

**AGENDA ITEM 2.**

**MINUTES OF THE MARCH 26, 2010 MEETING**

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

**March 26, 2010**

**Illinois State University**  
**Normal, Illinois**

**COMMISSIONERS PRESENT:**

Donald J. McNeil, Chair  
Sharon Alpi  
Dr. Mary Ann Louderback  
Hugh Van Voorst  
Johnathan Wilson

**COMMISSIONERS ABSENT:**

Dr. Linda Andre  
Sean Dauber

**STAFF PRESENT:**

Andrew Davis, Executive Director  
Frank Bello, Chief Investment Officer/Treasurer  
Esther J. Cepeda, Chief Marketing & Communications Officer  
Adam Clark, ISAC Corps, Heartland  
George Egan, Director, Portfolio Management & Direct Investment  
Katharine Gricevich, Director, Government Relations  
Susan Kleemann, Managing Director, RPPA  
Kim Lee, General Counsel  
Shoba Nandhan, Interim CFO, ISAC  
Paul Palian, Director, Communications  
Christine Peterson, Chief Program Officer  
Joanne Tolbert-Wells, Chief of Staff & Administration  
Larry Zeller, Director, Beta Management  
Debora Calcara, Commission Secretary

**PUBLIC ATTENDANCE:**

John Avendano, Kankakee Community College  
Deb Brody, Robert Morris University  
Paul Frank, FIICU  
Jon Gudenrath, Illinois State University  
Tyler Kearney, University of Illinois  
Nicole Krneta Rogers, IBHE  
Tom Starshak, Starshak Winzenburg

### **Item 1. Announcements**

Chairman McNeil recognized Dr. Al Bowman, President of Illinois State University (ISU). Dr. Bowman welcomed the Commission to ISU and thanked them for their commitment and support of the Monetary Award Program (MAP). He stated that approximately 3,400 students at ISU receive MAP assistance, of which about 1,250 come from families with a median income of \$16,000 per year. He stated that for these most needy students, ISU supplements their MAP awards with an additional \$5 million in institutional aid. He was pleased to report that for students receiving aid in 2008 at ISU, 83 percent of those students returned to ISU in 2009, only slightly below the campus-wide retention rate. He also noted that the six-year graduation rate for MAP recipients at ISU is 64 percent, compared to the campus-wide rate of 69 percent.

Chairman McNeil thanked Dr. Bowman for the school's hospitality. He then announced that the next meeting of the Commission would be held on June 25, 2010 at Trinity Christian College in Palos Heights. He then asked that a roll call be taken, which established that a quorum was present. He called the meeting to order at 9:35 a.m.

### **Item 2. Minutes of the January 22, 2010 Meeting**

Dr. Louderback **MOVED THAT** the minutes of the January 22, 2010 meeting be approved as submitted. Ms. Alpi seconded the motion, which was approved unanimously.

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

Mr. Davis announced that provisions contained in the health care reform bill, just passed by the United States Congress and currently awaiting President Obama's signature, would also eliminate the Federal Family Education Loan Program (FFELP). He stated that ISAC has been a guarantor and lender for this program for decades, but as of July 1, all new student loans will be made through the Federal Direct Loan Program. He feels this will be an operational challenge for the Department of Education (ED) as it will over double their operation within just a few months. He noted that while no new loans will be made, ISAC will continue to service its outstanding portfolio of guaranteed loans on behalf of ED, which will continue to provide the agency with a revenue stream for a number of years.

A positive aspect of the legislation, Mr. Davis observed, is the increase in funding for the federal Pell Grant Program. It had also been hoped that there would be significant new funding for a number of other programs, but much of that did not make it to the final bill. One program that did receive an increase in funding is the College Access Challenge Grant Program, and we are optimistic that this funding can be used to help support the agency's programs and initiatives.

Continuing, Mr. Davis was pleased to report that the State of Illinois had recently made disbursements to schools on a large number of outstanding MAP vouchers. To date, he indicated, a total of \$371 million of the nearly \$400 million total has been paid out for MAP so far this year. He reported that one reason for the increase in MAP applications has been the success of a partnership with the Chicago Public Schools which continues to show an increase in FAFSA applications completed and he hopes to turn the initiative into a statewide program to increase completion rates throughout the state.

Mr. Davis reported that ISAC is participating, along with the Board of Higher Education, the Community College Board, the State Board of Education and others, in the P-20 Council, to make a good educational system even more effective by providing better coordination and integration among all levels of learning in Illinois.

Finally, Mr. Davis indicated that progress is continuing to be made on the proposal he brought to the Commission last fall to provide a new source of revenue for MAP. He stated that State Senator Edward Maloney has enthusiastically agreed to sponsor legislation to authorize ISAC to issue revenue bonds to be used as an alternative funding source for MAP, which would be used to supplement the State's appropriated funding. He indicated that MAP applications will likely be suspended this year in mid-April, with over 100,000 eligible students being put into suspension.

#### **Item 4. Proposed Rules and Amendments**

Ms. Peterson opened the agenda item, noting that upon Commission approval today, the proposed rules and amendments will be sent to the Joint Committee on Administrative Rules for its 45-day review period in order for the rules to be effective on July 1. She indicated that one comment was received during the public comment period, but it was more of a disagreement with the statute. No changes were made in response to the comment, she added, since it is our belief that the rules accurately implement statutory requirements and are consistent with the intent of the law.

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

**“BE IT RESOLVED** that the Commission accepts the proposed rules and amendments, as modified thus far during the rulemaking process, for submission to the Joint Committee on Administrative Rules.”

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

#### **Item 5. FY2011 Monetary Award Program (MAP) and Silas Purnell Illinois Incentive for Access (IIA) Application Volume Update and Request for Authority to Suspend**

Ms. Kleemann stated that MAP application volume is up nearly 40 percent over last year and it is anticipated that a mid-April suspension date will be needed. She indicated that in FY2009, \$57 million in awards went to community college students. Due to the increase in applications this year, barely \$50 million in awards will go to community college students and next year it is anticipated to be even worse. She stated that the early suspension dates are hurting community college students more because many are non-traditional students who apply later.

Responding to Ms. Alpi, Ms. Kleemann stated the overall decline in claim rates can be attributed to the neediest students, who do not have the funds to bridge the gap between the aid they receive and the cost of attendance. This is being offset somewhat by higher claim rates for less needy students, who are staying in-state to attend school, and thus claiming their MAP awards. She stated that with level funding, MAP will serve fewer students because a greater percentage of claims will go to students in four-year schools who receive larger awards.

Dr. Louderback **MOVED THAT** the Commission authorize staff to suspend FY2011 award announcements for IIA (retroactively) and MAP when it becomes necessary to avoid the risk of over-committing the appropriation.

Mr. Van Voorst seconded the motion, which was approved unanimously.

#### **Item 6. Partial Payment of Federal Default Fee for 2010-2011 Academic Year**

This item was withdrawn

### **Item 7. College Illinois!® 529 Prepaid Tuition Program FY 2009 Annual Report**

Mr. Bello stated that this annual report has been filed with the Governor's office, as required by state statute, and is being brought to the Commission as an information item. He stated that for the period ended June 30, 2009, the fund had a deficit of \$515.6 million as compared to a deficit of \$273.2 million the previous year, resulting in a funded ratio of 68 percent versus 81 percent in the prior year. Using an alternative valuation method, which amortizes investment gains or losses over a five-year period, results in a funded ratio of almost 84 percent.

Responding to Ms. Alpi, Mr. Bello stated that he is comfortable with the results given the state of the marketplace faced by all funds in 2008 and 2009, and the fact that our fund is currently back up to a billion dollars in assets and the funded ratio now is closer to the 70's. He added that a number of positive changes have been made to the asset allocation and the investment policy during this time.

Mr. Davis feels that to maintain a 70 percent funded ratio after the worst investment environment since the Great Depression could be viewed as positive. He indicated the fund has made over \$100 million since this report was compiled, which means the fund is on the right track.

Responding to Ms. Alpi's inquiry as to at what level he would be concerned over the solvency of the program, Mr. Davis indicated that he was less concerned about the specific level of the fund than he was about the underlying causes of changes to the level of the fund. For example, he was less concerned about short-term changes in the fund that were consistent with unprecedented market activity than he would be about long-term, sustained higher than anticipated tuition rate increases at the University of Illinois putting a strain on the program. He stated that he has asked the actuaries to model several years of significant tuition increases and one or two years would not alarm him but should three or more years of dramatic tuition increases continue he would be concerned. He feels the best use of the program staff's time is to continue to manage the portfolio effectively as has been done over the last year.

### **Item 8. Executive Session**

Chairman McNeil stated that while the Illinois Open Meetings Act generally requires that public bodies conduct their business at meetings that are open to the public, the Act also provides various exceptions for matters to be discussed in a closed session. For the Executive Session this morning, he indicated, there is one applicable exception under subsection 2(c) of the Open Meetings Act: under exception number "7"...the closed session will concern the sale or purchase of securities, investments or investment contracts.

Mr. Van Voorst **MOVED THAT** the Commission adjourn into Executive Session. Ms. Alpi seconded the motion. After a roll call vote approving the motion, the Commission adjourned into closed session at 10:16 a.m.

After a short recess, the Commission returned into open session at 10:50 a.m.

### **Item 9. College Illinois! 529 Prepaid Tuition Program Secondary Private Equity Investment Agreement**

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

**"BE IT RESOLVED** that the Illinois Student Assistance Commission (ISAC) authorizes the Executive Director or Chairman **and** the Chief Investment Officer to execute and deliver an Investment Management Agreement by and between DDJ Capital Management, LLC, as the

investment manager (“**Investment Manager**”) or other documents necessary to evidence ISAC’s investment with the Investment Manager (the “**Investment Management Agreement**”). The Investment Management Agreement shall be in substantially the form attached hereto as **Exhibit B** and is hereby approved, with such changes, revisions and completions therein not inconsistent with this Resolution as shall be approved by the Executive Director or Chairman **and** the Chief Investment Officer, such execution to constitute conclusive evidence of the approval of the Executive Director or Chairman **and** the Chief Investment Officer, and the Commission’s approval of any changes, revisions and completions therein from the form of Investment Management Agreement attached hereto; **provided, however**, in no event shall the amounts invested with the Investment Manager exceed \$50,000,000;

“**BE IT FURTHER RESOLVED** that, subject to the limitations set forth in the paragraph above, the Chairman or Executive Director **and** the Chief Investment Officer are, and each of them is, hereby authorized to do or perform all such acts and to execute all such documents and other instruments as they or any of them deem necessary, convenient or desirable to consummate the transactions contemplated by this Resolution and all of the acts and doings of the Chairman or Executive Director and Chief Investment Officer, which are in conformity with the intent and purposes of this Resolution, whether heretofore or hereafter taken or done, shall be and are hereby approved, confirmed and ratified.”

Mr. Wilson seconded the motion, and with Mr. Van Voorst voting no, the motion was approved by a four to one vote.

#### **Item 10. Selection of College Illinois! 529 Prepaid Tuition Program International Equity Investment Managers**

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

“**BE IT RESOLVED** that the Illinois Student Assistance Commission (ISAC) authorizes the Executive Director or Chairman **and** the Chief Investment Officer to execute and deliver one or more Investment Management Agreements by and between ISAC and one or more of the investment managers described below (“**Investment Manager**”) or such other documents necessary to evidence ISAC’s investment with the Investment Manager (the “**Investment Management Agreement**”). The Investment Management Agreement shall be in substantially the form attached hereto as **Exhibit A** and is hereby approved, with such changes, revisions and completions therein not inconsistent with this Resolution as shall be approved by the Executive Director or Chairman **and** the Chief Investment Officer, such execution to constitute conclusive evidence of the approval of the Executive Director or Chairman **and** the Chief Investment Officer, and the Commission’s approval of any changes, revisions and completions therein from the form of Investment Management Agreement attached hereto; **provided, however**, in no event shall the amounts of fees paid to the Investment Managers exceed \$7,500,000 in the aggregate and the term of each such Investment Management Agreement shall not exceed ten (10) years including all renewals;

“**BE IT FURTHER RESOLVED** that, subject to the limitations set forth in the paragraph above, the Chairman or Executive Director **and** the Chief Investment Officer are, and each of them is, hereby authorized to do or perform all such acts and to execute all such documents and other instruments as they or any of them deem necessary, convenient or desirable to consummate the transactions contemplated by this Resolution and all of the acts and doings of the Chairman or Executive Director and Chief Investment Officer, which are in conformity with the intent and

purposes of this Resolution, whether heretofore or hereafter taken or done, shall be and are hereby approved, confirmed and ratified.”

Approved Investment Managers:

- 1) Ativo Capital Management LLC
- 2) Harris Investment Mgmt/Pryford International
- 3) Mackay Shields LLC
- 4) LSV Asset Management

Mr. Van Voorst seconded the motion, which was approved unanimously.

Prior to adjourning the meeting, Ms. Alpi thanked Interim Chief Financial Officer, Shoba Nandhan, for providing the Commission the report which summarizes the financial position of the agency’s three major operating funds at a glance.

Dr. Louderback **MOVED THAT** the March 26, 2010 meeting of the Commission be adjourned. Mr. Van Voorst seconded the motion, which was approved unanimously. The meeting adjourned at 11:00 a.m.

Respectfully submitted,



Debora A. Calcara  
Secretary to the Commission