

AGENDA ITEM 2.

MINUTES OF THE SEPTEMBER 19, 2005 MEETING

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

September 19, 2005

Illinois Wesleyan University
Davison Room, Memorial Center
104 University Street
Bloomington, Illinois

COMMISSIONERS PRESENT:

J. Robert Barr, Chairman
Pauline Betts
Mary Ann Louderback
C. Richard Neumiller
Gretchen Winter

**COMMISSIONERS PRESENT
VIA TELEPHONE:**

Robert Casey

COMMISSIONERS ABSENT:

Christopher Kurczaba
Hugh Van Voorst

STAFF PRESENT:

Larry E. Matejka, Executive Director
Marcia Thompson, CP&AO
Tom Breyer, Interim Director, IDAPP
Randy Erford, *College Illinois!*
Sue Kleemann, RPPA
Lori Reimers, State Relations
Chris Peterson, Program Services
Nancy Stephens, *College Illinois!*
Darla Puckel, *College Illinois!*
Sam Nelson, Public Service
Debora Calcara, Commission Secretary

PUBLIC ATTENDANCE:

Jon Astroth, Heartland Community College
Charles Boudreau, Illinois State University
Deb Brodzinski, Robert Morris College
Keith Bruch, LSV Asset Management
Dean Graves, Denver Investment Advisors
Kris Herrick, Denver Investment Advisors
Dan Janowiak, Nicholas Applegate
Pat Krolak, Marquette Associates
Lynn Nichelson, Illinois Wesleyan University
Doug Oest, Marquette Associates
Jeff Robinson, US Bank
Scott Sebring, Illinois Wesleyan University
Joseph Starshak, Starshak, Welnhofer & Company
Dave Tretter, FIICU
Jason Wallace, Heartland Community College

Agenda Item 1. Announcements

Chairman Barr called the September 19, 2005 meeting to order at 10:07 a.m. Noting that some members of the Commission were connected via telephone, the Chairman asked that a roll call be taken, which established that a quorum was present.

Chairman Barr recognized Representative Dan Brady of Bloomington, who then took the opportunity to thank the Commission for its work to provide students with the ability to obtain a higher education. Representative Brady noted the importance of student loans in providing access to a college education and pledged his advocacy for those programs. Chairman Barr thanked Representative Brady for his support and for the work he does for the State of Illinois.

Chairman Barr then thanked Illinois Wesleyan University Acting Provost, Dr. Roger Schnaitter, for the institution's hospitality. Dr. Schneider welcomed the Commission to the campus and thanked the Commissioners for the work they do for students throughout the State.

Chairman Barr noted that the next meeting of the Commission is scheduled to be held on Friday, November 18, 2005 at DeVry University in Addison. He indicated that each Commissioner had been provided with a list of proposed meeting dates for 2006. He asked that Commissioners communicate with the Commission Secretary, Ms. Calcara, regarding scheduling conflicts. The Chairman's intent is to act upon and approve a 2006 Commission meeting schedule at the November meeting.

Recognizing that Mr. George Lesica's term expired as Student Commissioner on June 30 of this year and that although his appointment on the Commission was never confirmed by the Senate, Mr. Lesica made valuable contribution to the work of the Commission, Chairman Barr presented the following Resolution:

WHEREAS Mr. George T. Lesica was appointed Student Commissioner for the Illinois Student Assistance Commission by Governor Rod R. Blagojevich as of November 2003, serving through June 2005; and

WHEREAS Mr. Lesica honored his commitment to the Commission while attending Eastern Illinois University and pursuing a degree in political science; and

WHEREAS Mr. Lesica also contributed his time and talents to serving as non-academic affairs subcommittee chair of the Illinois Board of Higher Education Student Advisory Committee, co-chair on the Eastern Illinois University Student Action Team, a member of Pi Alpha Delta pre-Law Chapter, student senator for Eastern Illinois University Student Government, as well as various other extracurricular activities during his tenure at Eastern Illinois University; and

WHEREAS Mr. Lesica consistently and strongly advocated for student aid programs, especially need-based aid, on behalf of the diverse population of Illinois students; therefore

BE IT RESOLVED that the Commission members and staff recognize and honor Mr. George T. Lesica for his service to the families and students of Illinois through his commitment to the Illinois Student Assistance Commission.

Ms. Betts **MOVED THAT** the Resolution be adopted. The motion was seconded and approved by all members of the Commission.

Chairman Barr announced that Executive Director, Larry Matejka, celebrated his 25th service anniversary with the Commission at staff celebrations in both the Springfield and Deerfield offices. He

then thanked and congratulated Mr. Matejka for his work with the Commission and helping the people of the State achieve an education, which they otherwise would not have been able to afford.

Agenda Item 2. Minutes of the June 24, 2005 Meeting

Ms. Louderback **MOVED THAT** the minutes of the June 24, 2005 meeting be approved as submitted. Ms. Winter seconded the motion, which was approved without dissent.

Agenda Item 3. Executive Director's Report

Mr. Matejka took the opportunity to welcome Mr. Neumiller back after his recent surgery. Mr. Neumiller thanked the Commission and staff for the plant and good wishes on his recovery.

Continuing, Mr. Matejka indicated the agency's financials are available in the agenda book, including the FY 2005 appropriation summary report for all the agency programs and the Monetary Award Program (MAP). He stated that shortfalls in the Illinois Veterans Grant (IVG), Dependent Grant and the Student-to-Student Grant programs require proration of some awards. He noted that the IVG and the National Guard Grant programs are entitlement programs, and therefore, the institutions at which qualified recipients are enrolled must waive the portions of tuition not covered by the grants.

He reported that during FY 2006 no State General Revenue Funds (GRF) would be used to fund the administration of agency programs. The funding for all of ISAC's programs, including all scholarship and grant programs, as well as outreach and training programs, will come from two sources: the Student Loan Operating Fund (SLOF) and IDAPP. He indicated that the previous years' GRF administrative funds totaled about \$4.5 million in FY 2005 and \$5.5 million in FY 2004. It is estimated that about \$6 million will be absorbed by the SLOF and IDAPP for FY 2006

Mr. Neumiller then requested the following Resolution be adopted:

WHEREAS Mr. J. Robert Barr was appointed Chairman of the Illinois Student Assistance Commission by Governor James R. Thompson as of July 1, 1985; and

WHEREAS Mr. Barr has since consistently provided extraordinary leadership and guidance to members of the Commission, the Illinois General Assembly, four different gubernatorial administrations, and hundreds of ISAC staff members; and

WHEREAS Mr. Barr has served concurrently as a member of the Illinois Board of Higher Education during his tenure on the Illinois Student Assistance Commission; and

WHEREAS Mr. Barr's strong and effective advocacy for college affordability is recognized by not only the success of the Illinois Student Assistance Commission over the past twenty years but also by the respect and appreciation he has earned from individuals from Illinois colleges and universities, social organizations, and the financial community; and

WHEREAS Mr. Barr's accomplishments as ISAC Chairman, while too numerous to list, are highlighted by the success and national acclaim of the state's Monetary Award Program, by his service as Co-Chair of the 2003 IBHE/ISAC Committee on Affordability, which directed study and analysis on the status of access to higher education in Illinois, and by the thousands of Illinois students who have pursued a college education because of the programs and assistance provided by ISAC; and

WHEREAS Mr. Barr's commitment to public service is not only reflected by his service as Chairman of ISAC but also by his tenure as Illinois State Representative and service to the

Illinois Board of Regents, the Taxpayers' Federation of Illinois, the Evanston Historical Society, the Steppenwolf Theatre Company, and Grinnell College in Grinnell, Iowa, Mr. Barr's undergraduate alma mater; therefore,

BE IT RESOLVED that the Commission members and staff recognize and honor Mr. Barr for his service to the students and families of Illinois through his untiring commitment to the Illinois Student Assistance Commission for the past twenty years, while looking forward to Mr. Barr's continued esteemed service as Chairman of the Commission for many years to come.

Ms. Louderback **MOVED THAT** the Resolution be adopted. It was then seconded and approved by all members of the Commission.

Mr. Matejka presented Chairman Barr with an engraved clock in honor of his 20 years of service as Chairman of the Commission.

Chairman Barr thanked the Commission and staff for the honor to serve as Chairman for the past 20 years.

Agenda Item 4. IDAPP's Quarterly Investment Report

No action was required on this item.

Agenda Item 5. College Illinois! Contract Prices and Fees for 2005-2006 Enrollment Period

Opening the agenda item, Mr. Erford noted that the proposed contract prices for the 2005-2006 year represents an increase in university level contracts by 14.7 percent and 10.0 percent for community college contracts. He stated that contract prices for the 2005-2006 *College Illinois!* enrollment period have been developed using the same approach and philosophy articulated by this Commission in previous years. First, prices are set at a level that will first and foremost ensure that the *College Illinois!* prepaid tuition program remains financially secure. Second, the Commission's directive has been to set prices using realistic assumptions about future college costs and realistic assumptions about the program's future investment performance. Third, contract prices once again include a premium sufficient to eliminate the program's actuarial deficit gradually, over a 10-year period, so as to ensure, as much as possible, equity in the application of price increases year-to-year. This summarizes the proactive approach established by this Commission five years ago to make a consistent annual effort toward enhancing program financial soundness. Contract prices are set at a level designed to make sound economic sense for potential purchasers.

Continuing, Mr. Erford noted that for 2005-2006, the recommended contract prices have been set using the same long-term criteria as last year (specifically, there is no change in the expectation regarding future tuition and fee costs or future long-term investment performance for the program). He indicated that in the short-run, prices once again assume higher-than-usual increases in both tuition and fees for next fall (9% for tuition; 8% for fees), due to state budget concerns that are likely to persist this next year and provide higher education with minimal appropriations support in FY2007, the result being continued upward pressure on college tuition and fees.

Mr. Erford concluded by stating that the *College Illinois!* program is one method by which ISAC endeavors to keep college both accessible and affordable for Illinois families. This program is available to everyone, but it is not for everyone. It is designed partly to help those students who do not qualify for need-based aid, but whose families nonetheless will struggle to pay for college. It is also designed to provide those Illinois families who can more readily afford college with a tax-advantaged way of doing so. And it promotes the ISAC statewide effort toward "early awareness" of future college costs and the need to prepare for those costs in much the same way that families prepare for the purchase of a home. He

stated that the cost of college today is far more expensive than ever before and for many Illinois families it could be the most expensive single purchase they make during their lifetimes.

Responding to Ms. Winter, Mr. Erford acknowledged that staff sought the services of the program's actuary, Rick Kaye and Associates, as well as PricewaterhouseCoopers, when preparing the pricing structure. Mr. Erford referred to Table E in the agenda book, which tracks the program's pricing history from inception and indicated how the program's pricing is structured each year, taking into consideration both the most recent increases in tuition and fees, the most recent investment performance, as well as future expectations for tuition and fees as well as future investment performance.

Mr. Neumiller **MOVED THAT** the Commission approve the schedule of *College Illinois!* contract prices specified for the 2005-2006 enrollment period in Table A, as well as the schedule of *College Illinois!* fees and charges for the program set forth in Table B.

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

Agenda Item 6. Selection of *College Illinois!* Investment Managers

Mr. Erford stated that an investment managers selection team, which was comprised of four ISAC staff as well as Ms. Louderback and Investment Advisory Panel member Mike Mann, is recommending Nicholas Applegate and Denver Investment Advisors as the program's small capitalization core equity investment manager to replace Wasatch Advisors and LSV Asset Managers as the International Equity Manager replacing Jarislowsky Fraser.

Mr. Erford noted that both Nicholas Applegate and LSV currently manage other funds for the program, which is why the selection team is recommending that these two investment teams receive a slightly larger share of the small capitalization growth funds than Denver Investment Advisors. Additionally, the selection team felt that LSV Asset Managers should be the sole international equity manager for the program.

Chairman Barr referred to Ms. Louderback for input regarding her involvement in the selection team. Ms. Louderback indicated that the process was done very professionally, and she is very comfortable with the recommended selection.

Chairman Barr then introduced representatives of each investment team being recommended.

Mr. Keith Bruch with LSV Asset Management, Mr. Dan Janowiak with Nicholas Applegate and Mr. Kris Herrick with Denver Investment Advisors took the opportunity to introduce themselves to the Commission and give a brief statement regarding their investment philosophy.

Ms. Louderback **MOVED THAT** the Commission approve the following resolution:

“BE IT RESOLVED that the Commission authorizes the Executive Director to negotiate and enter into contractual agreements for the *College Illinois!* program with: LSV Asset Management to serve as the investment manager for the international equity portfolio and Nicholas Applegate and Denver Investment Advisors to serve as investment managers for the small capitalization core equity portfolio.”

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

Agenda Item 7. College Illinois! Participation In Securities Lending

Mr. Erford introduced the agenda item by indicating that the securities lending concept has been evaluated by the *College Illinois!* investment advisory panel for more than a year. He reminded the Commission that an introductory agenda item on securities lending was discussed at the June Commission meeting. He indicated that participation in indemnified securities lending would generate revenue for the program with very low risk and that the revenue would help to defray annual custodial costs and perhaps a portion of the investment management expense in future years.

Mr. Erford, as well as most of the investment advisory panel members, recommend that the Commission authorize *College Illinois!* to participate in US Bank securities lending. He noted that US Bank is currently the custodian for most of the programs funds, which is the primary reason US Bank was selected. *College Illinois!* staff has been advised to use the fund custodian for securities lending, since it eliminates the use of another party should a security need to be returned quickly. He indicated that the program would receive an estimated \$115,000 during the first year of participation in securities lending based on the current size of the program's portfolio.

Responding to Mr. Neumiller, Mr. Erford stated that Mr. John Albin was the member of the investment advisory panel who had reservations about endorsing the securities lending program. Mr. Albin reasoned that the amount of money involved from securities lending participation was not significant enough to outweigh the risks involved. Mr. Albin also suggested that securities lending was a complicated concept and, if necessary, it would be difficult to explain why the agency was participating in the program. Mr. Erford then stated that a number of other members of the panel were quite comfortable with the process which is why it is being recommended to the Commission.

Responding to Mr. Albin's concerns, Mr. Erford explained that should there be a problem with securities lending with US Bank, *College Illinois!* could withdraw from the program very quickly, even as quickly as two weeks. He also indicated that the program had experience in answering complex questions.

Responding to Chairman Barr, Mr. Erford stated that the recommendation before the Commission is an indemnified program, which means that the program is fully protected from any broker default. Since this is an indemnified program, should there be a problem with a broker or recovering securities, US Bank will provide *College Illinois!* with the same amount of security; there is no risk for the program securities. He indicated where the risk lies is in the investment of the money market funds, or the collateral that the program receives for lending out its security, which under this proposal is 102 percent of the value of the security. He noted that US Bank has a very conservative investment approach and the Bank itself is very highly rated. *College Illinois!* would keep 65 percent and US Bank would retain 35 percent of the net earnings from securities lending.

Mr. Erford stated that the panel did investigate using another organization other than the custodian, but it was highly recommended that the program use US Bank, the program's custodial bank. This would eliminate involvement of another party should a security ever need to be recovered. He informed the Commission that US Bank is also used by the State Treasurer as the custodian for the State of Illinois and has been for some years.

Chairman Barr then introduced Mr. Jeff Robinson with US Bank. Mr. Robinson stated that there comes a point in an investment fund's life cycle during which securities lending becomes an opportunity. This service is usually only available to programs that have a sufficiently large pool of money and as moneys grow larger, securities lending becomes more significant.

Continuing, Mr. Robinson stated that there are two types of risks inherent in securities lending, the first being borrower solvency, for which case US Bank has a contractual agreement to make their clients whole should that happen. The second is investing assets in money market funds. Mr. Robinson

said that US Bank has a very strict and conservative investment policy. He emphasized that money market accounts are very low risk.

Responding to Mr. Neumiller, Mr. Robinson stated that US Bank began the program in 1990 and that the program is managed by a US Bank officer with 30 years experience. Currently, US Bank has 99 clients and over 1,000 custody clients participating in securities lending. He stated that a vast majority of their clients are not large enough to participate in this type of endeavor. He also noted that none of their clients has ever lost funds in securities lending.

Mr. Robinson then explained to the Commission the process of securities lending. He also mentioned a few of the clients that US Bank serves.

Mr. Krolak of Marquette Associates responded to Mr. Neumiller's inquiry by stating that Marquette Associates recommended that *College Illinois!* participate in securities lending because it is natural and automatic to consider with this size of program.

Ms. Winter expressed her concern about the revenues from securities lending remaining with the *College Illinois!* program and not being included in the agency's General Revenue Fund or some other part of state government. Mr. Erford reassured the Commission that the revenue is part of the Prepaid Tuition Trust Fund, which is within the state treasury and by state law cannot be combined with other state funds and cannot be commingled. No party can utilize these funds other than the program itself. Federal law prohibits the program from lending out its monies for any purpose other than specified for the program, such as administrative expenses and payments of benefits.

Mr. Neumiller stated that he has much respect for Mr. Albin and his opinion. He also stated that the people of the State of Illinois entrust *College Illinois!* with their money to invest in their children's future education. He personally did not feel it was worth the risk involved in order to gain more revenue. He felt it is something the Commission should consider venturing into at a later date.

Chairman Barr echoed Mr. Neumiller's respect for Mr. Albin and appreciated Mr. Neumiller's remarks. He then asked members of the Commission if they felt this agenda item should be postponed until another meeting or acted upon at this meeting.

Ms. Louderback suggested that the item be postponed. Ms. Winter agreed that the item should be postponed in order to explore the item in more depth in the future.

Chairman Barr then requested that the item be removed from the agenda. He requested that Mr. Erford meet with members of the Commission individually to answer any questions or concerns they have regarding securities lending.

Agenda Item 8. *College Illinois!* Investment Performance Report

Mr. Erford opened this item by noting that the program's investment return was 9% during FY 2005 through June 30th compared to the 7.75% target. At the end of August 2005, the program has \$671 million invested.

Chairman Barr congratulated staff and the various advisors on the outstanding results of the program this past year.

Mr. Pat Krolak of Marquette Associates briefly discussed the investment managers' performance.

Agenda Item 9. FY 2006 Monetary Award Program Status Report
Approval of MAP and IIA Payment Claim Deadline Dates

Mr. Matejka stated that this is a standard item brought before the Commission at this time of year, requesting approval of the priority payment claim deadline dates for MAP and IIA.

Ms. Louderback **MOVED THAT** the Commission approve the proposed FY 2006 priority payment claim deadline dates for MAP and IIA as shown below:

<u>Term</u>	<u>Deadline</u>
1 st semester or quarter	January 13, 2006
2 nd semester or quarter	April 7, 2006
2 nd semester starting after 2/15/06	June 9, 2006
3 rd quarter	June 9, 2006

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

Ms. Louderback then requested that Dr. John Astroth, President of Heartland Community College, be acknowledged. Chairman Barr welcomed Mr. Astroth to the meeting.

Ms. Betts expressed her appreciation to ISAC staff for their appearance at the Black Expo recently held in Springfield.

Chairman Barr then stated that the Commission would be going into Executive Session to discuss the employment and compensation of the Executive Director. He stated that immediately following the Executive Session, the Commission would reconvene the formal meeting to take necessary action on the results of the Executive Session.

Ms. Winter **MOVED THAT** the Commission go into Executive Session to discuss the employment and compensation of the Executive Director. Ms. Betts seconded the motion. A roll call vote was taken, with all members present voting affirmatively to move into closed session. This included Ms. Betts, Mr. Casey, Ms. Louderback, Mr. Neumiller, Ms. Winter, and Chairman Barr. The motion was approved unanimously.

The Executive Session began at 11:40 a.m. The Commission resumed its regular business at 12:15 p.m. Chairman Barr requested a motion that the Illinois Student Assistance Commission employ Larry Matejka as Executive Director for the fiscal year beginning July 1, 2005 and ending June 30, 2006 at a salary of \$206,000. Mr. Neumiller **SO MOVED**, Ms. Louderback seconded the motion, and the motion was approved unanimously.

Ms. Louderback **MOVED THAT** the September 19, 2005 meeting be adjourned. Mr. Neumiller seconded the motion, which was approved unanimously. The meeting adjourned at 12:17 p.m.

Respectfully submitted,



Debora Calcara
Secretary to the Commission