

**MINUTES OF A MEETING OF THE  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
September 24, 2004  
Northeastern Illinois University  
Chicago, Illinois**

**COMMISSIONERS PRESENT:** J. Robert Barr, Chairman  
Pauline Betts  
George Lesica  
Mary Ann Louderback  
Gretchen Winter

**COMMISSIONERS PRESENT  
VIA TELEPHONE:** Robert Casey

**COMMISSIONERS ABSENT:** Christopher Kurczaba  
C. Richard Neumiller  
Hugh Van Voorst

**STAFF PRESENT:** Larry E. Matejka, Executive Director  
John Jennetten, Chief Program Officer  
Marcia Thompson, Chief Financial Officer  
Tom Sakos, IDAPP  
Peter Xilas, IDAPP  
Tom Breyer, Deputy Program Officer  
Lori Reimers, State Relations  
Randy Erford, *College Illinois!*  
Nancy Stephens, *College Illinois!*  
Karen Salas, General Counsel  
Susan Kleemann, RPPA  
Kris Smith, RPPA  
Chris Peterson, Program Services  
Jacqui McMahan, Program Services  
Debora Calcara, Commission Secretary

**PUBLIC ATTENDANCE:** Fred Ash, JP Morgan Chase  
Cynthia Armster, City Colleges of Chicago  
Andrea Berryman, ICCB  
Matt Berry, Office of Senate President Emil Jones  
Deb Brodzinski, Robert Morris College  
William Bushaw, Western Illinois University  
Vincent Cimino, RBC Dain Rauscher  
Kathy Cokic, JP Morgan Chase  
Terence J. Conway, JP Morgan Chase  
Rhonda Cors, MacMurray College  
Gary Davis, ICCTA  
Michael Dessimoz, Roosevelt University  
Kathy Edmunds, North Central College  
Kathy Facenda, DeVry University  
Elizabeth Ferrari, Office of Speaker Madigan  
Paul Frank, National-Louis University, FIICU

Susan Lerner Friedberg, DeVry University  
Samuel Graham, Kennedy-King College  
Jean Goodnow, Illinois Valley Community College  
Francois Hajduk, Harold Washington College  
Eric A. Hayes, McKendree College  
Mark Holysz, College of DuPage  
Brenda Hooker, Chicago State University  
Shirley Howell, Truman College  
Teresa K. Jackson, Knox College  
Randy Kangas, University of Illinois  
Joan Kerber, Sauk Valley Community College  
Chris Koenig, JP Morgan Chase  
Patrick Krolak, Marquette Associates  
Teri Leatherbury, Waubensee Community College  
Karen LeVeque, Robert Morris College  
Carolyn Lindley, Northwestern University  
Christa Lopez, Richard J. Daley College  
Luz Lopez, Olive Harvey College  
Paula Luff, DePaul University  
Terry Ludwig, Shawnee Community College  
Richard Massie, Shawnee Community College  
Lori Meadows, Office of the House Republican Leader  
Deloris Miller, Malcolm X College  
Amy Monblatt, UBS Financial Services  
Lynn Nichelson, Illinois Wesleyan University  
Marie Ortiz, Triton College  
Ginger Ostro, Governor's Office of Management and Budget  
Nicole Sauler, Women Employed  
Therese Scanlan, City Colleges of Chicago  
Scott Seibring, Illinois Wesleyan University  
Mary Shaw, University of St. Francis  
Sue Standley, Augustana College  
Joseph Starshak, Starshak, Welnhof & Company  
Susan Swisher, St. Xavier University  
Carl Teichman, Illinois Wesleyan University  
Dave Tretter, FIICU  
Rachel Unruh, Women Employed  
Cheryl Warmann, Oakton Community College  
Patty Williamson, Triton College  
Maria M. Zambonino, St. Augustine College

### **Agenda Item 1. Announcements**

Chairman Barr called the September 24, 2004 meeting to order at 9:20 a.m. Noting that Mr. Casey was connected by telephone, the Chairman requested a roll call which established that a quorum was present. The Chairman then took the opportunity to thank Dr. Salme Steinberg, President of Northeastern Illinois University, and her staff for their hospitality, specifically thanking Ms. Carol Collum for her assistance.

Chairman Barr announced that the next meeting of the Commission is scheduled for Friday, November 19, 2004 at Oakton Community College. He indicated that each Commissioner had been provided with a list of proposed meeting dates for 2005. He asked that Commissioners communicate with the Commission Secretary, Ms. Calcara, regarding any scheduling conflicts. The intent is to act upon and approve a 2005 Commission meeting schedule at the November meeting.

### **Agenda Item 2. Minutes of the June 11 and June 29, 2004 Meetings**

Chairman Barr requested that the minutes from the June 11, 2004 and June 29, 2004 meetings be acted upon as one. Ms. Betts **MOVED THAT** the minutes be approved as presented by staff. Ms. Louderback seconded the motion, which was approved unanimously.

### **Agenda Item 3. Executive Director's Report**

Mr. Matejka stated that the National Center for Public Policy in Higher Education recently released a national report card in which Illinois received high marks in most categories but received a D in affordability, down from a grade of B in 2002 and an A in 2000. He noted that although Illinois received a D, most other states received an F in affordability. This decline is based largely on the failure of family incomes and financial aid awards to keep pace with rising costs, causing affordability to decline, especially among students and families with low and lower-middle incomes.

Mr. Matejka stressed that it is imperative that the State target aid dollars to those in the low to lower-middle income population. The Commission and the State have both taken action to improve affordability through passage of the Truth-In-Tuition legislation and by making the Monetary Award Program (MAP) more accountable by paying on a credit hour basis rather than by eligibility units and terms. Mr. Matejka also recognized the strong historical commitment of the State to supporting student aid programs, and that while the growth in aid was failing to keep pace with increases in college costs, at least the MAP program had been able to maintain level funding while funding for many other State programs was being cut. Since additional money probably will not be available for next year either, the Commission must continue to discover ways to stretch the money that is available. He indicated that the Commission is looking forward to input from the public forum that will be held immediately following the meeting that will address affordability in Illinois.

Responding to an inquiry from Ms. Winter, Mr. Matejka confirmed that the Commission and State had provided data to the National Center for Public Policy in Higher Education for their analysis. He indicated that in doing their analysis, the National Center focused primarily on the percentage of a family's income needed to pay for higher education in each state in computing the grade for affordability. He also noted that due to a difference of opinion in the appropriate methodology for making that computation, the National Center probably overstates the affordability gap in Illinois, and were we to grade the State using our preferred method for calculating this value, we would probably give Illinois a grade of C rather than D.

Chairman Barr stressed the importance of working with the various groups, organizations, and institutions represented at this meeting to do the best job with what resources are available to help the citizens of Illinois get a college education, which is important for their welfare and the welfare of the State as a whole.

Continuing his report, Mr. Matejka noted that recent media attention has been given to some student loan providers taking advantage of an outdated Department of Education policy that allows providers to receive a 9.5% interest rate on certain loans subsidized by the Federal government, which is much higher than the current industry rate. He assured the Commission that ISAC, in its role as guarantor, has no control over the level of subsidies paid by the Federal government to the lenders on these student loans. Secondly, he stated that IDAPP, in making education loans, utilized 9.5% interest rate loans for their originally intended legislated purpose only and has never taken advantage of the loophole that some other loan providers have since exploited. In fact, in 1996, ISAC worked with other student loan providers to lobby the Federal Government to end the practice of taking advantage of the rate; instead, the Department of Education actually broadened provisions which otherwise would have been phased out.

Mr. Matejka stated that non-profit loan providers, like ISAC, generally use excess earnings for programs that benefit borrowers, and are required to return any earnings above that to the U.S. Treasury. Students and families are the only beneficiaries of ISAC earnings, unlike profits that are made by for-profit providers, he commented, which is why ISAC argues that Illinois colleges and universities should utilize ISAC services.

Mr. Matejka reminded the Commission that each member will be required to complete Ethics training during the month of December and will be receiving notification from ISAC's Ethics Officer, Karen Salas, as to the procedures for the training. Chairman Barr indicated that he had already completed his training as a member of the Board of Higher Education (IBHE).

Mr. Matejka and Chairman Barr, on behalf of the members of the Commission, expressed their congratulations to Tom Sakos on his 20 years of service with ISAC and Sheila Bourque as she celebrates 25 years of service.

Continuing his report, Mr. Matejka indicated that the IBHE has begun the process of developing an FY 2006 higher education budget for submission to the Governor and that the highest priority in the FY 2006 budget will be the issue of affordability. He noted the Commission plans to take action on a budget request at the January meeting which will then go to IBHE for action at its meeting in February.

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

No action was required on this item.

#### **Agenda Item 5. Selection of Financing Teams**

Chairman Barr noted that it is the practice of the Commission, in accordance with both sound fiscal and ethical practices as well as applicable State laws and regulations, to periodically review and select teams of underwriters, lawyers, trustees and financial advisors to work with the Commission on IDAPP financings as they arise. He stated that Requests For Proposals (RFPs) were issued and numerous proposals were received as a result of this request. The proposals were reviewed and graded by a Committee consisting of staff and Commissioner Neumiller. Chairman Barr stated that he and Mr. Matejka reviewed the recommendations of the Committee and that is what is being presented to the Commission today. He explained that while future financing team members would be selected from among the list of pre-qualified firms to be approved at this meeting, no firm on the proposed list is

guaranteed any business from the Commission as a result of the action being taken today. He also clarified that the list of firms selected today would remain in effect for a four-year period, with the option of extending that time frame for two additional one-year periods, at the discretion of the Commission. Because of the significant amount of time and expense involved in the preparation and evaluation of proposals, the Chairman noted, it is not prudent to go through the RFP process too frequently.

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

**“BE IT RESOLVED** that the Commission approves the pre-qualified firms of financing professionals as recommended by the RFP evaluation committee; and

**“BE IT FURTHER RESOLVED** that the Chairman is authorized to select from among those pre-qualified firms approved above, law firms to serve as bond counsel, underwriters/disclosure counsel or credit enhancement counsel; investment bankers to serve as senior, co-senior or co-managing underwriters; a financial advisor, and a bond trustee for each of the Commission’s future financings for FY2005 – FY2008 or until such time as new financing professionals are selected and appointed; and

**“BE IT FURTHER RESOLVED** that the Commission, its staff and its agents are authorized and directed to take such actions and steps as may be necessary or desirable to implement and comply with this Resolution.”

Ms. Betts seconded the motion.

Since the Commission delegates to the Chairman the authority to select the team for each financing, Chairman Barr explained, in response to a question from Ms. Winter, the process he takes in choosing that team, noting that counsel is obtained from Mr. Matejka, Mr. Sakos and Mr. Starshak as to which firms specialize in the particular type of financing that is being done. Chairman Barr reminded the other Commissioners that while he does the initial selection, before any bonds are issued, all details of any proposed financing, including the financing participants, are brought back to the full Commission for final action and approval. He reiterated that no firm that is on the approved list is guaranteed any business from the Commission. He also noted that in his 19 years as Chairman of the Commission there has never been any question raised as to the process or selections made for the financing teams for IDAPP.

After further discussion, the motion was approved unanimously. Mr. Sakos took the opportunity to introduce those in attendance from the financing teams including Mr. Joe Starshak of Starshak, Welnhofner & Company; Ms. Amy Monblatt of UBS Financial Services; and Vincent Cimino of RBC Dain Rauscher. He then recognized Fred Ash, representing JP Morgan Chase, who introduced Terence Conway, Kathy Cokic, and Chris Koenig. Chairman Barr welcomed those in attendance and stated that the Commission has the highest confidence in each of the firms and the good work that has been done in the past and looks forward to the same in the future.

**Agenda Item 6. IDAPP’s Quarterly Investment Report**

No action was required on this item.

**Agenda Item 7. FY2005 Monetary Award Program Status Report and Approval of MAP and IIA Payment Claim Deadline Dates**

Mr. Matejka introduced this item by noting that ISAC suspended the announcement of MAP and IIA awards for all students whose initial 2004-05 applications were received on or after August 16, 2004.

As of September 10, 2004, this includes just over 9,600 MAP-eligible applications and over 3,000 IIA-eligible applications. He noted that staff is requesting that the Commission approve the priority payment claim deadline dates for MAP and IIA as proposed by staff.

Ms. Winter **MOVED THAT** the Commission approve the following FY 2005 priority payment claim deadline dates for MAP and IIA:

<b><u>Term</u></b>	<b><u>Deadline</u></b>
1 <sup>st</sup> semester or quarter.....	January 14, 2005
2 <sup>nd</sup> semester or quarter.....	April 8, 2005
2 <sup>nd</sup> semester starting after 2/15/05.....	June 10, 2005
3 <sup>rd</sup> quarter.....	June 10, 2005

Ms. Louderback seconded the motion. After a brief discussion the motion was approved unanimously.

**Agenda Item 8. Discussion of College Affordability In Illinois: FY2006 MAP Budget Implications**

Chairman Barr stated that this agenda item would be the topic of discussion at the public forum to be held immediately following the regular meeting.

**Agenda Item 9. College Illinois! Contract Prices and Fees for 2004-2005 Enrollment Period**

Mr. Erford opened this item by noting that the approach taken on pricing for 2004-2005 is consistent with past practice, with two notable differences. First, the 2004-2005 proposed contract prices recognize the first-year impact of the State's new Truth-In-Tuition legislation. Second, it is recommended that the program's long-term annual tuition inflation assumption be adjusted from 7.0 to 7.5 percent to better reflect the long-term trend in tuition and fees at Illinois public universities.

In keeping with the Commission's practice of recent years, he noted, staff is once again recommending a moderate premium be added to prices, which over time will gradually eliminate the current actuarial deficit. This approach has been successful over the past few years in increasing the program's funded ratio (assets divided by liabilities) from roughly 80% to approximately 90% currently. He observed that most other states are now following a similar practice. He also noted that staff was recommending no change in program fees this year.

Responding to a question from Ms. Winter, Mr. Erford explained how the new Truth-In-Tuition legislation had been taken into account when trying to estimate long-term tuition inflation assumptions. Continuing, he also addressed the decision to leave the long-term annual investment return assumption unchanged.

Mr. Erford stated that past history has proven that even with increases in contract prices to reflect tuition inflation and to enhance the program's financial soundness, the sale of contracts continues to be strong and consistent. He credits this in part to the increasing public awareness of college costs. Chairman Barr agreed that if projections are correct the *College Illinois!* program will continue to be as sound an investment as it has been in the past.

Ms. Betts **MOVED THAT** the Commission approve the schedule of *College Illinois!* contract prices specified for the 2004-2005 enrollment period in Table A, as well as the schedule of *College Illinois!* fees and charges for the program set forth in Table B.

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

#### **Agenda Item 10. College Illinois! Investment Report**

Mr. Erford began by noting that the investment results are the best the program has seen and even through difficult times in the market, the Commission has stayed the course in investment strategy and the results prove this has been a wise course. He then introduced Pat Krolak, investment consultant with Marquette Associates.

Mr. Krolak was pleased to report that the fund increased in value \$156 million to just over \$500 million at the close of the fiscal year, with \$107 million coming from new contributions into the fund, and \$48 million from the fund's appreciation and income. As a result, he noted, the fund's return for the year was 13.3%, well in excess of the target actuarial rate of return of 7.75%. By continuing to accept new contributions, the fund benefited in the rising equity market, adding 80 basis points. Additionally, a change in the asset allocation added another 20 basis points in investment performance. Summarizing the previous 12-month period, Mr. Krolak stated that the program terminated two money managers, hired six additional managers and renewed the contracts of two existing managers. During this period of change the fund utilized State Street Global Advisors as transitional manager for all the accounts, which resulted in a savings of \$120,000 in commissions and \$450,000 in total costs to the plan by maintaining market exposure. Additionally, effective July 1, 2004 the program renegotiated the custody contract which will eventually save the fund \$70-80,000 per year.

#### **Agenda Item 11. Proposed Rules**

#### **Agenda Item 12. Emergency and Proposed Rules Amendments**

Chairman Barr suggest that agenda item 11 and 12 be handled as one item due to the fact that both relate to Proposed Rules.

Mr. Matejka stated that the Proposed Rules for the Americans With Disabilities Act Grievance Procedure is the first step in the rulemaking process. This rule is required by law for the agency to be in compliance with the Americans With Disabilities Act.

The Emergency and Proposed Rules Amendments for the Illinois Veteran Grant (IVG) Program will allow members of the National Guard to claim IVG after federal active duty service and still continue as a member of the National Guard. Currently, Mr. Matejka noted, as the rule reads a member of the National Guard who went into active duty and returned from the term of service was unable to claim IVG. He stated that the agency consulted with the Department of Veterans' Affairs and the Lieutenant Governor's office in establishing the new eligibility criteria. He noted that this is the first step in the rulemaking process and as an Emergency Rule this will only be in effect for 150 days.

Chairman Barr announced that he will ask for a motion for the Commission to go into Executive Session to discuss the employment and compensation of the Executive Director. He stated that immediately following the Executive Session, the Commission would reconvene the formal meeting to take necessary action on the results of the Executive Session. He stated that the regular meeting of the Commission will then be adjourned and the informal discussion on affordability in Illinois and the FY2006 MAP budget implications will begin.

Ms. Winter **MOVED THAT** the Commission go into Executive Session to discuss the employment and compensation of the Executive Director. Ms. Betts seconded the motion. Ms. Louderback inquired if the Commission would be discussing in Executive Session a memorandum

members received regarding the Ethics training. Chairman Barr indicated that if there were questions regarding that training, Ms. Salas, Ethics Officer, was available to answer questions. After a brief discussion, Ms. Salas clarified with the Commissioners what constitutes an ex parte communication. A roll call vote was taken, with all members present voting affirmatively to move into closed session. This included Commissioners Betts, Casey, Louderback, Winter and Chairman Barr. Mr. Lesica was present but unable to vote.

The Executive Session began at 10:50 a.m. The Commission resumed its regular business at 12:15 p.m. Chairman Barr stated that he and his colleagues agree that the State of Illinois is very fortunate to have a person such as Larry Matejka, with his stature, ability, integrity and national reputation, as the leader of the agency. Among Mr. Matejka's primary accomplishments, Chairman Barr noted, was the exceptional quality of the staff that he has assembled. From senior staff the Commission has gotten to know very well, to the many outstanding men and women the members of the Commission have never met, all are dedicated to helping the citizens of this state secure a college education to benefit them and the State of Illinois. In keeping with the sentiments expressed in the Executive Session, Chairman Barr asked for a motion that the Illinois Student Assistance Commission employ Larry Matejka as Executive Director for the fiscal year beginning July 1, 2004 and ending June 30, 2005 at a salary of \$200,510. Ms. Louderback **SO MOVED**, and the motion was seconded by all members of the Commission, and passed unanimously.

Ms. Louderback **MOVED THAT** the September meeting be adjourned. Ms. Betts seconded the motion, which was approved unanimously. The meeting concluded at 12:24 p.m.

Respectfully submitted,



Debora Calcara  
Secretary to the Commission