

**AGENDA ITEM 2A.**

**MINUTES OF THE JUNE 25, 2012 MEEITNG**

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

**Illinois Student Assistance Commission**  
**1755 Lake Cook Road**  
**Deerfield, IL**

**June 25, 2012**

**COMMISSIONERS PRESENT:** Kym Hubbard, Chair  
Miguel del Valle  
Mark Donovan  
Kendall Griffin  
Kevin Huber  
Verett Mims  
Paul Roberts  
Kim Savage

**STAFF PRESENT:** Eric Zarnikow, Executive Director  
Patricia Aldridge, ISAC Staff  
Vicki Baba, Interim Director, Human Resources and Development  
Brian Begrowicz, Deputy Chief Financial Officer  
Debora Calcara, Commission Secretary  
Ramnath Cidambi, Managing Director, Information Services  
Carol Cook Director, Program Services and Compliance  
Kent Custer, Chief Investment Officer  
Wendy Funk, Director, Accounting  
Anita Geter, Director, Internal Audit  
Katharine Gricevich, Director, Government Relations  
Susan Kleemann, Managing Director, RPPA  
Jacqueline Moreno, Managing Director, Outreach  
Shoba Nandhan, Chief Financial Officer  
Annie Pike, General Counsel  
Darla Puckel, Assistant Director, College Illinois! Operations  
John Samuels, Chief Communications Officer  
Scott Taylor, Assistant Director, Research and Grants  
Joanne Tolbert-Wells, Deputy Executive Director

**PUBLIC ATTENDANCE:** Leigh Brinson, Robert Morris University  
Mary Patricia Burns, Burke Burns & Pinelli  
Paul Frank, FIICU  
Joseph Starshak, Starshak Winzenburg  
Michelle Stipp, DeVry, Inc.  
Brianne Weymouth, Callan Associates

### **Item 1. Announcements**

Chair Hubbard opened the June 25, 2012 meeting of the Commission at 11:19 a.m. by thanking staff for hosting the Commission at the ISAC Deerfield facility.

Chair Hubbard stated that the next regular meeting of the Commission is scheduled for Friday, September 14, 2012 at the College of DuPage, where Commissioner Savage serves on the Board of Trustees.

Chair Hubbard stated that Mr. Donovan and Mr. Huber will be joining the meeting in the afternoon and then asked for a roll call to be taken, which established a quorum was present.

### **Item 2. Minutes of the March 26, 2012 Meeting**

Ms. Savage **MOVED THAT** the minutes of the March 26, 2012 meeting be approved as submitted. Mr. Roberts seconded the motion, which was approved unanimously.

### **Item 3. Investment Advisory Panel Member Reappointment**

Ms. Pike stated that Investment Advisory Panel Member Jeanna Cullins was appointed in November of 2011 to replace a member whose term expired on April 2, 2012. She stated that with the Commission's approval, Ms. Cullins will be reappointed for a full three-year term which will expire on April of 2015.

Mr. Griffin **MOVED THAT** the Commission approve the Investment Advisory Panel reappointment of Ms. Jeanna Cullins to a term expiring on April 3, 2015.

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

### **Item 4. Executive Director's Report**

Mr. Zarnikow stated that members of the Commission have received a copy of the forensic audit report which was completed of the agency and inquired if there were any questions.

Mr. Zarnikow updated the Commission on the status of the Voluntary Flexible Arrangement (VFA) submitted to the U.S. Department of Education noting that responses to questions from the Department have been submitted, but no response has been received to the proposal, and he believes there will be no decisions made until after the election.

Mr. Zarnikow informed the Commission that he has met with a number of the appointed Commissioners of the DREAM Commission and stated that the Governor's office will have oversight for the DREAM Commission going forward, and ISAC will no longer be involved. Responding to Mr. del Valle, Mr. Zarnikow stated that ISAC will provide a link on its website directing inquiries directly to the DREAM Commission and ISAC will provide consultation as needed. Mr. del Valle expressed his concern as to the level of assistance ISAC will be to the DREAM Commission. Chair Hubbard stated that it is still a work in process and ISAC will provide as much assistance as is necessary.

Chair Hubbard acknowledged Mr. Huber's arrival at the meeting.

Continuing, Mr. Zarnikow stated that staff is in the process of completing the application for the fiscal year 2013 College Access Challenge Grant to be submitted to the U.S. Department of Education. He reminded the Commission that the College Access Challenge Grant funds part of ISAC's college access and outreach activities and the ISACorps program.

Mr. Zarnikow noted that the College Changes Everything Conference will be held on July 12 at the Tinley Park Convention Center, and ISAC staff is involved in the conference planning. He stated the conference is the second statewide conference being held to support the State's goal of 60 percent of adults in the state of Illinois achieving a high-quality degree or certification by 2025.

Mr. Zarnikow provided the Commission an update on the recent legislative resolution to form a Monetary Award Program (MAP) Task Force to address the distribution of appropriated MAP funds. He stated that the MAP has been in existence for 50 years and funds have been distributed on a first-come, first-served basis since its inception. He stated the MAP Task Force is made up of individuals from across the state representing all school sectors and additional advocacy organizations who will work together in developing a better way to allocate the funds while working towards the State's goal of 60 percent of adults having a high-quality degree or certification by the year 2025. He indicated a report from the Task Force is due to the General Assembly by January 1, 2013. He stated that both he and Commissioner del Valle will be representing ISAC on the Task Force.

Continuing, Mr. Zarnikow noted that Commissioners have received, either by electronic form or a printed copy, an overview document of ISAC. He stated that rather than have a full day workshop with the new members of the Commission to outline all the various arms of ISAC, the document can be reviewed and should anyone like to have a more in-depth presentation on any area within the agency we would be happy to provide it. Mr. del Valle stated he was happy to receive the document and found it very useful and would like to learn more about the Cohort Default Rate.

#### **Item 5. State Legislative Update**

Ms. Gricevich updated the Commission on the recently adjourned legislative session. She stated that at one point during the session the House of Representatives had discussed a possible appropriation of \$363 million for MAP, which is a reduction of six percent over last year's appropriation for the program. Although the end result was a four percent reduction to last year's appropriation, she stated that legislators expressed their concern that the appropriation was going in the wrong direction and wanted to see additional investment in higher education, specifically for need-based aid.

Ms. Gricevich highlighted Senate Bill 3800, which was approved by the General Assembly. She stated that Senate Bill 3800 will allow ISAC to use the same wage garnishment procedures to collect on state student loans that is used for Federal student loans.

Responding to Mr. del Valle, Ms. Gricevich stated that the Senate did approve a supplemental appropriations bill that would have reversed the cuts made by the House, however it has not been assigned to a committee since the General Assembly adjourned.

Ms. Gricevich stated that with regards to the bill passed by the General Assembly to expand gambling in Illinois which is now with the Governor for action, the Senate sponsor filed a follow-up bill that addresses ethics issues and also allocated \$75 million of the revenue from gambling to MAP.

Mr. Zarnikow stated that although the MAP appropriation received a cut, it could have been much worse. He recognized Ms. Gricevich's efforts in working with the General Assembly and stated that this session had legislation both good and bad for students and Ms. Gricevich was instrumental in fending off the bad legislation.

The record notes that Mr. Donovan joined the meeting in progress.

#### **Item 6. Proposed Program Rules Amendments**

Ms. Cook stated that the proposed rules amendments being brought to the Commission for the Illinois Future Teacher Corps Program and are highlighted on page 6-1 of the agenda book. She stated the amendment is to consolidate the Illinois Future Teacher Corps and the Golden Apple Foundation for Excellence in Teaching's Golden Apple Scholars of Illinois program into one program. She stated the rules have received no comment from the initial 45-day public comment period and is now ready for the second 45-day public comment period.

Ms. Savage **SO MOVED** that the Commission accept the proposed program rule amendments for submission to the Joint Committee on Administrative Rules (JCAR) and to authorize the Executive Director to proceed with finalizing the rule amendments if no objections are received.

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

#### **Item 7. FY2013 MONETARY AWARD PROGRAM (MAP) RECOMPUTE FORMULA**

Ms. Kleemann stated that at the January meeting, staff brings to the Commission a MAP start-up formula to begin the eligibility forecasting for students who have filed their FAFSA. She stated that although the appropriation is unknown at that time, it is important to start the process in order for schools to begin financial aid packaging for students. She stated that now that the appropriation of \$387 million has been allocated to MAP, staff is returning to the Commission with a recompute formula. She stated that they now know what the FY 2012 claim rates are and will not need to make any adjustments to the formula presented in January. She indicated that although the appropriation to MAP was cut, claim rates fell from FY 2011.

Ms. Kleemann stated that there is an early first-term deadline date in December, and at that time they will evaluate and make any necessary adjustments to the second-term awards if needed. She anticipates that adjustment being no more than 2 percent, or \$50 maximum reduction on a full award.

Responding to Chair Hubbard, Ms. Kleemann stated that it is hard to know why there is a decrease in claim rates, but stated there are more students applying earlier than normal and those students are less likely to attend school. Also, she stated there is an affordability issue where even with the financial aid offered students, are not able to afford to attend.

Mr. Zarnikow stated that it is a challenge for staff to set a formula not knowing what amount has been appropriated, how many students will actually follow through and claim their award or which type of school they will be attending. He stated that the ISACorps has been doing an excellent job of getting the word out to students to file their FAFSA early, and unfortunately this has made it difficult to forecast the claim rates.

Chair Hubbard stated that she noticed in the MAP formula that it still has 2004 tuition and fees. Ms. Kleemann agreed that these are very outdated costs, but if they were to put current costs into the formula it would add an additional \$50 million. She stated that by keeping the costs low they can expand the appropriation to the lowest-income students and can process longer.

Chair Hubbard inquired about the unintended consequences in using current tuition and fees in the formula. Ms. Kleemann stated that the highest award for a student at a community college can get is \$1,900, but most community colleges tuition and fees are now over about \$3,000.

Chair Hubbard stated that if the Commission is to seek more funds for MAP appropriation, at some point it might be useful, whether it is used or not, to know what the cost would be with the current tuition and fees. Ms. Kleemann stated that the formula committee, which meets to establish the formula that is brought to the Commission, has suggested using current costs and adding a huge reduction factor on the award.

Mr. Griffin inquired whether students feel there is no reason to apply because with the gap between the cost of tuition and the award amount being too large, MAP won't cover their cost.

Mr. Zarnikow stated that there are twice as many students who apply and are eligible than there are fund, so students are definitely applying whether the cost is covered or not. He stated the trade-off is whether we help a fewer number of students by giving out large awards to meet their needs, or spread the funds over a broader group to try to help as many as possible. He stated that most MAP recipients are also Federal Pell grant recipients, which means those dollars are coming into Illinois.

Mr. del Valle stated that given the MAP appropriation is so underfunded as compared to the demand, he felt they should consider using current costs in order to see the actual need. He felt that given there is growing concern about affordability in Illinois and the student loan default rates continue to increase, it is important to know exactly how far underfunded MAP is.

Ms. Mims **MOVED THAT** the Commission approve the fiscal 2013 recompute formula to be the same as the fiscal year 2013 MAP start-up and to approve reducing second- and third-term awards to stay within the appropriation, if needed, after receipt of the first-term claims.

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

#### **Item 8. Approval and Adoption of Audit Committee Charter**

Ms. Geter stated that at the last Commission meeting members approved the Audit Committee Charter with Mr. Donovan's recommendation to add a statement regarding cooperation with the Audit Committee's requests. She stated the Audit Committee Charter is being brought back to the Commission for approval which includes that recommended wording.

Chair Hubbard asked for a motion to approve the revised Audit Committee Charter. Ms. Savage **SO MOVED** and Mr. Griffin seconded the motion, which was approved unanimously.

## **Item 9. Partial Sale of Student Loan Portfolio**

Mr. Sinsheimer stated that as a result of the Federal Family Education Loan Program (FFELP) declining as students consolidate into Federal Direct Lending, servicers such as Nelnet and Sallie Mae, now have platforms for FFELP processing and need to build their portfolio of loans. He stated as a result of this need, bids that two years ago were seeing 96 basis points are now seeing 101 basis points for FFELP loans. Also, he stated the interest rate market has changed where large servicers can finance their portfolios at a level that assures themselves a positive return.

Mr. Sinsheimer stated that there are four portfolios, one being the rehabilitation loan portfolio which was started in 2009 as a result of the crash of the markets in 2008 when there were no buyers of rehabilitated loans. ISAC approached the General Assembly to guarantee a \$50 million credit facility for the rehabilitation loan program. He stated that credit facility comes due in 2014, but by the terms of the facility, if ISAC has not otherwise disposed of the rehabilitation loan portfolio by January 2013, ISAC will be required to request that the Governor include in his 2014 budget an appropriation to repay the outstanding bonds. Mr. Sinsheimer stated that at the time this credit facility was agreed upon, it was known that there would be the possibility of a loss as the purpose was not to make money, but designed to support Illinois students who have gone through the rehabilitation process. He stated that depending on the pricing, the loss could be anywhere from \$500,000 to \$1.5 million.

He stated the second portfolio is the end of a UBS Trust that has approximately \$21 million in student loans and about \$20 million of outstanding bonds.

He stated the third portfolio is about \$500,000 of FFELP loans and about \$11 million private student loans left on the IDAPP books that he would like to include in the sale.

Mr. Sinsheimer explained to the Commission the process involved in the offering of these portfolios. He stated once bids have been received for the sale it will be brought to the Commission for approval.

Finally, the fourth portfolio is the Citibank warehouse line which was entered into in 2007; it is 80 percent private loans and balances from FFELP which were included in 2008.

Mr. Sinsheimer anticipates returning to the Commission at its September meeting with information on the bids for the rehabilitation loans portfolio, the UBS portfolio and the remainder of the IDAPP loans. He indicated that the Citibank portfolio is not included as they are currently in negotiations with Citibank to restructure the portfolio and prefer that it not be sold at this time.

Responding to Mr. Griffin's inquiry as to the benefit to ISAC in selling the portfolios, Mr. Sinsheimer stated that the rehabilitation loans portfolio's guarantee expires in 2014, which would require the Governor to include about \$45 million in his 2014 budget if these loans are not sold. He stated that the sale of the rehabilitation loans portfolio should result in a profit, but the intent at the time was to obtain a source to help students who went through the rehabilitation process to expunge the default from their credit record, not to make a profit.

Mr. Sinsheimer explained the anticipated outcome with the remaining portfolios.

Chair Hubbard then moved to item 12 in the agenda in order to cover the College Illinois! Prepaid Tuition Program investment items after the lunch break.

## **Item 12. Fiscal Year 2013 Internal Budget**

Ms. Nandhan opened the agenda item by stating this information was sent to the Commissioners under separate cover. She reminded the Commission that all the appropriated funds as outlined by Ms. Gricevich are awarded directly to students in the form of scholarships and grants, and that ISAC does not receive General Revenue Funds (GRF) for administration of those programs. She stated that the administrative costs associated with the administration of the agency's programs are paid primarily by the four administrative funds of the agency: the student loan operating fund (SLOF), IDAPP, College Illinois!<sup>®</sup> Prepaid Tuition Program and the College Access Challenge Grant.

Ms. Nandhan stated that beginning July 1, 2011 a concerted focus was given to ISAC's student loans collections area by the hiring of additional collectors, enhancing the skip-tracing tools and implementation of monetary and performance goals program for the collectors, which has resulted in increased revenues of \$35.5 million in FY2011, a \$5 million increase over the projected budget for revenues. She stated that 50 percent of that increase revenue was from the loan rehabilitation program.

Ms. Nandhan noted, however, that proposed actions with the U.S. Department of Education will put the agency's revenues at risk. She stated that the federal FY 2013 budget proposes a 50 percent reduction to the rehabilitation rate paid to agencies, which could result in an \$8 million loss to ISAC's revenue for FY 2013.

Responding to Chair Hubbard about "Plan B" should the agency lose the revenue due to the reduction in the rehabilitation rate, Ms. Nandhan stated that agency Directors have been asked to respond to budget scenarios, that being status quo or a reduction due to the rehabilitation cut. Chair Hubbard asked that the Commission be kept informed of that plan.

Mr. Zarnikow stated that with the increased revenues experienced this past year the agency will be able to increase the fund reserve in anticipation of the reduction should it happen.

Ms. Nandhan provided the Commission with the detail on the expenditures of the agency; specifically she noted the increase of four percent contribution to the State Employee Retirement System, which is beyond control of the agency. She stated that the budget includes a three percent cost-of-living adjustment for current employees. Responding to Mr. Huber, Ms. Nandhan stated that employees have not received a cost-of-living increase since 2008, other than a few promotional and merit adjustments for some staff.

Chair Hubbard asked Mr. Zarnikow to report to the Commission before announcements are made to staff in the event the three percent increase needs to be adjusted depending on the budget.

Ms. Nandhan outlined for the Commission the fund balances and the expenses and revenues over the last five years. She stated that the fund balance contributes to the agency's outreach program and the administrative costs associated with the scholarship and grants programs.

Responding to Mr. Donovan, Ms. Nandhan expanded on the fund balance and why she has budgeted level in this category for next year. She then briefly outlined the IDAPP fund balance.



Continuing on to the College Access Challenge Grant, Ms. Nandhan stated that this grant is funded by the U.S. Department of Education to administer the ISACorps program. She stated that the FY 2013 grant application for this program will be submitted to the U.S. Department of Education by July 5, and it is anticipated that \$4.6 million will be received for the next fiscal year to administer the ISACorps. Ms. Nandhan clarified for Mr. del Valle that the \$4.6 million grant will be for fiscal years 2011 through 2013.

Responding to Mr. del Valle, Ms. Nandhan reviewed the staff levels throughout the life of the program and due to the turnover rate, stated that a \$5,000 education benefit for a Corps member who completes two years employment has been added as a new incentive.

To clarify revenues and expenses associated with the ISACorps program, Chair Hubbard asked Ms. Nandhan to bring back to the Commission detailed clarification on the budgeting of the grant received from the U.S. Department of Education.

Referring to the College Illinois! Prepaid Tuition Program, Ms. Nandhan stated that projected administrative costs for FY 2013 are estimated at \$5.8 million, which is a decrease from the actual expenditures in FY 2011 of \$8.5 million and a decrease from the \$8 million the budget request for FY2012. She stated that the majority of the budget is in contractual services, which includes the record administration costs, lockbox services and other services such as audit and investment advisory.

She stated the budget request is a decrease in marketing costs due to the uncertainty of the cost associated with the holistic change to the program. She noted that a reserve of \$250,000 has been included to anticipate the need for marketing when the program restarts.

Referring to Mr. Samuels for an explanation on the marketing needs to restart the program, he stated that there will be an organic demand for contracts when restarting sales and therefore relatively low-cost. He stated that until there is a holistic solution, broadcast or mass-communications would not be money well spent given the fact that the program and the value proposition will be changing over time. He anticipates coming back to the Commission to request additional marketing funds if a decision is made to expand the marketing effort for the program.

Chair Hubbard felt that there will be outside media surrounding the restart of the program, but understands there will not be written marketing materials at this point.

Ms. Nandhan outlined for Mr. Huber the cost and process included in the outside records administration. Mr. Zarnikow explained to Mr. Huber the costs and details involved in bringing the records administration in-house and would look at in the future.

Chair Hubbard asked that the Commission approve the Fiscal Year 2013 budgets for the Illinois Student Assistance Commission, Student Loan Operating Fund, the Illinois Designated Account Purchase Program, College Illinois! Prepaid Tuition Program and the College Access Challenge Grant as printed in the agenda book subject to the request of the Commission for some additional information that will be provided within the next few weeks.

Mr. del Valle **MADE THE MOTION**, Mr. Griffin seconded the motion, which was approved unanimously.

Chair Hubbard then announced the Commission would recess for lunch.

Chair Hubbard announced the members of the Investment Committee would hold their meeting during the recess.

The Commission recessed at 1:03 p.m. and returned to session at 1:57 p.m.

In the absence of Chair Hubbard, Vice Chair del Valle reconvened the meeting.

**Item 10Ai. Minutes of the January 27, 2012 Meeting of the Investment Committee and Investment Advisory Panel**

Prior to presenting the agenda item, Mr. Custer took the opportunity to introduce the Investment Advisor, representatives Brianne Weymouth and Ryan Ball with Callan Associates. Mr. Custer stated that although he has received counsel from the Investment Advisor, the Investment Committee and the Investment Advisory Panel, he takes full ownership of the recommendations being brought to the Commission. He stated that Commission members who are not as familiar with the investment arena can be assured that everything being brought to the Commission has been discussed in depth with the Investment Committee as well as the Investment Advisory Panel

Mr. Custer noted no action was required from the Commission on the minutes.

**Item 10Aii. Minutes of the February 23, 2012 Meeting of the Investment Committee and Investment Advisory Panel**

No action was required on this item.

**Item 10Aiii. Minutes of the May 23, 2012 Meeting of the Investment Committee and Investment Advisory Panel**

No action was required on this item.

**Item 10B. College Illinois! Prepaid Tuition Program Investment Performance**

Mr. Custer briefly outlined the investment performance to date with the Commission stating that today the fund is up 2.67 percent.

He stated that the domestic equity investment should always perform at or near benchmark, the international equity outperformed in a down market, the domestic fixed income managers are outperforming with a return of 9.54 percent, which is high relative to what could be expected long term for fixed income. He stated the real estate infrastructure is lagging, but the recent performance is not as important as the long-term performance.

Mr. Custer stated that the Absolute Return asset class was up slightly, around three percent, which is good given the recent volatility. He stated the private equity is up since inception for all managers.

Let the record reflect that Chair Hubbard returned to the meeting.

### **Item 10C. College Illinois! Prepaid Tuition Program Asset Allocation**

Mr. Custer stated that an investment advisor will develop long-term expectations for how the asset classes should interact in terms of their expected return, their risks as well as their correlations to one another and put those in a statistical model from which an optimum asset mix can be chosen for various levels of risk. He stated that the program's asset allocation as it currently sits is efficient. He stated the expected return from the assumptions for the current allocation is seven percent. He stated the assumption will be reviewed over the next several months as this return does not support the current, long-term actuarial return assumption. He indicated there is some variance on the return assumption and noted that the recently completed asset allocation evaluation done for the audit by the Office of the Auditor General showed a higher expected level of return.

Chair Hubbard stated that the Commission is striving toward a 7-1/2 percent return rate even though the Investment Advisor, Callan, is saying seven percent. She stated that as the asset allocation continues to change and evolve over time, based on the program selling new contracts again and other issues to improve upon, not only will the asset allocation change over time, but so will the expected rate of return. She wanted the Commission to understand that this is a fluid process but feels it is headed in the right direction. She stated the Investment Advisor is supportive of the investment structure and Mr. Custer has been doing an excellent job in keeping the Commission abreast of the issues and moving in the right direction.

Mr. Donovan **MOVED THAT** the Commission approve the long-term and interim targets and the rebalancing ranges for the College Illinois! Prepaid Tuition Program asset allocation as presented in the agenda book.

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

### **Item 10D. College Illinois! Prepaid Tuition Program Investment Policy**

Mr. Custer stated that in evaluating the previous investment policy and the 2010 investment policy, he chose to work from a template provided by the Investment Advisor, Callan Associates. He stated he incorporated elements from the old policy as necessary. He stated the Commission has been provided in the agenda book both the old policy, the new proposed policy, and key changes and considerations that were being made. He stated that due to the numerous changes having been made to the policy he would anticipate that this policy would need to be brought back to the Commission at a later meeting with adjustments.

Mr. Griffin **MOVED THAT** the Commission adopt the College Illinois! revised investment policy as recommended by the Investment Committee.

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

### **Item 10E. College Illinois! Prepaid Tuition Program Absolute Return Class Structure**

For clarification, Mr. Custer stated that he has renamed the hedge fund asset class to absolute return because a hedge fund is just one type of investment vehicle to get the type of returns you are expecting and thus it is more appropriate to call it absolute return.

Mr. Custer briefly explained the performance analysis of the hedge funds.

In his memorandum to the Investment Committee, Mr. Custer explained the structure study completed by Callan Associates. He is recommending equal weight for the managers Balestra, Pinnacle and Neuberger while maintaining exposure to Reynoso at \$10 million. He stated, however, that Callan Associates has recommended terminating Reynoso due to organizational concerns, but he feels they are a worthy part of the portfolio and provides another option in terms of the investment and flexibility. He stated that he has initiated the recommendation from Callan to conduct an operational due diligence on Reynoso.

Responding to Mr. Huber, Mr. Custer stated that he will be sharing a detailed presentation from Reynoso founder Joe Reynoso with the Investment Committee at its August meeting. Reynoso will continue to be monitored very closely.

Mr. Huber **MOVED THAT** the Commission approve the absolute return asset class structure as presented today. Mr. Donovan seconded the motion, which was approved unanimously.

#### **Item 10F. College Illinois! Prepaid Tuition Program Domestic Equity Procurement**

Mr. Custer stated that as a result of an extension to their contract, which expired at the end of 2011 and a subsequent Request for Proposal (RFP), he is bringing to the Commission a request to rehire Rhumblin for the passive domestic equity services. He stated that the RFP process was closely monitored by the agency's procurement office and subsequently vetted by the State Procurement Officer.

Mr. Griffin **MOVED THAT** the Commission ratify the selection of Rhumblin by the Investment Committee as advisors for the passive domestic equity large-cap and all-cap mandates.

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

#### **Item 10G. College Illinois! Prepaid Tuition Program Fixed Income Procurement**

Mr. Custer stated that contracts for three of the four fixed-income managers - C.S. McKee, Pugh and Piedmont expire at the end of June. He stated that there was not enough time to conduct the RFP process so the agency's procurement office suggested using a sole-source contract for each of the managers in order to extend their current services for one year. He stated the proper processes involved in the sole-source contract were adhered to and is the issue now being brought to the Commission for approval.

He indicated that it is expected that Callan Associates will conduct a fixed-income structure study and then an RFP will be issued for the right type of manager for the funds.

Ms. Mims **MOVED THAT** the Commission approve the extension of the core fixed-income investment manager services of C. S. McKee, Pugh, and Piedmont through June 2013.

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

**Item 11A. Implementation of Recommendations Made By The Office Of The Auditor General Pursuant To The Management Audit Of The College Illinois! Prepaid Tuition Program**

Opening the agenda item, Mr. Zarnikow reminded the Commission that in April of 2011 the General Assembly approved House Resolution 174 instructing the Auditor General to perform a management audit of the College Illinois! Prepaid Tuition Program. He stated the final report from that audit was issued on May 9, 2012 which outlined 15 recommendations. He stated that ISAC has accepted all the recommendations and is today providing the Commission an update on the implementation of those recommendations in their agenda book. He stated that three of the recommendations have now been completed, eight are ongoing recommendations and four recommendations are in the process of being addressed.

Responding to Mr. del Valle, Mr. Zarnikow stated that he has formed an internal team to examine the agency's cost allocation and are in the process of finalizing a cost allocation policy. He stated that the concept behind the policy is to ensure costs for various components of the agency are charged to the proper category such as the College Illinois! Prepaid Tuition Program, IDAPP, or the College Access Challenge Grant.

Chair Hubbard stated that the cost allocation tool will be helpful as the Commission looks at the expenses related to the College Illinois! Prepaid Tuition Program and has asked Mr. Zarnikow to report back to the Commission to give a quarterly update.

**Item 11B. College Illinois! Prepaid Tuition Program Fixed Income Contract Prices and Fees for 2012-2013 Pricing Period Delegation of Approval to Temporary Subcommittee**

Mr. Zarnikow stated that the Commission has expressed a desire to establish contract pricing in the short run to sell contracts while continuing to work on the holistic fix of the program. He indicated that there is a perception that the program is closed when in actuality it is not, and secondly, there is some organic demand from existing contract holders who are interested in purchasing contracts for either newborns or for a grandchild. He stated that in order to open enrollment for the program a 45-day preparation period is needed for administrative functions. He stated the management team has begun the process and is working with the third-party actuary and hiring a nationally-recognized 529 plan expert to advise on contract pricing and marketing in the short run.

Mr. Zarnikow stated that the previous year-round enrollment period has not proven to be beneficial and therefore is proposing to open contract sales in September and cut off sales at the end of April 2013, assuming the processes go forward as expected. He stated that about 90 percent of the applications are submitted online and therefore does not anticipate spending much on marketing during the holistic fix to the program.

Mr. Zarnikow clarified for Mr., Donovan that the RFP process is almost complete to hire the 529 plan expert, and once that is done he does not anticipate a full report to be done but to work with them to get their advice and counsel.

Chair Hubbard stated that Mr. Zarnikow is working with the consultant, as well as the actuary to outline what has been good about the pricing in the past and what has not been good. Once that has been established the subcommittee will ratify the initial pricing, taking into account the 45 days needed for administrative preparation. She stated the full Commission will be informed of the anticipated pricing before the marketing begins. Chair Hubbard stated she is having ongoing conversations with the public university presidents in hopes to be able to anticipate some sort of tuition discount for future contract holders.

Mr. Donovan expressed his concern about delegating the authority to a subcommittee on the contract pricing for the next enrollment period.

Chair Hubbard stated that contract pricing has always changed from year to year so pricing could conceivably be set now for this upcoming enrollment period and once there is a more holistic fix to the program will be and with stakeholder input, new pricing could then be set. She welcomed Mr. Donovan to be a member of the subcommittee along with herself and Mr. del Valle to work with the consultant and legal counsel. However, she stated that with three members of the Commission on the subcommittee it would then require any meetings they hold to be subject to the Open Meetings Act.

Mr. Donovan inquired if contract holders will be told the program is guaranteed. Chair Hubbard stated all contract holders will be made infinitely aware that there is no guarantee. She stated that unless there is a legislative decision made that a contract will have the full faith and credit guarantee of the state, that information will not be in any printed material or new contract during this or any future sales period.

Mr. Zarnikow stated appropriate legal disclosures will be ensured and whatever the holistic fix might be to the program, the rate of future tuition and fee growth must be mitigated. He senses that the rate of growth of tuition and fees may increase at a slower rate, but does not see tuition and fees going down in the future.

Responding to Mr. Donovan, Chair Hubbard assured him that legal counsel heavily involved in the process so that contract holders will know exactly what they are purchasing. She believes this is the best route ultimately to go with the program and believes it is the wish of the Governor's office and legislators as well. She stated that it is unknown how many contracts will be sold when opening the program, but it is a good start to the ultimate goal of restructuring and mending the program.

Mr. Donovan stated he would support a special meeting of the Commission to vote on the pricing structure prior to the regularly scheduled September meeting. Ms. Savage agreed and expressed her concern about the universities and community colleges bearing the cost of their pension obligations which could ultimately affect cost of tuition.

Chair Hubbard agreed that the pension issue has been raised in her conversations with the university Presidents.

Chair Hubbard asked for a motion to delegate authority to the temporary subcommittee of the Commission, comprised of the Chair and Vice Chair, whose sole function and authority is to review and approve recommendations for new contract pricing and fees for the College Illinois! Prepaid Tuition Program 2012-2013 enrollment period subject to the ratification of the Commission at a special meeting to be set at a later date.

Mr. Donovan **SO MOVED**, Mr. del Valle seconded the motion, which was approved unanimously.

### **Item 13. Executive Session**

Chair Hubbard asked for a motion to adjourn into closed session as permitted by the provisions of Subsection 2(c)1, 2(c)11, 2(c)21 and 2(c)28 of the Open Meetings Act to consider personnel, closed minutes, legal and internal control matters.

The Commission adjourned into closed session at 2:51 p.m. and returned to open session at 3:45 p.m.

**Item 13A. Fiscal Year 2013 Internal Audit Plan Approval**

Ms. Savage **MOVED THAT** the Commission adopt the Internal Audit Plan for Fiscal Year 2013 as recommended by the Audit Committee.

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

**Item 13B. Minutes of the Executive Sessions and Report of Determination Regarding Confidentiality**

Chair Hubbard asked for a motion to approve the closed minutes of the prior Commission for fiscal year 2010, noting that none of the current Commissioners were members during that time period, but are relying on ISAC staff's verification of their accuracy and to determine that the need to maintain the confidentiality of the 2010 minutes no longer exists.

Mr. Roberts **SO MOVED**, Mr. Donovan seconded the motion, which was approved unanimously.

Mr. Donovan **MOVED THAT** the June 25, 2012 meeting of the Commission be adjourned. Ms. Savage seconded the motion, which was approved unanimously. The meeting adjourned at 3:48 p.m.

Respectfully submitted,



Debora A. Calcara  
Secretary to the Commission