

AGENDA ITEM 2.

**APPROVAL OF MINUTES OF THE
NOVEMBER 15, 2017 MEETING**

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

Michael A. Bilandic Building
160 N. LaSalle, Room N-502
Chicago, Illinois

November 15, 2017

1:00 p.m.

COMMISSIONERS PRESENT: Miguel del Valle, Vice Chair, Audit Committee Member
Mark Donovan, Investment Committee Member
James Hibbert
Kevin Huber, Chair, Investment Committee Member
Claudia Quezada, Audit Committee Member
Kim Savage, Audit Committee Member
Dr. Patrick M. Twomey

COMMISSIONERS ABSENT: Niketa Brar, Investment Committee Member

STAFF PRESENT: Eric Zarnikow, Executive Director
Lynne Baker, Managing Director, Communications
Ramnath Cidambi, Chief Information Office
Carol Cook, Director, Program Services and Compliance
Kent Custer, Chief Investment Officer
Kishor Desai, Chief Internal Auditor
Katharine Gricevich, Director, Government Relations
Sandra Houston, Director, College Illinois!
Susan Kleemann, Managing Director, RPPA
Marissa Lowe, Assistant Director, Budgeting and Financial Analysis
Roger Rojas, Investment Officer
Karen Salas, General Counsel
Michael Wilder, Telecom and Network Engineer
Debora Calcara, Commission Secretary

PUBLIC ATTENDANCE: Brianne Weymouth, Callan Associates

Item 1. Announcements

Chair Huber brought the November 15, 2017 meeting of the Commission to order at 1:07 p.m. He then welcomed two new members to the Commission, Mr. James Hibbert, who is currently a member of the Investment Advisory Panel and Dr. Patrick M. Twomey. He asked them to share a little about themselves with the Commission.

Chair Huber asked that a roll be taken of the Commission, which established a quorum was present.

Item 1A. Approval of 2018 Meeting Dates and Locations

Dr. Twomey **MOVED THAT** the tentative 2018 meeting dates and locations for the Commission be approved. Mr. Hibbert seconded the motion, which was approved unanimously.

The 2018 tentative meeting dates and locations are as follows:

- Thursday, April 5, 2018, Chicago
- Thursday, June 14, 2018, Chicago
- Thursday, September 13, 2018, Chicago
- Thursday, December 6, 2018, Chicago

Item 2A. Approval of the Minutes of the July 27, 2017 Meeting

Ms. Savage **MOVED THAT** the Commission approve the minutes of the July 27, 2017 meeting of the Commission. Ms. Quezada seconded the motion, which was approved unanimously.

Item 2B. Approval of the Minutes of the September 13, 2017 Meeting

Ms. Savage **MOVED THAT** the Commission approve the minutes of the September 13, 2017 meeting of the Commission. Ms. Quezada seconded the motion, which was approved unanimously.

Item 3. Executive Director's Report

Mr. Zarnikow provided a brief update on the financials provided in the agenda book. Mr. Zarnikow informed the Commission he has been appointed as a College Board Trustee, having been a member of their Audit Committee, he is now Chair of the Audit Committee and a member of their Executive Committee and Finance Committee.

Mr. Zarnikow took the opportunity to announce the upcoming retirement of Commission Secretary, Debora Calcara effective at the end of 2017; however she will continue working as Commission Secretary on contract. He introduced Ms. Natalie Wandall who will take over the duties as Assistant to the Executive Director.

Item 4. Approval of Proposed College Illinois!® Prepaid Tuition Program Rules Amendments

Ms. Salas stated that as a result of the Illinois Procurement Code having been amended to exclude purchases of goods and services using the private funds of the Prepaid Tuition Trust, proposed program rules amendments are being brought to the Commission for approval. She noted previously emergency rules were approved by the Commission in the event the procurement of investment services became

necessary, to avoid noncompliance with the Rules, those emergency rules expire 150 days after the September 22, 2017 filing date.

Dr. Twomey **MOVED THAT** the Commission approve the following resolution:

“**BE IT RESOLVED** that the Commission accepts the proposed program rules amendments cited in this agenda item for submission and consideration by the Joint Committee on Administrative Rules (JCAR); and, barring any material modification, or objection by JCAR, the Commission authorizes the Executive Director to proceed with adopting the program rules as amended.”

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

Item 5. Legislative Update

Ms. Gricevich provided a brief overview of the update provided in the agenda book.

Item 6. FY 2019 Monetary Award Program (MAP) Start-up Formula

Ms. Kleemann provided an overview of the FY 2019 MAP start-up formula being brought to the Commission for approval.

Ms. Savage **SO MOVED** that the Commission approve the formula summarized in Table Four as the FY 2019 MAP start-up formula. This formula is consistent with the formula for FY 18 and reduces awards by two percent, for a \$4,869 effective maximum MAP award.

Dr. Twomey seconded the motion, which was approved unanimously.

Item 7. FY 2019 Appropriated Funds Budget

Mr. Zarnikow provided background on the budget approval process and noted the request includes a \$100 million increase for MAP, which is supported by the Illinois Board of Higher Education.

Responding to Mr. del Valle’s concern regarding the line item increases for both the Nurses Education Loan Repayment Program and the Veterans’ Home Medical Providers’ Loan Repayment Act yet no increase to the Minority Teachers Scholarships, Mr. Zarnikow stated the request is based on recent demand that we have seen for the program,

Mr. del Valle expressed his concern that the 2017 appropriation for the Minority Teachers Scholarship was \$2.5 million and for 2018 lowered to \$1.9 million, which is basically saying we agree that we will only spend the \$1.9 million rather than asking for an increase to expand and market the program.

Mr. Zarnikow asked if he is suggesting the request for 2019 for the Minority Teachers Scholarship be increased even though staff feels the \$1.9 million will likely meet the demand. Dr. Twomey agreed with Mr. del Valle that there is a shortage of teachers across the board and stated that with the new legislative rules put in place it is getting harder to fill the positions.

After discussion it was agreed to revise the request to reflect \$2.5 million for the Minority Teachers Scholarship.

Mr. Donovan **MOVED THAT** the Commission approve an FY 2019 budget request as detailed in Table 1 of the agenda book with the Minority Teachers Scholarship increasing from \$1,900,000 to \$2,500,000.

Dr. Twomey seconded the motion, which was approved unanimously.

Item 8. Increase to Contract Expenditures in Excess of \$250,000

Mr. Zarnikow stated that the Commission approved the fiscal year 2018 budget at its July 2017 meeting, which included a contract with a vendor named, IO Datasphere, Inc. in the amount of \$1,080,000. He noted that as a result of a project the Commission is undertaking with the Illinois Department of Commerce and Economic Opportunity (DCEO), it is estimated the contract with IO Datasphere, Inc. will increase \$420,000 for additional IT consulting resources, bringing the estimated contract value to \$1,500,000. It was also noted that DCEO is paying for the work that is being done that requires an increase in the contractual amount.

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

“**BE IT RESOLVED** that the Commission approve to increase the expenditures for the IO Datasphere, Inc. contract for FY18 to \$1,500,000.

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

Item 9. College Illinois! Prepaid Tuition Program Investments

Item 9A. Investment Update

Mr. Custer provided a brief overview of the information provided in the agenda book including the portfolio risk profile, portfolio review, as well as status updates.

Item 9B. Approval of Asset Allocation and Investment Policy Revisions

Mr. Custer stated the Commission is required by the Prepaid Tuition Act to review and adopt the investment policy annually and referenced the summary changes to the policy provided in the agenda book.

He reviewed proposed changes to the asset allocation, noting a modest reduction in expected return and risk, related to the pause in enrollment.

Mr. Custer noted that the recommended change to Section III.B was modified by the Investment Committee to add a requirement to meet at least twice annually.

He then referenced Section III.D.17 adding a “safety valve” to allow action to protect fund assets in the event the Commission is unable to meet. He stated the Investment Committee provided feedback to the language at their meeting held prior to the full Commission today and therefore, he is recommending pulling that section language change from the policy in order to allow time for staff to consider how best to implement the suggestions from the Committee.

Mr. Hibbert **MOVED THAT** the Commission adopt the Investment Policy as submitted in the agenda book, including the recommended changes to Section III.B and excluding the addition of Section III.D.17.

Dr. Twomey seconded the motion, which was approved unanimously.

Item 9C. Actuarial Soundness Valuation Report

Mr. Custer stated the June 30, 2017 Actuarial Soundness Valuation Report was completed by the actuary. Following steady improvement since 2012, the unfunded liability increased this past year. He reviewed the key drivers, noting that the actual experience related to investments, tuition inflation, and demographics were positive. However, he stated that with the deferment of the 2017-2018 enrollment period a new methodology for discounting future liabilities was required to appropriately reflect the status of the Program, which caused the unfunded liability to increase. Without the change in the methodology, the unfunded liability would have decreased for FY17.

Item 9D. College Illinois! Prepaid Tuition Program Update

Mr. Custer stated that the Program has been a staff priority for several years. He noted that in 2013 a major restructuring, including a reduction in prices, resulted in an increase in sales, however, with the State of Illinois' budget stalemate the program sold less than 500 contracts during the past two enrollment periods. He noted that for the program to be sustainable there should be about 1500 contracts sold annually.

He then reviewed the strategic analysis and actions of the past several months, noting the emphasis on communication with policy makers to make sure they are aware of the unfunded liability, the state's moral obligation, and alternative courses of action. He commented briefly on the legislative hearing in August and then invited the Director of Government Relations, Katharine Gricevich, to review legislative outreach related to the program.

Ms. Gricevich reviewed legislative discussions related to the Program and the plan for the next few months.

Mr. Custer reiterated that the goal as fiduciary of the program is to protect Program beneficiaries.

Responding to Mr. del Valle, Mr. Zarnikow stated that they will continue to have dialog about the Program. The number one priority is to protect the current contract holders. Staff believes that improving the state backing of the program and keeping the program open will increase confidence in the program. This would also protect current beneficiaries, and will reduce the likelihood of the program needing state support in the future.

Mr. Donovan noted that policy makers will be interested in the cost of remaining closed and he expressed concern that the Universities will be reluctant to accept a lower payment on College Illinois! contracts. Mr. Zarnikow agreed with this concern and stated they have had discussion with schools and they are not supportive of taking less tuition for contract holders. He also stated that staff is working with the actuaries to refine the long-term cost estimates of remaining closed.

Item 10. Audit Committee Update

Ms. Savage provided an overview of the agenda for the Audit Committee which will be held after the Commission meeting today.

Item 11. Public Comments

Chair Huber asked if anyone from the public wished to address the Commission. There were no comments from the public.

Item 12. Closed Session

Chair Huber stated that Commissioners have provided him input on the performance evaluation of Mr. Zarnikow and unless Commissioners feel the need, they will not go into closed session. Seeing no comments, the Commission did not go into closed session.

Item 13. Approval of Closed Session Action Items

Chair Huber stated that there have been significant challenges this past year and feels that Mr. Zarnikow has handled those challenges very well. Commissioners would like to see continued regular communications. However, overall they are very pleased with his work for the Commission. Chair Huber proposed a motion to increase the Mr. Zarnikow's compensation by 2.5 percent retroactive to June 1, 2017, which he stated is in line with what all the ISAC employees received.

Mr. Hibbert **SO MOVED**, and Mr. Donovan seconded the motion, which was approved unanimously.

Mr. Donovan **MOVED THAT** that the November 15, 2017 meeting be adjourned, Mr. Hibbert seconded the motion, which was approved unanimously. The meeting adjourned at 2:37 p.m.

Respectfully submitted,



Debora A. Calcara
Secretary to the Commission