

AGENDA ITEM 2.

MINUTES OF THE APRIL 1, 2011 MEETING

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

April 1, 2011

Eastern Illinois University
Charleston, Illinois

COMMISSIONERS PRESENT: Donald J. McNeil, Chair
Sharon Alpi
Dr. Mary Ann Louderback
Hugh Van Voorst

COMMISSIONERS ABSENT: Dr. Linda Andre
Sean Dauber

STAFF PRESENT: Andrew Davis, Executive Director
Frank Bello, Treasurer/Chief Investment Officer
Eduardo Brambila, Managing Director, Outreach
Katharine Gricevich, Director, Government Relations
Susan Kleemann, Managing Director, RPPA
Jacqueline Moreno, Managing Director, Outreach
Shoba Nandhan, Chief Financial Officer
Nicholas O'Keefe, Deputy General Counsel
Ginger Ostro, Deputy Executive Director
Christine Peterson, Chief Program Officer
Karen Salas, Interim General Counsel
John Samuels, Chief Marketing and Communications Officer
Joanne Tolbert-Wells, Deputy Executive Director
Debora Calcara, Commission Secretary

PUBLIC ATTENDANCE: Pat Krolak, Marquette Associates
Kendal Kosta-Mikel
Levi Kosta-Mikel
Bradley Saribekian

Item 1. Announcements

Chairman McNeil opened the April 1, 2011 meeting by thanking Eastern Illinois University for hosting the meeting today and for being a leader in providing an affordable quality college education. He introduced Dr. William Perry, President of the University. Dr. Perry welcomed the Commission to the campus and thanked them for their public service.

Chairman McNeil stated that Dr. Andre and Mr. Dauber had requested to participate in the meeting electronically because they were unable to be physically present at the meeting for reasons permitted by the Commission's policy on electronic attendance. A roll call was taken, which established that a quorum was physically present at the meeting site. Chairman McNeil then called the meeting to order at 1:12 p.m. He asked for a motion to allow Dr. Andre and Mr. Dauber to participate in the meeting via electronic means. Ms. Alpi **MOVED THAT** Dr. Andre and Mr. Dauber be allowed to participate, which was seconded by Mr. Van Voorst and approved unanimously. It was noted that neither Dr. Andre nor Mr. Dauber had yet joined the meeting.

Item 2. Minutes of the February 9, 2011 Meeting

Ms. Alpi **MOVED THAT** the minutes of the February 9, 2011 meeting be approved as submitted. Mr. Van Voorst seconded the motion, which was approved unanimously.

Before continuing with the set agenda, Chairman McNeil stated that over the past several years the Commission and the leadership of the agency have had several major accomplishments which he outlined as follows:

- The successful sale of \$3.5 billion of out-of-state student loans, which not only allowed the agency to prepay debt, but also provided \$125 million for the expansion of grant aid to Illinois students. Had the Commission not sold those loans at that time, he noted, they would be worth around \$280 million less today than they were at the time of the sale;
- A reduction in the agency headcount from 520 to 290, while at the same time employing 80 near-peer counselors, funded by Federal grant money, who are deployed throughout the state to serve the needs of Illinois students;
- In order to fulfill our loan commitments during the credit crisis, Mr. Davis worked with the Illinois Credit Union League to provide \$200 million in loans to Illinois students;
- The purchase of \$650 million of agency debt back from global banks at an eight percent discount, earning the Commission and the State of Illinois \$75 million;
- The prepaid tuition portfolio managed by the Commission is up 14 percent for the year;
- Won a \$23 million judgment against a law firm used in the collection of defaulted student loans.

Continuing, Chairman McNeil stated that even with these outstanding accomplishments there has recently been negative press directed at the activities of the Commission and in particular, the investments of the prepaid tuition portfolio. He indicated this situation has prompted him to look closely at the operations of the agency and perhaps find areas that can be improved. With this, he is bringing to the Commission the following resolution for consideration:

WHEREAS, The Illinois Student Assistance Commission's mission is to make college accessible and affordable for Illinois families

WHEREAS, 34,000 Illinois families have purchased College Illinois! Prepaid Tuition Plan contracts

WHEREAS, 55,000 contract beneficiaries are eligible for future tuition benefits

WHEREAS, In the past five years the College Illinois! Prepaid Tuition Program has paid more than \$250 million in tuition benefits, on-time and in full.

WHEREAS, maintaining contract holder confidence about their investment in their child's education is a paramount responsibility for the Illinois Student Assistance Commission;

WHEREAS, The College Illinois! Prepaid Tuition Program manages \$1.25 billion in assets, which have experienced a 14.1% return on investment since July 1, 2010

WHEREAS, the Illinois Student Assistance Commission is the statutory administrator of the Illinois Prepaid Tuition Trust Fund (the "Fund"), therefore,

BE IT RESOLVED that the Illinois Student Assistance Commission (the "Commission") revise its investment policy to no longer allow Fund assets to be invested in any direct private equity investment, and that until such time as the investment policy is revised, the Commission shall not invest Fund assets in a direct private equity investment; and

BE IT FURTHER RESOLVED that the Commission directs the investment policy be revised to require that the investment advisory panel ("Panel") shall hold a public meeting with the Commission at the Commission's November meeting of each year to review the actuarial report on the Fund for the prior fiscal year and to review the investment policy; and

BE IT FURTHER RESOLVED that the Chief Investment Officer shall report to the Executive Director but shall also maintain dotted-line relationship to the Commission which relationship shall authorize the Chief Investment Officer to discuss directly with the Commission matters related to his/her duties and responsibilities with respect to the Program and the Fund; and

BE IT FURTHER RESOLVED that the Commission shall engage a nationally recognized actuary to perform an evaluation of the financial viability of the program as of March 31, 2011; and

BE IT FURTHER RESOLVED that the Commission shall engage a nationally recognized firm to perform a comprehensive review of the Commission's investment policy, practice and procedures.

Chairman McNeil asked for comments or questions regarding the resolution.

Clarifying for Dr. Louderback, Mr. Davis stated that this resolution will prohibit such investment as was made in ShoreBank, a direct equity investment without an asset manager in between the fund and the investment. Mr. Davis stated that this specific provision he had suggested to the Commission several months earlier so there would not be a repeat of the ShoreBank type of investment.

Dr. Louderback stated that this provision should have been done earlier.

Clarifying for Ms. Alpi, Mr. Davis stated that the current Investment Advisory Panel meets jointly once per year with the Commission and this resolution sets the joint meeting for each November to review the current actuarial report.

Chairman McNeil acknowledged that Dr. Andre had joined the meeting on the telephone.

Ms. Alpi asked for clarification on the dotted line reporting for the Chief Investment Officer to the Commission that is included in the resolution. Chairman McNeil stated that they do not want the Chief Investment Officer to be in a position in the future to not be able to come to the Commission with concerns he or she may have that have not been communicated by staff, feels that his opinion is not being considered appropriately or there is a procedural “glitch”. Chairman McNeil stated that this gives the Chief Investment Officer the assurance that he or she can approach the Commission directly, which normally would be out of the chain of command, to not be worried about the chain of command to bring the concern directly to the Commission.

Mr. Van Voorst asked for clarification on the precluding private equity investments in the resolution. Chairman McNeil clarified that it is direct private equity. Mr. Davis stated that a direct private equity is one such as the investment made in ShoreBank.

Responding to Ms. Alpi, Mr. Davis stated that this resolution states that we will never make an investment again where there is not a fiduciary that lies between us and the user of the capital.

Mr. Davis clarified for Dr. Louderback that the current Investment Advisory Panel reviews the policy but not the investments being made. Those are brought to the Commission for approval.

Before asking for a motion to approve the Resolution, Chairman McNeil recapped for the Commission members that the resolution states that there will be no more direct investments in private equity. He observed that the possibility exists that we might still take a position in a fund that invests in entrepreneurial businesses, but that would be considered on an investment-by-investment basis. He noted that the provision for meeting with the Investment Advisory Panel is being tightened up so that the review will occur at the best time during the fiscal year, and also that the Chief Investment Officer can bring matters of concern that are not being addressed at the staff level directly to the Commission. Further, we will engage a nationally recognized actuary to perform a thorough evaluation of the financial viability of the program and a nationally recognized firm to review the Commission’s investment policy, practices, and procedures.

Mr. Van Voorst **MOVED THAT** the Commission approve the Resolution as read into the record by the Chairman. Ms. Alpi seconded the motion, which was approved unanimously.

Item 3. Executive Director’s Report

Mr. Davis updated the Commission on the Monetary Award Program (MAP) application processing status, noting that due to the rapid increase in applications, the program has awarded the anticipated funds expected to be appropriated for the program before the State budget has even been approved. He reported that an announcement had been sent out stating that processing had been suspended, but after conversations with key players in the budget process, the processing was extended for another five days through March 25, 2011. He estimated that ultimately the program will serve approximately 167,000 students. He stated that this program continues to be supported by Republicans and Democrats in the legislature as well as the Governor, Lt. Governor and by institutions around the State who realize that education is essential to our economic well-being.

Referencing the Resolution having just been passed by the Commission, Mr. Davis stated that the fact remains that the challenge for the College Illinois! Prepaid Tuition Program is to keep up with tuition inflation and tuition inflation in this State in particular has been very high, probably twice the national average. He stated that although some have labeled the Commission's investments as "risky" and "alternative" in a pejorative fashion, they have failed to acknowledge that to invest in instruments that have very steady rates of return that are dramatically less than the rate of inflation is a highly predictable failure and that is not what the Commission has asked him to do. To buy government bonds that pay 4.5 percent and hope that it will keep up with the University of Illinois at Urbana-Champaign's 10 percent tuition inflation, the arithmetic simply doesn't work and he will not do that. The agency has been doing its very best and will continue to try to meet the liability and responsibility which the legislature has put on the Commission and unfortunately we will not be where we need to be statutorily if we make investments with no volatility and no risk. That being said, he noted, we obviously are open at all times to questions, suggestions, review and scrutiny, and to the extent we can improve our processes, we will.

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. She noted that included are the rules for a new program that was authorized last year by the General Assembly, but is at this time unfunded, the Community College Transfer Grant Program.

Dr. Louderback **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."

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

Item 5. FY 2012 Monetary Award Program (MAP) Application Volume Update: FY 2012 MAP Suspend Date; FY 2011 MAP Priority Claim Deadline Dates

Ms. Kleemann opened the agenda item by reiterating Mr. Davis' comments that awards for MAP were suspended as of March 26th. She indicated that although it is not required, staff normally seeks Commission approval to suspend, but unfortunately with the record number of applications having been received this year, it was necessary for staff to act prior to notifying the Commission. She stated that this suspend date of March 26th is the earliest in the program's history.

Item 6. College Illinois! Prepaid Tuition Program FY 2010 Annual Report

Mr. Bello opened the agenda item noting that the audited financial statements have not yet been released to be included in the report. He indicated that the report will be sent to the Commissioners upon completion. He informed the Commission that for June 30, 2010 the report submitted by the firm of PricewaterhouseCoopers shows an actuarial deficit of \$340 million. He indicated that at a pure market value approach the deficit would be \$531,271,895, which is a funded ratio of 68.6 percent.

Item 7. Illinois Student Assistance Commission Strategic Planning Presentation

Mr. Davis stated that staff have established a completion goal for Illinois that is compatible with the one set by President Obama, which is that by 2020 America will have the highest proportion of college graduates in the world, as well as consistent with similar goals established by major higher education foundations such as the Lumina Foundation and the Gates Foundation, and by key entities in Illinois higher education. Specifically, the goal of the Commission is to help Illinois increase to 60% the proportion of adults with a high quality post-secondary credential by 2025. Currently, he noted, that proportion is about 41 percent in Illinois. He stated that annual income increases with additional education and unemployment rates are lower during recessions. He shared the results of a study that projects that by 2018, 54 percent of the Illinois jobs will require an associate's degree.

Staff then presented to the Commission a PowerPoint presentation on ISAC's Big Goal, to help Illinois to increase to 60% the proportion of adults with a high quality post-secondary credential by 2025, and reviewed the six major components of its strategy designed to assist ISAC in helping Illinois meet its college attainment goal. These six strategies, presented by the relevant members of senior staff, include: Build external support to foster systemic change; Provide high quality, informed research; Improve high school to college transition; Support students in college or returning to college; Help families pay for college; and Align agency financial strategies and support services with program goals.

Responding to Ms. Alpi, Mr. Davis stated that there are essentially two areas that will continue to provide financial support for ISAC. First is the Federal College Access Challenge Grant which funds the College Illinois Corps. He anticipates this grant to be funded at over \$4.5 million a year for another four years. Secondly, as a result of the IDAPP discount tender which was done last fall, the agency went from having \$30 million of equity in IDAPP to \$100 million. Most of that equity is restricted funds that are in the bond indenture to protect the bondholders, but if those bonds were paid off we would have the \$100 million in equity to lend to students, which could conceivably earn \$5 million per year in interest on those loans.

Ms. Nandhan also confirmed for Ms. Alpi that the agency will continue to derive significant revenues from collections and loan rehabilitations on the defaulted student loan portfolio.

Responding to Ms. Alpi and Mr. Van Voorst, Mr. Brambila discussed the outreach strategy for attaining the Big Goal, and how ISAC works in conjunction with its many partners in the education community rather than attempting to achieve everything on its own.

Mr. Davis introduced the staff who presented to the Commission today. The Commission members thanked staff for the presentation.

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 are two applicable exception under subsection 2(c) of the Open Meetings Act: under exception number "21"...the discussion of minutes of meetings lawfully closed under this Act, whether for purposes of approval by the body of the minutes or semi-annual review of the minutes as mandated by Section 2.06; under exception number "7" of subsection 2(c)...the closed session will concern the sale or purchase of securities, investments or investment contracts."

Dr. Louderback **MOVED THAT** the Commission adjourn into Executive Session. Mr. Van Voorst seconded the motion. After a roll call vote approving the motion, the Commission adjourned into closed session at 2:50 p.m.

The Commission returned into open session at 3:30 p.m.

Item 9. Minutes of the Executive Sessions and Report of Determination Regarding Confidentiality

Dr. Louderback **MOVED THAT** the Commission approve the minutes of the closed sessions and accept the determination regarding confidentiality summarized in the table printed in the Executive Session agenda book.

Mr. Alpi seconded the motion. Chairman McNeil asked that a roll call vote be taken, which was approved unanimously.

Item 10. Selection of College Illinois! Prepaid Tuition Program Real Estate Funds Investment KW Real Estate Fund IV, L.P.

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

“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 subscription documents by and between Kennedy Wilson Real Estate Fund IV, L.P., a Delaware limited partnership (the “**Fund**”) and ISAC (the “**Subscription Agreement**”), if required, an Agreement of Limited Partnership Agreement and any amendments or supplements thereto, (the “**Limited Partnership Agreement**”), a side letter agreement (the “**Side Letter**” and together with the Subscription Agreement and the Agreement of Limited Partnership, the “**Fund Documents**”). The Fund Documents shall be in substantially the form attached hereto as *Exhibits B, C and D*, which are 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 approval of the Commission of any changes, revisions and completions therein from the form of Fund Documents attached hereto; **provided, however,** in no event shall the amounts invested in the Fund exceed the lesser of (1) the amount allowed for investments of this type under the program’s statement of investment policy, 15 percent of total program assets, or (2) \$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. Van Voorst seconded the motion, which was approved unanimously.

Dr. Louderback **MOVED THAT** the April 1, 2011 meeting of the Commission be adjourned. Mr. Van Voorst seconded the motion, which was approved unanimously. The meeting adjourned at 3:40 p.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Debora A. Calcara". The signature is written in black ink on a light-colored background.

Debora A. Calcara
Secretary to the Commission