

T H E   C A B I N E T  
S T A T E   O F   F L O R I D A

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Representing:

FINANCIAL SERVICES COMMISSION, FINANCIAL REGULATION  
FINANCIAL SERVICES COMMISSION, INSURANCE REGULATION  
DEPARTMENT OF VETERANS AFFAIRS  
FLORIDA LAND AND WATER ADJUDICATORY COMMISSION  
BOARD OF TRUSTEES OF THE INTERNAL IMPROVEMENT TRUST FUND  
STATE BOARD OF ADMINISTRATION

The above agencies came to be heard before  
THE FLORIDA CABINET, Honorable Governor Crist presiding,  
in the Cabinet Meeting Room, LL-03, The Capitol,  
Tallahassee, Florida, on Tuesday, May 13, 2008,  
commencing at approximately 9:05 a.m.

Reported by:

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## APPEARANCES:

Representing the Florida Cabinet:

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Governor

CHARLES H. BRONSON  
Commissioner of Agriculture

BILL McCOLLUM  
Attorney General

ALEX SINK  
Chief Financial Officer

\* \* \*

## I N D E X

FINANCIAL SERVICES COMMISSION, FINANCIAL REGULATION  
(Presented by DON SAXON)

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## P R O C E E D I N G S

(The agenda items commenced at 9:57 a.m.)

GOVERNOR CRIST: Our next Cabinet meeting will be Wednesday, May 28th.

Our first order of business, Financial Regulation, Don Saxon. Good morning, Don.

MR. SAXON: Good morning, Governor and members of the Cabinet.

The first action item, the Office is requesting approval to file for final adoption amendments to Rule 69V-560.102, Florida Administrative Code. The rule amendment reduces fingerprint processing fees. We are able to do this inasmuch as we are now processing fingerprint cards electronically.

ATTORNEY GENERAL McCOLLUM: I move the item.

GOVERNOR CRIST: Is there a second?

CFO SINK: Second.

GOVERNOR CRIST: Moved and seconded. Show Item 1 approved without objection.

MR. SAXON: The next item is a discussion item, but before I do that, I want to update you. Last week I mentioned a couple of cases that we were working with law enforcement agencies regarding predatory lending and mortgage fraud.

1 Last week we had another situation where we had a  
2 sentencing where a person received 18 years in  
3 prison for conspiracy, mortgage fraud, and theft.

4 Since January of this year, we now have made  
5 12 arrests. People have been sentenced to  
6 incarceration of over 30 years. We've had people  
7 sentenced to probation of over 35 years, and we've  
8 sought restitution of nearly \$4 million. I just  
9 want you to know that we're going to continue our  
10 work with law enforcement agencies to make sure  
11 that we do whatever we can to prosecute those who  
12 engage in predatory lending, particularly in the  
13 area of mortgage fraud.

14 The next discussion item is the issue of money  
15 service businesses and the findings of a recent  
16 Grand Jury report. That report is the outgrowth  
17 and the second part of a review of criminal  
18 enterprises that use check cashers as a vehicle to  
19 launder, or in some cases, to use as a conduit to  
20 perpetuate illegal activities. Laundering, as you  
21 know, is the process of making dirty money clean by  
22 concealing the true origin of the proceeds.

23 The one good thing about the report, it did  
24 find that our staff was professional. They found  
25 that our examinations were complete and thorough.

1           However, they did criticize our office, and that  
2           criticism in some cases was warranted, and I would  
3           like to discuss those with you today.

4           The report expresses concern about the lack of  
5           referrals and communication with other agencies. I  
6           want you to know that we have reached out to other  
7           agencies to improve and to build on relationships  
8           with law enforcement and their areas of concern.

9           We've met with the Statewide Prosecutor, Bill  
10          Shepherd, to discuss the report and how we can  
11          develop better coordination in the future. We've  
12          also reached out to the Assistant Statewide  
13          Prosecutor who was in charge of the Grand Jury and  
14          submitted the report.

15          Also, at this time we're working with the U.S.  
16          Attorney's Office to form an interagency working  
17          group to assist in the detecting and combating of  
18          terrorist financing. I anticipate the participants  
19          will include IRS, FDLE, FBI, Immigrations, Customs,  
20          and other law enforcement agencies.

21          We have also increased our referrals to other  
22          agencies based on criteria developed with the  
23          Division of Insurance Fraud. We have referred 21  
24          examinations since January. Those cases identified  
25          suspicious activities involving 250 construction

1 companies. We are also working on a memorandum of  
2 understanding with the Division of Insurance Fraud  
3 to further refine our referral procedures with  
4 respect to suspicious activities.

5 We have signed memorandums of understanding  
6 with the IRS and the Financial Crimes Enforcement  
7 Network to refer cases where we find suspicious  
8 activities. So far this fiscal year, we have made  
9 115 referrals to the IRS regarding situations where  
10 we suspect suspicious activity involving money  
11 laundering and other types of violations.

12 I assure you that we are going to work closely  
13 with law enforcement as pertains to money services  
14 businesses. We do this very effectively in  
15 securities, and also, as you can see, we're doing  
16 it very effectively in the area of mortgage fraud,  
17 and I see no reason why we can't do it with the  
18 money services businesses.

19 Another area the report expressed concern  
20 about had to do with the turnaround time of our  
21 examinations. I want you to be aware that we have  
22 now hired a new director of finance who has over 20  
23 years of banking and examination experience. He is  
24 well versed with the Bank Secrecy Act and  
25 anti-money laundering activities. He has worked

1 his way up, having previously been an examiner in  
2 banking. He also was a manager, and he also served  
3 as the director of a bank for a number of years.  
4 His expertise will hopefully give us the additional  
5 guidance we need to make sure that we get this  
6 program on the right track.

7 One of the changes we have already made is, we  
8 are revising our examination modules into  
9 technology. Our real estate system will allow us  
10 to actively track all cases in the future.  
11 Examiner and supervisory review time is now being  
12 tracked in order to establish benchmarks for better  
13 accountability and productivity. These procedures  
14 will ensure that our examinations are more timely  
15 referred to appropriate regulatory and law  
16 enforcement agencies. And finally, we're going to  
17 be establishing new performance measures which  
18 we'll be submitting to this Commission for your  
19 review and approval.

20 The report also expressed concern about the  
21 availability of training for our examination staff.  
22 I want you to be aware that we have already had  
23 training with the Federal Drug Enforcement  
24 Administration. This June, staff will be attending  
25 the Florida Insurance Fraud Education Committee

1 meeting. Later, staff will be attending the Money  
2 Transmitter Regulatory Association annual training  
3 conference. And we'll be conducting a training  
4 program for our own examination staff, and at that  
5 program, we'll be inviting various individuals from  
6 the criminal justice agencies such as the Division  
7 of Insurance Fraud.

8 We will also be conducting anti-money  
9 laundering and Bank Secrecy Act training for the  
10 Division of Insurance Fraud and other interested  
11 groups as deemed necessary. Just last week, we  
12 held a training program with the Division of  
13 Insurance Fraud regarding our program and our  
14 operations and how we function. We hope that this  
15 interaction will enhance the needs that we believe  
16 will be necessary to make sure that we are  
17 providing the services to law enforcement agencies  
18 that they need so that they can do their job more  
19 effectively.

20 The report made a number of recommendations  
21 for changes in the regulatory framework. During  
22 our most recent legislative session, legislation  
23 was passed under Senate Bill 2158 which will  
24 greatly enhance the regulatory framework and the  
25 Office's enforcement tools. This legislation is

1 the end result of a cooperative effort to improve  
2 the regulation of the money services business. The  
3 legislation reflects recommendations from the Grand  
4 Jury, our office, House and Senate committees,  
5 industry, and law enforcement. And we believe that  
6 these issues are going to address many of the  
7 concerns that were raised in the Grand Jury report.

8 In summary, the bill will authorize our office  
9 to immediately suspend their license if a licensee  
10 fails to comply with requests for records pursuant  
11 to a written request from our office. It requires  
12 an applicant to establish an anti-money laundering  
13 program prior to being registered rather than  
14 afterwards. It requires check cashers to subject  
15 themselves to filing suspicious activity reports,  
16 which currently they are not required to do. It  
17 requires check cashers to obtain from its customers  
18 acceptable identification along with a thumbprint  
19 for checks greater than \$1,000. It will also  
20 require check cashers to maintain copies of  
21 identification and thumbprint for five years.

22 All these things are being required now so  
23 that there will be a better trail for us to do our  
24 job and also for law enforcement where they suspect  
25 other illegal activities going on with the use of

1 our check cashers as a conduit to launder that  
2 money.

3 Check cashers will also be required to  
4 maintain an electronic payment instrument log for  
5 checks cashed over \$1,000. Again, these are all  
6 designed to help our office track the processing of  
7 checks and how they run their programs, and more  
8 importantly, how we can share that information with  
9 law enforcement when they suspect illegal  
10 activities going on.

11 The other thing we are doing is, we are  
12 developing specific rules. These rules will  
13 include the implementation of a penalty matrix. It  
14 will provide for contracting with us by contractors  
15 to supplement our program by doing additional  
16 examinations for us, and we'll be implementing  
17 record keeping and regulatory requirements as the  
18 statute allows us to do. We are moving forward  
19 with the rule development in anticipation of the  
20 legislation becoming law. We'll be sending out an  
21 alert to industry to notify them of the new  
22 statutory requirements, and we'll also be notifying  
23 them of upcoming rule development programs which we  
24 plan to do around the state to make sure that we  
25 get all the input from them before we promulgate

1 those rules.

2 The Office has developed a timetable for rule  
3 implementation. Our goal is to have the final  
4 product before this Commission prior to the law  
5 become being effective. However, due to the number  
6 of anticipated rules, this is an aggressive  
7 timetable, but one that we feel must be achieved in  
8 order to make sure that we go about our business in  
9 a way that we can work with other law enforcement  
10 agencies and make sure that we can monitor this  
11 industry in the way that is expected of our  
12 citizens. We are going to do whatever is necessary  
13 to advance the program.

14 I will say that in the report, it did suggest  
15 that in some ways, nothing had been done since  
16 1994. In 1994 when this statute was first provided  
17 to our office as a responsibility for regulating  
18 this industry, no really available resources were  
19 provided at that time. It was only until 2003 when  
20 we went through the transition and we became the  
21 Office of Financial Regulation that we recognized  
22 that this was an area that needed additional  
23 attention. It was only in 2003 that we actually  
24 created a special unit to deal with money  
25 transmitter regulation to deal exclusively in this

1 area.

2 It was at that time that we went to the  
3 Legislature and requested additional positions. We  
4 asked for 12, and they gave us eight. And at the  
5 same time, we took six positions from existing  
6 staff and moved them over into that area so that we  
7 could do more as far as regulation. And that was  
8 really the first time we ever had staff dedicated  
9 to just regulating MSBs. We did request additional  
10 positions in the next couple of years. None were  
11 provided. However, this year, we did get three  
12 additional positions.

13 At the same time, we've also been developing  
14 modules for examinations, doing risk assessments  
15 and training. And I can tell you that we've  
16 already completed more exams this fiscal year than  
17 we did all of last year, and that has been the  
18 trend for the last three years.

19 However, to address the concerns about weak  
20 enforcement, I believe we need to change our  
21 approach to the oversight of this industry. The  
22 way we looked at it in the past was one of  
23 compliance. It's obvious we need to be looking at  
24 this area as an area that we need to be committed  
25 to enforcement.

1           We are developing the penalty matrix, as I  
2           discussed before, which we'll be presenting to this  
3           committee for review and consideration. We will  
4           also be under the new provisions examining every  
5           new money service business that gets licensed  
6           within the first six months of operations. We're  
7           also going to be examining every money service  
8           business at least every five years. And in those  
9           situations where we find problems with an  
10          examination, we will go back within three to six  
11          months to make sure that all of those problems have  
12          been corrected.

13          In closing, I would just say that we do not  
14          take this report lightly. We're looking at all the  
15          comments and the recommendations that have been  
16          made. We believe that the statute and some of the  
17          interim changes that we've made to our operations  
18          are addressing those issues, and we stand ready to  
19          do everything within our authority to make sure  
20          that we fight this problem.

21          I am pleased that the report found staff to be  
22          professional and efficient, and we have that to  
23          build on as a good base. I believe that this,  
24          along with the new legislation and a new awareness  
25          of what our role should be as far as an enforcement

1 agency rather than merely a compliance agency, I  
2 believe is going to address these problems.

3 And with that, I'll close my comments.

4 GOVERNOR CRIST: Thank you, Don. Any  
5 questions. CFO?

6 CFO SINK: Yes, Governor. Don, thank you very  
7 much. It was a good, thorough report. And, of  
8 course, I'm sure that all of our offices have had  
9 an opportunity to read the Grand Jury report, and  
10 it's pretty -- got a lot of serious issues in  
11 there, and I applaud you for your progress.

12 I would say also that there were  
13 recommendations there, a few recommendations for  
14 the Division of Insurance Fraud, and we are  
15 taking -- a couple of them involved legislative  
16 requirements, which we'll be addressing to the  
17 Legislature next year. But some of them are just  
18 administrative and rulemaking, so we're addressing  
19 them, like Don is at the OFR, to get our house in  
20 order, because this is a billion-dollar criminal  
21 activity going on in our state. It's not on the  
22 radar screen of many, many people, but particularly  
23 in the areas of workers' comp, we're finding that  
24 many, many, hundreds of millions of dollars of  
25 abuses, of money being laundering and workers not

1           being insured against injury, and we definitely  
2           need to have a lot more teeth into our enforcement  
3           activities.

4           And I'll just have you -- if you could just  
5           summarize -- I took the opportunity to look at the  
6           legislation, the bill that was passed, and it  
7           appeared that many of the legislative issues that  
8           were brought up in the Grand Jury report were  
9           addressed through legislation. Is that -- would  
10          you enlighten me on that a little bit, Don, because  
11          that was -- one of the real key elements was to get  
12          the legislation correct.

13          MR. SAXON: Yes. That legislation really has  
14          been a work in progress for the last 18 months.  
15          This is something that we recognized some time ago,  
16          that we needed to make some changes. And as much  
17          as you don't like to be criticized, that Grand Jury  
18          report actually helped us as far as getting the  
19          attention of the Legislature. And when the  
20          Legislature looked at the report and they saw the  
21          things that we had been working on, I think they  
22          recognized that this was something that was overdue  
23          and that had to be done this year. And I really  
24          want to express my appreciation to the Senate and  
25          House committees for the work they did to make sure

1           that that bill did get passed.

2                       There were 40 recommendations made in the  
3           Grand Jury report, and I can't say that all of them  
4           were adopted, but the ones that are the most  
5           material were in fact adopted.

6                       And there were some that were not really  
7           things that needed legislation, but things that we  
8           could do internally, and we are certainly focusing  
9           on those to make sure that we address those issues  
10          so that when we come back to this committee -- I  
11          should have mentioned, we do plan to come back to  
12          you in January with a report of our progress for  
13          the first six months to let you know where we are  
14          and where we're going.

15                      CFO SINK:   Governor, just one more question.

16                      GOVERNOR CRIST:   Sure.

17                      CFO SINK:   It seems to me -- it's my  
18          understanding that in the insurance industry, when  
19          the Office of Insurance Regulation goes and does  
20          compliance and does market conduct, that sometimes  
21          we use to our own people, and other times we use  
22          third parties, but the company itself compensates  
23          the State for the cost of the investigation and the  
24          review.   Wouldn't it be possible to do the same  
25          sort of thing?   Because it bothers me that these

1 businesses are only subject to having a review done  
2 once every five years, and they can look good today  
3 and six months later be engaged in some kind of  
4 fraudulent activity. And that five-year window  
5 seems like an awfully long time to -- coming from  
6 banking, we're used to having our exams done every  
7 year by multiple different regulators. That's very  
8 concerning to me in terms of the length of time.  
9 And I imagine it's a money issue in terms of being  
10 able to afford to go in there.

11 MR. SAXON: Well, the legislation that passed  
12 does allow us to outsource examinations, and those  
13 costs can be carried on to the vendors who we are  
14 examining, so that issue has been addressed.

15 But I can assure you, there is a five-year  
16 window where we will have to examine every money  
17 service business that is out there. But through  
18 risk assessments and through hopefully sharing  
19 information and coordinating our efforts with the  
20 Division of Insurance Fraud and with other agencies  
21 out there, if they have information that they think  
22 is important, companies that maybe we should be  
23 taking a look at and maybe we can coordinate our  
24 efforts, we will certainly do those.

25 Our issue is, it's a lot easier for us if we

1 know where the problems are to go in than simply  
2 going in not having an appreciation. And that has  
3 been one of the struggles we've had, is that many  
4 times we have check cashers out there who may be  
5 under investigation, and we did not necessarily  
6 have information and knowledge about that, which  
7 could have been helpful to us and as far as us  
8 being there to help the cause. So hopefully, with  
9 new interaction, new training, more collective  
10 effort among our agencies, there's going to be a  
11 sharing of information that will help us all do our  
12 job more effectively.

13 CFO SINK: Thank you.

14 GOVERNOR CRIST: Thank you.

15 ATTORNEY GENERAL McCOLLUM: Governor?

16 GOVERNOR CRIST: General.

17 ATTORNEY GENERAL McCOLLUM: I want to commend  
18 the Office of Statewide Prosecution and the Grand  
19 Jury for doing this report, and secondly, I want to  
20 commend you for the very quick and thorough  
21 response you've had to it, Don, you and your shop.

22 As CFO Sink said, this is a very serious  
23 matter in terms of money transmitters, check  
24 cashing outfits. Many of them are fine  
25 organizations, I'll say, by the way, although there

1 are some over time that have been suspect. But  
2 they have become a primary vehicle, as we all now  
3 know, for money laundering, for drug money  
4 laundering, for all kinds of criminal behavior.  
5 The CFO mentioned workers' comp, but it's just a  
6 wide variety.

7 And I think as we go through this process  
8 legislatively and you do administratively, as  
9 you're doing down in rulemaking, the process of  
10 transmitting the information, not to pun the word  
11 "transmitter," but your providing it to law  
12 enforcement in a way that's usable will, I think,  
13 result in a lot safer Florida.

14 So I really commend you for getting on this in  
15 a hurry and taking care of it, as I do them for  
16 presenting it to you, and I thank you.

17 GOVERNOR CRIST: Thank you, General.

18 MR. SAXON: And I would just mention on your  
19 comments about this industry, you know, we do have  
20 information that suggests there are 75 million  
21 Americans who for whatever reason decide to do  
22 their business with institutions other than  
23 financial institutions, such as a bank or a credit  
24 union. They do that for a number of reasons. One,  
25 they may not have balances enough that they can

1 maintain a checking account or a savings account,  
2 and they use these money service businesses to buy  
3 their money orders, to pay their bills. They use  
4 them to send wire transfers to their families in  
5 other countries. Some of them simply use it as a  
6 business arrangement whereby it's a lot easier than  
7 dealing with an institution.

8 However, with that, it does raise a lot of  
9 risks, such as the CFO has been talking about, and  
10 the Attorney General, and it's with the risks that  
11 we need to really be focusing our attention, those  
12 situations where they're using these facilities as  
13 a conduit to perpetrate or to support other illegal  
14 activities such as workers' comp fraud, Medicaid  
15 fraud, other types of things that go on out there  
16 where they have to launder that money.

17 ATTORNEY GENERAL McCOLLUM: I think you're  
18 right, if I might, Governor, to point out the fact  
19 that the organizational structure is really good.  
20 People often look at the check cashing or money  
21 transmitter organizations and wonder about, you  
22 know, are they really serving a public purpose.  
23 And they are. I think that overall, the good ones  
24 are doing a very fine job, and I appreciate your  
25 pointing that out. But there is the downside that

1 we're discussing today.

2 GOVERNOR CRIST: Thank you, Don.

3 MR. SAXON: Thank you.

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1 GOVERNOR CRIST: Office of Insurance  
2 Regulation, Kevin McCarty. Commissioner, good  
3 morning.

4 MR. McCARTY: Good morning, Governor and  
5 members of the Commission.

6 Agenda Item Number 1 is approval for  
7 publication of amendments to 690-149.041. This is  
8 amendments to the small group underwriting rule.  
9 These amendments would prohibit small group  
10 insurance companies from using different  
11 underwriting applications for the small group  
12 market. The small group market is less than 50.  
13 And it would also make it an unfair trade practice  
14 to engage in this activity.

15 GOVERNOR CRIST: Is there a motion?

16 COMMISSIONER BRONSON: Motion on Item 1.

17 CFO SINK: Second.

18 GOVERNOR CRIST: Moved and seconded. Show it  
19 approved without objection.

20 MR. McCARTY: Agenda Item Number 2 is adoption  
21 of amendments for the establishment of standard  
22 risk rates for health insurers. The proposed  
23 amendments adopt the maximum rates that an insurer  
24 may charge for policies that are being converted  
25 from a small group policy to an individual policy.

1 ATTORNEY GENERAL McCOLLUM: I move Item 2.

2 COMMISSIONER BRONSON: Second.

3 GOVERNOR CRIST: Moved and seconded. Show it  
4 approved without objection.

5 MR. McCARTY: Agenda Item 3 is approval for  
6 publication of the repeal of a rule governing  
7 adjusters. Pursuant to Chapter 626 of the Florida  
8 Insurance Code, the Department of Financial  
9 Services has the regulatory authority over  
10 adjusters. This would take the OIR rule and repeal  
11 it.

12 CFO SINK: Move it.

13 ATTORNEY GENERAL McCOLLUM: Second.

14 GOVERNOR CRIST: Moved and seconded. Show  
15 Item 3 approved without objection.

16 MR. McCARTY: Agenda Item Number 4 is approval  
17 for publication of a rule on informal conferences.  
18 This proposed rule sets the process the Office is  
19 to follow for the examination of insurance  
20 companies. The Office feels that this rule is  
21 necessary because it's inconsistent with the  
22 Florida Statute.

23 COMMISSIONER BRONSON: Motion on Item 4.

24 CFO SINK: Second.

25 GOVERNOR CRIST: Moved and seconded. Show it

1 approved without objection. Thank you very much.

2 MR. McCARTY: Thank you, Governor.

3 GOVERNOR CRIST: Yes, sir.

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1                   GOVERNOR CRIST: Department of Veterans  
2                   Affairs, Admiral Leroy Collins.

3                   ADMIRAL COLLINS: Good morning, Governor and  
4                   Cabinet. It's always an honor to be here to  
5                   represent the veterans, but this morning is a  
6                   special experience for me because Clyde Gaskins,  
7                   who is sitting here, I hadn't seen Clyde in over 60  
8                   years until this morning. And we played baseball  
9                   together at Leon High a long, long time ago, so  
10                  what a thrill that was.

11                  GOVERNOR CRIST: A couple of Lions.

12                  ADMIRAL COLLINS: Yes, sir.

13                  Item 1 are the minutes for the February 12th  
14                  Cabinet meeting, and I recommend acceptance.

15                  COMMISSIONER BRONSON: Motion on Item 1.

16                  ATTORNEY GENERAL McCOLLUM: Second.

17                  GOVERNOR CRIST: Moved and seconded. Show it  
18                  approved without objection.

19                  ADMIRAL COLLINS: Item 2 is the quarterly  
20                  report for the period the 1st of January through  
21                  March 31, 2008. The format is in three sections,  
22                  that is, administrative highlights, Division of  
23                  Benefits and Assistance, and the homes program  
24                  information. There isn't anything out of the  
25                  ordinary in this report. Unless there are any

1 questions, I recommend acceptance.

2 COMMISSIONER BRONSON: Motion on Item 2.

3 ATTORNEY GENERAL McCOLLUM: Second.

4 CFO SINK: Governor.

5 GOVERNOR CRIST: Moved and seconded. The CFO  
6 has a question.

7 CFO SINK: Admiral, I saw that you met with  
8 Rich LaBelle about the issues of the returning  
9 disabled veterans. Could you just give us a  
10 thumbnail sketch of that conversation?

11 ADMIRAL COLLINS: I didn't hear. I'm sorry.

12 CFO SINK: Oh, I'm sorry. I think in your  
13 report you said that you had met with Rich LaBelle.  
14 He represents the Family Network on Disabilities,  
15 and you were speaking maybe about the issues of the  
16 returning disabled veterans. Do you --

17 ADMIRAL COLLINS: I don't recall that. Jim?

18 CFO SINK: Okay. Well, don't worry about it.  
19 We'll get with you later.

20 ADMIRAL COLLINS: But I'll get back with you  
21 on it.

22 CFO SINK: Yes, that's fine.

23 ADMIRAL COLLINS: I will.

24 GOVERNOR CRIST: Okay. Moved and seconded.  
25 Show it approved without objection.

1  
2 ADMIRAL COLLINS: Item 3 is update on the  
3 status of the soon to be constructed state veterans  
4 nursing home in St. Johns County, and I'm proud to  
5 announce this morning that the State of Florida  
6 will soon break ground on a new veterans nursing  
7 home in St. Johns County. The groundbreaking  
8 ceremony for the new 120-bed skilled nursing  
9 facility near St. Augustine is scheduled for  
10 Saturday, June the 28th at 10:00 a.m., and the  
11 Cabinet is cordially invited. This new facility  
12 will join five other skilled nursing facilities and  
13 one assisted living facility in the State's  
14 veterans homes program.

15 In keeping with Governor Crist's energy policy  
16 on reducing Florida's greenhouse gases and  
17 increasing energy efficiency, our new facility in  
18 St. Johns County will be a green facility using  
19 nationally accepted benchmarks from LEED for the  
20 design, construction, and operation of high  
21 performance green buildings. LEED is the U.S.  
22 Green Building Council's Leadership in Energy and  
23 Environmental Design.

24 Our policy from the outset has been for each  
25 veterans home to be named for a deceased Medal of

1 Honor recipient who is accredited to the State of  
2 Florida. Earlier this spring, the Florida  
3 Department of Veterans Affairs invited the general  
4 public to recommend a name for our new home in  
5 St. Johns County, to include inputs from  
6 communities in the northeast part of our state.

7 After careful consideration, I am pleased to  
8 announce today that the new state veterans nursing  
9 home in St. Johns County will be named for the late  
10 Clyde E. Lassen, United States Navy.

11 Clyde Lassen received the Medal of Honor for  
12 his heroic actions on June the 19th, 1968, in the  
13 Republic of Vietnam. Lieutenant Lassen, a Navy  
14 helicopter pilot, risked his life to search for and  
15 rescue two downed aviators. Despite a hot zone of  
16 enemy fire, limited visibility, rugged terrain, and  
17 several unsuccessful landing attempts, Lassen  
18 successfully rescued the two pilots. While  
19 en route to the guided missile cruiser U.S.S.  
20 Jouett offshore, he encountered and evaded hostile  
21 anti-aircraft fire. He landed aboard the ship with  
22 enough fuel for only five minutes remaining of  
23 flight.

24 Lassen was born in Fort Myers and entered the  
25 service from Jacksonville. He retired as a Navy

1 commander in 1982 and died in 1994. The Navy  
2 destroyer U.S.S. Clyde E. Lassen was commissioned  
3 in Tampa just a few years ago. I was there and  
4 spoke with the copilot of Commandeer Lassen's  
5 heroic crew. The rescue was a display of  
6 extraordinary valor against a fierce enemy at  
7 night.

8 The Clyde E. Lassen State Veterans Nursing  
9 Home will be the first Florida veterans home to be  
10 named for a U.S. Navy veteran. It is fitting to  
11 honor Commander Lassen in this way, with two large  
12 naval installations and many of his family members  
13 living nearby.

14 Item 4 is also a verbal report on the  
15 legislative session relating to the Florida  
16 Department of Veterans Affairs. We're pleased with  
17 the legislative actions and grateful to the Cabinet  
18 for their strong leadership and support. We were  
19 successful in all four of our Department's priority  
20 initiatives and significant budget items.

21 The legislative session that ended on May 2nd  
22 holds good news for Florida's more than 1.7 million  
23 veterans. Despite the budget constraints,  
24 Florida's veterans and their families are the  
25 beneficiaries of cooperation and teamwork by the

1 Florida Commission on Veterans Affairs, the  
2 veterans service organizations, and our very  
3 helpful bill sponsors. We are particularly  
4 thankful for the excellent direction and strong  
5 support from the Governor and Cabinet, the  
6 legislative budget and committee staff, and the  
7 Office of Policy and Budget. Our policy  
8 initiatives include the following four bills. The  
9 first two are truly landmark pieces of legislation.

10 Number one, the direct support organization  
11 bill by Senator Charles Dean and Representative Ron  
12 Reagan was entitled the Sergeant First Class Paul  
13 R. Smith Memorial Act. This will sunset the  
14 Florida Commission on Veterans Affairs and  
15 authorizes the creation of the Florida Veterans  
16 Foundation, a nonprofit corporate entity that will  
17 expand FDVA's mission of veterans advocacy.

18 Secondly, the disabled veterans business  
19 preference legislation sponsored by Senator Mike  
20 Fasano and Representative Bill Proctor will provide  
21 Florida-based, service-disabled, veteran-owned  
22 businesses a preference when competing for state  
23 contracts. The bill provides for the development  
24 of a certification process in conjunction with the  
25 Department of Management Services, Office of

1           Supplier Diversity, and the State Center for Small  
2           Business Development.

3           Thirdly, the Nursing Home Trust Fund  
4           enhancement initiative sponsored by Senator Carey  
5           Baker and Representative Paige Kreegel will provide  
6           an additional \$100,000 annually to the State Homes  
7           for Veterans Trust Fund. It will also allow all  
8           current and any future military or veterans stamp  
9           tags to contribute to the trust fund. Finally,  
10          this bill provides for a voluntary contribution to  
11          veterans nursing homes by all Florida motorists  
12          when they renew their vehicle registration annually  
13          during their birth month.

14          And fourthly, the Nursing Home Trust Fund  
15          flexibility bill sponsored by Senator Durrell  
16          Peaden and Representative Aaron Bean amends current  
17          law by allowing veterans home administrators to  
18          have more latitude in the Grants and Donations  
19          Trust Fund to provide nursing home residents with  
20          certain goods and services, such as free haircuts,  
21          which will further improve quality of life. This  
22          was signed into law by the Governor on the 21st of  
23          last month.

24          The FDVA was also pleased to support the  
25          Governor's Office in Senate Bill 2760 by Senator

1 Durrell Peaden. A portion of this initiative  
2 streamlines the Florida dental licensure procedure  
3 for military retired dentists as an incentive for  
4 them to remain in Florida and as an enhancement to  
5 dentally underserved communities throughout the  
6 state.

7 Furthermore, we want to thank Senator Carey  
8 Baker and the Senate Transportation Committee staff  
9 for their help in amending Senate Bill 1604 to  
10 designate a portion of State Road 72 in Sarasota  
11 County as the Veterans Memorial Parkway. It is  
12 approximately seven miles of roadway leading from  
13 Interstate 75 to the entrance to the soon to be  
14 dedicated on June the 1st Sarasota National VA  
15 Cemetery.

16 Finally, in an otherwise austere year of  
17 budget cutbacks, the 2008 to '09 General  
18 Appropriation Act reflects an increase from  
19 1.1 million to nearly 2 million annually in  
20 education funding for spouses and children of  
21 Floridians killed in action and those who are  
22 100 percent totally and permanently disabled.

23 Besides the obvious benefit these measures  
24 have for Florida's veterans and their families, the  
25 superior legislative initiatives will be

1           tremendously valuable during the next round of  
2           military base realignment and closure hearings,  
3           because they clearly demonstrate that Florida leads  
4           the way as a military and veteran friendly state.

5           Regarding the FDVA budget request, the single  
6           and most important FDVA budget item was the  
7           authorization to in-source previously contracted  
8           certified nursing assistants and food service  
9           personnel in our three newest state veterans  
10          nursing homes. We are very pleased by the  
11          legislative leadership in this matter. Though not  
12          costing any more money, this trust fund  
13          authorization will significantly enhance the  
14          quality of care for our nursing home residents.

15          This concludes my report. Once again, we  
16          thank you for your support and leadership. I'm  
17          happy to answer any questions.

18          GOVERNOR CRIST: Thank you, Admiral. Any  
19          questions?

20          Thank you very much, sir. Appreciate it.

21          ADMIRAL COLLINS: Thank you.

1 GOVERNOR CRIST: Florida Land and Water  
2 Adjudicatory Commission, Lisa Saliba. Good  
3 morning, Lisa.

4 MS. SALIBA: Good morning. The first item on  
5 our agenda is recommending approval of the minutes  
6 for the April 29, 2008 meeting.

7 GOVERNOR CRIST: Is there a motion?

8 CFO SINK: Move it.

9 ATTORNEY GENERAL McCOLLUM: Second.

10 GOVERNOR CRIST: Moved and seconded. Show the  
11 minutes approved without objection.

12 MS. SALIBA: Item Number 2, recommended  
13 approval of the proposed rule amendment to expand  
14 the boundary of the Poinciana Community Development  
15 District and to authorize the Secretary to file for  
16 rule adoption. We do have Mr. Michael Eckert  
17 representing the petitioner available if there are  
18 any questions.

19 ATTORNEY GENERAL McCOLLUM: I move Item 2,  
20 Governor.

21 COMMISSIONER BRONSON: Second.

22 GOVERNOR CRIST: Moved and seconded. Show it  
23 approved without objection.

24 MS. SALIBA: Thank you.

25 GOVERNOR CRIST: Thank you very much.

1                   GOVERNOR CRIST: Board of Trustees, Secretary  
2 Mike Sole. Good morning, Secretary.

3                   MR. SOLE: Governor and Cabinet, good morning.

4                   Item Number 1 is a request for approval of two  
5 purchase agreements to acquire 41.88 acres in  
6 Brevard County. This acquisition is going to be in  
7 partnership with the St. Johns River Water  
8 Management District. It's part of the Indian River  
9 Lagoon Blueway Florida Forever A List project. The  
10 purchase price is \$1.97 million, which is  
11 100 percent of the appraised value. The Board of  
12 Trustees would pay two-thirds of that cost, and the  
13 St. Johns River Water Management District would pay  
14 a third of that cost.

15                  GOVERNOR CRIST: Any questions? CFO.

16                  CFO SINK: Yes. Obviously, this deal has  
17 become a little controversial here in the past  
18 month or so.

19                  Mike, around the issue of the appraisals, if  
20 you look at the map, the property is very isolated,  
21 and there's not -- there's very, very little  
22 uplands there. And I understand that there's  
23 litigation involved, and there's the issue of the  
24 judge requiring us to provide access to the  
25 property, which has the potential of -- I want to

1 say messing it up, the big piece that we own  
2 adjacent.

3 But would you more specifically address this?  
4 We're purchasing this for \$47,000 an acre, and  
5 through our staff doing some research, it seems  
6 that most of the properties around the lagoon are  
7 being purchased for mitigation purposes at around  
8 \$10,000 an acre. So how do we kind of resolve and  
9 justify -- I presume there's a different basis for  
10 this particular appraisal, so would you address  
11 that?

12 And also, the bigger concern that I have is  
13 that by the State purchasing this particular piece  
14 at \$47,000 an acre, then does that not put us in  
15 jeopardy for every other piece around the lagoon if  
16 every other owner says, "Oh, well, this is now the  
17 new value," when, in effect, if you look at  
18 history, the prices have gone for more like \$10,000  
19 an acre?

20 MR. SOLE: Right. Thank you, CFO. I think a  
21 couple of things are worth nothing. One, this is  
22 an interesting 41 acres. It's 1.5 miles of shore  
23 front. So when you look at this piece of property,  
24 you get a lot of riverfront property. It's not a  
25 little bit of riverfront and a lot of backlands.

1 It is about 3.3 acres of upland. Most of it is  
2 wetlands, so it's very clear, a mangrove area, salt  
3 marsh provision.

4 When you look at the appraisal that was done  
5 in 2005, it went through the standard appraisal.  
6 We had two appraisers go through the work and do  
7 the appraisal, and that appraisal was reviewed.

8 It's worth noting that the litigation does  
9 hold a key to this issue. First, this has been  
10 ongoing litigation for some seven years to address  
11 an access issue between the Kaufman and Young  
12 property owners. The courts actually have ruled  
13 that, yes, they are guaranteed access, and  
14 unfortunately chose a path through the existing  
15 Indian River Lagoon Preserve State Park system to  
16 obtain that access.

17 Early on when we received the appraisals, it's  
18 worth noting that we made an offer to acquire the  
19 property early on, I think in 2005 as well. This  
20 merely meets that earlier commitment as part of  
21 settlement to acquire that property at the value  
22 that was based on the appraisal in 2005.

23 CFO SINK: What about the -- excuse me,  
24 Governor.

25 GOVERNOR CRIST: Sure.

1 CFO SINK: What about the impact on future  
2 acquisitions in this area?

3 MR. SOLE: I don't think this has a  
4 significant impact on future acquisitions in the  
5 area. As we go forward -- again, this is based  
6 upon a 2005 appraisal. As we go forward -- and we  
7 have had those discussions at the Department about  
8 the need to update appraisals based upon land  
9 valuation and trends that we've seen over the last  
10 year or so. I don't believe this will have an  
11 adverse impact on either subsequent purchases by  
12 the State of Florida or even subsequent purchases  
13 by the private industry, an adverse effect on land  
14 values in the area.

15 GOVERNOR CRIST: Any other questions?  
16 General.

17 ATTORNEY GENERAL McCOLLUM: My understanding  
18 from the comments, Mike, is that this is part of a  
19 settlement, in essence. So, in other words, in  
20 order to be able to stop them from accessing and  
21 cutting across the state park lands, we need to get  
22 this property. And this is the fair value. It's  
23 the full value.

24 MR. SOLE: Yes, sir.

25 ATTORNEY GENERAL McCOLLUM: So we're not

1 paying above the appraisal, but we are paying the  
2 full value, and we're not able to negotiate it on  
3 down probably because it's part of a deal; right?

4 MR. SOLE: Yes, General.

5 ATTORNEY GENERAL McCOLLUM: With that in mind,  
6 I would move Item 2 -- or Item 1, excuse me.

7 GOVERNOR CRIST: Is there a second?

8 COMMISSIONER BRONSON: Second.

9 GOVERNOR CRIST: Moved and seconded. Anybody  
10 else here to speak on the item?

11 MR. SOLE: No, sir.

12 GOVERNOR CRIST: No? Show it approved without  
13 objection. Thank you.

14 MR. SOLE: Thank you, Governor and Cabinet.  
15 Item Number 2, the Department -- or excuse me. The  
16 owner is requesting withdrawal of this item.

17 GOVERNOR CRIST: Is there a motion to  
18 withdraw?

19 CFO SINK: Move it.

20 ATTORNEY GENERAL McCOLLUM: Second.

21 GOVERNOR CRIST: Moved and seconded. Show it  
22 withdrawn without objection.

23 MR. SOLE: Item Number 3 requests approval to  
24 convey 115 acres of state-owned land located on the  
25 I-75 and State Road 29 right-of-way in Collier

1 County. This conveyance will be to the Department  
2 of Transportation. This approval provides a  
3 determination that the land is no longer needed for  
4 conservation purposes pursuant to statute and the  
5 constitution.

6 Again, this property was originally acquired  
7 by the Department of Transportation. It was  
8 conveyed to the Board of Trustees in 1995 because  
9 they felt they no longer needed it. Unfortunately,  
10 there is future demand for this, and actually, some  
11 of the land encompasses their existing  
12 right-of-way.

13 GOVERNOR CRIST: Any questions on Item 3?

14 ATTORNEY GENERAL McCOLLUM: Move Item 3.

15 CFO SINK: Second.

16 GOVERNOR CRIST: Moved and seconded. Show  
17 Item 3 approved without objection.

18 MR. SOLE: Thank you. Item Number 4 requests  
19 approval to amend an exchange agreement between the  
20 Board of Trustees and the University of Miami.  
21 This amendment will reduce the actual value of the  
22 three parcels by \$2 million to reflect the cost of  
23 an environmental cleanup that was originally  
24 omitted.

25 GOVERNOR CRIST: Is there a motion on Item 4?

1 CFO SINK: Move it.

2 COMMISSIONER BRONSON: Second.

3 GOVERNOR CRIST: Moved and seconded. Show it  
4 approved without objection.

5 MR. SOLE: As part of this amendment, Item  
6 Number 5 requests approval for a 60-year lease to  
7 the Department of Children and Families for a  
8 1.21-acre parcel in Miami-Dade County and an  
9 approval of a sublease between the Camilus House,  
10 Inc. and Shepherd's Court, LLC. This approval  
11 basically moves the property from the original area  
12 to this 1.21-acre parcel.

13 GOVERNOR CRIST: Is there a motion on Item 5?

14 CFO SINK: Move it.

15 ATTORNEY GENERAL McCOLLUM: Second.

16 GOVERNOR CRIST: Moved and seconded. Show it  
17 approved without objection.

18 MR. SOLE: That concludes. Thank you,  
19 Governor.

20 GOVERNOR CRIST: Thank you, Secretary.  
21 Appreciate it.

22

23

24

25

1 GOVERNOR CRIST: State Board of  
2 Administration, General Milligan. Good morning,  
3 General. How are you?

4 GENERAL MILLIGAN: I am fine, thank you, sir.  
5 And yourself?

6 GOVERNOR CRIST: Great. Thank you.

7 GENERAL MILLIGAN: General, CFO.

8 ATTORNEY GENERAL McCOLLUM: Good morning.

9 GENERAL MILLIGAN: Request approval of the  
10 minutes of April 29, 2008.

11 CFO SINK: Move it.

12 ATTORNEY GENERAL McCOLLUM: Second.

13 GOVERNOR CRIST: Moved and seconded. Show it  
14 approved without objection.

15 GENERAL MILLIGAN: Request approval of a  
16 fiscal determination of an amount not exceeding  
17 \$11 million Florida Housing Finance Corporation  
18 multifamily mortgage revenue bonds.

19 ATTORNEY GENERAL McCOLLUM: I move Item 2.

20 GOVERNOR CRIST: Is there a second?

21 CFO SINK: Second.

22 GOVERNOR CRIST: Moved and seconded. Show it  
23 approved without objection.

24 GENERAL MILLIGAN: Item 3 deals with the  
25 selection of the Florida Hurricane Catastrophe Fund

1 Financial Services Team. I anticipate, after some  
2 further review, frankly, of the proposal for the  
3 team submitted to me by Dr. Nicholson, approving  
4 those recommendations today. The firms that are  
5 selected will be notified and the initial meetings  
6 will begin tomorrow. This is on a fast track, with  
7 the goal of presenting to the Trustees a proposal  
8 not later than 10 June. It is provided for  
9 information and any comments.

10 GOVERNOR CRIST: If I might, the purpose is to  
11 provide additional funding and backup for the  
12 catastrophic fund in the event of a hurricane so we  
13 have better protection for the people?

14 GENERAL MILLIGAN: That's correct, sir.

15 GOVERNOR CRIST: Great. Do you have any idea,  
16 General, sort of a range of investment that would  
17 be recommended, and then what type of reinsurance,  
18 for lack of a better term, that would supply to the  
19 catastrophic fund?

20 GENERAL MILLIGAN: I think that's the very  
21 purpose, frankly, of these teams, financial  
22 services teams, to come up with those types of  
23 recommendations and to come up with a proposal that  
24 will allow you all as Trustees to make a decision.

25 GOVERNOR CRIST: Great. I've heard kicked

1           around -- at least I've kicked it around, the  
2           notion of about 150 to \$200 million, which might  
3           supply us 2 to 3 billion additional reserves for  
4           catastrophic coverage for Floridians.

5           GENERAL MILLIGAN: There have been a number of  
6           numbers kicked around.

7           GOVERNOR CRIST: I'm sure there are.

8           GENERAL MILLIGAN: And I think we'll see where  
9           it all comes out. But I think it's important to  
10          let these teams do their job and come back on the  
11          10th with really positive proposals.

12          GOVERNOR CRIST: And as a follow-up, how do we  
13          determine which of these teams will actually do  
14          that? Can you explain that process? I mean, there  
15          are 17 listed, are there not?

16          GENERAL MILLIGAN: There are a total of -- I  
17          guess it's a total of 17. I haven't bothered to  
18          count them.

19          GOVERNOR CRIST: Well, whatever it is. That's  
20          all right.

21          GENERAL MILLIGAN: They will be working  
22          independently and ultimately together starting  
23          tomorrow with a series of conferences, followed  
24          again by conferences on Thursday and Friday. And  
25          again, these teams will individually and then

1 collectively come back to Jack Nicholson and to you  
2 all through me with a recommendation as to how we  
3 solve this difficult problem in terms of the assets  
4 for supporting our catastrophe fund.

5 GOVERNOR CRIST: Great. I want to thank you,  
6 General, for what you're doing, and my colleagues  
7 on the Cabinet, and the SBA, I should say more  
8 specifically, to find this methodology to help have  
9 better backup.

10 GENERAL MILLIGAN: Well, this is Jack's,  
11 really his idea, and I think it's a great idea, and  
12 it's one that I think we can move forward with and  
13 see some positive results.

14 GOVERNOR CRIST: Well, I'm glad you're  
15 supporting it then.

16 The only concern I would mention, I noticed  
17 that a couple that are listed here on these teams  
18 are Lehman Brothers and J.P. Morgan. And correct  
19 me if I'm wrong, but were they not involved in sort  
20 of the Local Government situation we had last fall?

21 GENERAL MILLIGAN: They certainly are  
22 companies that we deal with at the SBA on the  
23 investments, and they certainly are involved in  
24 some of the activities that are going on right now  
25 looking at what happened.

1           GOVERNOR CRIST: Well, not right now is my  
2 concern. My concern was, were they involved in  
3 recommendations for the Local Government Pool that  
4 we had some problems with last fall?

5           GENERAL MILLIGAN: Well, we don't really know  
6 that, sir, to tell you the truth.

7           GOVERNOR CRIST: You don't know if they made  
8 recommendations or not?

9           MR. SOLE: There are investigations that are  
10 ongoing, as you know, that are looking at what  
11 these companies, those two particularly --

12           GOVERNOR CRIST: I'm not aligning culpability.  
13 All I'm suggesting is --

14           MR. SOLE: They may have or may not have been  
15 involved. We don't know. I will say this. Of the  
16 four companies that are in that particular grouping  
17 of co-senior managers, two of them are J.P. Morgan  
18 and Lehman Brothers, and they can be removed. If  
19 it turns out during the process of the  
20 investigation that there was some culpability in  
21 dealing with the SBA, then we can remove them from  
22 this team.

23           GOVERNOR CRIST: Which I appreciate. The only  
24 concern I have about that is if the investigation  
25 goes beyond -- June 10th? Is that what you said,

1 the fast track --

2 GENERAL MILLIGAN: June 10th is when we'll be  
3 coming back with a proposal, yes, sir.

4 GOVERNOR CRIST: Knowing a little bit about  
5 investigations, sometimes they're not that quick.

6 GENERAL MILLIGAN: I think that's true.

7 GOVERNOR CRIST: And they may make a  
8 recommendation to us before we know if there was  
9 any culpability on their behalf, and I'm not sure  
10 how to get out of that one.

11 GENERAL MILLIGAN: Well, if it is the desire  
12 of the Trustees, we can certainly remove those two  
13 companies from the co-senior manager's position.  
14 That is not a major problem.

15 GOVERNOR CRIST: Let me be cautious here,  
16 because I believe in innocent until proven guilty,  
17 but I also understand there's a fiduciary duty we  
18 all share, and I just don't want to be put into a  
19 difficult situation if recommendations are made,  
20 and then after June 10th we find out that there was  
21 a problem. So I guess my individual preference  
22 would be to maybe separate them for the time being.

23 GENERAL MILLIGAN: If that's the guidance, I  
24 can certainly accept that.

25 GOVERNOR CRIST: My colleagues may have a

1 different point of view. CFO.

2 CFO SINK: Well, I understand what you're  
3 saying, Governor, and I do agree with you that --  
4 innocent until proven guilty. The only issue I  
5 would have if that were to be the result, then that  
6 would only leave us with two co-senior managers,  
7 which means reduced competition.

8 And I think that we would have to -- we would  
9 need to go back and perhaps pick two of the firms  
10 in the co-managers list to move up to the co-senior  
11 manager status, because I just -- I think  
12 competition keeps everybody honest in the process.  
13 And if you remove these two firms, who are  
14 certainly big market powerhouses, as we know, then  
15 it gives less incentive to the remaining two  
16 co-senior managers to have their pencil sharpened.

17 So that's the direction I would recommend we  
18 go in if we're going to penalize J.P. Morgan and  
19 Lehman today with the little information that we  
20 have.

21 ATTORNEY GENERAL McCOLLUM: Governor, what  
22 harm would there be in waiting until June to  
23 decide? I mean, we can go ahead and do this. I  
24 mean, you've got to, I guess, proceed with what  
25 you're doing, but we're going to know in a month.

1           And we're having the discussion today. I think as  
2           fiduciaries, we're letting the public know we're  
3           aware there's a potential problem here.

4           But as General Milligan has said, we don't  
5           have any rational basis upon which to conclude that  
6           these two companies have done anything wrong. We  
7           simply have a review going on right now. And it  
8           seems to me inappropriate for us to remove them at  
9           this point in time from anything if in fact they  
10          are judged by the office, the State Board of  
11          Administration, to be the best qualified to give  
12          the advice that we're seeking.

13          So I personally would think that we ought to  
14          let it proceed, and if in fact something happens in  
15          June, then we'll go back and revisit this  
16          immediately. I'm not embarrassed to do that if  
17          there is something that turns up.

18          GOVERNOR CRIST: Let me home in a little bit  
19          then and make sure I understand things correctly.  
20          Were or were not these two firms involved in the  
21          Local Government Pool scenario that became a  
22          problem last fall? And when I say involved, I only  
23          mean that they were giving advice as to investments  
24          that the SBA might make. I'm not saying that they  
25          were guilty or culpable of any wrongdoing.

1                   GENERAL MILLIGAN: They were brokers that we  
2                   dealt with, and they provided securities that were  
3                   held in the Local Government Investment Pool. That  
4                   is correct.

5                   GOVERNOR CRIST: Okay. Are they only two  
6                   among this list provided to us today that are in  
7                   that realm?

8                   GENERAL MILLIGAN: To the best of my  
9                   knowledge, yes, but I would not swear to that.  
10                  They certainly are the only two of the four. There  
11                  may be -- in the other list of 10, I guess, that  
12                  were involved in the selection process, there may  
13                  be one or two in there that were also involved, but  
14                  I don't know for sure. But in these four, those  
15                  were the only two.

16                  GOVERNOR CRIST: And I know that they're big.

17                  CFO SINK: Yes, they are.

18                  GOVERNOR CRIST: Go ahead, General.

19                  ATTORNEY GENERAL McCOLLUM: Let me just point  
20                  something out as I see it.

21                  GOVERNOR CRIST: Yes, help me out.

22                  ATTORNEY GENERAL McCOLLUM: What I'm hearing  
23                  -- and I don't know if it's true, because I know  
24                  there's an ongoing investigation, and we don't have  
25                  all the facts, and this is strictly coming to us

1 the same way it's coming to you. But my  
2 understanding is that these two companies have  
3 denied, and in the investigation, so far nobody has  
4 proven otherwise, that they gave any advice that  
5 led to the bad, if they were bad decisions or bad  
6 purchases. They were simply a conduit for the  
7 transmittal. They sold the product, but they  
8 didn't advise one way or the other, at least that's  
9 superficially the way it stands.

10 GOVERNOR CRIST: I don't know that.

11 ATTORNEY GENERAL McCOLLUM: Well, I don't know  
12 that either. I don't know that either. I'm just  
13 saying that's the position that I'm hearing is the  
14 way they're presenting themselves on this. And  
15 until it's resolved, we're penalizing today without  
16 knowing the truth or veracity of that. We will  
17 know soon enough.

18 If they are guilty, I don't want them -- if  
19 they did anything wrong, I don't want them doing  
20 this. I don't want to do any more business with  
21 them. But if they're not, why are we penalizing  
22 them today? Why are we penalizing ourselves? I  
23 think it's premature is all I'm saying.

24 GOVERNOR CRIST: I understand. Well, maybe we  
25 should have a motion, and then we can voice our

1 concern by vote.

2 GENERAL MILLIGAN: The only vote that is  
3 required, sir, would be whether or not to leave  
4 these two on the list of co-senior managers. It's  
5 my decision in terms of the formation of these  
6 teams, but it's certainly your decision and your  
7 guidance if there's elements of those teams that  
8 you don't care to have.

9 GOVERNOR CRIST: Okay. If I might, are those  
10 two firms under investigation regarding what  
11 happened in the Local Government issue that came to  
12 us last fall or not?

13 GENERAL MILLIGAN: Those two firms are part of  
14 the investigation process, yes.

15 GOVERNOR CRIST: I didn't say part of. Are  
16 they under investigation for --

17 GENERAL MILLIGAN: That I can't --

18 GOVERNOR CRIST: -- potential participation  
19 last fall?

20 GENERAL MILLIGAN: Well, there is an  
21 investigation going on, and they are being looked  
22 at. Now, are they part in that sense? Yes.

23 GOVERNOR CRIST: Okay. Then I would make a  
24 motion that they be eliminated for the time being.  
25 And if there's a second, there's a second. If

1           there's not, there's not.

2                   Is there a second?

3           No. Okay. I'm defeated, so we will go  
4 forward.

5                   GENERAL MILLIGAN: Any other comments or  
6 questions in reference to Item 3?

7                   Moving on to Item 4, very quickly, before I  
8 introduce Steve Cummings, the executive director  
9 search continues. We expect to screen eight or  
10 nine candidates on the 3rd and 4th of June and  
11 anticipate three candidates that will come forward  
12 to the Trustees shortly thereafter. And we're in  
13 the process now of even trying to schedule the  
14 timing of those interviews for the three  
15 recommended candidates.

16                   Last month for the Investment Advisory  
17 Council, we had a briefing by EnnisKnupp on the  
18 Florida Retirement System investment review, which  
19 I thought was very informative. And we've had so  
20 much attention to the Local Government Investment  
21 Pool, I thought it would be useful for the Trustees  
22 to hear from Steve Cummings, who is the president  
23 and CEO of EnnisKnupp, and give you an abbreviated  
24 report on the Florida Retirement System investment  
25 review.

1 With that, Steve.

2 MR. CUMMINGS: Thank you, General. Good  
3 morning.

4 GOVERNOR CRIST: Good morning.

5 MR. CUMMINGS: Thank you for inviting me to be  
6 with you today. It's always a pleasure to be in  
7 Florida.

8 As mentioned, we serve as a general investment  
9 consultant to the SBA, and we over the years have  
10 performed a number of projects and studies on  
11 behalf of them. One of the tasks that we provide  
12 routinely is a periodic review of the investment  
13 results for the FRS, which, as you know, is a very  
14 large portion of assets supervised by the State  
15 Board of Administration.

16 The slides that I have here with me today are  
17 excerpted from the presentation that I made to the  
18 IAC most recently that covered the results as of  
19 the end of calendar year 2007. So everything in  
20 this report today, as well as the report that was  
21 given earlier to the IAC, was through year end of  
22 2007.

23 I made four very summary comments at the  
24 beginning and close of my presentation to the IAC,  
25 which are summarized in the packet you have today,

1           that on an absolute and a relative and a peer  
2           comparison basis, the performance of the FRS had  
3           been favorable; secondly and importantly, that the  
4           efficiency with which those results had been  
5           produced was quite good. And I'll have a couple of  
6           slides on both of those observations for you  
7           shortly.

8           The program continues to be very well  
9           diversified across multiple asset classes and  
10          multiple investment strategies.

11          And then last, as you well know, the policy  
12          change that was approved last year to reduce the  
13          allocation to publicly traded stocks and increase  
14          slightly the allocation to publicly traded bonds  
15          had been implemented since the last report I made  
16          to the IAC.

17          On slide 3, this is the way we summarized the  
18          investment results at the total FRS level. The  
19          blue shaded bars are the results after fees for,  
20          again, periods ending December 31, 2007.

21          The middle bars for each time period shaded a  
22          brownish color is what's labeled the performance  
23          benchmark. That's the result that the FRS would  
24          have earned had it been perfectly in line with  
25          market returns. In other words, if the stock

1 investments that the FRS made performed exactly in  
2 line with the stock market as a whole and the bonds  
3 met their benchmark and there was no value added  
4 above and beyond that return which was delivered by  
5 the market, the FRS would have earned the returns  
6 shown in the brown bars over those various time  
7 periods.

8 The third and orangish shaded bar labeled  
9 absolute nominal target rate of return is a figure  
10 that comes from the actuaries that indicates the  
11 level of return that's consistent with preserving  
12 the funded status of the plan, the relationship  
13 between the assets and the liabilities. You'll  
14 notice that over all time periods shown here, with  
15 the exception of the fourth quarter of 2007, the  
16 FRS exceeded both of those benchmarks. And again,  
17 those results are after fees.

18 For the fourth quarter, as you well know, the  
19 investment markets had a negative result, so the  
20 only benchmark that was not met for that one period  
21 was the absolute rate of return, which is very  
22 common. In any kind of downdraft market, we don't  
23 expect that particular benchmark to be met.

24 The second way we like to look at performance  
25 is to make sure that those favorable results are

1 not attributable to a single quarter or a single  
2 year. This chart on page 4 plots the performance  
3 of the FRS relative to that performance benchmark,  
4 in this particular case, since 1997. What we like  
5 to see in these investment programs is exactly what  
6 we see here, which is a relatively smooth pattern  
7 of value added. Anytime that line has an upward  
8 slope, it represents a period of time during which  
9 the FRS was exceeding the benchmark after fees.

10 The next slide speaks to the efficiency. The  
11 statistic that we report here is called the  
12 information ratio. This is a calculation that  
13 takes the added value earned by the FRS and divides  
14 it by the volatility of the return that is earned.  
15 What we're trying to get at by looking at this  
16 measure is were those outperformance, those  
17 favorable investment results a consequence of undue  
18 risk taking, was there more bets being made that  
19 resulted in that value added. And so this  
20 computation penalizes the return for extra risk, so  
21 it's a way of looking at those results controlling  
22 for volatility.

23 We generally think of anything that's above  
24 zero as an acceptable information ratio. That  
25 means value has been added. Anything above 0.2 we

1 generally refer to as a favorable information  
2 ratio. That means that compared to other public  
3 retirement systems, the value added has been  
4 delivered a very favorable fashion relative to the  
5 risk incurred. Anything above 0.4 we refer to as  
6 being an excellent information ratio. So as you  
7 can see here, for the three and ten years, we would  
8 classify the information ratio of the FRS as being  
9 excellent and favorable for the five-year period.

10 The last way that we look at the results is  
11 comparing the FRS to peer plans. In this  
12 particular case, we're looking at an aggregation of  
13 about \$2 trillion worth of defined benefit plan  
14 assets. The FRS allocation as of year end is shown  
15 in the pie chart to the left, and the peer plans on  
16 the pie chart to the right. This fully reflects  
17 the implementation of the policy changes that were  
18 approved last year, so you see the domestic equity  
19 allocation here of 37.5 percent comparing very  
20 similarly to that of the peer plans, 33.2, still  
21 slightly more exposure to domestic equity than  
22 peers, but not much.

23 The other item I would highlight here is that  
24 there's a very large orange bar in the peer plans  
25 labeled alternatives. Unfortunately, we don't have

1 much information about how that alternative  
2 allocation can be disaggregated into private equity  
3 or other alternative assets such as commodities and  
4 hedge funds. Our understanding is that the bulk of  
5 that alternative slice is private equity  
6 investments.

7 So you can see that while the allocation of  
8 the FRS is not dissimilar from those of peer plans,  
9 the results are much more favorable.

10 And my last slide gives you an idea of how the  
11 FRS returns compared to those in that universe of  
12 other defined benefit plans. This is referred to  
13 as a floating bar chart. What we've done is take  
14 those 256 plans and represent the results for the  
15 one, three, five, and ten-year period graphically.  
16 The very top of each of those gray bars is the  
17 fifth percentile. The very bottom is the  
18 ninety-fifth percentile in that universe of 250  
19 some odd plans. And the white lines there give you  
20 the median and the seventy-fifth and twenty-fifth  
21 quartile break points. We've plotted the median  
22 fund. As you might imagine, it always shows up on  
23 the fiftieth percentile, that center white line.

24 We've also indicated the results of the FRS  
25 portfolio over those time periods. The ranking is

1 shown for you at the very bottom of the chart, and  
2 hopefully you can see graphically as well as  
3 reviewing the numbers that over the one, three and  
4 five-year period, the FRS has performed in the top  
5 quartile of other defined benefit plans in this  
6 particular universe and in the top third roughly  
7 for the ten-year period.

8 So that concludes my comments. I will  
9 conclude as I did with the IAC, which is that this  
10 is obviously a favorable report, and we're pleased  
11 to be able to deliver it. I'll be happy to take  
12 any questions.

13 GOVERNOR CRIST: Any questions? Thank you,  
14 sir.

15 MR. CUMMINGS: Thank you very much.

16 GENERAL MILLIGAN: That concludes the SBA  
17 today, sir.

18 GOVERNOR CRIST: Thank you, General.

19 GENERAL MILLIGAN: Thank you.

20 GOVERNOR CRIST: We stand adjourned.

21 (Proceedings concluded at 10:59 a.m.)  
22  
23  
24  
25

CERTIFICATE OF REPORTER

STATE OF FLORIDA:

COUNTY OF LEON:

I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 1 through 61 are a true and correct record of the aforesaid proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

DATED THIS 25th day of May, 2008.

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