of the Commission encouraged Mr. Krolak to reach out to those firms.

Mr. Vaught expressed his concern as to whether the Commission is abiding by its fiduciary obligation to the people investing in the program and to the State that ultimately guarantees the program, by recommending a low allocation to the investment manager with the consistently best performance. Mr. Krolak explained that the program's asset allocation has been developed and amended over time with the advice of the program's Investment Advisory Panel. The Panel recommended that the international equity allocation be set at five percent of the portfolio rather than a higher allocation because of a concern regarding downside volatility typically prevalent with international equity. The consensus was to stay on the conservative side on asset allocation rather than try to be more aggressive in seeking higher investment returns that would mean tolerating higher investment risk.

Item 7. College Illinois! FY 2007 Budget Request

Introducing the agenda item, Mr. Erford indicated that this budget request would comprise the program's ninth enrollment period. He said that the *College Illinois!* program is unique within ISAC in that it is a self-supporting program, which is funded entirely from contributions and fees paid by the program's participants. Even so, it contributes toward ISAC's mission to provide college financial assistance to Illinois students and families. Mr. Erford also stated that *College Illinois!* does utilize and pay for interagency services. After a brief overview of the budget request, Mr. Erford stated that the request is for \$3.8 million, which represents about one half of one percent of the total program assets.

Mr. Vaught expressed his concern about the advertising budget being reduced and is concerned about the goals of the program. Mr. Erford noted that the enrollment period for 2006 has just ended and evaluation of the enrollment has not yet been done. Therefore, there is the possibility that there will be the need to come back to the Commission for additional advertising money in the event it is recommended by the marketing agency. Mr. Erford stated that the goal of the program is to remain fiscally sound and to sell as many contracts and promote the program as extensively as possible. He indicated that with a change in membership on the Commission there may be an interest in taking a somewhat different approach toward certain aspects of the program. There is a possibility that after a more complete review of this past enrollment period, staff may bring a recommendation before the Commission to add marketing funds to this budget.

Mr. Vaught **MOVED THAT** the Commission approve the FY2007 *College Illinois!* administrative budget set forth in Table I.

Ms. Alpi seconded the motion, which was approved unanimously.

Item 8. Proposed Rules and Amendments

Mr. Matejka indicated that the rules have been through the 45-day public comment period and has received no comments from the public. The Commission is now prepared to submit the rules to the Joint Committee on Administrative Rules (JCAR) for the second 45-day comment period.

Mr. Davis **MOVED THAT** the Commission approve the following resolution:

“BE IT RESOLVED that the Commission accepts the proposed rules and amendments as modified thus far during the rulemaking process, for submission to the Joint Committee on Administrative Rules.”

Mr. Daniels seconded the motion, which was approved unanimously.

Mr. Davis **MOVED THAT** the meeting of the Commission adjourn. Mr. Van Voorst seconded the motion, which was approved unanimously. The meeting adjourned at 10:30 a.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Debora A. Calcara".

Debora A. Calcara
Secretary to the Commission