MINUTES OF A MEETING OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION
January 31, 2003
Roosevelt University
Chicago, Illinois

COMMISSIONERS PRESENT:

J. Robert Barr, Chairman
William J. Hocter
Mary Ann Louderback
C. Richard Neumiller
Kevin O'Kelly
Hugh Van Voorst
Gretchen Winter

COMMISSIONERS ABSENT:

Pauline Betts
Robert Casey
Christopher Kurczaba

STAFF PRESENT:

Larry E. Matejka, Executive Director
Marcia Thompson, Chief Financial Officer
John Jennetten, Chief Program Officer
Tom Sakos, IDAPP
Peter Xilas, IDAPP
Tom Breyer, Deputy Program Officer
Randy Erford, *College Illinois!*
Nancy Stephens, *College Illinois!*
Lori Reimers, State Relations
Sheila Pruden, RPPA
Susan Kleeman, RPPA
Kris Smith, RPPA
Mark Holysz, Client Relations
Debora Calcara, Commission Secretary

PUBLIC ATTENDANCE:

Lucille Banks, Roosevelt University
Deb Brodzinski, Robert Morris College
George Clam, Oak Brook Bank
Toni Henle, Women Employed
Carl Hess, Watson Wyatt Worldwide
Theresa Jackson, Knox College
Walter O'Neill, Roosevelt University
Gloria Plaza, Robert Morris College
Gary Rieman, ISAC/IDAPP retiree
Tom Ryder, ICCB
Sandy Street, University of Illinois
Joseph Starshak, Starshak Welnhofer & Company
Hilda Thompson, Watson Wyatt Worldwide
Dave Tretter, FIICU

Agenda Item 1. Announcements

The Chairman called the January 31, 2003 meeting of the Illinois Student Assistance Commission to order at 9:00 a.m. Observing that it was the first meeting of the new year, he announced that he had the pleasure of introducing the newest appointee to the Commission, Ms. Mary Ann Louderback.

Ms. Louderback thanked the Chairman and indicated that she was looking forward to reacquainting herself with the work done by the Commission. It was also noted that the Senate had recently confirmed the appointments of student Kevin O'Kelly and Mr. Robert Casey as members of the Commission. On a related note, Commissioners Freed, Hicks and Albin were recognized for the quality of the service they had provided to the students of Illinois.

Mr. Charles Middleton, President of the University, was introduced. After welcoming the Commission, he thanked them for the important work that they do. In speaking to the demographics of the students enrolled at Roosevelt and the history of the institution, the President pointed out that the building in which the meeting was being held had been recognized by Town and Country Magazine as one of the ten most influential buildings in the world.

It was noted that the Commission would be meeting in Executive Session prior to adjourning today's meeting. It was also noted that the next meeting of the Commission was scheduled to be held on Friday, April 11 at Lincoln Land Community College in Springfield.

Agenda Item 2. Minutes of the November 8, 2002 Meeting

Mr. Hocter **MOVED THAT** the minutes of the November 8, 2002 Commission meeting be approved as submitted by staff. Mr. Neumiller seconded the motion, which was approved without dissent.

Agenda Item 3. Executive Director's Report

Mr. Matejka opened his report by acknowledging the presence in the audience of Mr. Gary Rieman, former IDAPP Director, who had retired at the close of 2002. On that note, he provided the Commission with a brief update on the impact of the Early Retirement Incentive (ERI) enacted last spring by the State, reporting that 52 ISAC employees had taken advantage of the ERI program. Retirements at the senior staff level were noted, as were the names of the staff appointed to fill these positions following the resignation of the retirees. These include: Tom Sakos replacing Gary Rieman as Director of IDAPP; Sue Kleeman agreeing to serve as Interim Director of RPPA, following the retirement of Sheila Pruden; and Wendy Funk stepping in as head of the agency's Internal Audit function, following the departure of Lee Dietrich.

Continuing, Mr. Matejka spoke at some length about the training and outreach efforts undertaken each year by staff, pointing out that staff would be conducting even more FAFSA completion workshops this year. The number of workshops aimed at accommodating Spanish-speaking families was scheduled to increase from four to eight, and additional sessions were being offered for Polish-speaking families as well. A brief discussion ensued regarding the importance and scope of the Commission's outreach efforts.

On other matters, Mr. Matejka referenced several handouts distributed to Commissioners, including an evaluation of the Monetary Award Program, the 2002 Data Book, and in response to a request made previously by the Commission, a report indicating the enrollment decisions of 2002 Merit Recognition Scholarship recipients. Also distributed was a preliminary analysis of five-year programs at Illinois public universities, i.e., those programs requiring more than 120 hours to complete. It was noted that staff is in the process of working with IBHE to gather additional information on this issue.

Mr. Matejka concluded his report by speaking briefly to activities in Washington and commenting on information provided in the financial tables included in the agenda book.

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

The Chairman introduced this item, indicating that it dealt with two matters. With regard to the first and more standard of the two issues, no action was required of the Commission due to the current interest rate environment. He expressed a preference for maintaining this matter as a separate item in the future rather than coupling it with other issues. That said, he observed that Item 4 also provided for the annual renewal of the liquidity facilities that ISAC maintains with various lending institutions in connection with agency financings.

Mr. Neumiller **MOVED THAT** the Commission adopt the resolution presented on page 4 of the agenda book. Mr. Hocter seconded the motion, which was approved unanimously as shown below.

"BE IT RESOLVED by the Illinois Student Assistance Commission as follows:

1. The Chairman and the Executive Director are hereby authorized and directed to execute and deliver new Note Purchase Agreements (including amendments to expiring agreements) related to the outstanding Student Loan Revenue Notes to renew the agreements expiring during 2003 and to replace any agreements that are not renewed. The new Note Purchase Agreements shall be in substantially the forms of the existing Note Purchase Agreements, with such changes, revisions, deletions and insertions as said Chairman and Executive Director deem advisable and necessary. The execution of such documents by said officials shall constitute conclusive evidence of their approval and the approval of the Commission of such changes, revisions, deletions and insertions. Such agreements shall be entered into with the existing liquidity facility providers or such other liquidity facility providers designated by the Chairman, or at his direction the Executive Director and the Director of IDAPP.

2. In instances where a lender no longer uses the Commission's secondary market program, the amount of such lender's liquidity facility may be offered to one or more lenders which have supported the guaranteed loan programs in the past and are interested in expanding their liquidity facility commitment or becoming a liquidity facility provider.

3. The Chairman, or at his direction the Executive Director and Director of IDAPP, are, and each of them is, hereby authorized to do or perform all such acts and to execute all such certificates, documents and other instruments as they or any of them deem necessary or advisable to implement this Resolution, and all of the acts and doings of such officials which are in conformity with this Resolution, whether heretofore or hereafter taken or done, shall be and are hereby approved, confirmed and ratified."

Agenda Item 5. IDAPP Optional Call of Bonds

The Chairman opened this item by commenting positively on staff's efforts to redeem previously issued debt, to take advantage of today's low interest rates. It was noted that among the $42.1 million in bonds being called were Series J, L and M, which were issued between December of 1989 and January of 1991 under the 1978 indenture. Though the agency must pay a premium of $156,000 to pay off these bonds, the long-term savings will total $3 million.

Mr. Hocter **MOVED THAT** the Commission adopt the following resolution, as shown on page 5 of the agenda book:

> **"BE IT RESOLVED** that the Illinois Student Assistance Commission hereby makes the provision for the payment of and does hereby call by optional redemption the Commission's outstanding Student Loan Revenue Bonds, Series J, Series L, and Series M (collectively, the "Bonds") on their earliest possible optional redemption dates, and the Commission hereby authorizes the execution and delivery of notices and other necessary agreements and actions in connection therewith.
>
> **"BE IT FURTHER RESOLVED** that the Commission hereby delegates the ability to take certain actions and to make certain determinations necessary to effectuate the optional redemption of the Bonds 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."

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

Agenda Item 6. IDAPP's Quarterly Investment Report

It was noted by the Chairman and confirmed by Mr. Matejka that this item was being presented as an information item only.

Agenda Item 7. Update on Future Financings

As with the preceding item, Item 7 is being presented by staff solely for information purposes, to update the Commission regarding future financings. In response to a question raised by Ms. Winter, it was noted that the financing to be considered by the Commission in April would be managed by an investment team composed of the same members that handled the financing approved by the Commission at this time last year. They know each other and have worked well together in the past.

For the benefit of recently appointed Commissioners, the Chairman reviewed the competitive bid process utilized by the agency for the selection of the investment management teams appointed to handle IDAPP financings. After reviewing the credentials of firms that respond to an RFP, the Commission composes a pool of firms identified as qualified to handle the work in question, and when a specific financing is scheduled, the firms most suited are drawn from that pool.

Agenda Item 8. MAP Start-Up

Prior to speaking to the item itself, Mr. Matejka observed that the Chairperson of the ILASFAA Formula Committee, Terry Jackson, was available to comment on this item, as was Orlo Austin, ILASFAA President.

With regard to the item itself, Mr. Matejka noted the uncertainty of the FY2004 budget prospects and the fact that the Governor was not scheduled to release his budget until April 9. That uncertainty notwithstanding, it is incumbent upon the agency to provide students, parents and institutions with some guidance regarding what to expect for the upcoming year. Ordinarily, he continued, a MAP "start-up" formula is approved in January, to allow for preliminary announcements to be made to financial aid applicants and to facilitate institutional packaging. Typically, the start-up formula approved for the upcoming academic year is conservatively based on funding levels for the current year. No significant funding increases are assumed.

This year, he cautioned, in light of the severity of the State's fiscal crisis, Commissioners need to understand that what has historically been viewed as a conservative approach may not be conservative enough - or at the very least, may be subject to subsequent review and/or modification if mid-year budget cuts are ordered, or if it becomes clear that FY2004 funding for MAP will decrease rather than increase. In concluding his remarks, Mr. Matejka spoke briefly to the various assumptions and priorities that were used in constructing the formula recommendation presented in this item.

The Chairman introduced Orlo Austin, ILASFAA President, who prefaced his remarks on the budget with some general comments on outreach. With respect to the start-up formula, he indicated that the financial aid community supported the staff's recommendation. He spoke favorably with regard to the cost-neutral change being made to AAI rates, and also suggested that in keeping with the change made this year with regard to eliminating "fifth-year" MAP, it might be time to consider capping the amount of MAP eligibility units that a student can use at a two-year institution. In concluding his remarks, he spoke to the difficulty faced this past year in terms of having to advise students that there would be reductions to already announced awards, emphasizing that the Commission has the full support of ILASFAA in any and all efforts made to avoid additional cuts and secure additional funding for MAP for FY2004.

There was a brief exchange between Mr. Austin and Ms. Winter regarding his suggestion to cap the amount of eligibility a student could use at a two-year institution. He made an observation on the comparatively large number of students denied fifth-year MAP who were enrolled at community colleges, and suggested that not only was it important to educate these students that they were expending eligibility units that they might wish they had preserved for use at a more costly four-year institution (at which the value of their MAP award would be greater), but also it might not be the most prudent use of limited resources at a time when so many needy students were being denied aid altogether.

Mr. Matejka recalled that Gary Davis of the Illinois Community College Trustees Association had, last June, made a recommendation along the same lines, presenting it in terms of the need for community colleges to recognize the role that they frequently play in positioning students to move on to a four-year institution to complete their studies. Commissioners Hocter and Neumiller both spoke favorably regarding the possibility of program changes aimed at protecting students from unknowingly expending all their eligibility units at two-year institutions, without realizing that they might be unable to receive MAP aid if and when they moved onto a four-year institution to pursue a baccalaureate degree.

Mr. Matejka spoke, observing that there were plenty of students enrolled at two-year institutions who never planned to seek anything beyond an associate's degree. Continuing, he noted that for students enrolled at both two-year and four-year institutions, the main reason they were taking longer than many might think they should to complete their programs was that they have to work. Such students, many of whom work 30 or 40 hours a week, often can't take more than 12 hours a semester. They have to balance school with work and family.

Ms. Terry Jackson of Knox College spoke favorably regarding the suggestion that MAP eligibility at two-year institutions be capped. Her comments reflected previous observations concerning the importance of consumer education, and making sure that students who might not be entirely sure of their plans understood that a MAP award at a community college might be worth $1,000 or so, but at an institution like Knox, it might cover almost $5,000. Students at community colleges who were considering transferring to higher-cost schools need to be made aware of this.

The Chairman recognized the presence of former State Representative Tom Ryder, who is currently working with the Illinois Community College Board. Mr. Ryder complimented the Commission for the work that it does, and acknowledged the difficulty of the decisions the Commission had to make not only with respect to capping eligibility at community colleges, but also more generally, in rationing

available MAP funds. He offered the Board's assistance and support in resolving these issues to the benefit of our common clients, students.

In response to a question from Mr. Van Voorst regarding the number of hours deemed full-time, Mr. Matejka emphasized that staff is examining a series of structural reforms to MAP, including modifications aimed at responding to the fifth-year issue raised last spring and supporting State efforts to facilitate time-to-degree.

Mr. Neumiller **MOVED THAT** the Commission adopt the start-up formula shown on page 8-7 of the agenda book. Ms. Louderback seconded the motion, which was approved unanimously.

Agenda Item 9. FY2002 *College Illinois!* Annual Report

It was noted that no action was required on this item, which is being presented to the Commission as information. Currently in draft form, the final Annual Report for the prepaid tuition program is expected to be available prior to the beginning of March, at which point copies will be presented to the Governor and other state officials, including legislative leaders and the Illinois Board of Higher Education. In response to a question from Ms. Winter, *College Illinois!* Director Randy Erford confirmed that the information provided in the report would be available on the program's Web site.

There was a brief discussion regarding the data provided in the report, and the fact that as a result of the prolonged economic downturn, prepaid programs throughout the country were currently reporting unfunded liabilities. It was noted that in sharing these results with state officials and members of the public, it was important to provide the appropriate context, i.e., to emphasize that the program's existing assets were sufficient to cover contract commitments through at least the year 2017, and to point out that what was happening to *College Illinois!* in the market was by no means unique. Again, other prepaid programs are reporting similar results, as are private and government pension programs. Ms. Winter suggested that especially because this is a relatively new state program, it might be helpful to provide some of this context in the form of a footnote or added text to the report. She observed that in light of how confusing the data itself can be, it would help if any such context were conveyed in simple, plain English that could be easily understood by readers.

Agenda Item 10. *College Illinois!* Asset/Liability Study

The Chairman noted that at the last Commission meeting, staff was asked by Commissioners to accelerate the preparation of this report, in light of the current economic downturn. He introduced Ms. Hilda Thompson of Watson Wyatt, the firm that has served as investment advisor to *College Illinois!* since its inception. Mr. Carl Hess, an actuary from Watson Wyatt, was also present, as was Mr. George Clam of the program's Investment Advisory Panel.

In response to a question raised by Ms. Winter, there was a brief discussion regarding the rationale that was used in establishing the assumptions upon which the study was based, i.e., the demographics of future contract sales and the type of contracts sold. In response, Mr. Hess suggested that the experience of other states was not so much a factor as was the experience and trends of the program to date. He noted that it was assumed that the number of contracts sold would remain relatively constant, as would the distribution in terms of type of contacts sold. That said, he emphasized that even if a different distribution were assumed, the results of the study would not vary meaningfully.

Continuing, Mr. Hess commented at some length on the data presented in the report, noting that the program's cash flow is positive, thus positioning it to honor outstanding contractual obligations. He spoke of the conservative assumptions being utilized with regard to rate of return on investments,

emphasizing that Watson Wyatt felt the assumptions were justified and realistic. He also responded to questions regarding the program's investment strategy, reiterating that Watson Wyatt felt that the current investment policy/asset allocation was appropriate, and certainly not too aggressive.

Mr. George Clam, member of the Investment Advisory Panel and President of Oak Brook Bank, addressed the Commission, indicating that the Panel has reviewed the Asset/Liability Study and felt that the current allocation of assets was appropriate, reasonable, and sufficient in terms of being positioned to meet outstanding contractual/funding requirements. He indicated that he felt the assumptions upon which the study was based were realistic, but also observed that he felt it was necessary to periodically reassess those assumptions, as staff was doing. Continuing, he spoke to the issue of fiduciary responsibility as it relates to the need to achieve a suitable mix of investments. For example, he noted, while investing in cash or government securities might be viewed as virtually risk-free, an argument could be made that it represented a breach of one's fiduciary responsibility in terms of striking the appropriate balance between risk and reward. In concluding his remarks, he expressed confidence in the soundness of the program's investment policy, and suggested that the Commission has every reason to feel likewise.

Ms. Winter thanked Mr. Clam for the service he provided as a member of the Investment Advisory Panel, and asked that he convey the Commission's appreciation to the rest of the Panel members as well. Acknowledging the priority Mr. Clam had assigned to periodically reviewing the investment policy and the assumptions used, she asked if he could elaborate on this point. In response, Mr. Clam observed that the Panel had not addressed this question formally, but indicated that he personally felt that a study such as the one presented today should be done at least every five years, with the understanding that more frequent reviews might be needed if results began to deviate sharply from what had been assumed. In response to a follow-up question from Ms. Winter, he confirmed that he was comfortable that in the long-term, the investment returns assumed were realistic.

Mr. Hess resumed his presentation, reviewing each page of the report to ensure that Commissioners understood the data being presented. He spoke to the suggestion that the equity/bond split be modified from 60/40 to 65/35. It was noted that Mr. Clam supported this recommendation.

Both Mr. Hocter and Ms. Winter asked staff for some guidance in terms of next steps, and what was being planned long-term. In response, Mr. Erford indicated that the Panel members had recommended an investment mix that assumed 65 percent in equities at this time. He added that staff would continue to consult with Panel members in the weeks and months ahead, with the understanding that they needed to remain vigilant, and prepared to make modifications if needed.

Ms. Winter thanked staff for taking steps to accelerate the timetable for completing the Asset/Liability Study, indicating that the report and today's discussion made her comfortable with regard to the decision the Commission made in November. She indicated that she too felt strongly that it was incumbent upon the agency to monitor the program's investments closely, and asked that staff provide some feedback at the April meeting regarding what if any modifications might need to be made to the investment approach currently being utilized. She noted that while standard procedure might be to take that question up in November each year, she wanted assurances that staff was prepared to recommend action sooner, if needed.

In response to a follow-up question from Mr. Hocter, Ms. Thompson of Watson Wyatt indicated that neither she nor Mr. Hess felt there was any urgent need to reassess the current allocation.

Agenda Item 11. Proposed Rules and Amendments

Observing that no action is required at this time, the Chairman indicated that members of the Commission had received a separate book that included the proposed rules and amendments. The initial 45-day public comment period will now get underway.

At the invitation of the Chairman, Mr. Orlo Austin spoke on behalf of ILASFAA, indicating that the Association was pleased and felt positively about the work being done in connection with the Rules and Operations Committee.

Agenda Item 12. FY2003 MAP Status Report

In presenting this item, Mr. Matejka spoke to what had occurred with the MAP program this year, highlighting the budget cut it sustained, the elimination of fifth-year MAP eligibility, and the early suspension of announcements (and the number of students impacted). He suggested that shutting down announcements so early was especially troublesome this year, when application volume was up so sharply. He noted that over 99 percent of available funds were committed already, observing that any mid-year rescissions imposed at this late stage would be a real problem, as they would compel the agency to make students pay back money.

In acknowledging the funds committed and/or paid out to date, Ms. Winter asked a question regarding what percentage of available funds the agency has typically expended. In the discussion that ensued, it was noted that in recent years in particular, the agency's projections have been very accurate. Virtually all available funds have been utilized, with less than one percent being lapsed. There was also some discussion regarding the reserve fund, and the fact that it basically was created to respond to any major changes with regard to claim rates or application volume.

Ms. Winter commented on the importance of outreach/public information efforts aimed at persuading students to apply as early as possible. She acknowledged that for such efforts to succeed, they needed to be done in conjunction with institutional efforts. Mr. Matejka agreed, emphasizing the importance of the partnership the agency has with institutions when it comes to communicating with students.

Agenda Item 13. Impact of Elimination of Fifth Year Eligibility on MAP Recipients

The Chairman noted that this item was being presented for information purposes only, to inform the Commissioners about the impact of the State's decision last spring to eliminate fifth-year MAP eligibility. It was noted that the students impacted by this change were among the poorest of the students served by MAP, and were disproportionately minority. Likewise, the profile of such students suggests that they have more family obligations that might preclude them from finishing their studies in as timely a manner as they might like. For instance, over 60 percent of fifth-year students are independents and half of them have dependents. Eighty-six percent of these students work, with 32 percent working full-time.

Mr. Matejka commented on the difficulty of getting a truly accurate assessment of the impact of this abrupt elimination of fifth-year eligibility, indicating that anecdotal reports from institutions suggested that while students might have been able to scramble and make it through the first semester, they may have been less fortunate in the latter portion of the academic year. At present, what data/survey results staff has are preliminary only, and don't reflect the challenges students faced as they attempted to advance beyond the first term. He encouraged Commissioners to review the data presented in the item.

Mr. Hocter asked Mr. Matejka to comment on the possibility of modifying the program to allow for a fifth year of MAP eligibility only for those students who were enrolled in programs that required more than four years of study, e.g., pharmacy, teaching, architecture and engineering. Mr. Matejka responded, indicating that while this was an option, it wasn't one that squared with the program's statutory objective of promoting access and choice. He reiterated that students who take more than four years to complete their undergraduate studies do so for many legitimate reasons, and not just because they're enrolled in a program that requires them to do so. Some of these students have had to take remedial work when they began their postsecondary studies, while others have encountered delays as a result of changing majors or transferring from one institution to another.

In acknowledging that there were multiple ways to address this issue, the Chairman indicated that the Commission needed to meet in Executive Session pursuant to Section 2(c)(1) of the Illinois Open Meetings Act to discuss personnel matters, including the compensation of the Executive Director.

Mr. Van Voorst **MOVED THAT** the Commission adjourn its regular meeting and meet in Executive Session. Mr. Hocter seconded the motion, which was approved unanimously by roll call vote. At this time, the Commission went into Executive Session.

Upon completion of the Executive Session, Mr. Van Voorst **MOVED THAT** the Commission resume its regular meeting. Ms. Winter seconded the motion, which was approved unanimously.

At this point, Mr. Hocter **MOVED THAT** the Commission approve setting the compensation of the Executive Director at the same level as last year, with no increase for this fiscal year. Ms. Winter seconded the motion, which was approved unanimously. Prior to concluding discussion on this issue, Ms. Winter observed that this action was being taken in response to state budget constraints, and reflected the fact that the agency was not able to award salary increases to any staff this year. That said, the Commission felt that Mr. Matejka was doing a fabulous job.

Mr. Hocter **MOVED THAT** the January 31, 2003 meeting be adjourned. Mr. Neumiller seconded the motion, and the meeting was adjourned at 1:40 p.m.

Respectfully submitted,

Debora A. Calcara

Debora Calcara
Secretary to the Commission