

**MINUTES OF A MEETING OF THE  
ILLINOIS STUDENT ASSISTANCE COMMISSION  
January 16, 2004  
Columbia College  
Chicago, Illinois**

**COMMISSIONERS PRESENT:** J. Robert Barr, Chairman  
Pauline Betts  
Robert Casey  
Christopher Kurczaba  
George Lesica  
C. Richard Neumiller  
Gretchen Winter

**COMMISSIONERS PRESENT  
VIA TELEPHONE:** Hugh Van Voorst

**COMMISSIONERS ABSENT:** Mary Ann Louderback

**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!*  
Chris Peterson, Program Services  
Susan Kleemann, RPPA  
Kris Smith, RPPA  
Mark Holysz, Client Relations  
Karen Salas, General Counsel  
Debora Calcara, Commission Secretary

**PUBLIC ATTENDANCE:** Kathy Amato, The School of the Art Institute  
Fred Ash, Bank One  
Jordan Irving, Merrill Lynch Investment Managers  
Keith Bruch, LSV Asset Management  
Danielle Cassidy, Banc One Investment Advisors  
Jerry Cebrzynski, Lake Forest College  
Bernard Clay, Introspect Youth Services  
Kathy Edmunds, North Central College  
Grace Gorka, J. P. Morgan Institutional Trust Services  
Terry Jackson, Knox College  
Rick Kaye, Richard M. Kaye & Associates  
Patrick Krolak, Marquette Associates  
Sue Kwan, Northwestern University  
Ed Madden, Heritage Bank of Schaumburg  
Jennifer McClure, DeVry University  
Lynn Nichelson, Illinois Wesleyan University  
Jeff Sams, Columbia College

Scott Seibring, Illinois Wesleyan University  
Colby Sellers, Western Illinois University  
Sue Standley, Augustana College  
Joseph Starshak, Starshak Welnhofner & Company  
Sandy Street, University of Illinois  
Dave Tretter, FIICU

## Announcements

The Chairman called the January 16, 2004 meeting of the Illinois Student Assistance Commission to order at 9:00 a.m., extending his best wishes for the new year to those in the audience. He introduced and welcomed Mr. Robert Casey, a recent appointment to the Commission, noting that while Mr. Casey has participated in several meetings by telephone, he was physically attending his first meeting this month. The Chairman also acknowledged the presence of Mr. George Lesica, who has been appointed by the Governor to serve as the Student Commissioner. It was noted that Mr. Lesica's appointment has yet to be confirmed by the Senate, and while there is a technical question remaining regarding whether or not he can vote or be counted as a participant when determining a quorum at meetings of the Commission, he may freely participate in the Commission's discussions.

Both Mr. Casey and Mr. Lesica thanked the Chairman for his remarks and expressed their interest in working on behalf of the students of Illinois.

The Chairman acknowledged the presence of Mr. Paul Chiaravalle, Associate Vice President and Chief of Staff from the Office of the President at Columbia College. He thanked Mr. Chiaravalle and the other staff at Columbia who had assisted with preparations for the Commission meeting. Mr. Chiaravalle welcomed the Commissioners on behalf of the President, Dr. Carter, who was unable to attend today's meeting because he was out of town.

It was noted that a quorum was present, with Mr. Van Voorst participating via teleconference. It was further noted that while the next regular meeting of the Commission had been previously scheduled for Friday, April 2 in Springfield, it was likely that a special meeting would need to be convened prior to that date to deal with the start-up formula for the 2004-05 Monetary Award Program. Action had been planned at this meeting, but must be postponed pending further developments and decisions on the Fiscal Year (FY) 2005 state budget. He expressed his apologies to those in the audience who were present solely to comment upon or listen to the discussion on the FY2005 budget request or the start-up formula, indicating that no testimony would be received at this time. A special meeting would probably be convened no later than early February.

Sadly, on a final note, the Chairman acknowledged the recent death of Commissioner William Hocter, emphasizing what a great loss this represented not only for ISAC but for the higher education community as a whole. At Chairman Barr's request, Ms. Betts read the following resolution into the record:

Ms. Betts **MOVED THAT** the following resolution be adopted:

**WHEREAS**, William J. Hocter began his lifelong journey in higher education while receiving both his Bachelor of Science and Master of Business Administration degrees from Xavier University and his Doctor of Business Administration degree from Indiana University; and

**WHEREAS**, William J. Hocter enjoyed a long and successful career in banking, first serving as Assistant Vice President at the Federal Reserve Bank of Chicago before moving on to Vice President and Economist at the Federal Reserve Bank of Cleveland, and later being appointed Executive Vice President of the Illinois Bankers Association, a position to which he devoted twenty years; and

**WHEREAS**, William J. Hocter also served as Chairman of the Board of Trustees of the Graduate School of Banking at the University of Wisconsin and Chairman of the Herbert Prochnow Education Foundation of Madison, Wisconsin; and

**WHEREAS**, after retiring from active involvement in the banking industry, William J. Hocter shared his experience and expertise with others by teaching international finance, money & banking, commercial banking, advanced monetary theory, financial institutions and advanced finance courses at DePaul University; and

**WHEREAS**, William J. Hocter's commitment and dedication to the value of postsecondary education, and his desire to extend its benefits to all citizens of Illinois, was recognized by Governor James R. Thompson, who appointed him a member of the Illinois Student Assistance Commission on May 1, 1988; and

**WHEREAS**, William J. Hocter was reappointed to the Illinois Student Assistance Commission by Governor Jim Edgar and George H. Ryan, serving the Commission and the People of the State of Illinois for over fifteen years; and

**WHEREAS**, William J. Hocter was elected by his fellow Commissioners to serve as Vice Chairman of the Commission, a position which he held for over ten years; and

**WHEREAS**, William J. Hocter was also an active participant in the work of the Illinois Board of Higher Education where he often represented the Student Assistance Commission and served on committees studying issues of affordability, access, and diversity, and

**WHEREAS**, William J. Hocter's steadfast dedication to the mission of the Illinois Student Assistance Commission and to the interests of all Illinois students and their families was evidenced by his work on the Commission, his in-depth knowledge of student financial aid issues, and his willingness to assist the Commission's staff in projects outside Commission meetings, including sharing his expertise with the *College Illinois!* financial advising team; and

**WHEREAS**, William J. Hocter's personal integrity, his dedication and many contributions to the advancement of higher education in Illinois, and his devotion to the advancement of all the citizens of this State through education earned him the respect and friendship of all who had the good fortune to work with him; and

**WHEREAS**, William J. Hocter passed away on September 24, 2003, at the age of 69 after a long illness; and

**WHEREAS**, William J. Hocter will be sadly missed by everyone whose life he touched and made a little brighter with his quick smile and happy laugh;

**NOW, THEREFORE, BE IT RESOLVED**, that the members and staff of the Illinois Student Assistance Commission recognize and honor the late William J. Hocter for his service to the People of the State of Illinois through his commitment to the Commission and its mission; and

**BE IT FURTHER RESOLVED**, that the members and staff of the Illinois Student Assistance Commission extend their most sincere sympathy to the family of our dear departed friend and colleague, William J. Hocter; his wife, June; his children, William J. Hocter, Jr., Elaine Moore, and Edward Hocter, fifteen grandchildren, and surviving sisters Patricia Rooks and Maureen Murphy.

The motion was seconded by all members of the Commission and was approved unanimously.

Noting that the death of Mr. Hocter compels the Commission to elect a new Vice Chairman, the Chairman acknowledged Ms. Winter for the purpose of making a nomination.

Ms. Winter **MOVED THAT** the Commission appoint fellow member Richard Neumiller as Vice Chairman. The motion was seconded by Ms. Betts and was approved unanimously. Mr. Neumiller expressed his appreciation and indicated that he was honored to serve in the capacity as Vice Chairman.

### **Agenda Item 2. Minutes of the September 19, 2003 and November 14, 2003 Meeting**

The Chairman noted that the minutes of both the September 19, 2003 meeting and the November 14, 2003 teleconference meeting were before the Commission. It was suggested that the motion presented embrace both sets of minutes.

Ms. Winter **MOVED THAT** the minutes of the September 19, 2003 meeting and the November 14, 2003 meeting be approved as submitted by the Commission Secretary. Mr. Casey seconded the motion, which was approved without dissent.

With that, the Chairman spoke to the FY2005 budget request, indicating that action on this item had been postponed previously (in September) but was planned for this meeting. The January agenda book includes an item outlining the staff's recommendation. He spoke briefly to the process that the higher education community in Illinois has traditionally followed in developing its budget requests, noting that the first step has typically involved the approval by each system of its own request, followed by action on the part of IBHE, the Governor, and the General Assembly. Ultimately, he noted, the Governor considers the action taken by the General Assembly, and final action is generally taken by early summer, so that agency budgets are in place by the onset of the fiscal year, on July 1.

Continuing, he noted that due to the severity of the current budget situation, guidance from both the IBHE and the Governor's Office of Management and Budget (GOMB) resulted in the Commission postponing action on the agency's budget request in September, with the intent of acting today. Discussions have been ongoing between ISAC and IBHE and GOMB staff. Though no budget request has been approved by the Commission and submitted to IBHE, based on communications between ISAC staff, IBHE staff, and GOMB, the IBHE is developing a discussion budget in cooperation with the Governor's office that will likely reflect no more than level funding for ISAC. With that known, and pending additional guidance from key state officials, he suggested that the Commission not act on an FY2005 budget request at this time. In fact, he observed, the request submitted to the General Assembly would reflect decisions made in collaboration with IBHE and the Governor's office.

On a related matter, he spoke to the Commission's annual need to adopt a start-up formula for the Monetary Award Program (MAP), to provide students and families with some notion of at least an estimate of how much state need-based aid they could expect to receive for the upcoming academic year. Historically, this has been done in January and was scheduled to be considered at this meeting. He noted that immediately prior to the meeting, staff was contacted by the GOMB and a request was made to postpone action on the start-up formula pending discussions with GOMB. The Chairman expressed his opinion that it would be prudent to abide by that request, emphasizing that he also felt strongly that action would have to be taken soon in order to facilitate enrollment decisions and financial aid packaging at the campus level. It was noted that a special meeting of the Commission would be held as soon as possible, but no later than early February, to take action on the start-up formula.

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

At the Chairman's invitation, Mr. Matejka commented as well on the need to postpone action on both the FY2005 MAP start-up formula and the budget request, acknowledging the severity of the State's fiscal crisis and the degree to which this crisis has compelled state officials to modify the traditional higher education budget development process. He noted that staff has been engaged in daily discussions with both IBHE and GOMB, emphasizing that the relationship the agency has with both entities is strong and that their support for student financial aid is clear.

Echoing the comments made by the Chairman, Mr. Matejka thanked Tim Bauhs, Executive Director, Student Financial Services at Columbia College, and other campus staff for their assistance with the preparations for this meeting. He stressed that the Commission looks forward to working with Columbia College on future endeavors as well.

On other matters, the Executive Director noted that though staff had previously planned on bringing a bond issue before the Commission at this meeting, a determination had been made that action on this item could be deferred until the next meeting. While the team for this financing has already been selected, it was also noted that steps are being taken by staff to issue a Request for Proposals (RFP) this upcoming March, to select underwriters and counsel for future financings. In response to a question from Ms. Winter, Mr. Matejka explained that an RFP is typically issued every three years for this purpose.

On state legislative matters, Mr. Matejka reported that during the fall veto session, the General Assembly had approved Senate Bill 875, which increases IDAPP's bond-issuing authority from \$3.5 billion to \$5.0 billion. The Governor has signed the bill into law. With respect to the 2004 spring session, this is an off year, in which consideration is supposed to be limited to emergency legislation. Clearly, Mr. Matejka noted, the primary issue will be the state budget. Among the other bills to be initiated by staff are the following: legislation implementing the Governor's proposal to make community service a condition of eligibility for the Merit Recognition Scholarship program; a bill to grant a state tax deduction for monies invested in the *College Illinois!* prepaid tuition program; a bill aimed at allowing staff to retain a small fraction of the funds it collects from students who fail to fulfill their service commitment under the agency's teacher scholarship programs, to offset associated administrative costs; and, legislation implementing proposed changes to the MAP program, under which usage would be measured on the basis of credit hours rather than eligibility units.

Mr. Matejka concluded his report by providing a brief report on ongoing outreach activities and inviting any questions Commissioners might have on the financial statements presented in the agenda book. In response to a question from Mr. Neumiller, there was a brief discussion regarding the Commission's default prevention efforts, how critical such activity was during current economic conditions, and what methods were utilized by staff to identify those student most at risk of defaulting.

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

It was noted that no action was required on this item.

### **Agenda Item 5. IDAPP Investment Policy and Quarterly Report**

Mr. Matejka introduced the item, noting that consideration was necessary annually. He explained that only a few minor changes had been made to the policy; no substantive changes were proposed. It was noted that IDAPP Director Tom Sakos was present to respond to any questions, as was the secondary market's financial officer, Peter Xilas.

Mr. Neumiller **MOVED THAT** the Commission adopt the resolution printed on page 5 of the agenda book, which provided for the approval of the Investment Policy shown on pages 5-1 through 5-7. The resolution read as follows:

**“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 the provisions set forth in the Statement of Investment Policy for IDAPP.”

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

It was noted that as presented, it had been suggested that the action being requested of the Commission was covered on pages extending through 5-7 of the January agenda book. A clarification was made, indicating that the action requested did not include pages 5-6 and 5-7, which involved the quarterly investment report, not the investment policy itself.

Ms. Winter raised a question regarding Section 9.1 of the investment policy, concerning the list of authorized financial institutions. She inquired as to the process utilized for selecting these firms and the frequency with which they're reviewed prior to being re-selected. In the response provided by Mr. Sakos, it was noted that the secondary market typically makes its selections based upon the business relationship it has developed with the financial institutions in question, and that while modifications to the list are occasionally necessitated by events such as bank mergers and acquisitions, they are otherwise rare.

At this point, the Chairman reiterated that no action would be taken on Agenda Items 6 and 7, which dealt with the FY2005 budget and the FY2005 MAP start-up formula. He noted that with regard to the latter, public notice would be given as to when the Commission would meet to take action on this matter. He urged those wishing to testify or provide feedback on the formula to either appear at the next Commission meeting or submit their comments to the Commission Secretary.

In response to a question from Ms. Winter, it was confirmed that the overall change in the budget development process this year was by no means unique to ISAC. Similar changes are being experienced by the rest of the higher education community.

### **Agenda Item 8. Revisions of *College Illinois!* Investment Policy**

Mr. Erford introduced the item, noting that annual consideration was required. He acknowledged the presence of Mr. Pat Krolak of Marquette Associates, the program's new investment consultant. It was observed that one of Marquette's responsibilities was to recommend modifications to the policy, as needed. Mr. Erford noted that the changes recommended by staff to the policy were aimed not only at updating it, but equally important, at improving the flow of communication among the various parties that help oversee the program's investments. The proposed changes have been shared with the program's Advisory Panel, which has expressed its support. An observation was made regarding the program's overall asset allocation, and the recommendation to increase the exposure to equities from 60 percent to 65 percent, and to hire an additional investment manager, i.e., a small cap value manager.

Mr. Krolak of Marquette Associates spoke at some length about the rationale underlying the proposed changes to the *College Illinois!* investment policy. He emphasized in particular the changes being made to that section of the policy involving asset allocation, noting that while it was imperative to define clear targets, it was also important for the program to establish ranges that would afford it the freedom to move funds as needed.

Ms. Winter asked Mr. Krolak to address those changes to the policy dealing with the evaluation of firms appointed by the Commission to manage the program's investments. In his response, Mr. Krolak spoke to the additional oversight recommended by Marquette, commented on the new terminology added to the policy ("In Compliance," "Alert," "On Notice," and "Termination"), explained the guidelines and timeframes to be utilized in ranking firms, and how such determinations would be communicated to the Commission, agency staff, and the Advisory Panel. He confirmed that while the new language proposed allowed for a progressive oversight process, it was drafted in a manner that allowed for immediate termination, if such action was warranted.

In response to a follow-up question from Ms. Winter, Mr. Krolak indicated that as suggested as likely at the last meeting, Osprey Partners had been terminated, after being put on notice.

Ms. Winter **MOVED THAT** the Commission approve the resolution presented by staff on the back of page 8 of the agenda book. Ms. Betts seconded the motion, which read as follows:

**"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."

In response to an inquiry from Mr. Neumiller, Mr. Krolak confirmed that the new policy, as revised, will be sent to all current investment managers, each of which will be required to sign an acknowledgement that they have read and agreed to the terms of the policy.

The motion was approved unanimously.

Ms. Betts expressed how well-presented and easily understood the policy revisions were. The Chairman concurred.

#### **Agenda Item 9. Fiscal Year 2003 *College Illinois!* Annual Report**

Mr. Erford provided a brief overview of the annual report, highlighting the fact that the program's financial soundness had improved relative to last year. He emphasized the degree to which investment performance has improved, particularly over the past six months. On a final note, he commented on the blank pages included in the report, noting that the external auditors have not yet completed their work. Before the annual report is formally issued in February, it is expected that the work of the auditors will be finalized. In response to a question from the Chairman, he assured Commissioners that an updated report with the final audit data would be distributed when available.

#### **Agenda Item 10. Selection of *College Illinois!* Investment Managers**

The Chairman explained that it was necessary for the Commission to take action on the appointment of a manager for the large cap value equity portfolio of the *College Illinois!* program. A Request for Proposals was issued, the various bidders have been considered and the evaluation team has come up with a recommendation. It was noted that Ms. Winter had served on that evaluation team. Staff is asking that the Commission adopt the following resolution, as printed on page 10 of the agenda book:

**"BE IT RESOLVED** that the Commission authorizes the Executive Director to negotiate and enter into a contractual relationship with Merrill Lynch Investment Managers and LSV Asset Management to serve as the investment managers for the large capitalization value equity portfolio for the *College Illinois!* program."

Continuing, the Chairman noted that Ms. Danielle Cassidy of Banc One Investment Advisors was present at the meeting to respond to any questions Commissioners might have regarding her institution's recent acquisition by J.P. Morgan. In response to a question from Ms. Winter, Ms. Cassidy indicated that she did not anticipate any change in Bank One's relationship with ISAC as a result of the merger/acquisition. In response to a question from the Chairman, Ms. Cassidy assured the Commission that she would contact the agency immediately if her opinion regarding this issue were to change in the future.

Mr. Erford spoke to staff's recommendation, observing that the evaluation committee had been comprised of five members of ISAC's senior staff, as well as Commissioner Winter. He noted that Mr. Ed Madden of the Investment Advisory Panel had participated in the evaluation process as well, the first member of the Panel to do so, and thanked him for his willingness to serve. Continuing, Mr. Erford noted that staff had been very pleased with the quality of the pool of respondents to this RFP. The objective was to hire a new large cap value manager to replace Osprey Partners, a firm that was terminated in October. In its deliberations, the evaluation committee decided that it was better to select two firms rather than one, given both the amount of funds involved and the importance of diversifying and utilizing firms that employ different investment styles.

At the invitation of Mr. Erford, Mr. Madden spoke briefly, expressing his support for the recommendation and indicating that he felt strongly that ISAC staff had done an excellent job with the selection process. He also praised the role played by Marquette.

At the request of the Chairman, who thanked her for her service on the evaluation team, Ms. Winter commented on the process and the recommendation made to the Commission. She expressed appreciation for being allowed to serve, indicating that the process was truly educational. She noted that while there was a great deal of information to review, it was well presented, and she complimented both Marquette and the Investment Advisory Panel for the role that they played in what turned out to be a very thorough and deliberative process. She noted that she felt strongly about continuing to rely upon the Investment Advisory Panel in the future, as its members offer a degree of financial expertise that members of the Commission may not have. She also extended thanks to Mr. Madden for his assistance. In concluding her remarks, she indicated that she too felt grateful to be able to recommend two firms, Merrill Lynch and LSV, as she felt they had different approaches to investments and that this would work to the Commission's advantage.

Mr. Casey **MOVED THAT** the motion presented on page 10 be approved. Ms. Winter seconded the motion, which was approved unanimously.

Mr. Keith Bruch of LSV Asset Management addressed the Commission, indicating how thrilled his firm was to be working with ISAC and *College Illinois!* On a similar note, Mr. Jordan Irving of Merrill Lynch expressed his firm's appreciation for being selected by the Commission to manage its funds.

### **Agenda Item 11. Adopted Rules Amendments**

The Chairman indicated that this item represented final action on the proposed amendments to the rules governing the Illinois Future Teacher Corps, or IFTC, program. Clarifying that no substantive changes had been made, he noted that staff was requesting that the Commission adopt the resolution presented on page 11 of the agenda book. The resolution as proposed reads as follows:

**“BE IT RESOLVED** that the Commission approves and adopts the amendments for the Illinois Future Teacher Corps (IFTC) Program, as modified during the rulemaking process.”

Ms. Betts **MOVED THAT** the resolution be approved by the Commission as presented by staff. Ms. Winter seconded the motion, which was approved unanimously.

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

The Chairman introduced the item by explaining that this represented the onset of the regular rules process. Commissioners had received a separate book that included the proposed amendments. It was noted that Mr. Colby Sellers, President of the Illinois Association of Student Financial Aid Administrators, Inc., wished to comment on the proposed MAP amendments.

Noting that he was speaking on behalf of ILASFAA, Mr. Sellers expressed his appreciation to the Commission for the opportunity to provide input on this matter. Before speaking to the rules themselves, he applauded ISAC efforts in the areas of outreach and College Zone, emphasizing how important it is to educate students and parents about college admissions and the financial aid process. He spoke favorably regarding the restoration of fifth-year MAP eligibility, the conversion from eligibility units to credit hours, and staff's proposal to remove the reduction factor. With regard to allowing students up to 135 hours of MAP eligibility, he noted that this was by no means extravagant. In concluding his remarks, he urged ISAC to continue its efforts to simplify the MAP process. As an example of what this might entail, he suggested that it be permissible for more than one school to bill MAP for an individual student who might be enrolled in more than one institution. In concluding his remarks, he thanked Mr. Matejka and Mr. Jennetten for their unfailing support for ILASFAA over the years.

In response to a follow-up question raised by Ms. Winter, a discussion ensued regarding those students who are enrolled simultaneously at two institutions, and the need to accommodate them in the area of state financial aid.

The Chairman noted that the business of the Commission was completed, reiterating that a special meeting would need to be convened no later than early February to take action on the FY2005 start-up formula. After that special meeting, the next regularly scheduled meeting of the Commission was due to be held on Friday, April 2, in Springfield.

Finally, the Chairman asked that the minutes reflect the presence and participation during the first portion of the meeting of Ms. Winter's son, Mr. Otto Winter-Brown. Mr. Winter-Brown's fascination with the Chairman's gavel and microphone was noted, as was his interest in the *College Illinois!* program.

Mr. Neumiller **MOVED THAT** the January 16, 2004 meeting of the Illinois Student Assistance Commission be adjourned. Mr. Kurczaba seconded the motion, which was approved unanimously. The meeting adjourned at 10:28 a.m.

Respectfully submitted,



Debora Calcara  
Secretary to the Commission