

AGENDA ITEM 2.

MINUTES OF THE JUNE 16, 2006 MEETING

MINUTES OF A MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

June 16, 2006

Harold Washington College
30 East Lake Street
Chicago, Illinois

COMMISSIONERS PRESENT: Donald J. McNeil, Chair
Sharon Alpi
Warren Daniels, Jr.
Ashley Dearborn
Dr. Mary Ann Louderback
David Vaught

PRESENT BY INVITATION: Elmer Washington, Designated Liaison, IBHE

COMMISSIONERS ABSENT: Dr. Lynda Andre
Robert Casey
Andrew Davis
Hugh Van Voorst

STAFF PRESENT: Larry E. Matejka, Executive Director
Tom Breyer, Director, IDAPP
Wendy Funk, IDAPP
Sue Kleemann, RPPA
Shoba Nandhan, Comptroller
Sam Nelson, Public Service
Chris Peterson, Chief Program Officer
Karen Salas, General Counsel
Kris Smith, RPPA
Nancy Stephens, *College Illinois!*
Claude Walker, State Relations
Debora Calcara, Commission Secretary

PUBLIC ATTENDANCE: Fred Ash, JPMorgan Chase
Meegan Bassett, Women Employed
Samantha Bendall, Citigroup
Deb Brody, Robert Morris College
Kevin Conlon, Conlon Public Strategies
Bill Daley, Morgan Stanley
Cynthia Doughty, Conlon Public Strategies
Paul Frank, FIICU
Francois Hajduk, Harold Washington College
George Kalas, Bank of America
Pat Krolak, Marquette Associates
Phil Lewis, J.P. Morgan

Mark Monroe, Bank of America
Lynn Murphy, IBHE
Theresa Murphy
Kari Sargeant, Kankakee Community College
David Schiller, State Street
Michael Shields, Dominican University
Joseph Starshak, Starshak, Welnhofer & Company
Sandy Street, University of Illinois
Nancy Strort
Tom Suffredin
Stephen Welcome, Burke Burns & Pinelli
Larry White, Chapman and Cutler

Item 1. Announcements

Chairman McNeil called the June 16, 2006 meeting to order at 9:25 a.m., requesting that a roll call be taken, which established that a quorum was present. He then introduced Mr. John Wozniak, President of Harold Washington College.

After welcoming the Commission to Harold Washington College, Mr. Wozniak took the opportunity to commend Ashley Dearborn for the work she does on behalf of the student government at Wright College.

At the request of Chairman McNeil, Larry Matejka updated the Commission on the health of Marcia Thompson and asked that she be kept in everyone's thoughts and prayers while she continues to battle health issues.

Chairman McNeil noted that the next regular meeting of the Commission is scheduled for Friday, July 28, 2006 at the ISAC Offices in Deerfield.

Item 2. Minutes of the April 28, 2006 Meeting

Mr. Daniels **MOVED THAT** the minutes of the April 28, 2006 meeting be approved as submitted. Ms. Alpi seconded the motion, which was approved unanimously.

Item 3. Executive Director's Report

Mr. Matejka opened his report by giving an update on the Fiscal Year 2007 budget, which was approved and signed by the Governor. He indicated that the Monetary Award Program (MAP) received a \$34.4 million appropriation increase, of which \$7.6 million was to come from the General Revenue Fund (GRF) and the remaining \$26.8 million from the Commission's Student Loan Operating Fund (SLOF). The Silas Purnell Illinois Incentive for Access (IIA) program also received a \$1.0 million increase. He also noted that the dependent's grant program received an increase of \$120,000 and the Illinois Scholars program received a \$140,000 increase, both from the GRF, but all other programs administered by the Commission received level funding.

Mr. Matejka then described a new program passed by the legislature for FY 2007. This program, MAP Plus, is to be administered by ISAC and paid for from SLOF contingent upon available funds. The appropriation for MAP Plus is \$34.4 million. The Governor is expected to sign the legislation soon and the Commission has been working to develop the rules and operational procedures for the program.

Mr. Matejka also noted that two additional programs are awaiting the Governor's signature, the Forensic Science grant program and the Nurse Educator Assistance Act, which ISAC will also administer. Additionally, the legislature approved a new scholarship program to provide \$1,000 annually, renewable for four years, to students who are in the legal custody of grandparents. He noted that no appropriation was approved by the legislature for this program.

Responding to Mr. Vaught's inquiry about funding for the new program for students in the legal custody of their grandparent, Mr. Matejka indicated that the Commission is not allowed to transfer funds within line items for that purpose and would have to seek supplemental appropriation in order to fund the program.

In response to Ms. Dearborn's inquiry about whether the Commission is mandated to fund its current programs before funding new programs that have been developed, Mr. Matejka indicated that

there is no mandate and it is at the discretion of the General Assembly to fund the programs and determine how much funding will be available for each program. Mr. Matejka stated that the Illinois National Guard and the Illinois Veteran Grant programs are entitlement programs, that would require the institution the student is attending to absorb the cost when the program is not fully funded.

Responding to Ms. Dearborn's inquiry as to the funding for the MAP Plus program, Chairman McNeil indicated that the Commission is in the process of issuing an RFP to choose a financial advisory team to complete the study of strategic alternatives to fund the program. He stated that the goal of the agency is to make college affordable for Illinois residents and when the program is under funded it is contrary to the Commission's goals. He commended staff for the work they did during the legislative session advocating and lobbying for funding for the programs the Commission administers.

Item 4. IDAPP's Quarterly Investment Report

No action is required on this item.

Item 5. IDAPP Interim Financing

Mr. Matejka introduced this item by noting that it is customary for the Commission to raise new capital at this time each year to meet ongoing, routine obligations for upcoming loan purchases and originations. The type of financing being used this year, however, while common in the industry, differs from the agency's usual use of long-term bonds.

Mr. Breyer then gave a brief overview of the financing being brought before the Commission, an interim, short-term revolving credit facility. He indicated that in light of the fact that the agency is in the process of reviewing strategic alternatives, it was determined, in consultation with the agency's financial advisors, that a short-term financing would be the best option for the Commission. The advantages of the proposed revolving credit facility include a short execution time, a low cost of execution, and maintaining maximum flexibility with regard to future actions.

Mr. Breyer noted that all Commissioners had been sent a complete packet of financing documents under separate cover. He indicated that proposed participants in this financing were selected pursuant to previous procurements under Requests for Proposals (RFP's) issued in 2004 and 1999. The financing team consists of Bank of America as agent; Chapman and Cutler as counsel to the bank; Burke Burns & Pinelli, Ltd. as ISAC's counsel; Starshak Welnhof & Co. as financial advisor, and US Bank as trustee. Mr. Breyer stated that it was expected that Bank of America and JPMorgan Chase would be the initial lenders under this agreement.

Responding to an inquiry from Mr. Vaught, Mr. Breyer, with assistance from Mr. Starshak as financial advisor, confirmed that the cost of funds through this type of instrument would be slightly higher than the cost of funds through a typical bond issue, but in exchange for this slight increase the Commission would benefit from significantly lower up-front costs and considerably greater flexibility with regard to future actions. Mr. Breyer also briefly outlined several possible options the Commission might have when it came time to retire the credit facility. Reiterating what the Chairman stated earlier, Mr. Breyer said that an RFP for a strategic financial advisor will be issued shortly and by doing this type of financing it will allow the Commission the flexibility necessary while studying strategic alternatives for the Commission.

In response to a question from Ms. Alpi, Mr. Breyer confirmed that what ISAC was trying to achieve with this financing was to meet its immediate financial needs while still preserving as much flexibility as possible as the Commission studied appropriate strategic courses of action.

Mr. Daniels stated that this type of financing is a common practice within the municipal bond community and was an appropriate vehicle under the agency's current circumstances. He asked if Bank of America, in addition to having recently completed a similar type of financing which provided an excellent template for this deal, had proven to be competitive in terms of proposed fees. Mr. Breyer confirmed that staff had the financial advisors evaluate the proposals received and that the bank had provided not only competitive rates but also attractive fees. Mr. Daniels applauded the efforts to control fees and on that topic, directed staff to work with all of its remarketing agents to negotiate a reduction in broker-dealer fees from 25 to 15 basis points, to match actions already taken by UBS and other firms in the industry.

In response to a question from Ms. Louderback, the Chairman reiterated that the proposed financing represented an ordinary need that is being filled in a different way than it has been done in the past. He further clarified the timetable for the issuance of the upcoming RFP for strategic financial advisory services, as well as subsequent RFP's to be issued for the implementation of various aspects of the strategic plan to be approved by the Commission. After further discussion, Chairman McNeil stated for the record that members of the Commission had received under separate cover prior to the meeting copies of the Credit Agreement, Trust Indenture and other related documents being incorporated by reference in the resolutions being acted upon.

Mr. Vaught **MOVED THAT** the Commission approve the following resolutions:

"BE IT RESOLVED that the Illinois Student Assistance Commission approves the Resolution providing for a revolving credit facility in an initial amount not to exceed \$500,000,000 and authorizes the execution of a Credit Agreement, Trust Indenture and certain other documents in connection therewith; and

"BE IT FURTHER RESOLVED that the Commission delegates the authority to take certain actions and to make certain determinations as provided in such Credit Agreement and Trust Indenture to the Chairman of the Commission or, if so designated in writing by the Chairman with respect to any or all of the actions or determinations described herein, the Executive Director of the Commission."

Ms. Dearborn seconded the motion, which was approved unanimously. The Commission then took a ten-minute recess.

Upon reconvening, Chairman McNeil introduced Mr. Claude Walker who has recently joined the Commission as Director of State Relations and will be responsible not only for the Commission's legislative endeavors but also will serve as the Commission's Public Information Officer.

ITEM 6. Selection of COLLEGE ILLINOIS! Investment Manager

Ms. Nancy Stephens, Associate Director of the *College Illinois!* program opened the agenda item by providing information to the Commission about the previous use of passive investment managers by the program and the basis for issuing the recent RFP seeking passive core fixed income and equity asset management. Ms. Stephens also gave a brief overview of the process involved in the selection of an investment manager to recommend to the Commission. Chairman McNeil noted that Mr. Davis was a member of the evaluation team to select the investment manager and had indicated that he was very comfortable with the selection and also impressed with the presentation made by State Street.

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

“**BE IT RESOLVED** that the Commission authorizes the Executive Director to negotiate and enter into a contractual agreement for the *College Illinois!* Program with State Street Global Advisors to serve as the investment manager for the domestic large capitalization core equity index and the core fixed income index portfolios.”

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

Item 7. FY 2007 MAP and IIA Application Volume Update Request For Authority To Suspend

Mr. Matejka introduced the agenda item by noting that this is a standard item brought before the Commission each year at this time. He indicated that the total application volume has increased as well as the number of eligible applicants. In order to prevent the Commission from over-extending the funds in the MAP and IIA programs, it is necessary to suspend announcements of awards for FY 2007 when the funds are estimated to run out. He explained that the Commission would continue to process applications as they are received and determine eligibility or the lack of eligibility, but the applicants would be notified that the funds were not available to fulfill their award.

Ms. Alpi **MOVED THAT** the Commission authorizes staff to suspend FY2007 award announcements for MAP and IIA when it becomes necessary to avoid a substantial risk of over committing MAP and IIA appropriations.

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

Item 8. FY2007 Monetary Award Program (MAP) Recompute

Mr. Matejka reminded the Commission that at its January meeting a start-up formula for MAP was approved to begin the initial application processing and to make preliminary award announcements to students and schools. He indicated that once the General Assembly has passed the budget and the Governor has signed the bill into effect, the Commission could then recompute the formula used from the January start-up formula based on the appropriation received from the Governor. It is this recompute formula that is being proposed to the Commission today.

Mr. Matejka stated that the objective of the Commission is to improve college affordability. He believes staff has attempted to bring to the Commission an option that will best fulfill its objective of improving college affordability and balances the need to keep the awards as close to the cost of tuition and fees as possible while providing awards to as many applicants as we can.

Chairman McNeil recognized Ms. Kari Sargeant with Kankakee Community College who addressed the Commission on behalf of the Illinois Community College President’s Counsel.

“On behalf of the Illinois Community College Presidents Council, I would like to share our collective perspectives on the most effective utilization of the recently approved increase in MAP funds (\$34.4 million). The Council of Presidents as well as the entire Illinois Community College community is gratified that additional funds will be made available to Illinois residents pursuing further education. I am certain that all of us in higher education in Illinois sincerely appreciate this investment in the education of our citizens.

“The Council of Presidents have consulted our experts in financial aid on our campuses, and we, the presidents, have collectively reviewed and analyzed the potential impact of those additional

funds on Illinois higher education. As a result of these considerations, the Council of Presidents encourages the ISAC to take under consideration our recommendation. We recognize that there are a variety of methods for funds distribution, and we are fully aware of the diverse needs of institutions of higher education and finally, and most importantly, the diverse needs of students.

“The Council of Presidents urges the ISAC commissioners as they contemplate options for formulating financial aid disbursement to keep in mind those for whom higher education is most difficult to reach and yet most precious for access to a better life.

“Community college students are typically community bound without the resources available to allow them to relocate to on-campus residences in distant locations across the state of Illinois. Many community college students are employed in low paying positions on both full- and part-time basis, and higher education already has economic barriers. Community college students have personal schedules that severely limit their choices and their access due to family, work and finances that also cause them to apply later for college enrollment, often times resulting in their being denied financial aid due to exhausted funds at the time of their applications. Community college students also represent a majority of the Illinois population most likely to remain in Illinois after the completion of their educational programs, and therefore, they also represent Illinois’ greatest resource, its future workforce.

“In conclusion, the Illinois Community College Council of Presidents urges the ISAC to place college access as its primary criteria for funds allocation. The Council specifically recommends that ISAC allocate its funds in a method which will include the following three conditions:

- Implement the tuition formula based on 2004-05 Illinois college tuition and fee rates;
- Implement the reduction factor for MAP awards at one-half of the current 2005-06 rate (from 9% to 4.5%); and
- Implement a plan whereby processing of MAP applications is extended to the end of August 2006.

“On behalf of the Illinois Community College Council of Presidents, I would like to express our most sincere appreciation to the ISAC for allowing time for our organization to express its position on this extremely important matter, and we congratulate ISAC on their sincere efforts and generous gesture to advance the opportunities of Illinois citizens for further education.”

Chairman McNeil then noted that the Commission had received a letter from Ms. Toni Henle, President, Women Employed, and asked that the contents of that letter be included in the minutes of the meeting.

“On behalf of Women Employed, I want to congratulate you on the FY07 state budget increase in the Monetary Award Program (MAP), an opportunity to help even more low-income students access higher education. The exceptional ten percent MAP increase (\$34.4 million) is a substantial redirection of higher education resources toward need-based aid, at a time when the program is significantly under-funded and cannot meet student demand.

“As you and your fellow commissioners consider how to apply the increased funds, please consider that using the money for a combined allocation plan, including a smaller reduction factor as one of three changes, would assist a larger number of students. Women Employed respectfully recommends the following priorities to maximize the number of students who can afford higher education:

- Prioritize the neediest students. Using all of the additional funding to eliminate the reduction factor disproportionately helps those students who are more likely to have greater resources at their disposal. Allocating a portion of the increase to bring the tuition and fees calculations in the grant formula closer to current levels would give a step up to many of the lowest income students.
- Prioritize eligible students who are currently being turned down. In FY2005, 26,500 MAP-eligible students did not receive a grant. By extending the grant period, the Commission can increase college access—an additional three to four thousand students could benefit. Many of these potential students are working poor parents trying to support families who otherwise will not attend.

“These same principles should be applied when Illinois Student Assistance Commission (ISAC) begins to discuss the rules for MAP Plus. Four years ago, every eligible student in Illinois who applied for a MAP grant received one, but that is far from today’s reality. Students eligible for MAP but turned down due to a lack of funds should be first in line for MAP Plus.

“Currently, the MAP Plus program does not include a needs test, but rather sets a \$200,000 adjusted gross income cap. Focusing our extra resources on the thousands of MAP-ineligible college students with annual family incomes up to \$50,000 would make college more affordable for low- to middle-income families.

“Please consider these suggestions as viable options for making college in Illinois more affordable and accessible.

“We understand that the additional funding for both of these programs will come from a sale of the student loan portfolio or another restructuring move. While we remain concerned that sale not adversely impact the services and outreach ISAC provides, we have been pleased with the increased transparency in the discussion around restructuring ISAC and focus on preserving and improving vital student services and outreach. We hope the Commission will continue to work with community partners through an open public process and sell no more than needed for these programs.

“We appreciate ISAC’s continued commitment to low-income students and look forward to working with you in the future to ensure that the door to higher education remains open to all. Thank you again”.

Mr. Daniels commended staff for the proposed formula noting that with limited resources they have been able to reach as many students as possible.

Mr. Daniels **MOVED THAT** the Commission approve the formula summarized in Table 4 of the FY 2007 MAP recompute formula as presented in the agenda book.

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

Item 9. Adopted Rules and Amendments

Mr. Matejka noted that this is the third and final time these rules have come before the Commission. He indicated that the rules have been approved by the Joint Committee on Administrative Rules (JCAR) with no objections and if approved by the Commission today they will be effective for the 2006-2007 academic year.

Mr. Vaught **MOVED THAT** the Commission approve the following resolution:

“BE IT RESOLVED that the Commission approves and adopts the omnibus rules and amendments, as modified during the rulemaking process, so that they can be effective for the 2006-2007 academic year.”

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

Ms. Louderback **MOVED THAT** the meeting of the Commission adjourn. Mr. Daniels seconded the motion, which was approved unanimously.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Debora A. Calcara".

Debora A. Calcara
Secretary to the Commission