

**AGENDA ITEM 4.**

**PROPOSED COLLEGE ILLINOIS!® PREPAID TUITION  
PROGRAM RULES AMENDMENT**

**Submitted for:** Action

**Summary:** EMERGENCY RULES AMENDMENT: Effective August 9, 2017, the Illinois Procurement Code 30 ILCS 500 was amended to exclude purchases of goods and services using the private funds of the Illinois Prepaid Tuition Trust Fund. The administrative rules that govern the Illinois Prepaid Tuition program’s procurement of investment services (“the Rules”) states that they are governed by the Illinois Procurement Code. In the event that procurement for investment services became necessary before a proposed rules amendment could be promulgated, immediate removal from the Rules of any reference to the Illinois Procurement Code had to be done to avoid noncompliance with the Rules. The emergency rules expire 150 days after the September 22, 2017 filing date.

PROPOSED RULES AMENDMENT: As always, Staff is also including the foregoing amendment as a proposed rules amendment so that the final rules are in place after the emergency rules are no longer in effect.

Text of the foregoing proposed rules amendments was first published in the Illinois Register on September 22, 2017 (41 Ill.Reg. 11715-9/22/17), triggering a 45-day public comment period that ended on November 6, 2017, during which time no public comments were received. The full text and Notice are included in this item.

Following acceptance of the proposed amendments by the Commission, the Executive Director may direct staff to submit the Rules to the Joint Committee of Administrative Rules (JCAR) for its review, thus initiating a second 45-day review period followed by final consideration by JCAR.

**Action requested:** That the Commission approve the following resolution:

“**BE IT RESOLVED** that the Commission accepts the proposed program rules amendments cited in this agenda item for submission and consideration by the Joint Committee on Administrative Rules (JCAR); and, barring any material modification, or objection by JCAR, the Commission authorizes the Executive Director to proceed with adopting the program rules as amended.”



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- 12) Time, Place, and Manner in which interested persons may comment on this proposed rulemaking: Persons who wish to comment on this proposed rulemaking may submit written comments no later than 45 days after the publication of this notice to:

Lynn Hynes  
Agency Rules Coordinator  
Illinois Student Assistance Commission  
1755 Lake Cook Road  
Deerfield IL 60015

Telephone: 847- 948-8500, ext. 18032  
Email: lynn.hynes@isac.illinois.gov

- 13) Initial Regulatory Flexibility Analysis:
- A) Types of small businesses, small municipalities and not for profit corporations affected: None
  - B) Reporting, bookkeeping or other procedures required for compliance: None
  - C) Types of professional skills necessary for compliance: None
- 14) Regulatory Agenda on which this rulemaking was summarized: It was not anticipated that this would become law in July.

The full text of the Proposed Amendment begins on the following page:

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TITLE 23: EDUCATION AND CULTURAL RESOURCES  
SUBTITLE A: EDUCATION  
CHAPTER XIX: ILLINOIS STUDENT ASSISTANCE COMMISSION

PART 2775  
ILLINOIS PREPAID TUITION PROGRAM

Section	
2775.10	Summary and Purpose
2775.20	Definitions
2775.30	Participant Eligibility
2775.40	Program Procedures
2775.50	Contract Terms and Conditions
2775.60	Scholarships, Grants or Monetary Assistance
2775.70	Disclosure
2775.80	Investment Services Procurement

AUTHORITY: Implementing the Illinois Prepaid Tuition Act [110 ILCS 979] and authorized by Section 20(f) of the Higher Education Student Assistance Act [110 ILCS 947/20(f)].

SOURCE: Adopted by emergency rulemaking at 22 Ill. Reg. 16652, effective September 11, 1998, for a maximum of 150 days; adopted at 23 Ill. Reg. 2591, effective February 1, 1999; amended at 24 Ill. Reg. 9154, effective July 1, 2000; amended at 25 Ill. Reg. 8410, effective July 1, 2001; amended at 26 Ill. Reg. 10043, effective July 1, 2002; amended at 28 Ill. Reg. 9177, effective July 1, 2004; amended at 29 Ill. Reg. 9954, effective July 1, 2005; amended at 32 Ill. Reg. 10349, effective July 1, 2008; amended at 35 Ill. Reg. 3538, effective February 16, 2011; amended at 36 Ill. Reg. 9444, effective July 1, 2012; amended at 37 Ill. Reg. 9554, effective July 1, 2013; amended at 39 Ill. Reg. 9588, effective July 1, 2015; emergency amendment at 40 Ill. Reg. 13029, effective August 29, 2016, for a maximum of 150 days; amended at 40 Ill. Reg. 16811, effective January 1, 2017; emergency amendment at 41 Ill. Reg. 11715, effective September 8, 2017, for a maximum of 150 days; amended at 41 Ill. Reg. \_\_\_\_\_, effective \_\_\_\_\_.

**Section 2775.80 Investment Services Procurement**

a) Summary and Purpose

Effective January 1, 2015, Public Act 98-1022 amended the Illinois Pension Code and the Illinois Prepaid Tuition Act, imposing duties on the Program designed to increase racial, ethnic and gender diversity of investment fiduciaries and Investment Managers by requiring investment boards subject to the Pension Code

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and the Program to establish diversity goals. This Section has been created in order to effectuate those goals and other procurement methodology. This Part complies with the provisions of Public Act 98-1022 and the Illinois Prepaid Tuition Act to ensure investment transparency and objective consideration of potential investment services providers in conformance with the fiduciary duties imposed by those laws. The procurement of all investment services and fiduciaries by the Program will be conducted in accordance with the ~~Illinois Procurement Code [30 ILCS 500]~~ and the additional competitive selection procedures set forth in this Section.

b) Manager Database

- 1) The Manager Database serves as the primary pool from which the Program identifies candidates for Investment Manager searches.
- 2) To be considered in a search, all interested Investment Managers not currently in the Manager Database should ensure that all required information has been submitted to the Manager Database prior to the screening dates specified in the candidate profiles described in subsection (c)(3). Should a search be conducted for which a developed database does not exist or is incomplete, Investment Managers may be requested to submit a written Request for Information (RFI).
- 3) No fee is required to participate in the Manager Database. It is essential that all interested parties are able to enter required information into the database. Investment Managers should contact the Consultant for assistance with the database and should contact Staff regarding any unresolved issues or concerns related to the Manager Database submission for a Fund related search. Contact information for the Consultant and Staff will be available on the Program's website.

c) Investment Manager Searches

- 1) The Commission authorizes the Program's asset allocation targets and Investment Manager structure by recorded vote in a business meeting of the Commission conducted in accordance with the Open Meetings Act [5 ILCS 120]. Staff may initiate searches as necessary to implement the Program's asset allocation and/or fill vacancies within the manager structure.

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- 2) At each meeting of the Investment Committee, Staff will notify the Committee of any new manager search, the status of all existing searches and the outcome of all completed searches.
- 3) With the initiation of a search, working with the Consultant, a written candidate profile that lists specific requirements and the process for each search shall be prepared. The candidate profile identifies specific quantitative and qualitative factors, such as:
  - A) minimum assets under management;
  - B) minimum track record;
  - C) risks relative to benchmarks;
  - D) return relative to benchmarks over various time periods;
  - E) size of the candidate's professional staff and tenure of the individual members of that staff;
  - F) investment strategy and process; and
  - G) organizational stability and strength.
- 4) The candidate profile is posted on the Program website to allow all interested candidates to review the search criteria and understand how to participate in the search.
- 5) The candidate profile identifies a specific screening period during which the Consultant will screen the Manager Database or other candidate information to identify all managers meeting the criteria of the candidate profile.
- 6) During the screening period identified in the candidate profile, Staff and the Consultant identify all candidates that meet the quantitative criteria specified in the candidate profile. Staff shall evaluate the efficacy of the screening process and initiate corrective action, if necessary.
- 7) Staff and the Consultant review the candidate list to eliminate any managers that fail to meet qualitative screens. All minority Investment

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Managers, as defined in Section 1-109.1(9) of the Code, that meet the minimum criteria of the search will be identified and the most qualified minority Investment Manager candidates will be included in the selection process described in this Section.

- 8) Staff and the Consultant further refine the candidate list to identify semifinalist firms that, based on criteria in the candidate profile, appear to have the highest probability of success over the next three to five years. In the event more information is necessary to narrow the semifinalist list, a standardized RFI may be issued to the pool of eligible semifinalists to facilitate further in-depth analysis by Staff and the Consultant. Semifinalists, in this case, are selected from the RFI submissions.
  - 9) Staff conducts in-person interviews of semifinalist firms at the Program's offices or an alternate location agreed upon by the Program and the firm.
  - 10) Following favorable results of the in-person interviews, Staff identifies finalist firms for formal due diligence meetings.
  - 11) Following favorable due diligence review, a recommendation is presented to the Investment Committee for provisional approval. Staff will provide the Committee with a full report of the search process, including a summary of the search criteria and candidate firms, as well as the diversity disclosures required by Section 1-113.21 of the Code.
  - 12) If any eligible managers, as defined in Section 1-109.1(9) of the Code, meet the minimum criteria of the search, the most qualified minority Investment Manager candidates will be invited to present as a finalist to the Investment Committee.
  - 13) The Investment Committee decision is subject to final approval at the next meeting of the Commission.
- d) Consultant or Custodian Searches
- 1) The Commission authorizes every search for a new or replacement Consultant or Custodian by recorded vote in a business meeting of the Commission conducted in accordance with the Open Meetings Act [5 ILCS 120].

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- 2) Following Commission authorization, Staff prepares a Request for Proposal (RFP) containing, but not limited to, the following information:
  - A) the type of services required;
  - B) an estimate of when and for how long the services will be required;
  - C) the date and time by which proposals must be submitted; and
  - D) a statement of the information the proposal must contain.
- 3) The RFP is ~~posted in the Illinois Procurement Bulletin and may also be posted online the Program website~~ to allow any interested candidate to review the search criteria. The RFP notice summarizes the services sought, tells how and where to submit proposals, specifies the deadline for submitting proposals, and tells when and where proposals will be publicly opened.
- 4) Proposals submitted in response to an RFP must comply with all requirements set forth in the RFP and must be submitted within the time frame specified in the RFP. Proposals are date and time stamped upon receipt. Proposals that arrive late for any reason will not be considered.
- 5) Proposals are publicly opened at the date and time specified in the RFP and the Illinois Procurement Bulletin and may also be found on the Program website. Staff reviews all proposals that are timely received to ensure that all required information is included. Proposal information is publicly available following execution of a contract with the successful firm.
- 6) Staff identifies and ranks all proposals meeting all minimum qualifications specified in the RFP to identify semifinalist firms.
- 7) Staff conducts in-person interviews of semifinalist firms at the Program's offices or alternate location agreed upon by the Program and the firm.
- 8) Following favorable results of the in-person interviews, Staff identifies finalist firms for formal due diligence meetings.



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- 9) Following favorable due diligence review, a recommendation is presented to the Investment Committee for provisional approval. Staff will provide the Committee with a full report of the search process, including a summary of the search criteria and candidate firms, as well as the diversity disclosures required by Section 1-113.21 of the Code.
  - 10) The Investment Committee decision is subject to final approval at the next meeting of the Commission.
- e) Evaluation by Investment Committee
- 1) The Investment Committee ensures that the decision and process to hire a particular investment services provider is well-reasoned, thoroughly considered and prudent.
  - 2) The Investment Committee reviews written supporting documentation to assure the disclosure of all relevant issues; that the search process, investment sourcing and related due diligence was fair; and that the screening process was consistently applied.
  - 3) Upon approval by the Investment Committee, any recommendation to hire a particular investment services provider is submitted to the Commission for approval.
- f) Disclosures to be Considered Prior to Award
- 1) Prior to the award of a contract, an Investment Advisor, Consultant or Private Market Fund must make disclosures regarding its diversity pursuant to Section 1-113-21 of the Code.
  - 2) The disclosures required by this Section shall be considered, within the bounds of financial and fiduciary prudence, prior to the awarding of a contract, oral or written, for Investment Advisor, Consultant or commitment to a Private Market Fund.
- g) Fiduciary Obligation
- All participants in the selection process for investment services shall conduct their responsibilities with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person familiar with these matters and acting in a like capacity would use in the conduct of an activity of like

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character and purpose. All conduct must be solely in the interest of the participants and beneficiaries of the Fund.

(Source: Amended at 41 Ill. Reg. \_\_\_\_\_, effective \_\_\_\_\_)