

AGENDA ITEM 2.

MINUTES OF THE MARCH 30, 2007 MEETING

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

March 30, 2007

Millikin University
Decatur, Illinois

COMMISSIONERS PRESENT:

Donald J. McNeil, Chair
Sharon Alpi
Dr. Lynda Andre
Warren Daniels, Jr.
Ashley Dearborn
Dr. Mary Ann Louderback
Hugh Van Voorst
David Vaught

PRESENT BY INVITATION:

Elmer Washington, Designated Liaison, IBHE

STAFF PRESENT:

Andrew Davis, Executive Director
Tom Breyer, Senior Policy Advisor
Steve Di Benedetto, IDAPP
Steve Dorfman, Deputy General Counsel
Randy Erford, *College Illinois!*
Wendy Funk, IDAPP
Katharine Gricevich, Special Assistant
Sue Kleemann, RPPA
Kim Barker Lee, General Counsel
Shoba Nandhan, Comptroller
Sam Nelson, Public Service
John Sinsheimer, CFO/Managing Director,
Financial Products and Services
Nancy Stephens, *College Illinois!*
Joanne Tolbert, HRD
Claude Walker, State Relations
Debora Calcara, Commission Secretary

PUBLIC ATTENDANCE:

Chris Dunn, Conlon Public Strategies, LLC
Pat Krolak, Marquette Associates
Mike Mann, IBHE
Nicole Krneta Rogers, IBHE
Joseph Starshak, Starshak, Welnhofner & Company
Sandy Street, University of Illinois
Leigh Taylor, Robert Morris College

Item 1. Announcements

Chairman McNeil called the March 30, 2007 meeting to order at 10:04 a.m., asking that a roll call be taken, which established that a quorum was present. He then asked Ms. Alpi, who is a member of the faculty at Millikin University, to introduce Dr. Douglas E. Zemke, President of the University. Dr. Zemke then welcomed the Commission to the campus by giving a brief history of Millikin University. He stated that through the work of the Commission, students who otherwise would not be able to attend an institution such as Millikin are provided with such an opportunity. He noted the importance of this investment in intellectual capital in contributing to the State's productivity and quality of life, and once again thanked the Commission for its work.

Mr. Davis took the opportunity to introduce and welcome several key new additions to the agency's management team, and provided a brief background for each: Ms. Kim Barker Lee, General Counsel; Steve Dorfman, Deputy General Counsel; John Sinsheimer, Chief Financial Officer/Managing Director, Financial Products and Services, and Katharine Gricevich, Special Assistant to the Executive Director.

Chairman McNeil also recognized and thanked all current staff members in attendance for their continued hard work and dedication. He then noted that the next regularly scheduled meeting of the Commission will be held on June 22, 2007 at Robert Morris College in Chicago.

Item 2. Minutes of the January 26, 2007 Meeting

Dr. Louderback **MOVED THAT** the minutes of the January 26, 2007 meeting be approved as submitted. Ms. Alpi seconded the motion, which was approved unanimously.

Item 3. Executive Director's Report

Prior to introducing Mr. Davis, Chairman McNeil noted a newspaper article that had appeared that morning regarding a new alternative loan program that was currently under development at ISAC. This program, he explained, was being designed to help the students of Illinois successfully complete their undergraduate degree programs; to offer incentives for the borrowers to work in Illinois following graduation; and to provide protection for those in lower-paying jobs.

Mr. Davis proceeded to give a brief update on the current State legislative environment in Springfield, and noted that he has had the opportunity to testify before several legislative committees within the past few weeks, as well as to meet personally with individual legislators and their staffs. He indicated that he has been extremely pleased to experience first-hand the spirit of genuine bipartisan support for higher education in the General Assembly, which is not always fully reflected in media reports of the events in Springfield.

Continuing, Mr. Davis indicated that management staff have been continuing their diligent and methodical review of the agency's businesses and the process of conducting a self-examination of all of our products and services, which ones we will continue to offer, what new ones we might want to provide, and how we can most efficiently deliver them. He said he is finding it becoming clearer that the agency should continue loaning money, but possibly through different types of programs, and definitely with a far greater focus on Illinois students. It is also becoming clearer, he said, that additional staffing and budgetary resources are called for in our public service and outreach activities.

Mr. Vaught stated that he has been able to attend some of the legislative committees where Mr. Davis has testified and commended him for the fine job that he is doing. He said it is clear that ISAC is already a respected agency in Springfield, and that Mr. Davis is building on this solid foundation with his openness and forthrightness. He indicated that it is clear that the legislature is looking to ISAC to lead and have new ideas such as the public alternative loan program. He commented that the Commission has a great leadership team and staff that understand the direction in which the Commission needs to go.

Item 4. Audit Committee

Chairman McNeil opened the item by noting that the action being requested is for the Commission to establish a committee that oversees external and internal audits and will be responsible for monitoring the remediation of existing internal and external audit findings.

Mr. Davis noted that in reexamining the agency and looking for ways to improve the agency it was clear that this is an area that needed improving. There is currently an internal audit committee as opposed to an agency Internal Auditor, which does great work, but the agency is still lacking in this area and by appointing an Audit Committee the agency will be taking the necessary steps to improve.

Mr. Daniels **MOVED THAT** the Commission establish an Audit Committee to oversee external audits and internal audits, with the Committee's chair and two additional members of this Committee to be appointed by the Chairman of the Commission. The Audit Committee shall be responsible for monitoring the remediation of existing internal and external audit findings, and shall submit recommendations to the Commission with respect to the scope of the Audit Committee's oversight and monitoring responsibilities.

Mr. Van Voorst seconded the motion, which was approved unanimously.

Item 5. IDAPP Budget Request

Mr. Di Benedetto opened the agenda item by noting that Table I on page 5-4 of the agenda book is the request for a FY 2008 administrative expenses budget of \$41.8 million, which represents a decrease from the FY 2007 budget request due to reduced external servicing.

Mr. Daniels **MOVED THAT** the Commission approve the FY 2008 IDAPP budget request of \$41,827,000 as detailed in Table I on page 5-4 of the agenda book.

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

Item. 6. IDAPP's Quarterly Investment Report

Chairman McNeil noted that this is an information item and no action is required. Mr. Vaught requested more information on future reports that details the returns on investments. Mr. Davis noted that the IDAPP investment policy is highly restricted in terms of its permissible investments, but agreed that it was appropriate to provide information on investment returns, and indicated that this will be included in future reports.

Item 7. College Illinois! Investment Performance Report

Following a brief introduction by Mr. Erford, Mr. Pat Krolak of Marquette Associates summarized the investment performance report, which was distributed to the Commission members under separate cover. He noted that at the conclusion of 2006 the Prepaid Tuition Trust Fund had a market value of \$873.3 million. He further observed that the Fund was in line with its asset allocation targets, and that total Fund performance had significantly outperformed the actuarial rate of return for both the fourth quarter and full twelve months of calendar 2006, as well as the first six months of Fiscal Year 2007. He then briefly reviewed significant actions taken over the last six months, including the hiring of two new intermediate fixed income managers.

In response to a question from Mr. Vaught, Mr. Krolak outlined the various investment manager evaluation statuses as provided for in the Statement of Investment Policy, and highlighted those firms currently on “alert” status and explained the reasons for their being placed in that status.

Responding to an inquiry from Chairman McNeil, Mr. Krolak observed that given the size, positive cash flow and relatively young maturity of the portfolio, the *College Illinois!* Fund was now in a position to sustain a significantly greater amount of risk. He stated that Marquette’s most recent asset allocation study, which has been reviewed with the program’s investment advisory panel members, evaluates the advantages and disadvantages of changing the program’s asset allocation. In response to a question from Mr. Davis, Mr. Krolak summarized and expanded upon the results of Marquette’s research which revealed that if *College Illinois!* moves into several alternative asset classes over time, it can actually achieve greater returns with less risk, and that what is really being given up is liquidity, which may be appropriate given the cash flow expectations of the portfolio.

Mr. Krolak concluded his remarks by noting that the process of getting securities lending utilized by the Fund is now underway per the investment policy guidelines that were adopted in January, and that the Commission’s newly-adopted “no soft dollar trades” policy is now in force and will be fully implemented as manager contract renewals roll through by the end of September. He stated that with regard to the portfolio’s asset allocation, a number of changes are being evaluated, including alternative investments, bank loans, private equity fund-of-funds and other asset classes, as well as increasing domestic and international equity positions. Recommended changes to the policy will be prepared for Commission consideration in June.

Item 8. Proposed Rules and Amendments

Mr. Breyer opened this item by observing that this is the second time these proposed rules and amendments have come before the Commission and only minor technical changes have been made since they were first presented; no substantive changes have been made since initial publication and no comments were received during the public comment period. He noted that this filing contained rules for two new programs that were legislatively mandated; amended existing rules for four ongoing programs; and repealed rules for one program that is no longer administered by ISAC.

Ms. Alpi **MOVED THAT** the Commission accept the proposed rules and amendments, as modified thus far during the rulemaking process, for submission to the Joint Committee on Administrative Rules.

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

Dr. Louderback **MOVED THAT** the March 30, 2007 meeting of the Commission be adjourned. Mr. Van Voorst seconded the motion, which was approved unanimously. The meeting adjourned at 11:20 a.m.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Debora A. Calcara".

Debora A. Calcara
Secretary to the Commission