

**MINUTES OF A MEETING OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION**

April 11, 2003

**Lincoln Land Community College
Springfield, Illinois**

COMMISSIONERS PRESENT:

J. Robert Barr, Chairman
Pauline Betts
Mary Ann Louderback
C. Richard Neumiller
Kevin O'Kelly
Hugh Van Voorst

COMMISSIONERS ABSENT:

William J. Hocter
Robert Casey
Christopher Kurczaba
Gretchen Winter

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!*
Susan Kleeman, RPPA
Mark Holysz, Client Relations
Rhonda Jachino, RPPA
Darla Puckel, *College Illinois!*
Debora Calcara, Commission Secretary

PUBLIC ATTENDANCE:

Fred Ash, Bank One
Deb Brodzinski, Robert Morris College
Lee Bursi, Lincoln Land Community College
Candy Byers, Lincoln Land Community College
Danielle Cassidy, Banc One Investment Advisors
Vincent Cimino, RBC Dain Rauscher
Christopher G. Cronk, Bank of America Securities
Faye Fullerton, Lincoln Land Community College
Bob Irvin, Kutak Rock
Tynia Kessler, Lincoln Land Community College
Cheri Rich, Lincoln Land Community College
Tom Ryder, ICCB
Sandy Street, University of Illinois
Joseph Starshak, Starshak Welnhofner & Company
Pat Swatfager-Haney, University of Illinois at Springfield
Hilda Thompson, Watson Wyatt Investment Consulting
Dave Tretter, FIICU
Kim Villanueva, ICCB
Jerry B. Wallack, Kutak Rock
Bethany Warner, Illinois Issues
Stephen Welcome, Burke Burns & Pinelli
Kelly Weller, Banc One Investment Advisors

Agenda Item 1. Announcements

The Chairman called the April 11, 2003 meeting of the Illinois Student Assistance Commission to order at 9:04 a.m., indicating that a quorum was present. He stated that he had two important announcements he wished to make, the first of which was that there would be a meeting of the Commission in June, although the date is uncertain. Secondly, he noted that consideration of Item 7 on the agenda would be postponed until the next meeting, in June.

In expressing thanks to the staff of Lincoln Land Community College for hosting the meeting, he introduced Mr. Lee Bursi, the institution's Director of Financial Aid. Mr. Bursi welcomed the Commission.

The Chairman also acknowledged the presence of former State Representative Tom Ryder, and asked that he address the Commission following the presentation of the Executive Director's Report.

Agenda Item 2. Minutes of the January 31, 2003 Meeting

Ms. Louderback **MOVED THAT** the minutes of the January 31, 2003 Commission meeting be approved as submitted. Mr. Neumiller seconded the motion, which was approved without dissent.

Agenda Item 3. Executive Director's Report

Prior to speaking to the information provided in his written report, Mr. Matejka commented on the recent release of the Governor's proposed FY2004 budget. Acknowledging the budget crisis the Governor faced in developing his proposed budget, he noted that all state agencies – higher education included – were extremely concerned about the severity of the cuts that might be proposed as the state struggled to combat a projected \$5 billion deficit.

Continuing, he observed that while some steep cuts were proposed in numerous areas, the Governor clearly continues to place a high priority on affordability, student financial aid, and controlling rising college costs. Mr. Matejka expressed gratitude at how well the Commission's programs had fared in the Governor's proposed budget. With regard to specifics, he emphasized that the Governor expressed a firm commitment to maintaining funding for the Monetary Award Program (MAP) at FY2003 levels, and added that level funding was proposed for ISAC's other programs.

In addition, the Governor has also proposed the creation of a new Illinois Future Teacher Corps (IFTC) program, under which scholarships of as much as \$5,000 - \$15,000 will be given to students enrolled at the junior level or above, provided they agree to teach for at least five years following completion of their studies. Priority consideration and the largest awards will be given to students who agree to teach in a shortage discipline and/or a hard-to-staff school. Initial year funding for the program is proposed at \$4.1 million, which would be supplemented by the roughly \$2.9 million allocated for FY2004 for the ITEACH program which it replaces.

The Chairman and several Commissioners complimented staff on the hard work they had done throughout the budget cycle, and the close working relationship they were obviously seeking to cultivate with the new Administration. It was noted that in upcoming weeks, a series of legislative hearings would be held to examine and debate the Governor's proposed budget.

On a related matter, Mr. Matejka commented on the FY2003, or current year, funds that state agencies had been asked to reserve (not obligate/spend) as part of the State's efforts to get its fiscal house in order. From the onset of the year, staff had anticipated that such measures might be mandated, he

noted, and had planned accordingly. After consultation with the Chairman and others, he continued, staff had identified what funds could be reserved. Fortunately, in keeping with his commitment to maintaining the affordability of postsecondary education, the Governor specifically stated that MAP should be exempt from the reserve process. As all funds had already been obligated, the only way that ISAC could have achieved any reserves in this need-based program would have been to compel students to repay grant funds. Mr. Matejka explained that the Governor's Office had no desire to take away dollars from needy students. With regard to other programs and administration, he pointed out, there would be no problem meeting the reserve requirements and, even more importantly, no negative consequences for students.

On other items, he commented on steps that staff was taking to assist students who were mobilized as part of the ongoing war with Iraq, explaining that many of those students were financial aid recipients or borrowers. He concluded his remarks by briefly commenting on information provided in the various financial tables provided in the Executive Director's Report in the agenda book.

Mr. O'Kelly asked a question regarding the number of MAP grants awarded in FY2002, observing that it appeared that the year-to-year reduction in the overall number of awards was not projected to be as severe as was anticipated at last year's recompute. In response, Mr. Matejka confirmed that ISAC had been able to award a slightly higher number of grants than expected. He cited the 5 percent across-the-board-reduction imposed on all grant recipients, indicating that while staff does a great job in projecting payout, it's impossible to predict with precise accuracy how much money such a cut will yield, how many students will enroll and claim their awards, etc.

Continuing his report, Mr. Matejka commented on the success of the fifth enrollment period for *College Illinois!* The 7,000 contracts sold represented a nearly 13 percent increase in sales relative to last year. He commended the program staff and its marketing agent, Celtic, Inc., for accomplishing such impressive results in what was obviously a very difficult and uncertain year economically. He noted the degree to which such sales solidified and enhanced the program's financial stability. It was noted that the semi-annual review of the program's investment performance would be discussed as part of a separate item on today's agenda.

In response to a question from Mr. Van Voorst, it was noted that the dates for the next enrollment period had not yet been set. That decision will be made sometime in the next few months. The Chairman wrapped up the discussion on *College Illinois!* by commending the program staff, especially Randy Erford and Nancy Stephens for the fine work they've been doing.

At this point, Chairman Barr recognized former State Representative Tom Ryder, who is currently serving as Vice President for External Affairs for the Illinois Community College Board. It was noted that Mr. Ryder had made some comments at the January meeting, and at the Chairman's request, had elaborated on his ideas in a written letter. Copies of the letter were distributed to Commissioners this morning.

Mr. Ryder spoke first to the FY2003 reserves mandated by the Governor, noting that while some entities had been less than cooperative during this exercise, ICCB had adopted an approach similar to the one taken by ISAC and decided to provide the Governor with all the information requested. He suggested that such cooperation had paid off. On a more personal note, he commended Mr. Matejka for the fervency with which he had made the case for exempting MAP, and for the success he had in ensuring that all relevant parties understood the implications of mandating MAP reserves.

With regard to his letter, he stated that it was simply an effort to offer some options on how to handle the FY2004 recompute, and to demonstrate ICCB's sincere interest in working with ISAC to come

up with a reasonable and fair solution to the dilemma they collectively faced. The Chairman thanked Mr. Ryder for his input.

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

No action was required on this item.

Agenda Item 5. Issuance of Student Loan Revenue Bonds Tax-Exempt Series 2003A and Taxable Series 2003B

Mr. Matejka opened his remarks by noting that this particular item has been on the agenda at prior meetings, as staff attempted to keep the Commission informed of the status of upcoming financings. As noted in the resolution, the amount of this particular financing will not exceed \$300 million. He explained that the proceeds will be used for loans that will be made and/or purchased during the summer and fall of 2003. Noting that Commissioners had received the relevant materials prior to the meeting, he indicated that individuals representing each of the firms serving on the financing team were present to respond to questions, as were both Tom Sakos, Director of IDAPP, and Joe Starshak, who serves as IDAPP's financial advisor.

The Chairman noted that there was a discrepancy in the resolution presented in the agenda book and the title of the actual document the Commission was being asked to approve. After clarifying that the correct title was "Second Supplemental Resolution" rather than "2003 Supplemental Resolution," he proposed that the resolution presented in the agenda book be amended to strike "2003" and replace it with "Second." Also, in keeping with past practice, he suggested that the word "authority" be used instead of the word "ability" in the second part of the resolution.

Ms. Louderback **MOVED THAT** the Commission approve the resolution as amended. Ms. Betts seconded the motion.

A roll call vote was taken on the motion to approve the resolution as amended, and the following resolution was approved without dissent:

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

"BE IT RESOLVED that the Commission further delegates the authority to take certain actions and to make certain determinations as provided in such Second Supplemental Resolution with respect to such documents to the Chairman or Executive Director of the Commission; and

"BE IT FURTHER RESOLVED that this Resolution authorizes the issuance of Bonds not to exceed \$300,000,000."

On one last point, the Chairman asked Mr. Matejka to comment on language included on page 5-2 of the agenda book that suggested that while the Governor's office had already approved the \$19 million tax-exempt cap allocation, additional gubernatorial approval was apparently needed prior to closing the deal. Mr. Matejka indicated that this was standard practice and should not be perceived as a problem.

Agenda Item 6. IDAPP FY2004 Budget Request

Mr. Matejka explained that IDAPP is obligated to take action on its budget request at this time each year pursuant to requirements set forth in its bond indentures. Continuing, he pointed out that the secondary market developed its request using the same decision rules as were utilized in developing the appropriated funds budget request submitted to the Commission last fall.

With regard to specific line items, he highlighted the 8.4 percent increase requested for Personal Services, emphasizing that it was volume-driven and reflected the increased portfolio the secondary market expected to have to service in the upcoming year. He reiterated, however, that like the rest of the agency, IDAPP would continue to comply with all Executive Orders and other guidance issued by the Governor's Office. As with the appropriated side of the agency, the secondary market was operating under a hiring freeze and when seeking to fill a position, would submit an exemptions request to the appropriate authorities. In response to a question from Mr. Van Voorst, Mr. Matejka explained that while funds were included for performance-based salary increases, IDAPP and the agency as a whole planned to adhere to whatever guidance and/or directives emerged for state agencies in general in the final budget signed by the Governor.

With respect to non-personal services line items, he observed that the 9.7 percent increase was driven by the following key factors: (a) IDAPP's share of the Deerfield lease and property maintenance and utilities; (b) increased volume assumed by the six external servicers utilized by IDAPP; and, (c) management and professional fees.

It was noted that this item also requests approval to withdraw \$325,000 from the 1992 Series C Taxable Student Loan Revenue Bonds, to support the proposed implementation of an Internet-based outreach and awareness Web site initiative. An exciting project that promises to enhance the agency's outreach efforts, this initiative was discussed last fall, when the Commission took action on the appropriated funds budget request. At that time, the Commission approved the first half of the funding needed to proceed with the project, with the understanding that the balance of the funding needed would be requested in April of 2003, when IDAPP's budget request was presented for consideration.

Mr. Matejka confirmed that no State General Revenue Funds were being utilized to support this initiative. In response to a question from Ms. Louderback, he indicated that he did not foresee there being any problem generating the requisite funds the following year, even though costs would be increasing substantially.

Mr. Neumiller raised a question regarding data presented on page 6-7 of the agenda book, asking if staff expected to continue to experience such notable increases in student loan receivables. In response, Mr. Matejka indicated that generally speaking, staff did expect that trend to continue, not only due to increase FFELP borrowing but also due to increased utilization of the alternative loan program offered by IDAPP.

Ms. Betts **MOVED THAT** the Commission approve the FY2004 IDAPP budget request of \$34,420,000 and the withdrawal of \$325,000 from 1992 Series C Taxable Student Loan Revenue Bonds to fund the acquisition of an Internet-based outreach and awareness Web site.

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

Agenda Item 7. Selection of *College Illinois!* Investment Manager

As noted by the Chairman at the onset of the meeting, consideration of this agenda item will occur at the June meeting.

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

The Chairman introduced Ms. Hilda Thompson of Watson Wyatt, who reviewed the highlights of the investment report provided to the Commission, noting that it covers the period ending December 31, 2002. She spoke at some length about how the various money managers had performed. Overall, she summarized, performance for the 12-month period ending 12/31/02 was down 9.4 percent. She compared that record to other Watson Wyatt clients, indicating that while the best performers experienced losses of 5-6 percent, the worst performers suffered losses of as much as 13 percent. Relative to other prepaid tuition programs, she indicated that probably only Florida had done better than *College Illinois!* on a substantial basis.

Continuing, she spoke to the program's funded status, noting that while this was a topic better left to the program's actuary, she did wish to note that *College Illinois!* was pretty much in line with prepaid programs offered by other states, and was actually in better shape than several programs that hadn't been around as long. She emphasized the success of the most recent enrollment period, noting that as long as the program had cash coming in, it would be fine.

Chairman Barr thanked Ms. Thompson for her thorough report.

Agenda Item 9. Proposed Rules and Amendments

Mr. Matejka introduced the agenda item by noting that this is the second time the rules have been brought before the Commission. Assuming approval at today's meeting, the proposed rules and amendments will be submitted to JCAR for review. He noted that only two letters of public comment had been received, neither of which required further action.

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

"BE IT RESOLVED that the Commission accepts the revised proposed rules and amendments, as modified thus far during the rulemaking process."

Mr. O'Kelly seconded the motion, which was approved unanimously.

As a member of the Illinois Board of Higher Education and ISAC Affordability Committee, Mr. Neumiller distributed draft recommendations issued by the Committee. He asked that if any member of the Commission had comments on the recommendations, they direct them to Mr. Matejka.

Chairman Barr thanked Ms. Louderback for attending the last meeting of the Illinois Board of Higher Education in his absence. Ms. Louderback noted that the Board now has a new Chairman, Mr. James Kaplan. Chairman Barr took the opportunity to commend the past Chairman of the Board, Mr. Steve Lesnik for the service he had provided to the Board, and also noted that he looked forward to working with the new Chairman in continuing to strengthen the relationship between IBHE and ISAC.

Ms. Louderback **MOVED THAT** the April 11, 2003 meeting of the Commission be adjourned. Mr. Neumiller seconded the motion, which was approved unanimously. The meeting adjourned at 11:05 a.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Debora A. Calcara".

Debora A. Calcara
Secretary to the Commission