MINUTES OF A MEETING OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION
September 20, 2002
Concordia University
River Forest, Illinois

COMMISSIONERS PRESENT:	J. Robert Barr, Chairman Pauline Betts Claudia M. Freed Odell Hicks, Jr. William J. Hocter Christopher Kurczaba C. Richard Neumiller Kevin O'Kelly Hugh Van Voorst Gretchen Winter
STAFF PRESENT:	Larry E. Matejka, Executive Director Marcia Thompson, Chief Financial Officer John Jennetten, Chief Program Officer Gary Rieman, IDAPP Peter Xilas, IDAPP Tom Sakos, IDAPP Tom Breyer, Deputy Program Officer Randy Erford, *College Illinois!* Nancy Stephens, *College Illinois!* Theresa Morgan, Deputy Chief Financial Officer Scott Taylor, Budget and Finance Lori Reimers, State Relations Sheila Pruden, RPPA Rhonda Jachino, RPPA Kris Smith, RPPA Mark Holysz, Client Relations Sam Nelson, Client Relations Debora Calcara, Commission Secretary
PUBLIC ATTENDANCE:	Fred Ash, Bank One Michele Brutti, Jarislowsky Fraser Ltd Howard Florine, Dominican University Grace Gorka, Bank One Karen LeVeque, Robert Morris College William Reimert, Milliman USA Jo Ann Stoddard, Richmond Capital Managment Sandy Street, University of Illinois Hilda Thompson, Watson Wyatt Mark Walker, Richmond Capital Management Larry White, Chapman and Cutler

Agenda Item 1. Announcements

The Chairman called the September 20, 2002 meeting of the Illinois Student Assistance Commission to order at 9:03 a.m. He thanked the staff of Concordia University for hosting the meeting, and introduced Provost Fred Boos, who welcomed the Commission. It was announced that the next meeting of the Commission would be held on Friday, November 8, at Loyola University, in downtown Chicago.

Chairman Barr indicated that each Commissioner had been provided with a list of proposed meeting dates for 2003, and noted that for each meeting, an alternative date was provided as well. It was suggested that Commissioners communicate with the Commission Secretary, Ms. Calcara, regarding scheduling conflicts. The intent was to act upon and approve a 2003 Commission meeting schedule at the November Commission meeting.

It was also noted by the Chairman that the Illinois Board of Higher Education (IBHE) has voted to establish a committee to discuss and explore issues related to the affordability of postsecondary education in Illinois. This committee will be chaired jointly by ISAC Chairman J. Robert Barr, and Robert English of the IBHE. Commissioners Freed, Hicks, Neumiller and O'Kelly have agreed to serve on the committee, which will include an equal number of representatives from IBHE. The first meeting of this Affordability Committee will be held on Wednesday, October 2.

Agenda Item 2. Minutes of the July 29, 2002 Meeting

Mr. Hocter **MOVED THAT** the minutes of the July 29, 2002 Commission meeting be approved as submitted by staff. Mr. Neumiller seconded the motion, which was approved unanimously.

Agenda Item 3. Executive Director's Report

Mr. Matejka opened his remarks by indicating that the written report he provided in the agenda book included a summary of the final outcome of bills that were approved by the General Assembly during the spring legislative session, and subsequently sent to the Governor. He also commented briefly on how successful the Commission's booth had been this year at the State Fair.

Continuing, Mr. Matejka explained that as authorized at the June 2002 meeting, the announcement of 2002-2003 MAP applications had been suspended. Announcements would also be suspended for the Illinois Incentive for Access (IIA) program on or after October 8, 2002, when it appeared that all available funds have been committed. With regard to other business, he indicated that the 2002 Fall Seminars for High School Counselors and Financial Aid Administrators would be hosted by staff in the next few months. A schedule of these events, and the sites at which they would be conducted, was provided to Commissioners, who were encouraged to attend the sessions. Mr. Matejka also commented briefly on the financial statements provided in the agenda book.

In response to a question raised by Ms. Winter, there was a brief exchange regarding the fact that state lawmakers had taken action this past spring to eliminate both the statutory authority and funding for the Arthur F. Quern Information Technology Grant Program. It was suggested that beyond budgetary considerations, very little substantive rationale was provided regarding why the program was eliminated.

Agenda Item 4. IDAPP Demand Student Loan Revenue Notes/Liquidity Facilities

No action was required on this item.

Agenda Item 5. IDAPP Replacement of Remarketing Agent

The Chairman introduced this item, explaining that staff's requested action involved the replacement of IDAPP's current remarketing agent with two different remarketing agents. The existing remarketing agent, Bear Stearns & Co., has submitted its resignation, which will take effect November 1, 2002. It was noted that during the last or most recent Request for Proposals (RFP) bid process in which staff evaluated potential underwriters, each bidder was invited to provide information on their ability to serve as a remarketing agent as well. Each of the underwriters approved by the Commission has a demonstrated capacity to perform this related service. From a cost perspective, the two firms that offered the most competitive pricing were RBC Dain Rauscher and First Southwest Company. Staff is recommending that these two firms be appointed as the new remarketing agents.

Mr. Hocter **MOVED THAT** the Commission approve the resolution as it appears on pages 5-2 through 5-4 of the September 20, 2002 agenda book. Ms. Freed seconded the motion.

In response to a point made by Ms. Winter, there was a brief discussion aimed at clarifying that the Commission was taking action to approve the resolution presented on pages 5-2 through 5-4. It was suggested that the language included in the resolution on page 5 didn't make this clear. The Chairman confirmed that the action being requested of the Commission was the approval of the multi-page resolution beginning on page 5-2.

At the request of Ms. Winter, there was a brief discussion regarding the background and relevant experience of the two recommended firms. Mr. Rieman noted that each of the firms has been active in the student loan program for years and has worked with numerous financial aid organizations throughout the country. He also emphasized that in both cases, the strength of the bid had as much - if not more - to do with the expertise of the staff with which the Commission would be working as it did with the firm itself.

The motion to approve the resolution was approved unanimously.

Agenda Item 6. IDAPP Update On Future Financings

It was noted by the Chairman that this item was being presented for information purposes only. Staff anticipates requesting Commission action on only one additional financing this calendar year.

Agenda Item 7. FY2004 Appropriated Funds Budget Request

The Chairman introduced this item, commenting briefly on the environmental conditions that might impact the outcome of the FY2004 budget process. Among the most significant factors he cited were continued state budget problems, a new administration in the Governor's Office, and changes in the membership of the Illinois General Assembly following the election. It was noted that ISAC and all other agencies would enter the upcoming budget process amidst a much higher than usual level of uncertainty. That said, he continued, the Commission has a responsibility to develop and submit a budget request that accurately reflects the funding levels needed to fulfill the statutory mandates it has been assigned. At this point, there was a brief review of the various stages of the budget process.

Following this introduction, Mr. Matejka too acknowledged the severity of the State's economic problems, and the degree to which these problems would drive the overall state budget process this year, just as they had last spring. He commented as well on how the State's fiscal constraints would ultimately impact the students and families served by the Commission, in terms of rising tuition costs and reduced access to financial aid. He emphasized the degree to which affordability represented the central and most overriding concern of staff's when developing this request. The priorities underlying the FY2004 budget

request included, in order of importance, the following: (1) need-based aid, to promote affordability and access; (2) the improvement of the student financial aid delivery system; and (3) cost allocation, in order to ensure that administrative costs were charged to and paid from the appropriate funding source.

In the discussion that ensued, Mr. Matejka spoke to the various components of the FY2004 budget request, focusing primarily on the $434.1 million requested for need-based grants, which includes $425.8 million for the Monetary Award Program. The request for MAP represents an increase of 27 percent, or $92.6 million relative to the current year level of funding. He emphasized, however, that due to the deep cuts made to the program this year, a substantial portion of that increase actually represented little more than an attempt to recover funds lost in the budget cutting process this past spring. In the remarks that followed, he highlighted the priorities that drove the MAP request developed by staff. These include restoring the losses sustained in the area of affordability in FY2003, keeping pace with actual tuition and fee charges, and reinstating fifth year eligibility for at least certain categories of students. Among the comments and questions that followed, there was considerable attention given to political strategy and the need to work with institutions to secure the increased MAP dollars that students need in this time of budget cuts and double-digit tuition increases.

Mr. O'Kelly spoke in favor of the bold goals of the budget request and the priority assigned to need-based aid. He suggested that in an election year in which virtually all candidates were professing the importance of education, perhaps it was time to test their sincerity.

In response to a point made by Mr. Hicks, there was some discussion regarding whether or not the Commission's approval of this request would obligate it to sticking with the priorities set forth by staff. Mr. Matejka explained that during the remaining phases of the budget process, those priorities would be re-examined and undoubtedly modified, as they are not necessarily the priorities that the IBHE, the Governor or state lawmakers would like to pursue. It was noted that the Commission would be considering priorities and allocation issues at start-up and recompute as well, and that at each such phase, the discussion and action taken would reflect what was going on in terms of the budget process and what mandates or guidance were being given to the Commission by state lawmakers.

In response to some of the concerns that were raised, the Chairman noted that as seriously as the Commission should take the action being requested today, it did represent only the initial phase of the budget process. The Commission has a responsibility to submit a request that includes the funding levels needed to permit it to fulfill its statutory mandates, and the priorities articulated essentially presuppose approval of the funding levels requested. Throughout the course of the budget process, reality intrudes and priorities are reassessed, particularly in light of the fact that it is very unlikely that the request submitted by the agency will be approved in its entirety. He suggested that it might be better if the Commission didn't articulate such specific priorities. A more generalized and less prescriptive approach might make more sense. As an example, he cited the importance of emphasizing that the Commission prioritized need-based aid over merit-based assistance programs.

Mr. Hicks observed that while he could appreciate the importance of submitting a MAP request that demonstrated what considerations influenced the increase from current year funding to the FY2004 request, he was not comfortable with taking action that might lock the Commission into certain priorities that they might wish to re-examine and modify later. He suggested that it make more sense to alter the wording of the resolution to remove the word "priorities" and replace it with budgetary elements or some other such term.

After some discussion, agreement was reached to strike the word "funding priority" altogether from Table 3, p. 7-7 (and the preceding paragraph), and to retain the reference to "staff recommendations." A similar modification needed to be made to the paragraph that preceded the table. It

was emphasized that while the Commission supported the request developed by staff, and efforts to secure funding for each of the items set forth in Table 3, they also wished to retain their ability to re-examine the priority order of those items during the latter phases of the budget process.

Mr. Hocter agreed that it might be advisable for the Commission to preserve its ability to revisit priorities later on, based on what guidance the agency received from state lawmakers in the spring. He and other Commissioners expressed confidence in Mr. Matejka's ability to represent and negotiate on behalf of the Commission during the FY2004 budget process.

The Chairman noted that while he could appreciate the concerns being raised, it might be advisable for the Commission to include language indicating that its top priority was need-based aid.

Ms. Winter commended the staff on the thorough and responsible job they had done in developing the budget request. She also pointed out that the request was in no way overly ambitious, and that the comparatively modest approach taken by staff was appropriate in this environment. In noting her support for striking the reference to priorities, she indicated that she felt staff would be better served by having increased flexibility in the negotiating process. Finally, she referenced the Chairman's comment regarding the importance of need-based aid relative to merit aid, and suggested that the Commission might wish to indicate how strongly it felt about this by simply not requesting any funding for the MRS program.

The Chairman indicated that he had asked Commissioners Hocter and Hicks to work on a revised resolution that reflected the Commission's aversion at this point to embracing specific priorities with regard to the use of new MAP dollars. He suggested that in crafting the resolution, it might be advisable for them to include language emphasizing the Commission's commitment to need-based aid. He also acknowledged that certain Commissioners might wish to make motions to modify the resolution to reflect other issues, such as whether or not to pursue any funding for the MRS program.

Mr. Hocter **MOVED THAT** the Commission adopted the FY2004 appropriated funds budget request as set forth in Table 1, page 7-3, of the item. Mr. Neumiller seconded the motion.

At this point, Ms. Toni Henle of Women Employed made some brief remarks, the focus of which was not only the importance of keeping the announcement process open as long as possible, but also the need to protect students with zero or very low Expected Family Contributions. She acknowledged that the issues and concerns she was raising would probably become more pertinent in the later stages of the budget process, when decisions were being made regarding how limited funds should be utilized. Finally, she advised the Commission that Women Employed had placed a survey on its Web site, aimed at getting more specific information regarding the impact of this year's huge reduction in MAP funding. Students are being encouraged to tell their stories, if they lost their MAP award due to the elimination of "fifth-year" eligibility, if they were unable to qualify for an award due to the early suspension of announcements, or if they simply suffered an award reduction due to the 5 percent cut.

Ms. Freed raised the possibility of modifying the request to reduce the funding for the MRS program by 50 percent and restore funding for the Quern Information Technology Grant program. It was noted that in addition to requesting funding for the Quern program, staff would also have to be instructed to pursue substantive legislation aimed at re-creating the program.

With regard to the proposed elimination of the MRS program, Mr. Neumiller noted that while he too felt that need-based aid should be the priority, he would be reluctant to act rashly and simply eliminate a program, without having any research or information regarding the impacted students. In response, Ms. Winter indicated that she could appreciate his concerns, and was by no means suggesting

that the statutory authority for the program be permanently eliminated. Rather, she felt that it was at least worth discussing whether or not it might be appropriate this year to simply not request any MRS funding for the upcoming academic year, with the intent of maximizing the funds that might be allocated for need-based aid.

Ms. Freed referenced that portion of the request that dealt with administration and outreach. Mr. Matejka explained that the bulk of the increase sought here was basically for system delivery improvements. In response to a follow-up question from Ms. Freed, he noted that the increased funding sought in this area was not intended for the proposed implementation of the Illinois Mentor system.

The motion to approve Table 1 as shown on page 7-3 of the agenda book was approved unanimously. Following this action, Ms. Winter suggested that in developing next year's request, staff bear in mind the conversation that occurred at this meeting regarding merit-based aid.

There was a brief recess or break called, after which the Commission resumed its discussion of the items included on the agenda. The Chairman recognized Mr. Hocter.

Mr. Hocter **MOVED THAT** the Commission adopt the following resolution:

> **"BE IT RESOLVED** that the sense of the Commission, subsequent to the adoption of the fiscal 2004 budget request, is that the need-based support programs have the highest priority when it comes to the allocation of funds provided by the General Assembly."

Mr. Hicks seconded the motion. There was a brief discussion of the use of the word "sense" and what it conveyed. It was noted that it was intended to convey in no uncertain terms that the statement made reflected the strongly held opinion or sentiment of the Commission.

Mr. Neumiller indicated that he would not be supporting the resolution, absent a more detailed analysis of the population(s) served by non-need-based programs like MRS. When the motion was acted upon, all members of the Commission excluding Mr. Neumiller voted in favor of it. The motion was approved.

Agenda Item 8. Institutional Application To Participate in ISAC Gift Assistance Programs

The Chairman deferred to Tom Breyer of staff, whose responsibilities as Deputy Program Officer included Compliance and the evaluation of institutions seeking approval to participate in ISAC programs. Mr. Breyer confirmed that Argosy University had demonstrated that it met all of the requirements to participate in the agency's gift assistance programs. These requirements are set forth in state law. He also pointed out that Argosy was previously known as the Illinois Schools of Professional Psychology. The institution has been in operation since 1976, and has utilized ISAC's services in the student loan area. He emphasized that the institution has a solid reputation and boasts a very low default rate.

It was noted that Jim Otten, the President of the University, and Sharon Sweeney, the Vice President for Student Finance, were present to respond to any questions. Mr. Otten made some brief remarks before the Commission.

Mr. Neumiller **MOVED THAT** the resolution presented on page 8 of the agenda book be approved by the Commission. Ms. Betts seconded the motion, and the following resolution was approved unanimously:

"BE IT RESOLVED that the Commission approves the application of Argosy University to participate, on a provisional basis, in ISAC-administered gift assistance programs for which it is eligible, effective for the fall term of the 2002-2003 academic year, with payment of awards to be subject to available funding."

In response to a question from Ms. Freed, it was confirmed that following initial approval, institutions approved to participate in ISAC gift assistance program were given only provisional approval for the first five years.

The motion to approve the resolution presented on page 8 of the agenda book was approved unanimously.

Agenda Item 9. Selection of Investment Managers for *College Illinois*!

Chairman Barr introduced Ms. Nancy Stephens, who prefaced her remarks by thanking Commissioners Freed and Hocter for the assistance they had provided in serving on the committee to select new investment managers.

Continuing, Ms. Stephens explained that the success of the program has resulted in an asset base that makes it necessary to appoint two additional money managers, as provided for in the guidelines set forth in the program's investment policy. These new managers would include an intermediate fixed income manager and an international equity manager. She explained that Requests for Proposals were issued in late May of this year in connection with this search, and added that as has previously been the case, all bids submitted in response were evaluated by Watson Wyatt. She briefly reviewed the various stages of the selection process that ultimately culminated in the recommendation presented to the Commission today. She noted that representatives from both recommended firms, Richmond Capital (to serve as the intermediate fixed income manager) and Jarislowsky Fraser (to serve as the international equity manager), were on hand to respond to any questions the Commission might have.

At the request of the Chairman, Ms. Freed commented on the selection process, emphasizing how objective and fair she felt it was. She commended staff on the quality of the work they had done, and acknowledged the seriousness with which they had discharged their duties and conducted this search. She encouraged the Commission to approve the firms recommended in the motion. Mr. Hocter echoed these remarks, also emphasizing the quality of staff's work.

Ms. Freed **MOVED THAT** the following resolution be approved by the Commission. Mr. Hocter seconded the motion.

"BE IT RESOLVED that the Commission authorizes the Executive Director to negotiate and enter into a contractual agreement with Richmond Capital Management to serve as the investment manager for the intermediate fixed income portfolio for the *College Illinois!* program; and

"BE IT FURTHER RESOLVED that the Commission authorizes the Executive Director to negotiate and enter into a contractual agreement with Jarislowsky Fraser Limited to serve as the investment manager for the international equity portion of the ***College Illinois!*** portfolio."

Representatives of each firm briefly addressed the Commission. The motion to approve the resolution presented by staff was approved unanimously.

Agenda Item 10. *College Illinois!* Investment Performance Summary

The Chairman introduced Ms. Hilda Thompson of Watson Wyatt. Ms. Thompson reviewed the highlights of the investment report provided to the Commission, the data in which reflected the results of the fiscal year ending June 30, 2002. She indicated that the reported losses notwithstanding, all but one of the program's investment managers had outperformed the market. The one exception was Osprey, whose exposure to WorldCom and some energy holdings resulted in its performing below market. Ms. Thompson indicated that Watson Wyatt has met with Osprey regarding its performance. She reported that while they had no plans to change their basic strategy, they did plan to do a more diligent job with regard to their research. She also reminded the Commission that Osprey has only been investing program funds for *College Illinois!* for nine months. In the investment policy approved by the Commission, it was stated that managers were expected to be at or above the median after each two-year period, and at or above the 33rd percentile in the longer term. Each of the program's investment managers has successfully met these standards.

Ms. Winter raised a question regarding how investment performance results and related information were made available to the public. In response, it was noted that monthly investment performance reports were included in each agenda book, the contents of which were made available on the agency's Web site. It was confirmed that if someone were to request a copy of the investment performance report prepared in connection with this item, staff would provide it.

Mr. Hocter raised a question regarding the actuarial deficit and how long it would take to eliminate it. It was noted that this topic was expected to be addressed at length in the next item, which deals with pricing.

In wrapping up the discussion, the Chairman acknowledged that as is the case for prepaid and college savings programs throughout the country, the investment performance results we are seeing for the past year for *College Illinois!* are less than satisfactory. He noted that while he did not realistically expect each of the investment managers appointed by the Commission to consistently outperform all of their peers, he also did not find it at all acceptable for them to rank in the bottom quartile. He suggested that all firms appointed by the Commission needed to understand that the Commission is closely monitoring their performance.

Agenda Item 11. *College Illinois!* Pricing

In introducing this action item, the Chairman indicated that staff has presented two options with regard to the proposed 2002-2003 *College Illinois!* contract prices, and that each reflected a substantial increase, due in part to the issues discussed in Item 10. The prices approved will be in place for the enrollment period that begins October 31, 2002 and extends through March 31, 2003.

Mr. Erford reviewed the staff's recommendation, emphasizing that as has been the case since the onset of the program, the overriding concern when developing the recommendation for today's meeting was the financial soundness of the program. He noted that staff had consulted and worked closely with both Milliman USA, the newly appointed actuary for the program, as well as Watson Wyatt Investment Consulting, the program's investment advisor. Bill Reimert of Milliman was present to respond to any questions, as was Hilda Thompson of Watson Wyatt.

Continuing, Mr. Erford spoke at some length regarding the factors and considerations that drove the development of the two options presented by staff. Under both options, he noted, prices increase significantly. These increases reflect the need to respond to the substantial tuition and fee increases that were adopted this past year, particularly at public universities. The prices also include a 5 percent increase

aimed at establishing a stabilization reserve. As has been the case with prepaid programs throughout the country, lower than projected investment returns also influenced the need to adjust prices. Mr. Erford then spoke to the two options presented, and the underlying assumptions that went into their development.

Ultimately, Mr. Erford summed up his analysis by noting that prices increase more under Option A than under Option B, due to the considerably more conservative assumptions utilized. He referenced the agenda item and reviewed the price increases that would be implemented under each option. In concluding his remarks, he reiterated that Illinois' prepaid program is not unique regarding its need to approve steep price increases. Those increases notwithstanding, he continued, the program remains a good investment for families. It permits them to take steps now to ensure that their children will be able to afford college ten, fifteen, or twenty years from now. If nothing else, the volatility we have seen in the stock market and in the area of college costs in recent years has made it clear how important it is for families to find something that offers them certainty and peace of mind.

At this point, the Chairman acknowledged Mr. Bill Reimert of Milliman USA, the firm selected to provide the *College Illinois!* program with actuarial services. Mr. Reimert opened his remarks by thanking the Chairman and expressing his firm's appreciation for having an opportunity to work with the Commission. While acknowledging the complexity of the process used in developing pricing recommendations, he emphasized that in the end, there are essentially two key factors that influence the process: investment earnings and college cost increases. Basically, he observed, unless you can earn investment returns that exceed the rate at which tuition and fees are increasing, you have a fiduciary responsibility to set prices that reflect a premium over current tuition rates.

Continuing, Mr. Reimert spoke at some length regarding the process Milliman used to determine the actuarial deficit, and what price increases might be needed to address it, based on assumptions the Commission might choose to make regarding tuition and fee increases, contract sales and investment returns. In response to a question raised by Ms. Winter, he emphasized that when he referred to "deficit," he meant an actuarial deficit as opposed to an actual deficit. A lengthy discussion ensued on this issue, the importance of continually revisiting assumptions and making modifications as needed, and the incremental steps that could be taken to gradually reduce and eliminate the deficit. Much of the discussion focused on how much higher prices would have to be increased (beyond the two options presented by staff) to eliminate the entire deficit more quickly.

A question was raised by the Chairman regarding which of the two options was preferred by staff, and in response Mr. Erford indicated that staff would recommend the more conservative approach set forth in Option A. He acknowledged that adoption of this option would increase the marketing challenges faced by the program in the next enrollment period.

Mr. Kurczaba **MOVED THAT** the Commission approve Option A, as presented on p. 11-3 of the agenda book. Ms. Betts seconded the motion.

Ms. Winter observed that she supported this approach, but suggested that materials provided to purchasers explain that a certain percentage of the price increase they are being asked to pay reflects the need to establish a stabilization reserve. She indicated that potential purchasers should understand that the prices they were paying were not driven by current tuition and fee increases alone. Ms. Freed echoed Ms. Winter's suggestion, and expressed concern about the degree to which the price increases proposed might limit the ability of families to access the program.

The motion to adopt Option A was approved unanimously. The Chairman indicated that action was also needed to approve the schedule of *College Illinois!* fees for the 2002-2003 enrollment period. No changes were being proposed to existing fees.

Mr. Kurczaba **MOVED THAT** the Commission adopt the proposed 2002-2003 fee schedule as shown on page 11-11 of the item. Ms. Betts seconded the motion, which was approved unanimously.

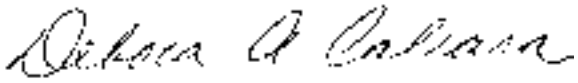
Agenda Item 12. Raising Student Loan Limits and the Impact on Illinois Students

No action was required on this information item. Mr. Matejka encouraged Commissioners to review it, noting that it dealt with the issue of raising student loan limits and how that might impact Illinois students and their families. It was noted that increased loan limits were likely to be a prominent topic during upcoming hearings regarding the reauthorization of the federal Higher Education Act.

Prior to adjourning the meeting, the Chairman reiterated that the next meeting of the Commission would be held on November 8, 2002, at Loyola University.

Ms. Betts **MOVED THAT** the September 20, 2002 meeting of the Commission be adjourned. Mr. Neumiller seconded the motion and the meeting was adjourned at 1:30 p.m.

Respectfully submitted,



Ms. Debora Calcara
Secretary to the Commission

ILLINOIS STUDENT ASSISTANCE COMMISSION
FISCAL YEAR 2003 APPROPRIATION SUMMARY REPORT
(July 1, 2002 - September 30, 2002)

	FY2003 Appropriation	Year-to-date Expended	Number of Recipients	Percentage Expended
STATE GENERAL FUNDS				
SCHOLARSHIPS AND GRANTS				
Monetary Award Program*	$329,522,800	$54,567,949	54,101	16.6%
MAP Reserve Fund *	6,677,000	0	0	0.0%
Minority Teacher Scholarships	3,100,000	15,000	411	0.5%
Student to Student Grants	950,000	0	0	0.0%
Descendents Program Grants	275,000	0	0	0.0%
National Guards Grants	4,500,000	0	0	0.0%
Military Veterans Scholarship	19,250,000	2,307,945	4,049	12.0%
Bonus Incentive Grants	650,000	0	0	0.0%
De Bolt Teacher Shortage Scholarship	2,900,000	70,000	430	2.4%
Illinois Incentive for Access	7,200,000	483,750	3,670	6.7%
Merit Recognition Scholarship	5,400,000	0	0	0.0%
Teacher Loan Forgiveness Program	2,700,000	0	0	0.0%
TOTAL	**$383,124,800**	**$57,444,644**	**62,661**	**15.0%**
ADMINISTRATION AND OUTREACH				
Administration (see detail on next page)	6,109,200	977,753	N/A	16.0%
Adult Learner Outreach	150,000	29,782	N/A	19.9%
Higher EdNet Clearinghouse	65,000	36,235	N/A	55.7%
Federal Cost Allocation Requirement	75,000	0	N/A	0.0%
TOTAL	**$6,399,200**	**$1,043,770**	N/A	**16.3%**
TOTAL, STATE GENERAL FUNDS	**$389,524,000**	**$58,488,414**	N/A	**15.0%**
SPECIAL REVENUE FUNDS				
STUDENT LOAN OPERATING FUND				
Administration Expense (see detail on next page)	57,656,600	5,382,538	N/A	9.3%
Fed Loan System Development & Maint.	5,000,000	880,614	N/A	17.6%
Working Capital Transfer	13,000,000	0	N/A	0.0%
TOTAL	**$75,656,600**	**$6,263,152**	N/A	**8.3%**
FEDERAL STUDENT LOAN FUND				
Loan Guarantee Program	190,000,000	17,638,532	N/A	9.3%
Federal Reserve Recall	20,000,000	20,000,000	N/A	100.0%
Default Aversion Activities	1,500,000	38,789	N/A	2.6%
TOTAL	**$211,500,000**	**$37,677,321**	N/A	**17.8%**
SCHOLARSHIPS AND GRANTS				
Federal SSIG - Monetary Award Program *	3,700,000	0	0	0.0%
Federal Robert C. Byrd Fellowships	1,800,000	0	0	0.0%
TOTAL	**$5,500,000**	**$0**	**0**	**0.0%**
OTHER				
ISAC Accounts Receivables	300,000	11,327	N/A	3.8%
Higher Education License Plate Program	70,000	0	N/A	0.0%
TOTAL, SPECIAL REVENUE FUNDS	**$293,026,600**	**$43,951,801**		**15.0%**
GRAND TOTAL	**$682,550,600**	**$102,440,215**	**62,661**	**15.0%**
* Monetary Award Program Total, All Funds	$339,899,800	$54,567,949	54,101	16.05%

ILLINOIS STUDENT ASSISTANCE COMMISSION
FISCAL YEAR 2003 APPROPRIATION REPORT
ADMINISTRATION
(July 1, 2002 - September 30, 2002)

	STATE GENERAL FUNDS			STUDENT LOAN OPERATING FUND			T O T A L		
Line Item	FY2003 Appropriation	Year-to-date Expended	% Expended	FY2003 Appropriation	Year-to-date Expended	% Expended	FY2003 Appropriation	Year-to-date Expended	% Expended
Personal Services	$2,811,900	$557,825	19.8%	$13,226,400	$2,325,797	17.6%	$16,038,300	$2,883,621	18.0%
Employee Retirement Paid by State	112,400	22,143	19.7%	529,100	90,918	17.2%	641,500	113,062	17.6%
Retirement	282,300	57,578	20.4%	1,324,000	240,150	18.1%	1,606,300	297,729	18.5%
Social Security	214,800	41,264	19.2%	1,011,900	169,347	16.7%	1,226,700	210,611	17.2%
Group Insurance	0	0	0	2,549,500	468,304	18.4%	2,549,500	468,304	18.4%
Contractual Services	2,350,800	269,194	11.5%	11,742,000	1,113,388	9.5%	14,092,800	1,382,583	9.8%
Contractual - Collection Agency Fees	0	0	0.0%	24,000,000	817,112	3.4%	24,000,000	817,112	3.4%
Travel	31,300	2,647	8.5%	191,000	15,727	8.2%	222,300	18,374	8.3%
Commodities	38,600	875	2.3%	234,700	17,115	7.3%	273,300	17,990	6.6%
Printing	110,600	16,518	14.9%	558,000	4,093	0.7%	668,600	20,611	3.1%
Equipment	20,000	301	1.5%	525,000	5,264	1.0%	545,000	5,565	1.0%
Telecommunications	130,000	6,982	5.4%	1,733,500	109,084	6.3%	1,863,500	116,065	6.2%
Operation of Auto Equipment	6,500	2,425	37.3%	31,500	6,240	19.8%	38,000	8,664	22.8%
TOTAL	**$6,109,200**	**$977,753**	**16.0%**	**$57,656,600**	**$5,382,538**	**9.3%**	**$63,765,800**	**$6,360,291**	**10.0%**

ILLINOIS STUDENT ASSISTANCE COMMISSION
Federal Student Loan Reserve Fund (FSLRF)
Comparative Sources and Uses Report
October 2001 - September 2002 - FFY 2002

	2002	2001
BEGINNING CASH BALANCE, 10/01/01	**$56,760,842**	**$64,132,638**
Sources of Funds		
Collections***	46,560,805	9,658,352
Share of Collections from SLOF*	0	32,826,842
Repurchases, Rehabs & Consolidations	14,816,524	3,397,483
Share of Repurchases, Rehabs & Consolidations	0	10,851,779
Non- Reinsurable Claims	496,926	0
Collection Cost Waived	73,433	0
SPA Payments	419,122	0
Reinsurance**	112,165,299	92,188,535
IRS Offsets	1,128,109	1,387,701
Risk Sharing	0	283,405
Guarantee Fees	0	1,243
Interest on Investment	1,228,044	2,952,560
Miscellaneous Income	6,487	9,066
Total Sources	176,894,750	153,556,967
Uses of Funds		
Reimbursements to Lenders	117,387,586	93,574,030
Borrower Refund	881,598	0
Funds Remitted to ED-Default collections	34,156,142	38,554,278
Funds Remitted to ED-Repurch/Rehabs/Consol**	11,263,727	14,763,385
SLOF Retention-Default collections***	10,794,492	1,788,059
SLOF Retention-Repurch/Rehabs/Consol***	2,689,322	365,600
Transfer to SLOF - AMF	478,205	414,908
IRS Offsets Refunded	1,072,074	1,594,529
Default Aversion Fee	2,488,328	4,960,308
Transfer to Federal Reserve Recall Fund	8,201,421	4,913,665
Total Uses	189,412,892	160,928,764
ENDING CASH BALANCE, 09/30/02	**$44,242,699**	**$56,760,842**
ACCRUAL ADJUSTMENTS		
DUE TO/FROM ED		
Due From ED		
Reinsurance Claims Filed	12,080,670	15,097,277
Total Due from ED	12,080,670	15,097,277
Due To ED		
Collections Share	(4,572,263)	(5,301,874)
Reinsurance Repayments	(1,964,939)	(2,419,405)
Other	(950,325)	(950,325)
Total Due to ED	(7,487,528)	(8,671,604)
Net Due from ED	4,593,142	6,425,673
OTHER ADJUSTMENTS		
Due from Agency Operating Fund	13,000,000	13,000,000
SLOF Retention Payable	(617,273)	(665,519)
Cost of Collection due from SLOF	237,888	740,889
Due from Federal Reserve Recall Fund	2,942,417	0
DAF Deferred Charges	4,804,025	3,761,081
DAF Payable	(176,714)	(306,346)
Other Receivable	605,178	755,440
Vouchers Payable-Lender Reimbursements	(139,690)	(2,019,664)
Due to Federal Reserve Recall Fund	(6,382,113)	0
Total Other Adjustments	14,273,718	15,265,881
ADJUSTED FUND BALANCE, 09/30/02	**$63,109,559**	**$78,452,396**

*SLOF - Student Loan Operating Fund

**Beginning FFY 00, Reinsurance received and Repurchases/Rehabs & Consolidations paid are reported at gross amount.

***Beginning July 2001, the default collections, repurchases rehabs and consolidations are deposited into the FSLRF as opposed to the SLOF.

ILLINOIS STUDENT ASSISTANCE COMMISSION
Student Loan Operating Fund (SLOF)
Comparative Sources and Uses Report
October 2001 - September 2002 - FFY 2002

	2002	2001
BEGINNING CASH BALANCE, 10/01/01	**$32,172,504**	**$30,759,296**
Sources of Funds		
Collections	0	39,156,829
SLOF Retention-Default Collections*	10,794,492	1,788,059
Direct Consolidation Cost	14,925,814	19,696,091
Prior Year Default Collections-Suspense-	234,709	0
Loan Processing & Issuance Fee	4,555,923	3,619,253
Account Maintenance Fee	5,741,634	5,150,822
Default Aversion Fee	2,488,328	4,960,308
Interest on Investment	968,694	2,017,579
Repurchases, Rehabs & Consolidations	0	12,639,648
SLOF Retention-Repurch/Rehabs/Consolidations*	2,699,455	365,600
Miscellaneous Income	146,138	9,628
Total Sources	42,555,187	89,403,816
Uses of Funds		
ED's share of Repurchases, Rehabs & Consolidation.	0	10,851,782
ED's share of Collections	452,568	32,826,842
Collection Cost Waived	73,433	0
Administrative Expenses	39,028,375	43,431,587
Non- Reinsurable Claims	496,926	0
SPA Payments	419,122	0
Borrower Refund	111,405	569,975
Audit Cost	31,297	19,211
Risk sharing	0	283,404
Collections paid to GRF	7,255	7,805
Total Uses	40,620,379	87,990,605
ENDING CASH BALANCE, 09/30/02	**$34,107,313**	**$32,172,504**
ACCRUAL ADJUSTMENTS		
DUE TO/FROM ED		
Due From ED		
Loan Processing & Issuance Fees	1,638,180	1,363,157
Account Maintenance Fees	1,339,173	1,210,860
Reinsurance from ED	0	665,519
Total Due from ED	2,977,353	3,239,536
Due To ED		
Working Capital borrowed	(13,000,000)	(13,000,000)
Total Due to ED	(13,000,000)	(13,000,000)
Net Due from ED	(10,022,647)	(9,760,464)
OTHER ADJUSTMENTS		
Due to Illinois GRF	(2,502)	(2,032)
SLOF Retention Receivable	617,273	0
Due to FSLRF Cost of Collection	(237,888)	(740,889)
DAF Receivable	176,714	306,346
Other Receivables	4,196	0
DAF Deferred Revenue	(4,804,025)	(3,761,081)
Interest on Investment	64,985	125,000
Fixed Assets	387,851	822,071
Vouchers Payable-Administrative Expenses	(2,626,028)	(2,702,043)
Other Payable	(30,730)	(299,043)
Total Other Adjustments	(6,450,153)	(6,251,671)
ADJUSTED FUND BALANCE, 09/30/02	**$17,634,512**	**$16,160,370**

*Beginning July 2001, the default collections, repurchases rehabs and consolidations are deposited into the FSLRF as opposed to the SLOF. Therefore beginning July 2001, the SLOF will only account for the agency's share of collections

ILLINOIS STUDENT ASSISTANCE COMMISSION
REPORT FOR SEPTEMBER 2002
(Loans)

GROSS GUARANTEE VOLUME

	Current Month					
				% Change from Prior Fiscal Year		
	Number	Amount	Average	Number	Amount	Average
Subsidized Stafford	20,880	$86,294,736	$4,133	-4.1%	21.6%	26.8%
Unsubsidized Stafford	13,510	66,095,399	4,892	22.6%	18.2%	-3.6%
PLUS	2,903	26,966,119	9,289	46.4%	58.3%	8.1%
SLS	4	9,493	2,373	100.0%	-23.4%	-61.7%
Consolidation	1,378	38,540,482	27,968	96.3%	95.8%	-0.2%
Total	38,675	$217,906,229	$5,634	9.0%	33.2%	22.2%

	Federal Fiscal Year to Date					
				% Change from Prior Fiscal Year		
	Number	Amount	Average	Number	Amount	Average
Subsidized Stafford	114,263	$432,337,953	$3,784	13.6%	16.9%	2.9%
Unsubsidized Stafford	75,594	356,420,638	4,715	18.7%	15.7%	-2.5%
PLUS	12,805	108,496,758	8,473	22.8%	29.4%	5.4%
SLS	8	20,962	2,620	300.0%	52.8%	-61.8%
Consolidation	10,745	314,566,860	29,276	164.5%	168.5%	1.5%
Total	213,415	$1,211,843,171	$5,678	19.4%	37.9%	15.5%

REIMBURSEMENTS TO LENDERS, FEDERAL FISCAL YEAR TO DATE

Claim Type	Number	Amount	% Change from Prior Year	
			Number	Amount
Default	12,670	$94,216,339	19.6%	33.1%
Closed Schools	24	45,461	14.3%	273.9%
False Certification	11	17,641	-38.9%	-33.4%
Death & Disability	686	8,149,809	9.8%	26.2%
Bankruptcy	-91	604,936	-360.0%	-53.9%
Total	13,300	$103,034,187	17.8%	31.1%
Average Claim Size		$7,747		11.3%
Net Reinsurance Due	27,352	$97,781,682	14.0%	25.0%

DEFAULT COLLECTIONS

	Current Month			Federal Fiscal Year to Date	
	No. of Brrwr	Amount Collected	% Change From Prior Fiscal Year	Amount Collected	% Change from Prior Fiscal Year
In-House	9,970	$1,906,378	-3.9%	$30,381,664	2.7%
Collection Agencies	1,401	172,740	-66.7%	5,630,327	-39.8%
Litigation	1,679	364,785	595.9%	7,119,576	-30.5%
Subtotal	13,050	$2,443,903	-4.3%	$43,131,566	-12.3%
IRS Offsets	282	$36,096	-96.3%	$16,041,279	-19.0%
Total	13,332	$2,479,998	-29.6%	$59,172,845	-14.2%

CURRENT STATUS OF ACCOUNTS
REIMBURSED TO LENDERS SINCE INCEPTION

Closed Accounts	Number	Amount Written Off
Death, Disability, Bankruptcy, Closed School & False Certification	39,353	$73,238,827
Collection Write-Off	8,485	4,487,893
Accounts Paid in Full	150,463	1,591,587
Repurchased or Transferred	194,279	861,287,588
Subtotal	392,580	$940,605,896
Open Accounts	**Number**	**Balance Due**
Accounts In-House	58,124	$376,156,055
Assigned to Collection Agencies	12,717	77,081,797
Assigned to Litigation	14,820	142,372,088
Subtotal	85,661	$595,609,940
Total	478,241	$1,536,215,835

ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
August 31, 2002

	CURRENT MONTH	PREV. MONTH	FY TO DATE	CUMULATIVE
Disbursements:				
Student Loan Originations & Purchases				
Average Borrower Indebtedness	$8,782	$7,105	$8,178	$5,154
Number of Borrowers	14,587	8,221	22,808	836,894
Total Originations & Purchases	$128,108,826	$58,408,397	$186,517,223	$4,313,173,288
Operating Expenses	$2,719,143	$2,946,967	$5,666,110	$235,285,792
Collections:				
Principal - Student	$35,637,710	$36,105,379	$71,743,088	$1,625,287,510
Interest - Student	3,925,024	4,549,351	8,474,375	461,544,212
Principal - Guarantor	4,251,658	4,525,151	8,776,809	633,706,222
Interest - Guarantor	224,773	237,130	461,903	43,165,138
Federal Interest Benefits	2,868,279	2,564,335	5,432,614	161,317,939
Special Allowance	1,529,165	250,202	1,779,367	96,850,482
Summary:				
Total Principal	$39,889,368	$40,630,530	$80,519,897	$2,258,993,732
Total Interest	7,018,076	7,350,816	14,368,892	666,027,289
Total Special Allowance	1,529,165	250,202	1,779,367	96,850,482
	$48,436,609	$48,231,548	$96,668,156	$3,021,871,503

ILLINOIS STUDENT ASSISTANCE COMMISSION

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Sources and Uses Report

July 2002 -- September 2002 -- FY 2003

BEGINNING MARKET VALUE TOTAL FUNDS BALANCE, 7/01/02		
Cash at Custodians and ISAC	$9,152,253	
SSgA S&P 500 Index Fund	32,631,053	
UBS Fixed Income	97,058,170	
William Blair & Co.	24,933,097	
Osprey Partners	37,818,735	
Wasatch Advisors	21,898,380	
Total Beginning Balance		**$223,491,688**
SOURCES OF FUNDS		
Contributions received	10,445,306	
Application and other fees	199,137	
Interest from Treasury and Banks	72,323	
Unrealized Interest on Investments	1,709,918	
Total Sources		**12,426,684**
USES OF FUNDS		
Administrative Expenses	740,878	
Refunds to Purchasers	361,461	
Unrealized Loss on Investments	21,514,771	
Total Uses		**22,617,110**
ENDING MARKET VALUE TOTAL FUNDS BALANCE, 9/30/02		
Cash at Custodians and ISAC	$18,766,679	
SSgA S&P 500 Index Fund	27,002,574	
UBS Core Fixed Income	75,567,489	
UBS Intermediate Fixed Income	25,720,182	
William Blair & Co.	20,635,057	
Osprey Partners	29,183,935	
Wasatch Advisors	16,425,346	
Total Ending Balance		**$213,301,262**

ILLINOIS STUDENT ASSISTANCE COMMISSION

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Total Program Performance

July 2002 -- September 2002 -- FY 2003

APPROXIMATE INVESTMENT RETURN, 9/30/02

	Ending Market Value	*Fiscal* Year-to-date	Since Inception	Inception Date**
Total Program	**$213,301,262**	**-8.7%**	**-3.9%**	**7/6/99**
Policy Benchmark*		-9.4%	-3.2%	
Actuarial Assumption		1.9%	8.0%	
Domestic Equity	**$ 93,246,912**	**-20.5%**	**-13.7%**	**7/6/99**
William Blair	20,635,057	-17.4%	-28.2%	7/7/00
Russell 1000 Growth		-15.1%	-33.6%	
Osprey Partners	29,183,935	-22.9%	-28.3%	9/7/01
Russell 1000 Value		-18.8%	-21.2%	
State Street S&P 500 Index Fund	27,002,574	-17.3%	-14.0%	7/6/99
S&P 500 Index		-17.3%	-13.7%	
Wasatch Advisors	16,425,346	-25.3%	-10.6%	9/7/01
Russell 2000		-21.4%	-20.0%	
Domestic Fixed Income	**$101,287,671**	**4.3%**	**9.0%**	**7/6/99**
UBS Global Asset Management - Core	75,567,489	4.2%	8.7%	7/6/99
Lehman Aggregate Index		4.6%	9.0%	
UBS Global Asset Management - Intermediate	25,720,182	3.2%	2.3%	6/21/02
Lehman Intermediate Aggregate Index		3.8%	4.7%	
Cash Account	**$18,766,679**	**0.5%**	**4.5%**	
T-Bills		0.4%	4.1%	

*As of September 30, 2001, the Policy Benchmark is 50% S&P 500, 10% Russell 2000, 38% Lehman Aggregate and 2% T-Bills. Previously, the benchmark was 50% S&P 500, 47% Lehman Aggregate and 3% T-Bills.

**Benchmark returns are as of the beginning of the month.

NUMBER AND DOLLAR VALUE OF PLANS, 9/30/02

Number of Plans	
Plans Paid in Full	13,334
Active Plans	12,510
Cancelled Plans	3,087
Suspended Plans	10
Total Number of Plans	28,941
Purchased Value of all Plans	$460,974,023

Active Plan: Plan which has been approved and contract payments are being made.

Cancelled Plan: Plan that has been terminated either at the request of the purchaser or involuntarily due to delinquency, fraud, etc.

Suspended Plan: Plan with an incomplete application or other outstanding omissions; a plan with this status is inactive.

AGENDA ITEM 4.

IDAPP DEMAND STUDENT LOAN
REVENUE NOTES/LIQUIDITY FACILITIES

Submitted for: Action

Summary: This item is required to appear on every Commission meeting agenda to cover contractual requirements for Demand Note/Liquidity Facility financings. It will not be necessary to take action unless the prime rate exceeds 16.75 percent on the business day immediately prior to the date of the Commission meeting. Staff is required to submit this item for publication on October 30, 2002. The prime rate on October 30, 2002 is 4.75 percent and it is anticipated that the prime rate will not exceed 16.75 percent on the business day immediately prior to the date of the Commission meeting. As such, it appears that no action will be required to set a new maximum rate.

Action requested: None

AGENDA ITEM 5.

ISSUANCE OF TAXABLE EDUCATION LOAN REVENUE NOTES
SENIOR SERIES 11A, SENIOR SERIES 11B AND SENIOR SUBORDINATE SERIES 12

Submitted for: Action

Summary: Staff has taken the preliminary steps necessary for the issuance of Taxable Education Loan Revenue Notes to provide funds to accomplish one or more of the following purposes: (i) acquire Eligible Loans; (ii) fund certain Funds and Accounts created under the Resolution authorizing such Notes; and (iii) pay the costs of issuance of the Notes. Having completed all of the necessary preliminary steps, staff is prepared to recommend the issuance of not to exceed $200,000,000 of Notes. The 2002 Supplemental Resolution and related documents were sent to Commissioners under separate cover.

Action requested: That the Commission approve the following resolution:

"BE IT RESOLVED that the Illinois Student Assistance Commission approve the 2002 Supplemental Resolution providing for the sale and issue of Education Loan Revenue Notes of the Illinois Student Assistance Commission and authorizing the execution and delivery of a Note Purchase Agreement, an Official Statement and certain other agreements in connection therewith."

"BE IT RESOLVED that the Commission further delegates the ability to take certain actions and to make certain determinations as provided in such 2002 Supplemental Resolution with respect to such documents, to the Chairman of the Commission or, if so designated in writing by said Chairman with respect to any or all of the actions or determinations described herein, the Executive Director of the Commission; and

"BE IT FURTHER RESOLVED that this Resolution authorizes the issuance of Notes not to exceed $200,000,000."

Item 5.
11/08/02

ILLINOIS STUDENT ASSISTANCE COMMISSION

ISSUANCE OF TAXABLE EDUCATION LOAN REVENUE NOTES
SENIOR SERIES 11A, SENIOR SERIES 11B AND SENIOR SUBORDINATE SERIES 12

Background

The following paragraphs set forth a brief description of the documents to be approved and the rationale for the proposed new note issue. As of November 1, the total of all existing indebtedness authorized and outstanding by the Commission is $2,851,124,000 including tax-exempt bonds, tax-exempt notes, taxable bonds and taxable notes, compared with a limit of $3,500,000,000 of note authority.

The proposed transaction assumes a taxable issuance of not to exceed $200,000,000 for the purpose of acquiring (which includes purchasing or originating) Eligible Loans, funding certain Funds and Accounts created under the Resolution authorizing such Notes, and paying costs of issuance. The proposed transaction will finance FFELP loans that contain a low-cost borrower benefit component and may also finance non-FFELP Alternative loans and Institution loans, as discussed with the Commission at previous meetings.

Brief Description of the Documents to be Approved

Supplemental Resolution - The Supplemental Resolution is a supplement to the General Resolution providing for the issuance of particular series of Notes of the Commission and contains specific terms relating to the proposed Notes. The Supplemental Resolution, together with the General Resolution, serves as the contract between the Commission and bondholders who purchase these series of Notes.

Official Statement - The Official Statement is the disclosure statement prepared by staff and the financing team and used by the Underwriters to market the Notes. It describes in depth all material provisions of the Notes and discloses general information about the Commission and certain potential risks associated with the purchase of the Notes.

Note Purchase Agreement - The Note Purchase Agreement is an agreement between the Commission and the Underwriters pursuant to which the Underwriters purchase the Notes. It is signed in advance of the note closing at the time the Notes are sold. The Agreement contains the pricing terms relating to the Notes and certain conditions that must be met by the Commission to obligate the Underwriters to purchase the Notes.

Continuing Disclosure Undertaking - The Continuing Disclosure Undertaking, which is an exhibit to the Official Statement, is an agreement signed by the Commission to provide annual updates and periodic "material event" updates to certain central information repositories pursuant to federal securities laws.

Actions to be Taken

For each financing, it is necessary for the staff to perform a sequence of seven actions, as follows:

- Select a financing team of counsel and underwriters;

- Explore financing alternatives and structures;
- Seek a Commission resolution delegating the responsibility to finalize the offering terms (requested as part of this agenda item);
- Seek ratings by major bond rating agencies (currently working with the rating agencies to secure the ratings);
- Seek necessary state approval of the financing (presently awaiting Governor's office approval);
- Produce an Official Statement for the proposed note issue (requested as part of this agenda item); and
- Seek Commission approval of the sale of securities (requested as part of this agenda item).

Proceeding with the Financing

Based upon the need to fund autumn and winter disbursements, staff is seeking authority to conclude the proposed financing as expeditiously as possible.

The Underwriting Team

Consistent with prior actions of the Commission, the team for this particular financing consists of the following members:

Managing Underwriter:	Salomon Smith Barney
Co - Managing Underwriter:	to be determined
Bond Counsel:	Foley & Lardner
Underwriters' Counsel:	Altheimer & Gray

Explore Financial Alternatives and Structures

Staff is confident that this financing can be concluded on a timely basis, and believes that it is sound business practice to proceed with the approval of the issuance and sale of the Notes at the time of the November 8, 2002 meeting. Based upon the projected need for funds, staff anticipates that the Notes will be issued in the amount of not to exceed $200,000,000 during November 2002.

Seek Rating of the Notes

The Commission's note issue will need to be rated by agencies experienced in providing ratings for education loan revenue notes to assure the lowest possible borrowing cost. Through their participation in regular meetings with student loan officials across the country, Fitch Inc., Moody's Investors Service, and Standard & Poor's Group have developed significant expertise with respect to education loan revenue note issues. It is the recommendation of staff and the financing team that these notes be rated by two of the firms listed above.

AGENDA ITEM 6.

IDAPP INVESTMENT POLICY AND QUARTERLY REPORT

Submitted for: Action

Summary: The Statement of Investment Policy for the Illinois Designated Account Purchase Program (IDAPP) was originally approved by the Commission on November 15, 1999, and was amended on June 2, 2000; the policy was reaffirmed on November 13, 2000 and on November 9, 2001. The Commission is being asked to reaffirm IDAPP's policy at this time. The only change from the policy adopted on November 9, 2001, is the date of adoption referenced in section 17.0. The required quarterly investment report is also presented as part of this item.

Action requested: That the Commission approve the following resolution:

"BE IT RESOLVED that the Illinois Student Assistance Commission approves the Statement of Investment Policy for IDAPP as attached, and directs all investment decisions for the program be consistent with provisions set forth in the Statement of Investment Policy for IDAPP."

Item 6.
11/08/02

ILLINOIS STUDENT ASSISTANCE COMMISSION - IDAPP

STATEMENT OF INVESTMENT POLICY

Background

The Illinois Designated Account Purchase Program (IDAPP) administers the investment of funds in the various student loan revenue bond issues of the Illinois Student Assistance Commission. In accordance with the Commission's enabling Act, these bonds have been sold to purchase or originate student loans. Statutorily, IDAPP's goal is to facilitate access to postsecondary education, primarily by maintaining on-going access to student loans. As a secondary market, IDAPP achieves this both by working with financial institutions to ensure that they have the liquidity needed to continue making such loans, and more recently, by working with postsecondary institutions and lenders to ensure alternative loan programs are available to students whose needs are not being sufficiently served by existing financial aid programs.

When the Commission issues bonds, there is typically a period between the bond closing and the time that loans are purchased. During the life of a bond issue, there are delays between when the students make loans payments and the date when principal and interest payments are due. IDAPP staff directs the investment of funds during these temporary time periods in accordance with the directions given by the bond documents.

Bond documents such as Trust Indentures or Liquidity Agreements place strict limitations on the type of investments that can be made by IDAPP. These limitations are set by the rating agencies and by the institutions providing third party guarantees, such as bond insurance or bank letters of credit. The limitations vary slightly from issue to issue, but in general they restrict investments to direct obligations of the federal government and government agencies, investment agreements, repurchase agreements, bank certificates of deposit, money market funds and highly rated commercial paper and municipal bonds.

The Public Funds Investment Act also restricts the investment of funds under the control of IDAPP. These restrictions apply to any funds which are not restricted by the terms of a bond document. Investments made by IDAPP are also subject to oversight by the Trustee for each bond issue and by the Auditor General.

The Illinois Public Funds Investment Act requires that all public agencies have a written investment policy in effect prior to January 1, 2000. Although IDAPP has had an investment policy in effect, it is necessary at this time to reaffirm the policy which was originally adopted on November 15, 1999 and reaffirmed on November 13, 2000 and on November 9, 2001.

ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
INVESTMENT POLICY

1.0 Policy: It is the policy of the Illinois Designated Account Purchase Program (IDAPP) to invest its funds in a manner which will provide the highest investment return with a minimum amount of risk while at the same time meeting the cash flow needs of the IDAPP and conforming to all state statutes governing the investment of funds.

2.0 Scope: This investment policy applies to all locally held funds (Funds) of the IDAPP. These funds are accounted for in IDAPP's assets as shown on IDAPP's annual financial statements. The term Funds specifically includes, and this investment policy shall apply to, any revenue bond proceedor escrowed funds held under any trust indenture or bond resolution.

3.0 Standard of Care: Investments shall be made with reasonable judgment and care, with reasonableness being determined under the circumstances then prevailing and the standard of care being that which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not as speculators but as conservative investors concerned with the probable safety of their capital as well as the probable income to be derived.

3.1 Prudence: The standard of prudence to be used when investing funds shall be the "prudent person" standard, which standard shall be applied in the context of managing an overall portfolio. Officials acting in accordance with this investment policy and exercising prudence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

4.0 Objectives: The primary objectives, in priority order, of IDAPP's investment activities shall be:

4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of IDAPP shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

4.2 Liquidity: IDAPP's investment portfolio should remain sufficiently liquid to enable IDAPP to pay all obligations as they come due.

4.3 Return on Investments: IDAPP's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles commensurate with IDAPP's investment risk constraints, state law limitations and the cash flow characteristics of the portfolio.

4.4 Simplicity: IDAPP's investment portfolio shall be designed to simplify administration of IDAPP's investments to minimize oversight and accounting costs.

5.0 Authority to Invest - Limitation on Investment Selection: IDAPP's power to invest its Funds is derived from Section 2 of the Public Funds Investment Act (30 ILCS 235/2) which allows IDAPP to invest its Funds in the following types of securities:

5.1 Direct Federal Obligations. Direct obligations of the United States of America or any agency or instrumentality of the United States of America.

5.2 Federal Guaranteed Obligations. Obligations on which the timely payment of principal and interest is fully guaranteed by the United States of America or any agency or instrumentality of the United States of America.

5.3 Participation Interest in Federal Obligations. Evidences of a direct ownership interest in amounts payable upon any of the obligations set forth in 5.1 or 5.2 of this Section.

5.4 Federal Affiliated Institutions. Obligations of the Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks, Federal Home Loan Banks, Federal

National Mortgage Association or similar government agencies.

5.5 Certificates of Deposit. Certificates of deposit, time deposits, or other investments constituting direct obligations of any bank as defined by the Illinois Banking Act, provided, that investments may be made only in those certificates of deposit or time deposits which are fully ensured by the Federal Deposit Insurance Corporation or similar federal agency or which are fully collateralized by obligations described in 5.1 or 5.2 of this Section.

5.6 Savings and Loan Securities. Shares, securities, withdrawable capital accounts or deposits of State or federal chartered savings and loan associations which are fully insured by the Federal Deposit Insurance Corporation or similar federal agency or which are fully collateralized by obligations described in 5.1 or 5.2 of this Section.

5.7 Money Market Funds. Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of investments of any such money market mutual fund is limited to obligations described in 5.1 or 5.2 of this Section and to agreements to repurchase those obligations.

5.8 Repurchase Agreements. Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of that Act and the regulations issued thereunder.

5.9 Investment Agreements. Investment agreements with financial institutions, provided, that the agreements are fully collateralized by obligations described in 5.1 or 5.2 of this Section.

5.10 Commercial paper. Commercial paper rated, at the time of purchase, Prime-1 by Moody's Investors Service or A-1 by Standard & Poor's Ratings Services.

5.11 State or municipal bonds. State or municipal bonds rated by Moody's Investors Service or Standard & Poor's Ratings Services in one of the two highest rating categories assigned by such agencies.

5.12 Bankers acceptances. Bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured, and unguaranteed obligation rating of A or AA3 or better by Moody's Investors Service and AA-1 or AA or better by Standard & Poor's Ratings Services.

6.0 <u>Delegation of Investment Authority:</u> Investment decisions and directives may only be made by the persons holding the position of Director of IDAPP, Operations Director, or Financial Officer. Primary management responsibility for the investment program is hereby delegated to the Financial Officer, who shall serve as IDAPP's chief investment officer. No IDAPP official may engage in an investment transaction except as provided under the terms of this Investment Policy.

7.0 <u>Review of Investment Transactions:</u> All investment transactions undertaken shall be reviewed by IDAPP's Investment Committee as part of IDAPP's ongoing internal control review activities to assure compliance with this Investment Policy and to prevent losses of funds that might arise from fraud, officer error, misrepresentation by third parties or imprudent actions by officials. IDAPP's Financial Officer shall immediately disclose any reportable event to the Director of IDAPP, and/or the Executive Director or Chairman of the Commission. The IDAPP Investment Committee consists of the IDAPP Director, Operations Director, Financial Officer, and IDAPP's Financial Advisor.

8.0 <u>Ethics and Conflicts of Interest:</u> Officials involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment process, or which could impair their ability to make impartial investment decisions. Officials and persons responsible for internal controls shall disclose to the Executive Director or Chairman of the Commission as appropriate any material financial interests in financial institutions that conduct business with IDAPP, and they shall further disclose any large personal

financial/investment positions that could be related to the performance of IDAPP's investments, particularly with regard to the timing of purchases and sales.

9.0 <u>Authorized Financial Dealers and Institutions:</u> Funds of IDAPP may be invested with federal and state financial institutions, or any of their subsidiaries, (provided such institutions have been authorized to conduct business in the State of Illinois and have been specifically approved by IDAPP to receive and hold IDAPP Funds). Commission approval may be granted only if the selection complies with applicable state law, including, without limitation, the Public Funds Investment Act (30 ILCS 235/1 *et seq.*).

9.1 List of Authorized Financial Institutions. Those institutions which IDAPP has approved for the deposit of public funds and the provision of investment services as of the date of the adoption or last amendment of this policy are Bank One, Amalgamated Bank of Chicago, LaSalle National Bank, The Northern Trust Company, Fifth Third Bank, and Bank of America, or their successors. IDAPP has also authorized the purchase of qualified investments under Section 5 of this Investment Policy. Such investments may be recommended by, purchased by or held in safekeeping accounts with any of the above institutions or their successors.

9.2 Annual Review. An annual review of the financial condition and qualifications of approved financial dealers and institutions will be conducted by the Financial Officer who shall bring any material change in the financial status of such institutions to the attention of IDAPP members at their next meeting.

10.0 <u>Collateralization:</u> Collateralization will be required on cash deposits in any institution to the extent the deposit is not fully insured by the United States of America or any agency or instrumentality of the United States of America. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest.

The type of investments which may be pledged as collateral shall be limited to cash and those investments set forth in Section 5 of this Investment Policy. Evidence of the pledge of collateral (safekeeping receipt) must be supplied to IDAPP. Collateral may be substituted by the depository institution provided the substituted collateral qualifies in all respects with the provisions of Section 5 of this Investment Policy.

11.0 <u>Safekeeping and Custody:</u> All security transactions, including collateral for repurchase agreements, entered into by IDAPP shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by one of the third party custodians designated in Section 9 and evidenced by safekeeping receipts.

12.0 <u>Diversification:</u> IDAPP will diversify its investments by security type and institution. With the exception of the obligations set forth in section 5.1, 5.2, or 5.4 or investments fully collateralized by these obligations, no more than 5% of IDAPP's total investment portfolio will be invested in the obligations of a single issuer.

13.0 <u>Maximum Maturities:</u> To the extent possible, IDAPP will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, IDAPP will not directly invest in securities maturing more than two (2) years from the date of purchase.

Reserve funds may be invested in securities exceeding two (2) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

14.0 <u>Internal Control:</u> The Auditor General shall review the investments made by IDAPP as part of the annual financial and compliance audits of IDAPP and, consequently, no additional internal or external audit will be required except for the review by IDAPP's Financial Officer under Section 7 of this Investment Policy.

15.0 <u>Performance Standards:</u> The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints and the cash flow needs.

16.0 <u>Reporting:</u> The Financial Officer is charged with the responsibility of preparing a written market report on investment activity for the quarterly report to the Commission.

17.0 <u>Investment Policy Adoption:</u> This investment policy has been adopted by resolution of the Commission on November 8, 2002. The policy shall be reviewed annually by IDAPP. Modifications to this Investment Policy may only be made by a majority of the Commission members.

ILLINOIS STUDENT ASSISTANCE COMMISSION - IDAPP

QUARTERLY INVESTMENT REPORT

Introduction

The Illinois Designated Account Purchase Program (IDAPP) administers the investment of funds in the various student loan revenue bond issues of the Illinois Student Assistance Commission. These funds are held pending the origination and purchase of student loans or prior to payment of interest or principal or pursuant to certain terms of the bond documents. In accordance with the Illinois Public Funds Investment Act, the investment of these funds is restricted to investment grade securities and is further restricted to only the highest grade securities by the bond documents themselves. As of September 30, 2002 IDAPP funds are invested in the following categories: money market funds, U.S. Treasury Securities, U.S. Agencies and savings accounts.

Money Market Funds refer to trustee money market funds which invest in high-quality, short-term securities that are issued or guaranteed by the U. S. government, by U.S. government agencies, and in securities subject to repurchase agreements. IDAPP uses money market funds as an investment vehicle to meet day to day originations, purchase commitments and to meet debt service requirements.

U.S. Treasury Securities refer to direct obligations of the U.S. government, backed by the "full faith and credit" of the government, and thus by its ability to raise tax revenues and print currency. The Bureau of Public Debt of the Department of the Treasury issues U. S. Treasury Securities. IDAPP uses U.S. Treasury Securities as an investment vehicle to meet origination and purchase commitments projected over the next twelve months and to meet debt service requirements. Examples of U.S. Treasury Securities are U.S. Treasury Notes, U.S. Treasury Bonds and U.S. Treasury Bills.

U.S. Agencies refer to obligations issued by divisions of the U.S. government and by government-sponsored enterprises, created by Congress to fund certain groups of borrowers such as homeowners and farmers. IDAPP uses U.S. Agency Securities as an investment vehicle to meet origination and purchase commitments projected over the next twelve months and to meet debt service requirements. Examples of U.S. Agencies are the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac").

Savings refer to savings accounts at commercial banks, which are insured up to $100,000 by the Federal Deposit Insurance Corporation ("FDIC") and are required by IDAPP as part of its line of credit agreements with several financial institutions.

The market value of the investments reflects changes in the value of the investments from the par or purchase value due to changes in market interest rates relative to the coupon rates. The market values can be larger or smaller than the par values but do not materially impact IDAPP because the investments are normally held until maturity and thus not sold at the market value.

Below is a summary of IDAPP's investments as of September 30, 2002.

Summary

	Par Value	Market Value	Percent
Money Market Funds	$ 83,416,395	$ 83,416,395	14
U.S. Treasury Securities	0	0	0
U.S. Agencies	483,150,000	487,424,668	85
Savings	2,991,800	2,991,800	1
	$569,558,195	$573,832,863	100%

	Due < one year	due > one year & < five years	due > five years & < ten years
Money Market Funds	$ 83,416,395	$ 0	$0
U.S. Treasury Securities	0	0	0
U.S. Agencies	483,150,000	0	0
Savings	2,991,800	0	0
	$569,558,195	$0	$0

AGENDA ITEM 7.

ELIMINATION OF GUARANTEE FEE FOR FY2004

Submitted for: Action

Summary: At its November 9, 2001 meeting, the Commission authorized the elimination of ISAC's guarantee fee for ISAC-guaranteed Federal Family Education Loan Program (FFELP) loans disbursed on or after July 1, 2002 through June 30, 2003 (FY2003). The elimination of this one percent guarantee fee reduces the cost of borrowing for students and parents, and results in a greater percentage of loan proceeds becoming available to apply toward educational expenses.

Now, based on the current level of the Federal Student Loan Reserve Fund (FSLRF) administered by ISAC, and assumptions about revenues and expenditures over the next year and a half, staff recommends that the Commission take action to continue not charging a guarantee fee through the end of FY2004. This will ensure that Illinois students and parents seeking FFELP loans will enjoy the same benefits being offered by many guaranty agencies across the country. In addition, this will ensure parity with the fees currently being charged borrowers in the federal government's direct lending program. A decision on this issue at this time will allow staff to announce this important benefit to students, parents, and financial aid professionals as they start planning for the next school year.

Based on current loan volume projections, this recommended action would save Illinois students and their families about $7.5 million in FY2004. This equates to approximately $40 saved per loan guaranteed. The adjusted fund balance of the FSLRF was $62.7 million as of September 30, 2002. The $7.5 million of foregone revenue attributable to this recommended action will not adversely affect the agency's ability to support current operations.

Action requested: That the Commission approve the elimination of the guarantee fee for ISAC-guaranteed FFELP loans disbursed on or after July 1, 2003 through June 30, 2004 (FY2004).

AGENDA ITEM 8.

REVISION OF *COLLEGE ILLINOIS!* INVESTMENT POLICY

Submitted for: Action

Summary: In January 1999, the Commission adopted its initial Statement of Investment Policy for *College Illinois!*. State law requires that the Commission review and adopt this policy annually. After requesting and receiving input from each of the program's current investment managers, as well as recommendations from the program's investment advisor, revisions once again are being proposed to the adopted policy.

Watson Wyatt Investment Consulting, investment advisor for *College Illinois!*, prepared this revised policy. These revisions to the policy were discussed with members of the program's Investment Advisory Panel at its most recent meeting on October 11, 2002, held in the ISAC Deerfield office. As is the established practice, *College Illinois!* staff and a representative of Watson Wyatt reviewed the revised policy with Panel members and explained the rationale for each proposed change. Panel members agreed that the revised policy, as presented here, be forwarded to the Commission for action. For ease of reference, additions to the policy are underlined and any deletions are struck through.

This year, all proposed policy changes reflect an updating of the Investment Policy to recognize further diversification of program investments – specifically, in this instance, hiring of an intermediate fixed income manager (Richmond Capital Management) and an international equities manager (Jarislowsky Fraser Limited).

A representative of Watson Wyatt Investment Consulting will be in attendance at the Commission Meeting to discuss the proposed policy revision and respond to any questions.

Action requested: That the Commission approve the following resolution:

"**BE IT RESOLVED** that the Commission approves the Statement of Investment Policy for *College Illinois!* as revised and that the Commission directs all investment decisions for the program be consistent with the provisions set forth in the policy."

COLLEGE ILLINOIS!

STATEMENT OF INVESTMENT POLICY

Approved on January 22, 1999
~~Revised November 9, 2001~~
Revised November 8, 2002

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PROLOGUE

The "Program" Defined

This document represents the Statement of Investment Policy (Policy) for *College Illinois!*. The purpose of *College Illinois!* is to promote the furtherance of higher education for the citizens of the State of Illinois by providing a vehicle that will assist with the systematic savings for tuition and fees for Illinois public institutions of higher learning.

The “Commission” Defined

In this Policy, the “Commission” refers to the Illinois Student Assistance Commission.

The "Investment Advisory Panel" Defined

In this Policy, references to the "Investment Advisory Panel" or “Panel” are to the Panel which will provide advice to the Commission on issues related to the investments of *College Illinois!* The Commission appoints members of the Panel.

The Commission's Authority and Responsibilities

The Commission will conduct their responsibilities with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose. The Commission may delegate functions that a prudent entity acting in a like capacity and familiar with those matters could properly delegate under the circumstances. A Commission member or other fiduciary shall discharge their duties with respect to the Program solely in the interest of the Program.

The Commission will generally be responsible for the following:

(1) Complying with applicable laws, regulations, and rulings.

(2) Developing a sound and consistent Investment Policy, revising the Policy to reflect changing conditions within the markets or Program, or to refine the Policy in order to make it more effective.

(3) Searching for and maintaining qualified investment managers and consultants.

(4) Monitoring and evaluating investment performance and compliance with this Policy.

(5) Establishing the primary duties and responsibilities of those accountable for achieving investment results.

(6) Producing an Annual Report covering the following subjects:
   (a) investment performance summary including comparisons to benchmarks
   (b) current and historical asset allocation in the Program
   (c) progress toward the stated performance objectives in the Policy
   (d) other pertinent matters

(7) Providing guidelines to investment managers regarding their voting of proxies or investment securities owned on behalf of the Program.

(8) Taking action under circumstances to terminate an investment manager or consultant for failing to perform according to stated expectations or to abide by this Policy.

(9) Establishing and reviewing the appropriateness of the Program's asset allocation policy.

The Investment Advisory Panel's Authority and Responsibilities

The Panel will generally be responsible for the following:

(1) Complying with applicable laws, regulations, and rulings.

(2) Providing advice to the Commission for developing a sound and consistent asset allocation and Policy, recommending revisions to the allocation and Policy to reflect changing conditions within the markets or Program, or to refine the allocation and Policy in order to make them more effective.

I. PURPOSE OF POLICY

To Record Long Range Policy

This document represents the conclusions and decisions made after a deliberate and focused review of the Program's expected obligations and funding resources over a long-range future period. The Program's investments represent an opportunity:

- to provide a resource for future tuition payments to beneficiaries
- to insulate the Program's assets against the deterioration of purchasing power caused by inflation
- to diversify assets across and within capital markets

The Commission recognizes that investment markets have repeatedly demonstrated broad performance cycles having two fundamental characteristics, which bear heavily on the Program's expectations toward its future:

(1) The cycles cannot be accurately predicted as to either their beginning points, ending points, or their magnitude, and

(2) There is little or no relationship between market cycles and the convenient fiscal or calendar periods commonly used for measurement and evaluation.

Although the Commission will review investment performance and investing activities on a regular, periodic basis, the formation of judgments and the actions to be taken on those judgments will be aimed at matching the emerging long term needs of the Program with the proven, long term performance patterns of the various investment markets.

To Promote Understanding Among Various Functional Roles

This document is intended to serve as a reference tool, an operating code, and a communications link between the Commission and

- its staff,
- its own new members,
- its Investment Advisory Panel,
- its investment managers, and
- its other professional advisors.

To Address Fiduciary Obligations

This document records the Commission's logical and diligent process of study, examination, evaluation, and conclusions about the most suitable combination of investment risk level and rate of return which will satisfy both the Program's emerging obligations and the priorities for funding them.

The Commission recognizes its duty to remain aware of conditions and developments in the Program's investment activity, but it is not believed desirable or productive for the Commission to react to short term situations in a manner which contradicts the long term approach underlying this Policy Statement.

II. ASSET ALLOCATION

Development of Long-Term Asset Allocation Policy

An asset allocation study will be conducted periodically to determine an appropriate long-term asset allocation policy to achieve investment objectives.

Asset Classes to be Used

The Commission has decided it is most appropriate to use the following asset classes:

Domestic Common Stocks, small, mid and large
International Stocks, including emerging markets
Domestic Bonds, and
Cash and Equivalents

The allocation to cash and equivalents will be determined by staff to be sufficient for expected expenditures.

Long-Term Target Allocations

After study of long term historical capital market performance, the Commission finds that the following target mixture, at market value, of asset classes is expected to produce the desired performance at acceptable risk levels over time:

Domestic Large Capitalization Common Stocks	~~50%~~45%
Domestic Small/Mid Capitalization Common Stocks	10%
International Stocks	5%
Domestic Bonds	38%
Cash and Equivalents	2%

These targets will be reached as soon as practical.

Allowable Ranges Around Target Allocations

The Commission recognizes that a rigid asset allocation would be both impractical and, to some extent, undesirable under various possible market conditions. Therefore, the allocation of assets may vary from time to time within the following ranges, without being considered an exception to this Investment Policy:

Domestic Large Common Stocks	~~40% to 60%~~35% to 55%
Domestic Small/Mid Stocks	5%~~-~~ to 15%
International Stocks	0% to 10%
Domestic Bonds	30% to 45%
Cash and Equivalents	0% to 5%

Allocation Among Different Investment Management Styles

In considering asset classes, the Commission has concluded that assets should be invested through a combination of active and passive management. As assets of the Program increase, additional diversification will be achieved through additional active management in different investment classes and styles.

The Commission's approach in making allocations among investment managers will be to:

(a) have "core" allocations in both equities and fixed income. Core management typically follows the performance patterns of a broad market index for that asset class and may be either active or passive.

(b) have a relatively equal balance among the major different active management styles that are considered non-core.

Stocks will be sub-allocated to different investing styles:

(a) Index replication (S&P 500 Index)

A passive management open end fund which maintains a portfolio of all, or nearly all, of the 500 stocks which make up the index.

(b) Growth Style

An active management style which generally emphasizes earnings growth and expected return on equity, with little emphasis upon dividend payout.

(c) Value Style

An active management style which generally concentrates on stocks characterized by above average yield and below average price/book, strong balance sheet characteristics and free cash flow.

(d) Small/Mid Capitalization Style

An active management style which concentrates in securities with market capitalizations ranging from $100 million to $5 billion. Core growth strategy which employs more risk while offering added return potential and increased diversification.

(e) International Equity Style

Active management through the use of commingled fund vehicles, investing in non-U.S. equities. Funds may be managed on a bottom-up or top-down basis, employ currency hedging, and include emerging market country exposure.

Bonds will primarily be invested in a total return active strategy which will employ all legally permitted fixed investments across all maturities. The investments will be through an active management style which maintains similar characteristics and duration as the Lehman Aggregate Index and in a more conservative strategy, focusing on one to ten year maturity bonds.

Manager Selection

The Commission will hire competent registered professional investment managers to manage the assets of the Program.

No investment managers shall be hired who have not, by their record and experience, demonstrated their fiduciary responsibility, their investment expertise, their investment experience, and their capacity to undertake the mandate for which they are being considered.

- Acknowledge in writing a fiduciary relationship with respect to the Program.
- Be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of 1940, a bank (as defined in the Act), or an insurance company qualified to perform investment management services under the law of more than one state unless otherwise approved on an exception basis; and
- Be granted by the Program the power to manage, acquire or dispose of any assets of the Program pursuant to the Program documents.

College Illinois! will establish investment guidelines for the investment managers and will conduct thorough due diligence before the appointment of all investment managers.

Manager Terminations

Investment managers may be terminated whenever in the opinion of the Commission:

- They have committed a significant or intentional breach of their mandate or directive, they have experienced the loss of key personnel, they have breached a fiduciary duty, or for any other reason they have lost the confidence of the members.
- Performance has not been acceptable. Generally, decisions based on performance will be made only after a significant period of disappointing performance, although the period may be shorter when severe underperformance or other evidence exists that suggests inconsistencies between the investment manager's stated style and the characteristics of investments actually made.
- ~~Managers~~Managers' inability to comply with any and all state requirements.

Attitude Toward Market Timing and Short Term Allocation Shifts

The Commission wishes to allow its investment managers the opportunity to practice their art without undue interference. However, it is hereby made clear that this Policy was the product of the Commission's study of proven performance patterns in the capital markets. The Commission has reviewed considerable evidence that the passage of time causes the greatest rewards to accrue in favor of consistent investing approaches. It is not therefore, the general intention of this Policy to allow short-term judgments to introduce significant unneeded risk.

Unallocated Cash

The Commission will generally attempt to see that the Program's assets include a cash reserve sufficient to pay tuition payments and expenses due within a reasonable future period. Therefore, any investment manager performing under this Policy is not expected to accumulate a significant cash position, without prior approval of the Commission. In general, "significant" means more than 5% of the value of assets, at market, under management. One exception to the 5% rule is during trading activity. Managers are periodically allowed to exceed the 5% for very short time periods, i.e. less than 30 days. At no time will the cash position exceed 10% at market.

Re-balancing Among Asset Classes and Allocation of Net Contributions

Because different asset classes and styles will perform at different rates, the Commission will keep close scrutiny on the asset allocation shifts caused by performance.

The Commission will review the relative market values of the asset segments on a quarterly basis and will generally shift assets among classes in order to move asset allocation to within the allowable ranges and near to the specified targets in this Policy.

Proxy Voting

Investment managers have the responsibility for voting proxy issues on securities held. All proxies will be voted exclusively for the best interests of the Program and their participants. Managers will maintain written policies for proxy voting and keep a proper record of all proxies to which the Program is entitled. A written report will be provided semi-annually.

III. PERFORMANCE OBJECTIVES

Standards of Performance

In consideration of the Program's investment goals and objectives, several standards will be utilized in evaluating investment performance. These standards reflect several aspects of investment performance, including the specific objectives for the mandate, the market indices, and the performance of other investment managers.

Expected Returns and Time Horizons

Nominal Returns

Based upon actual market history (1973-~~1999~~2001) and advice from their investment consultant, Watson Wyatt Investment Consulting, regarding possible market conditions, the Commission has assumed the following target long-term returns.

	~~(Index) Return*~~	(Index Return)
Domestic Large Stocks	~~9.0%~~	8.3%
Domestic Small/Mid Stocks	~~9.1%~~	8.2%
International Stocks		8.5%
Domestic Core Bonds	~~6.9%~~	6.2%
Domestic Intermediate Bonds		5.7%
Cash	~~5.0%~~	4.1%
Total Fund	~~8.1%~~	7.7%
Inflation	~~2.5%~~	2.5%

Inflation-Adjusted Returns

The fund's investments are expected to outperform an inflation index (CPI) by at least the following margins:

	~~Points*~~	Points*
Domestic Stocks	~~6.5%~~	5.8%
Domestic Bonds	~~4.4%~~	3.7%
International Stocks		6.0%
Total Fund	~~5.5%~~	5.2%

**Compounded annually*

Expected Variability of Returns

The Commission has examined the historical patterns of volatility and variability associated with each asset class and, collectively, for the long-range portfolio mixture contained in this Policy. The expected variability of returns is as follows:

	~~Expected Market (Index) Return~~	~~Expected Standard Deviation~~	~~Expected Range of Average Market Returns~~	
			~~Worst Expected~~	~~Best Expected~~
~~Domestic Large Stocks~~	~~9.0%~~	~~±16.0%~~	~~-14.2%~~	~~17.7%~~
~~Domestic Small/Mid Stocks~~	~~9.1%~~	~~±21.0%~~	~~-19.5%~~	~~20.3%~~
~~Domestic Bonds~~	~~6.9%~~	~~±6.0%~~	~~-1.4%~~	~~8.6%~~
~~Cash~~	~~5.0%~~	~~2.5%~~	~~0.1%~~	~~10.0%~~
~~**Total Fund**~~	~~**8.1%**~~	~~**9.4%**~~	~~**-6.1%**~~	~~**25.0%**~~
~~Inflation~~	~~2.5%~~	~~N/A~~	~~N/A~~	~~N/A~~

	Expected Market (Index) Return	**Expected Standard Deviation**	**Expected Range of Average Market Returns**	
			Worst Expected	**Best Expected**
Domestic Large Stocks	8.3%	±16.1%	-14.9%	16.9%
Domestic Small/Mid Stocks	8.2%	±21.4%	-19.5%	19.9%
International Stocks	8.5%	±18.7%	-17.9%	18.5%
Domestic Core Bonds	6.2%	±6.8%	-2.8%	7.8%
Domestic Intermediate Bonds	5.7%	±5.0%	-1.2%	7.2%
Cash	4.1%	2.9%	0.1%	9.2%
Total Fund	**7.7%**	**10.6%**	**-7.6%**	**15.8%**
Inflation	2.5%	N/A	N/A	N/A

Performance Benchmarks and Targets for the Fund's Investment Managers

Market Indices

For the actively managed portion, the Commission recognizes that investment managers must use the broad capital markets as their basic tools for investing and that a portion of investment returns will not be attributable to management skills, but rather to the markets themselves. However, the Commission expects that its investment managers in each market segment will, in the aggregate, add value to the broad markets' returns, net of fees. The aggregate approach is specifically intended to recognize that different management styles exceed and lag the broad market indices in a cyclic fashion. Accordingly, based on the active mandates that have been chosen, the Commission has determined the appropriate benchmarks and universes to be:

Investment Manager	**Market Index**	**Manager Universe**
Large Cap Core	S&P 500 Index	Large Capitalization Equity
Large Cap Value	Russell 1000 Value Index	Large Capitalization Value
Large Cap Growth	Russell 1000 Growth Index	Large Capitalization Growth
Small/Mid Cap	Russell 2000 Index	Small/Mid Capitalization
International Stocks	MSCI EAFE Index	International Stocks
Domestic Core Fixed Income	Lehman Aggregate Index	Domestic Core Fixed Income
Domestic Intermediate Fixed Income	Lehman Intermediate Government Credit Index	Domestic Intermediate Fixed Income

Universes of Other Managers

The Commission expects the Program's active managers to perform credibly within a peer group of other managers/funds with similar asset mixes and investment styles. The following standards will be expected:

Expected Ranking	Time Frame
upper half	every 2 years
upper third	every 4 years

IV. OPERATIONAL GUIDELINES

General

The investment managers shall exercise due care at all times to adequately diversify the portfolio to protect against any loss associated with a single security, issuer, or single event. Assets are to be managed in conformity with the stated investment guidelines. The investment managers shall notify the Commission in writing immediately of any deviations from the investment guidelines.

Number of Managers to Be Used

In order to improve overall portfolio performance and further reduce risk, the Commission has recommended the use of multiple investment managers.

Exemptions

Although the following vehicles are expected to comply with "the spirit" of this investment policy, they are exempt from the provisions of this policy and as such the prospectus and/or appropriate Plan documents will replace this policy as the legal governing document for such funds:

- Mutual funds, commingled funds, group trusts, and common trust funds.

Managers shall notify the Commission in writing of any cases where the operational guidelines for these vehicles conflict with the general provisions of this investment policy.

The following standards apply for each active manager.

Standards for Managers

	Equities	**Fixed Income**
Minimum Diversification Standards		
Single security issue	(a) Maximum 10%*	(a) Maximum 10%* (25% for any U.S. Government Security)
Single economic sector group (Style benchmark definition Page 13)	(b) +/- 3 times sector weight, or 10% whichever is greater. The minimum sector weight can be zero.	(b) Maximum 15%* (except U.S. Govt.)

** Percentages relate to the market value of any single investment manager's portfolio (not to the total fund).*

	Equities	Fixed Income
Minimum Liquidity Standards	(a) Traded daily on one or more major national exchanges (including NASDAQ). (b) $100 million or more of market capitalization, except for managers classified as small capitalization managers, who may use stocks having as little as $50 million of market capitalization.	Remaining outstanding principal value of the issue must be (and remain) at least $30 million, without Commission approval.
Minimum Quality Standards	(a) At least 1 year of (publicly held) earnings history**.	Quality ratings: Minimum (Investment grade only): S&P: BBB Moody's: BAA Expected Average: S&P: A Moody's: A In the case of a split rating, the higher rating shall apply. Securities which are downgraded below the policy minimum may be held at the manager's discretion, for up to 6 months.

*** Either as a stand-alone company, or as a separately identifiable subsidiary, division, or line of business.*

	Equities	**Fixed Income**
Bond Maturities	N/A	(a) Minimum (single-issue) maturity: None, but maturities under 12 months will be viewed as "cash" under this policy. (b) Maximum remaining term (or estimated term) to maturity (single issue) at purchase: 35 years. (c) Maximum duration: +/-1 year of Lehman Aggregate Index.
Prohibited Categories	(a) Short sales or "naked options" (b) Margin purchases (c) Issues related to the investment manager (d) Restricted stock (e) Writing of covered call options (f) Futures contracts (unless used for hedging purposes within a fund)	(a) Issues related to investment managers (b) Non-rated paper/private placements and revenue bonds (c) Derivative instruments (d) Foreign securities
Special Categories Permitted	(a) Convertible debt (b) American Depository Receipts (ADRs) (c) IPO's up to 5% at market	(a) Yankees (b) Rule 144a securities, up to 10% at market
Portfolio Turnover Maximum expected turnover in any one quarter. Exceptions require explanation to the Commission.	50%	50%
Written Reports to the Commission	At least quarterly	At least quarterly

V. EVALUATION AND REVIEW

Frequency of Measurement

The Commission expects to measure investment performance quarterly.

Expected Interim Progress Toward Multi-Year Objectives

The Commission will follow its time horizons, as set forth in this Policy, when making judgments about indications of inferior performance. However, investment managers for the Program should be advised that the Commission intends to track the interim progress toward multi-year goals. If there is a clear indication that performance is so substandard that reasonable hope of recovery to the Policy's target level in the remaining time horizon period would require either high risk or good fortune, then the Commission will not feel constrained by this Policy to avoid an "early" decision to take corrective action.

Inconsistent Management Style Not Acceptable

As stated in other parts of this Policy, the Commission will have little or no tolerance for an inconsistent investment approach. Therefore, the Commission will carefully monitor its investment managers on several key indicators of possible inconsistency:

(1) Changes in portfolio managers,
(2) Surges in portfolio trading volume,
(3) Evidence that actual portfolio characteristics do not follow the manager's published investing style,
(4) Performance patterns not logically explainable in terms of the published style, or performance out-of-step with manager's style peer group,
(5) major ownership changes,
(6) changes in firm structure,
(7) financial irregularities, and
(8) deficiencies in reporting.

None of these indicators is taken to be conclusive evidence of inconsistency. Such a finding would be based upon the facts and situation.

Frequency of Meetings

The Commission staff expects to meet with representatives of active managers at least semi-annually and representatives of passive funds at least annually.

VI. POLICY MODIFICATION AND REVISION

Frequency of Policy Review

The Commission will use each of its periodic investment performance evaluations as occasions to also consider whether any elements of the existing Policy are either insufficient or inappropriate. However, a formal review of the Statement of Investment Policy will occur annually. Key environmental or operational occurrences, which could result in a Policy modification, include:

(1) Significant changes in expected patterns of the Program's liability stream,
(2) Impractical time horizons or changes,
(3) Change in the Program's priorities,
(4) Convincing arguments for change presented by investment managers and consultant,
(5) Legislation, and
(6) Areas found to be important, but not covered by the Policy.

Commission's Philosophy Toward Policy Modification

While the Commission will review this Policy annually, the Commission recognizes that major changes to the Investment Policy can produce potentially damaging inconsistency. Changes, particularly the type that can be characterized as reversals of direction, or "responses" to current market conditions from time to time, are viewed as particularly undesirable. But the Commission does not conclude that this Policy document should be unresponsive to changing conditions, particularly those having to do with the Program liabilities.

VII. POLICY ADOPTION

This Policy document was adopted by the Commission of *College Illinois!* on the 22nd day of January, 1999 and previously revised on November 13, 2000 and November 9, 2001. This revised policy was approved by the Commission on ~~November 9, 2001~~ November 8, 2002.

Investment Manager's Acknowledgments:

We have received this copy of the Program's Investment Policy. We have studied its provisions and believe that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy.

_____
Firm Name

_____ _____
Date Investment Manager

AGENDA ITEM 9.

APPOINTMENT OF *COLLEGE ILLINOIS!* INVESTMENT ADVISORY PANEL MEMBERS

Submitted for: Action

Summary: The Illinois Prepaid Tuition Act, which authorizes the Commission to administer the *College Illinois!* program, requires the Commission to appoint a seven-member advisory panel to assist it with certain matters pertaining to program investments. Three appointments are made exclusively by the Commission. The remaining four are made based upon nominations submitted to the Commission by Directors of the following four governmental offices: the Illinois Board of Higher Education; the Illinois State Comptroller; the Illinois State Treasurer; and the Illinois Bureau of the Budget.

In 1998, the original seven members were appointed to the *College Illinois!* Investment Advisory Panel. At that time, two members received two-year terms, two members were appointed for three-year terms; and three members were appointed for four-year terms. Subsequent appointments or re-appointments have been, and will be, for a standard three-year term, as required by statute. With calendar year 2002 coming to a close, the terms of three Panel members appointed exclusively by the Commission in 1998 are about to expire.

Two of the current appointees whose terms are about to expire have not requested re-appointment. The third member, Michael Neill of Carbondale, Illinois, has been recommended for re-appointment by Commission Chairman J. Robert Barr. Mr. Neill, who served formerly as a member of the Commission from 1993 to 1998, is currently a Trust Officer at the Old National Trust of Carbondale and is also a member of the Carbondale City Council.

Mr. John Albin, President of Longview Capital Corporation and proprietor of Albin Farms, of Newman, Illinois, also has been recommended for appointment to the Panel by Chairman Barr. Mr. Albin is past Chairman of the Parkland Community College Board, and an active member of both the Illinois Community Bankers Association and the Illinois Community College Trustees Association. He also very recently served as a member of the Commission from July 1996 through June 2002.

As of the date of the Agenda Book, the Chairman has not formally recommended a third appointment to the Panel for consideration at the Commission's November 2002 meeting. It is anticipated that this additional appointment will be a topic for consideration at the Commission's next meeting, scheduled for January 2003.

Action requested: That the Commission approve the nominations of Mr. Michael Neill and Mr. John Albin to serve concurrent three-year terms as members of the *College Illinois!* Investment Advisory Panel.

AGENDA ITEM 10.

FY2004 MAP START-UP FORMULA DISCUSSION

Submitted for: Information

Summary: In January of 2003 the Commission will need to act on a Monetary Award Program (MAP) start-up formula to be used to initially calculate and announce awards to students applying for the 2003-2004 school year. Action on the formula is typically taken in January even though the final appropriation is unknown, in order to assist students with their enrollment decisions and financial planning for college. Final award amounts are made through approval of the recompute formula in July after the spring legislative session is over and the final MAP appropriation is known.

Because of the reduction in MAP funding this year in comparison to FY2002, and action that the Commission had to take in order to reallocate award amounts in response to that reduction, staff is starting the discussion on the FY2004 MAP formula earlier than usual. The purpose of this item is to consider the desirability of three possible changes to the current formula for start-up. Options presented here include:

- Replacing the FY2002 Federal Pell Grant Payment Schedule with the FY2003 Schedule. Between FY2002 and FY2003 the maximum Pell Grant increased from $3,750 to $4,000. This represents an increase in resources for students to help pay college costs and should be taken into consideration in formula allocation decisions. Accounting for the increase in the Pell Grant in the formula results in savings of $6 million that can be reallocated to another Commission priority.

- Replacing FY2002 tuition and fees with FY2003 tuition and fees at 95 percent of their value. The money saved by reallocating Pell would cover this change and would allow students to have their awards calculated more in line with the actual costs they face. Students at institutions whose tuition and fees did not increase at least 5 percent in FY2003, however, could realize awards less than their FY2002 levels.

- Replacing the current method of inflating the expected family contribution for dependent student parents, independent students with dependents, and independent students without dependents with a single formula. This change would greatly simplify the formula. Affordability for certain second income quintile dependent students would improve, however, it would be at the expense of students who are classified as independent students without dependents.

Staff is seeking input on these options prior to making start-up recommendations for the Commission in January.

Action Requested: None

ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2004 MAP START-UP FORMULA DISCUSSION

Introduction

In January of each year the Commission makes an initial decision about how to allocate Monetary Award Program (MAP) funds for the upcoming school year. This decision takes into account assumptions about funding and expected volume, and results in an approved start-up formula which is used to calculate and announce award amounts based on data filed on the Free Application for Federal Student Aid (FAFSA). This decision is made before the Commission knows what funding level will be approved for MAP and before any data regarding application volume are available.

Frequently, the MAP start-up formula is the same as the previous year's recompute formula; in recent years the Commission has often authorized the use of new tuition and fees if an institution had approved new rates by start-up even though final funding for the program was unknown. Last January, however, because of concerns about the state's financial condition, the Commission opted for a more conservative start-up model, one that continued to use the previous year's tuition and fees.

The final FY2003 MAP appropriation totaled $333 million, a 10 percent decrease in funding compared to the FY2002 appropriation and 10 percent less than the amount needed to fund the start-up formula. As a result, the Commission was not only unable to add new tuition and fees to the formula but had to take action in late June to revise student awards downward from the start-up amounts. Specifically, the following actions were taken:

- All awards were eliminated for students who had already received MAP payments for the equivalent of four years of full-time study.
- All remaining awards were reduced from their start-up levels by 5 percent.
- All award announcements were suspended at mid-August.

In September 2002, the Commission approved a MAP budget request for FY2004 totaling $425.8 million. This request seeks funding sufficient to cover FY2004 tuition and fees, eliminate the 5 percent award reduction factor, increase the maximum award by 5 percent, provide for award announcements through the end of August, and reinstate fifth-year eligibility for students enrolled in five-year programs. The next step in the FY2004 budget process is approval of the Illinois Board of Higher Education's recommendations for higher education, including MAP, in early December. The final FY2004 appropriation will not be known, however, until after the Governor and General Assembly take action next spring.

Affordability is a preeminent issue at both the federal and state level. The Federal Student Advisory Committee's June 2002 report, "Empty Promises," calls for a renewed commitment to expand college access through need-based aid. In Illinois, the IBHE recently commissioned the Committee on Affordability to assess Illinois's current situation and propose actions that can be taken to enhance affordability for Illinois college students in time for the FY2005 budget cycle. In the meantime, however, the latest forecasts from the state's budget and fiscal staff suggest that the

state's financial condition will continue to be problematic for FY2004. It is in this environment that the Commission will need to make a decision about how to allocate MAP funds for FY2004. In preparation for a January decision on the start-up formula, the remainder of this item discusses some possible changes that could be considered.

The FY2003 MAP Formula

The MAP formula currently has three parameters; *cost, resources, and maximum eligibility*. For purposes of determining MAP eligibility, *cost* is defined as the tuition and fees charged to students combined with a standard cost of living allowance to help address room, board, books, supplies, transportation, and personal expenses. *Resources* include an estimated Federal Pell Grant amount and an ISAC assessment of family resources. Currently, ISAC assesses family resources by inflating the Federal expected family contribution (EFC) in order to better ration limited program funds. *Maximum eligibility* incorporates a number of other parameters that limit or define the award amount. The maximum that can be paid to a student is the statutory maximum and, by Commission policy, the minimum award is $300. No awards are provided to students whose EFC is above $9,000 and effective with FY2002, all awards are reduced by 5 percent. The current formula is shown in Figure 1.

Figure 1: FY2003 MAP Formula

College Cost
- FY2002 Tuition and Fees
- Cost of Living Allowance of $4,875

Resources
- 80% of Pell Grant as estimated by FY2002 Pell Grant Table.
- ISAC Assessment of Family Resources (Inflated EFC).
- Minimum student contribution set to $1,800.

Award Amounts
- Award is the lesser of FY2002 tuition and fees or the maximum of $4,968, or maximum eligibility.
- Award is reduced by 5%.
- No awards for applicants with an EFC of $9,000 or greater.
- No awards for students who have received payment for 48 eligibility units (four years.)

Start-up Formula Issues

For the FY2004 MAP Start-up Formula, staff has worked with the ILASFAA Formula Committee to identify possible conservative approaches. Staff is now presenting three possible changes to the current formula shown above. These include: (1) utilizing the FY2003 Pell Grant Payment Schedule, (2) incorporating FY2003 tuition and fees at a reduced level, and (3) revising the method of inflating the expected family contribution. These changes could be incorporated individually or in conjunction with each other and a more in-depth discussion on these issues follows. Appendix A provides summary tables that show the projected cost of incorporating these changes to the formula and the overall impact on student eligibility by school type.

Federal Pell Grant Table

The new maximum Federal Pell Grant award a student can receive during school year 2002-2003 is $4,000. The current formula still uses the FY2002 table that has a maximum award of $3,750. Appendix A shows this scenario as Model A. At present, staff plans to recommend that the FY2004 MAP start-up formula use the newer FY2003 table and the $4,000 maximum while continuing to assess the Pell Grant at 80 percent of its value. Incorporating the new Pell is shown as Model B in Appendix A. The Pell Grant is a real resource available to students to cover any college cost and needs to be taken into consideration in determining how to allocate state funds. Staff also examined increasing the assessment rate from 80 percent but since the cost of living allowance has not been raised for two years, felt it appropriate to maintain the 80 percent rate at present. Using the new Pell maximum reduces MAP awards to students eligible for Pell Grants by $6 million that can be reallocated elsewhere. One option would be to use those funds to provide awards to additional students.

Tuition and Fees

The current formula utilizes FY2002 tuition and fees in order to assess MAP eligibility. This means that the formula is already one year behind in recognizing actual tuition and fees. FY2003 tuition and fees increased overall by 7 percent but varied considerably by institution; changes ranged from an increase of 31 percent to a decrease of 9 percent. Some students were therefore "gapped" considerably more than others when their award not only was reduced by 5 percent but also failed to be calculated against the true costs they faced in FY2003.

One possibility for start-up is to continue calculating FY2004 eligibility on FY2002 tuition and fees. Another option is to use FY2003 tuition and fees amounts. Since the Commission has no new funding at this point to cover these costs, they could be incorporated at 95 percent of their value if the savings from incorporating FY2003 Pell amounts were utilized. Appendix A shows this scenario as Model C. The funding being sought for FY2003 tuition and fees in the FY2004 budget request, if received, could then be used to eliminate the 95 percent multiplier as well as to address other formula priorities.

Approximately 54 percent of MAP-approved institutions increased their tuition and fees more than 5 percent in FY2003. Changing the formula to use the new tuition and fees would benefit approximately 40,000 students attending these institutions. However, students attending the other 46 percent of institutions would have their awards calculated on tuition and fee figures less than the FY2002 amounts and could realize a decrease in their FY2004 awards in comparison to their FY2003 awards. Staff estimates that approximately 20,000 applicants would see lower eligibility, however, the majority would lose less than $300. Because MAP is an "access and choice" program, using FY2003 tuition and fees - even at a reduced amount - may be a more appropriate means of reallocating MAP funds in response to the tuition and fee costs students actually face.

Using FY2003 tuition and fees at 95 percent value would result in minimal award amount changes for students attending private institutions; 97 percent already receive the maximum award. The award size shifts that occur would be among students within the public sectors, specifically, from students whose institution increased tuition and fees less than five percent to students attending institutions whose increases were more than five percent.

Assessing Family Resources

One of the key elements in the MAP formula is the assessment of family resources. The current federal need analysis, Federal Methodology (FM), is used to determine an expected

family contribution (EFC). This EFC is used to determine eligibility for need-based federal programs including the Federal Pell Grant Program. The EFC was originally conceived as a measure of family financial strength but today is regarded more as an “eligibility index” than as a true expected contribution from the family.

Since the early 1980's, ISAC has based its assessment of family resources on the Federally-determined EFC but has adjusted, or inflated, the Federal EFC to better ration limited program funds. The majority of state grant programs throughout the country use either FM to calculate an EFC for their need-based programs or a modified version of FM such as Illinois does. The remainder of this discussion focuses on the way ISAC currently modifies the FM to result in an ISAC-adjusted EFC.

Federal Methodology Assessment Rates

The purpose of FM is to assess the family's financial strength to determine an EFC for college. Applicants are classified into three types based upon criteria such as age, marital status, and children. The three types are *independent students with dependents*, *independent students without dependents*, and *dependent students.*

Dependent students are generally under 24 years of age, unmarried, without dependents, and are required to file both their financial information as well as that of their parents. When determining the EFC for a *dependent applicant*, the FM takes into account parental income, both taxable and nontaxable, and subtracts a number of allowances from that total income. These allowances provide for federal and state taxes, social security tax, family maintenance based on family size and the number of students in college, and an employment expense allowance. Any remaining income is known as the “available income” or discretionary income.

For families reporting asset information - families whose incomes are $50,000 or more are required to do so - an education savings and asset protection allowance based on the age of the parent is subtracted from any equity from savings and investments. For example, the asset protection allowance for a married couple in which the older parent is age 45 is nearly $39,000. Home equity, including any family farm equity as well as business equity, has been excluded from consideration as an asset in federal need analysis since FY1994. After the asset protection allowance is subtracted, 12 percent of remaining assets, if any, are added to the "available income" which is then subjected to the adjusted available income (AAI) rates shown in Table 1. The minimum rate is 22 percent and the maximum rate is 47 percent. Therefore, minimally, 22 percent of the parents' available income is expected to help cover college costs in FM.

Independent students with dependents are subject to the same methodology and rates as the parents of dependent students; their available income after taxes and other allowances is assessed minimally at 22 percent. Income for *dependent students* and *independent students without dependents*, however, is assessed at a higher rate of 50 percent after federal, state, and social security allowances, and an income protection allowance of $2,330 are removed. In the case of the dependent students, the student's contribution is added to the parents' resulting in the total EFC.

ISAC MAP Assessment Rates

As noted above, in the case of dependent students, the EFC is derived from both the parent contribution (PC) and the student contribution. The Commission currently assesses the parental contribution portion of the EFC at higher rates than those used in FM. These are shown in Table 1. These higher rates are also used for independent students with dependents.

Table 1: FY2003 AAI Assessment Rate Table

Adjusted Available Income (AAI)	Federal Methodology Assessment Dependent Parents' and Independent with Dependents' Contribution	ISAC Adjusted Assessment Dependent Parents' and Independent with Dependents' Contribution
$11,800 or less	22% of AAI	30% of AAI
$11,801 to $14,800	$2,596 + 25% of AAI over $11,800	$3,540 + 45% of AAI over $11,800
$14,801 to $17,800	$3,346 + 29% of AAI over $14,800	$4,890 + 55% of AAI over $14,800
$17,801 to $20,800	$4,216 + 34% of AAI over $17,800	$6,539 + 65% of AAI over $17,800
$20,801 to $23,900	$5,236 + 40% of AAI over $20,800	$8,488 + 75% of AAI over $20,800
$23,901 or more	$6,476 + 47% of AAI over $23,900	$10,812 + 85% of AAI over $23,900

Prior to FY1994, the assessment rate on the income of *dependent students* and *independents without dependents* was 70 percent, and at that time Commission decided not to inflate the contribution expected from those students beyond requiring a minimum contribution of $1,800. In FY1994, the Federal assessment rate was lowered to 50 percent. Due to this change and in response to a recommendation from the ILASFAA Formula Committee, the Commission began inflating the EFC resulting from FM for independent students without dependents in FY1996. This was done to reallocate funds to lower the AAI assessment rates on dependent parents and independent students with dependents. The current inflation methodology for independent students without dependents is shown in Table 2.

Table 2: FY2003 EFC Assessment Rate Table for Independent Students Without Dependents

Federal Methodology Expected Family Contribution	ISAC Adjusted Expected Family Contribution
$2,596 or less	Larger of Federal EFC or $1,800
$2,597 to $4,216	$2,596 + (1.2 x EFC over $2,596)
$4,217 or more	$4,540 + (1.7 x EFC over $4,216)

The Progressive Multiplier

In an effort to improve affordability for second income quintile families as well as to simplify the formula for students and parents, staff working with the ILASFAA Formula Committee have been examining different methodologies for adjusting or inflating the EFC. This methodology would simplify the current adjustment to the PC for parents of dependent students and the EFC for independent students by applying a single progressive inflation factor. All students would continue to be subjected to the current $1,800 minimum contribution. The proposed formulas replacing Tables 1 and 2 would be:

Adjusted Dependent Students' Parent Contribution:
Adjusted PC = PC x [PC/11,000 + 1.1]

Adjusted Independent Student Contribution:
Adjusted EFC = EFC x [EFC/11,000 + 1.1]

Table 3: PC/EFC Calculations and ISAC-Adjusted PC/EFC Calculations for Dependent Students' Parents and Independent Students With Dependents

Family Income (Size=4)	Adjusted Available Income (AAI)	Federal Methodology PC/EFC	As a % of AAI	Current ISAC-Adjusted PC/EFC*	As a% of AAI	Proposed ISAC-Adjusted PC/EFC*	As a % of AAI
$25,550	2,000	440	22%	600	30%	502	25%
$27,975	4,000	880	22%	1,200	30%	1,038	26%
$30,750	6,000	1,320	22%	1,800	30%	1,610	27%
$39,030	12,000	2,646	22%	3,630	30%	3,547	30%
$50,100	20,000	4,964	25%	7,969	40%	7,700	39%
$57,000	25,000	6,993	28%	11,747	47%	12,138	49%

* Reflect adjusted amounts before subjection to the ISAC $1,800 minimum contribution requirement

Table 3 shows a comparison of the Federal EFC, the current ISAC-adjusted EFC, and the proposed ISAC-adjusted EFC for dependent parents' contributions and independent students with dependents' contributions at selected income levels. As shown in Table 3, under the proposed formula, a dependent parental contribution (PC) of $1,320 would inflate to an ISAC-adjusted PC of $1,610 and an EFC of $2,646 would be equal to an ISAC-adjusted EFC of $3,547. Table 4 shows comparative data for independent students without dependents. In this case an EFC of $3,000 would be inflated to $4,118 instead of the current $3,081.

Table 4: EFC Calculations and ISAC-Adjusted EFC Calculations for Independent Students Without Dependents

Family Income (Size=1)	Adjusted Available Income (AAI)	Federal Methodology EFC	As a % of AAI	Current ISAC Adjusted EFC*	As a % of AAI	Proposed ISAC-Adjusted EFC*	As a % Of AAI
$8,200	2,000	1,000	50%	1,000	50%	1,191	60%
$10,860	4,000	2,000	50%	2,000	50%	2,564	64%
$13,515	6,000	3,000	50%	3,081	51%	4,118	69%
$16,175	8,000	4,000	50%	4,281	54%	5,855	73%
$21,475	12,000	6,000	50%	7,573	63%	9,872	82%

* Reflect adjusted amounts before subjection to the ISAC $1,800 minimum contribution requirement

The result of such a methodology change is twofold. First, it causes some subtle shifts in award eligibility among dependent applicants as well as independent students with dependents. Those shifts occur primarily as a result of the use of a progressive multiplier as opposed to the current ISAC-adjusted AAI rate tiers. Second, and more importantly, it increases eligibility for some second income quintile dependent students, but it does so at the expense of eligibility losses for certain independent students without dependents.

Table 5 shows the overall shift in eligibility that occurs on a modeling distribution representing applications received by mid-August. Students who "lost eligibility" lose all MAP eligibility; students who "decreased eligibility" lose some but not all MAP eligibility. Based on simulations using a mid-August modeling distribution, almost 99 percent of applicants who were MAP eligible under the FY2003 recompute formula using inflated AAI rates retain eligibility under the progressive multiplier formula. Further, 96 percent retain the same MAP eligibility or have increased MAP eligibility.

Table 5: Changes in MAP Eligibility by Dependency Type
Effects of Using a Progressive Multiplier

	Lost All Eligibility	Decreased Eligibility	Newly Eligible	Increased Eligibility	Same Eligibility
Dependents					
Number	62	753	1,723	18,996	58,739
Average Federal EFC	8,426	8,143	4,740	3,524	1,931
Average Parent Income	$63,887	$69,086	$53,117	$40,257	$26,170
Average Change in Award	-$747	-$694	$504	$308	$0
Indep With Dependents					
Number	16	200	258	2,332	53,848
Average Federal EFC	7,917	7,863	4,110	3,433	553
Average Student Income	$59,171	$62,950	$53,361	$44,449	$18,483
Average Change in Award	-$686	-$752	$568	$309	$0
Indep W/O Dependents					
Number	1,872	4,140	0	0	26,170
Average Federal EFC	5,661	4,648	---	---	1,267
Average Student Income	$21,388	$18,315	---	---	$8,679
Average Change in Award	-$1,275	-$1,087	---	---	$0
TOTAL APPLICANTS	1,950	5,093	1,981	21,328	138,757
% OF APPLICANTS	1.2	3.0	1.2	12.6	82.0

Of those who lost all MAP eligibility, 96 percent were independent students without dependents with an average EFC of $5,700. These students would see an average loss of $1,275 in MAP eligibility. Approximately 82 percent of these students lose between $300 to $1,800; 50 percent lose from $300 to $1,200.

Grant aid is shifted from students with higher EFCs to students with lower EFCs. Cost, however, is also a factor. Appendix B shows summary tables by dependency and school type. The public university table shows that independent students without dependents whose EFCs average $6,170 lose all eligibility while dependents whose EFCs average $5,860 gain new eligibility. Similarly, independent students without dependents whose EFCs average $4,242 lose part of their eligibility while dependents with average EFCs of $3,561 gain additional eligibility.

When considering whether ISAC should change its approach to inflating the EFC in this manner, the primary issue is whether the Federal EFC is a good indicator of family financial strength. If it lines students up appropriately in terms of financial strength then FM can be said to have vertical equity, and if it appropriately assesses the differences in financial strength between students in that line, then it can be said to have horizontal equity. One of the initial concerns about FM was addressed in FY1994 when the assessment rate on dependent students and independents without dependents was lowered from 70 percent to 50 percent.

Another key question to consider is whether awards resulting from ISAC's current method of adjusting the EFC make up for any perceived deficiencies in FM and thereby improve affordability for Illinois students overall when both MAP and Pell grants are taken into consideration. And, assuming there is some improved affordability, whether any such gains made from a more complicated formula are significant enough to justify the effort needed to fine-tune the MAP formula. Ideally, ISAC staff would like to see students with the same EFC who are attending the same institution, receive the same MAP award. This doesn't happen now because of the different treatment of the EFC by dependency type within the MAP formula. Further, ISAC staff would like to be able to use the EFC resulting from FM without having to inflate the result. However, if ISAC has to continue to inflate the EFC resulting from FM – which appears to be the

situation for years to come - and if there are inequity issues within FM, they are only magnified for students when that EFC is inflated.

Conclusion

Staff is currently looking at three possible changes to the FY2004 MAP start-up formula. These include replacing the FY2002 Federal Pell Grant Payment with the FY2003 Schedule; replacing FY2002 tuition and fees with 95 percent of FY2003 tuition and fees; and, inflating the parent, independent students with dependents, and independent students without dependents contribution by the same progressive linear multiplier. Staff is seeking input from the Commission and the higher education community on the impact of these changes on student affordability before making final recommendations in January.

APPENDIX A

Model A: FY2003 Recompute Formula FY2002 Tuition & Fees, FY2002 Pell Schedule @ 80%, 5% Award Reduction Factor						
School Type	**# Eligible**	**$ Eligible**	**Average Award**	**# Claims**	**$ Claims**	**% Claims**
Public 4	45,242	156,172,097	3,452	38,545	116,698,053	35.2%
Private 4	42,116	197,302,222	4,685	34,407	142,551,712	43.0%
Public 2	69,443	108,061,038	1,556	46,145	44,656,235	13.5%
Private 2	2,947	13,449,241	4,564	2,139	8,348,525	2.5%
Proprietary	7,194	32,510,355	4,519	5,284	17,758,521	5.4%
HSN/Other	576	2,536,194	4,403	471	1,720,097	0.5%
All Sectors	167,518	$510,031,147	$3,045	126,991	$331,733,143	100.0%

Model B: FY2003 Recompute Formula Incorporating FY2003 Pell @ 80%, All Other Components the Same						
School Type	**# Eligible**	**$ Eligible**	**Average Award**	**# Claims**	**$ Claims**	**% Claims**
Public 4	45,234	161,490,332	3,570	38,539	114,181,988	35.1%
Private 4	42,116	197,302,222	4,685	34,407	142,551,712	43.8%
Public 2	69,031	99,411,868	1,440	45,868	41,077,744	12.6%
Private 2	2,947	13,448,477	4,563	2,139	8,348,011	2.6%
Proprietary	7,194	32,510,355	4,519	5,284	17,758,521	5.5%
HSN/Other	576	2,518,171	4,372	471	1,710,306	0.5%
All Sectors	167,098	$506,681,425	$3,032	126,708	$325,628,282	100.0%

Model C: FY2003 Recompute Formula Incorporating FY2003 Tuition & Fees @ 95%, FY2003 Pell Schedule @ 80%						
School Type	**# Eligible**	**$ Eligible**	**Average Award**	**# Claims**	**$ Claims**	**% Claims**
Public 4	45,952	169,912,521	3,698	39,155	120,207,048	36.2%
Private 4	42,128	197,388,665	4,685	34,417	142,598,320	43.0%
Public 2	69,013	99,476,446	1,441	45,857	41,141,131	12.4%
Private 2	2,952	13,467,550	4,562	2,143	8,360,887	2.5%
Proprietary	7,198	32,607,129	4,530	5,287	17,813,016	5.4%
HSN/Other	581	2,563,355	4,412	474	1,736,019	0.5%
All Sectors	167,824	$515,415,666	$3,071	127,333	$331,856,421	100.0%

Model D: FY2003 Recompute Formula with AAI Rate Replacement FY2003 Tuition & Fees @ 95%, FY2003 Pell Schedule @ 80 % Independent Students: Adjusted EFC=EFC X [(EFC/11000) + 1.1] Dependent Parents: Adjusted Parent Contribution = PC X [(PC/11000) + 1.1] Dependent Student: Student Contribution with $1800 minimum						
School Type	**# Eligible**	**$ Eligible**	**Average Award**	**# Claims**	**$ Claims**	**% Claims**
Public 4	46,190	172,507,785	3,735	39,365	122,130,074	36.8%
Private 4	42,055	195,810,187	4,656	34,361	141,519,557	42.6%
Public 2	69,025	99,438,898	1,441	45,877	41,146,951	12.4%
Private 2	2,920	13,330,442	4,565	2,119	8,282,375	2.4%
Proprietary	6,982	31,618,783	4,529	5,130	17,257,729	5.2%
HSN/Other	575	2,537,705	4,413	470	1,719,695	0.5%
All Sectors	167,747	$515,243,800	$3,072	127,321	$332,056,381	100.0%

APPENDIX B

Table 6: Changes in MAP Eligibility at for Students at Public Universities
Effects of Using a Progressive Multiplier

Public University	Lose Eligibility	Decrease Eligibility	Gain Eligibility	Increase Eligibility	Same Eligibility
Dependents					
Number	0	0	896	12,802	15,811
Mean EFC	---	---	5,860	3,561	1,077
Mean Parent Income	---	---	$59,916	$42,506	$20,685
Mean Change in Award	---	---	$572	$194	$0
Indep With Dependents					
Number	0	0	36	632	6,610
Mean EFC	---	---	5,121	3,709	402
Mean Student Income	---	---	$59,621	$45,572	$17,100
Mean Change in Award	---	---	$566	$288	$0
Indep W/O Dependents					
Number	584	1,640	0	0	7,155
Mean EFC	6,170	4,242	---	---	707
Mean Student Income	$22,759	$17,577	---	---	$6,887
Mean Change in Award	-$1,235	-$1,440	---	---	$0
TOTAL APPLICANTS	584	1,640	932	14,366	29,576

Table 7: Changes in MAP Eligibility at for Students at Community Colleges
Effects of Using a Progressive Multiplier

Community College	Lose Eligibility	Decrease Eligibility	Gain Eligibility	Increase Eligibility	Same Eligibility
Dependents					
Number	0	0	815	5,637	15,396
Mean EFC	---	---	3,469	2,236	905
Mean Parent Income	---	---	$45,595	$33,305	$17,312
Mean Change in Award	---	---	$430	$194	$0
Indep With Dependents					
Number	0	0	221	1,596	34,215
Mean EFC	---	---	3,936	3,183	348
Mean Student Income	---	---	$52,344	$42,988	$16,472
Mean Change in Award	---	---	$566	$288	$0
Indep W/O Dependents					
Number	1,020	1,635	0	0	9,532
Mean EFC	4,715	3,571	---	---	682
Mean Student Income	$18,644	$15,039	---	---	$6,288
Mean Change in Award	-$1,025	-$628	---	---	$0
TOTAL APPLICANTS	1,020	1,635	1,036	7,233	50,564

Table 8: Changes in MAP Eligibility for Students at Private Institutions
Effects of Using a Progressive Multiplier

Private Institution	Lose Eligibility	Decrease Eligibility	Gain Eligibility	Increase Eligibility	Same Eligibility
Dependents					
Number	62	753	12	527	27,532
Mean EFC	8,428	8,143	7,492	6,697	2,995
Mean Parent Income	$63,887	$69,086	$56,859	$59,938	$35,444
Mean Change in Award	-$747	-$694	$430	$382	$0
Indep With Dependents					
Number	16	200	1	104	13,023
Mean EFC	7,917	7,863	6,145	5,576	1,168
Mean Student Income	$59,171	$62,950	$52,702	$60,005	$24,284
Mean Change in Award	-$686	-$752	$566	$308	$0
Indep W/O Dependents					
Number	268	865	0	0	9,483
Mean EFC	8,157	7,455	---	---	2,277
Mean Student Income	$28,683	$25,697	---	---	$11,951
Mean Change in Award	-$2,311	-$1,855	---	---	$0
TOTAL APPLICANTS	346	1,818	13	631	50,038