

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

Representing:

DIVISION OF BOND FINANCE

FINANCIAL SERVICES COMMISSION, OFFICE OF
FINANCIAL REGULATION

FINANCIAL SERVICES COMMISSION, OFFICE OF
INSURANCE REGULATION

ADMINISTRATION COMMISSION

BOARD OF TRUSTEES, DEPARTMENT OF
AGRICULTURE AND CONSUMER SERVICES

BOARD OF TRUSTEES, 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,
September 16, 2008, commencing at 9:15 a.m.

Reported by:

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Registered Professional Reporter

Notary Public

ACCURATE STENOGRAPHY REPORTERS, INC.

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Representing the Florida Cabinet:

CHARLIE CRIST
Governor

CHARLES H. BRONSON
Commissioner of Agriculture

BILL McCOLLUM
Attorney General

ALEX SINK
Chief Financial Officer

* * *

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

2 * * *

3 (Commenced at 9:40 a.m.)

4 GOVERNOR CRIST: I think the CFO wants to make
5 some commentary about the financial situation that
6 obviously is disconcerting to all of us. And I
7 think that when we woke up this morning and
8 yesterday afternoon, during the course of the day,
9 we saw what was happening with Lehman Brothers and
10 other financial institutions.

11 And I understand, CFO, that later today, I
12 think General Milligan is going to give us an update
13 at your request, which I want to thank you for, as
14 to how that impacts Florida. But with that, CFO
15 Sink.

16 CFO SINK: Thank you, Governor. I just want to
17 provide a brief update on the incredible, historic
18 really, volatility that we've seen in the global
19 financial markets during the last few days.

20 As I think everyone is aware by now, Lehman
21 Brothers, which was the fourth largest investment
22 firm on Wall Street, did file for Chapter 11
23 bankruptcy over the weekend. And as is reported
24 today, they will be under the supervision of the
25 bankruptcy court, but they do have businesses of

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1 value, and they're attempting to sell some of these
2 businesses to other entities.

3 But the concern began to mount certainly last
4 week and all over state government, many of us who
5 manage investment portfolios, which would include
6 Citizens, it includes certainly the extensive
7 holdings of the State Board of Administration,
8 through both the retirement system and the other
9 mandates they manage.

10 We manage \$24 billion in the state treasury,
11 which you can think of as basically that's the
12 State's checking and savings account. And we also
13 have the Division of Bond Finance, with extensive
14 relationships with Lehman.

15 So all of the -- we've been in communication
16 with all of these parties, even before the weekend,
17 to begin to get prepared for all the what ifs. And
18 certainly we all went into the weekend hopeful that
19 a deal would get done and we would come to work
20 yesterday morning with some entity having purchased
21 Lehman, or there was the possibility that the
22 government was going to provide some support.

23 And, instead, we woke up with this news of the
24 bankruptcy, with the news that the Bank of America
25 is buying, in a stock deal, Merrill Lynch. Then

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1 throughout the day yesterday there's other news and
2 concern about some other large corporations out
3 there.

4 So I just wanted to share with you and the
5 other members of the Cabinet that from the
6 treasury's perspective, we had about \$140 million in
7 Lehman Brothers debt. We had no equity. The equity
8 or the stockholders are most likely going to be
9 wiped out. But we had \$104 million in senior debt
10 and about \$35 million in what's called subordinated
11 debt, which is a lesser priority.

12 The good news is that this exposure for us in
13 our treasury is about a half a percent. So I
14 describe it as, if you had a basket with 200 eggs in
15 it, one of them is broken. And that's the way you
16 want to manage. As you heard from the financial
17 planners, that's the way you want to manage your
18 portfolio, whether you're managing 120 billion or,
19 as we do, 24 billion, or whether or not you have
20 \$24,000 to manage, is to be sure that you don't have
21 all of your eggs exposed in one basket.

22 So there will be a slight impact on the
23 earnings of the treasury this month. And to put
24 this in perspective, last year, last fiscal year,
25 through attentive management of this money, we were

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1 able to have interest returned to the state coffers
2 of over a billion dollars in interest payments. And
3 so yesterday we proposed to write down the \$35
4 million in subordinated debt.

5 So nobody likes to recognize losses, but in the
6 scheme of things and in the situation we're in
7 today, every day we have -- our managers have gains
8 and losses in their portfolio, and they manage them
9 accordingly.

10 And I want to just assure each and every one of
11 you and the people of Florida that we're paying
12 very, very close attention, and I'm pleased that you
13 permitted me to ask General Milligan later today to
14 give us the -- to give us the perspective from the
15 SBA, because they have a much bigger portfolio of
16 bonds that is exposed to Lehman.

17 And, obviously, we're living in very, very
18 concerning times, and there may be other negative
19 things coming out of the market even today or over
20 the next several days. But we don't have -- we're
21 not overexposed in any one thing, so we should be
22 okay. Thank you.

23 GOVERNOR CRIST: CFO, thank you very much. And
24 I certainly look forward to General Milligan's
25 comments as well. But obviously we're very, very

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1 grateful for the financial leadership of this state,
2 General, and the diversification that has been
3 employed. Any other comments on that?

4 COMMISSIONER BRONSON: Governor, if I might.

5 GOVERNOR CRIST: Commissioner.

6 COMMISSIONER BRONSON: And I've been keeping up
7 with this, even though this is not necessarily my
8 bailiwick, but it's certainly with the funds that I
9 have and my family has and others have invested to
10 long-term stability of the country.

11 I think one of the things that I've seen over
12 and over that's a shocking point that's coming up
13 all throughout Florida and around the country is, is
14 when you have these leaders in these organizations
15 that people invest money in and sometimes they don't
16 do such a great job and they walk away with hundreds
17 of millions of dollars in funds to, quote, retire,
18 doesn't give people a very good feeling, since it's
19 basically their money that has helped them gain
20 those kinds of reserves when they back out of a job,
21 I just think there's so much instability in the
22 people's thinking of investments and companies being
23 run by these CEOs that haven't done a good job that
24 have been handily rewarded with their money.

25 And I hope that maybe state by state we can

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1 push a little bit for the federal government to take
2 a hard look at these business practices and the fact
3 that these people who have not done a good job
4 should not be rewarded with our money and basically
5 put our savings and investments in danger
6 accordingly. And I hope that that message state by
7 state gets to Washington.

8 GOVERNOR CRIST: Commissioner, I'm confident
9 that that message is communicating loud and clear.
10 And I am equally confident that in the very near
11 future you will see some significant changes, not
12 only in Washington but also state by state, as to
13 how we address this.

14 You know, we have a legislative session coming,
15 and we have the opportunity, because of our great
16 Florida Senate and House, to effect change right
17 here at home. General.

18 ATTORNEY GENERAL McCOLLUM: Governor, I'd just
19 like to take the occasion to make a general comment
20 for public consumption in the sense that this
21 situation and financial crisis reminds me of the
22 situation and times that we had like we had last
23 weekend here with this run on the gas stations in
24 Leon County or when we had all the people panicking
25 with regard to the city and county government fund

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1 that we had here located in our own State Board of
2 Administration last year.

3 We do not have a crisis in the sense that they
4 did in the 1930s in our financial system today
5 because we have checks in place. People don't need
6 to run out and go take their money out of the banks.
7 Most of these banks are very solvent that are out
8 there today.

9 Federal deposit insurance insures, I believe,
10 CFO Sink, \$100,000 of everybody's deposit in every
11 bank, so that's guaranteed. We have seen, with
12 failures as we may have here with Lehman Brothers
13 and with a couple other Wall Street financial
14 concerns, a loss of equity, some of the big players
15 having problems and obviously the stock market
16 having a problem.

17 But I don't think anybody has lost their
18 accounts. So if you have an account with a
19 brokerage concern, that's been worked out pretty
20 well, so that you're -- you may have lost
21 something if you own stock in Lehman Brothers, for
22 example, but you did not wind up losing or you won't
23 wind up losing your accounts or whatever other
24 stocks you had maybe deposited with them. In fact,
25 they're in Chapter 11, and there's a chance they'll

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1 work this out in some way and come back into
2 existence again in the future.

3 So I would just like to caution the public as a
4 whole, Governor. I served on the Banking Committee
5 in Congress, now called the Financial Services
6 Committee. I know that CFO Sink was the head of a
7 major bank in our state before she became the chief
8 financial officer.

9 And I think all of us up here share a concern
10 that the public might overreact to something like
11 this. And there is really no need to do that, any
12 more than there's any need to run out and fill up
13 your tank with gas right now. So thank you very
14 much.

15 GOVERNOR CRIST: Good segue, General.

16 ATTORNEY GENERAL McCOLLUM: If you're on empty,
17 you better go do that. But if you're worried about
18 the supply, you don't have to worry about that. And
19 you don't have to worry about your bank account
20 either.

21 GOVERNOR CRIST: Very good. Thank you. Our
22 next Cabinet meeting will be September the 30th, my
23 mother's birthday.

24

25

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1 GOVERNOR CRIST: Division of Bond Finance, Ben
2 Watkins. Good morning, Ben.

3 MR. WATKINS: Good morning, Governor.

4 GOVERNOR CRIST: How are you, sir?

5 MR. WATKINS: Very well, thank you. Cabinet
6 members. Governor, if I may just briefly comment on
7 what the developments in the financial markets mean
8 for the Division of Bond Finance, for your
9 information.

10 This is a further evolution of the collateral
11 damage resulting from the credit crisis, from our
12 standpoint. And we have no specific exposure to any
13 of these firms. But what it means for us is less
14 capital available in the municipal market, which
15 translates to fewer buyers for our bonds.

16 But that being said, we are very well
17 positioned and we haven't experienced any negative
18 and adverse impacts whenever we want to borrow
19 money. And I don't expect that this will have a
20 material impact on our ability to access the credit
21 markets at very favorable rates going forward. And
22 we will continue to monitor that situation.

23 Item Number 1 is approval of the minutes of the
24 August 12th meeting.

25 GOVERNOR CRIST: Is there a motion?

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1 CFO SINK: Move it.

2 COMMISSIONER BRONSON: Second.

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

5 MR. WATKINS: Item 2 is a resolution
6 authorizing the issuance and negotiated sale of up
7 to \$75 million in State Infrastructure Bank Bonds.
8 This is to fund loans to local governments and DOT
9 districts for transportation related projects.

10 COMMISSIONER BRONSON: Motion on Item 2.

11 ATTORNEY GENERAL McCOLLUM: Second.

12 GOVERNOR CRIST: Moved and seconded. Show Item
13 2 approved without objection.

14 MR. WATKINS: Item 3 are resolutions
15 authorizing the issuance and competitive sale of up
16 to \$36 million in University System Improvement
17 Refunding Bonds. These bonds would be issued to
18 lower the interest rate on the existing loan and
19 save money for the State.

20 ATTORNEY GENERAL McCOLLUM: I move Item 3.

21 CFO SINK: Second.

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

24 MR. WATKINS: Item Number 4 is the report of
25 award on the competitive sale of \$28.2 million of

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1 Community College Capital Improvement Revenue Bonds.
2 These bonds were issued for Broward and Palm Beach
3 Community Colleges. This is a second issuance of a
4 new program that was initiated last year.

5 We now have six community colleges, out of the
6 26 in the system, participating in the program. And
7 the bonds were awarded to the low bidder at a true
8 interest cost of approximately 4.52 percent.

9 COMMISSIONER BRONSON: Motion on Item 4.

10 CFO SINK: Second.

11 GOVERNOR CRIST: Moved and seconded. Show it
12 approved without objection.

13 MR. WATKINS: And, lastly, Item 5 is the report
14 of award on the competitive sale of \$200 million in
15 Lottery Revenue Bonds for the continued funding of
16 the class size reduction initiative.

17 The bonds were awarded to the low bidder at a
18 true interest cost of approximately 4.64 percent.

19 GOVERNOR CRIST: Is there a motion on 5?

20 CFO SINK: Move it.

21 COMMISSIONER BRONSON: Second.

22 GOVERNOR CRIST: Motion by CFO Sink, second
23 by Commissioner Bronson. Show it approved without
24 objection. Thank you, Ben.

25 MR. WATKINS: Thank you, sir.

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1 GOVERNOR CRIST: Financial Regulation, Andrea
2 Moreland. Good morning.

3 MS. MORELAND: Good morning. I'm Andrea
4 Moreland. I'm the director of Legislative and
5 Cabinet Affairs for the Office. Item Number 1, the
6 Office is requesting approval for the minutes of the
7 April 29th, May 13th, May 28th and July 29th
8 meetings.

9 ATTORNEY GENERAL McCOLLUM: So moved.

10 COMMISSIONER BRONSON: Second.

11 GOVERNOR CRIST: Moved and seconded. Show it
12 approved without objection.

13 MS. MORELAND: Item Number 2, the Office
14 requests approval to file for final adoption
15 amendments to Rule Chapter 69-40, which relates to
16 mortgage brokering and lending.

17 What these rules do is they require electronic
18 filing of documents, forms and fees through our
19 regulatory enforcement and licensing system. It
20 would include things like the mortgage broker
21 application, renewal fees, license fees, and those
22 types of documents.

23 GOVERNOR CRIST: Is there a motion on Item 2?

24 COMMISSIONER BRONSON: Motion on Item 2.

25 ATTORNEY GENERAL McCOLLUM: Second.

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

3 MS. MORELAND: Item Number 3, the Office
4 requests approval to publish notices of proposed
5 rules for Rule Chapters 69-40, relating to mortgage
6 brokering and lending; 69V-560, relating to money
7 services businesses; 69W-600, relating to securities
8 regulation.

9 During the 2008 legislative session, the
10 Legislature passed a number of provisions that
11 changed some of the fees that impact some of our
12 rules.

13 The Department of Law Enforcement now will be
14 charging \$24 for a state criminal history check.
15 That has been increased by one dollar. And with
16 regard to the application for a mortgage broker
17 application, the Legislature reduced the fee from
18 \$200 to \$195. And so the rules reflect those
19 statutory fee changes.

20 GOVERNOR CRIST: Is there a motion on Item 3?

21 COMMISSIONER BRONSON: Motion on Item 3.

22 CFO SINK: Second.

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

25 MS. MORELAND: Item Number 4, the Office

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1 requests approval to publish a notice of proposed
2 rule for Rule Chapter 69W-600, relating to
3 securities regulation. The proposed rules prohibit
4 the misleading use of senior or retiree designations
5 by associated persons, also known as stock brokers
6 and investment advisors.

7 These rules are based on a model rule that has
8 been developed by NASAA. NASAA is the North
9 American Securities Administrators Association.
10 That's the group of state regulators in the
11 securities industry.

12 ATTORNEY GENERAL McCOLLUM: Move Item 4.

13 COMMISSIONER BRONSON: Second.

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

16 MS. MORELAND: Item Number 5, the Office
17 requests approval to publish a notice of proposed
18 rule for Rule Chapter 69V-560, relating to the
19 regulation of money services businesses.

20 As you will recall in previous meetings, we had
21 discussed that the Legislature had passed Senate
22 Bill 2158. This bill substantially rewrites Chapter
23 560. The bill is the result of House interim
24 projects, Senate interim projects, recommendations
25 from our office, and it also includes

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1 recommendations from a recent Grand Jury report that
2 addressed check cashing, the regulation of the check
3 cashing industry.

4 The rule -- the bill was approved on June 17th.
5 It will take effect January 1st of '09. We've
6 initiated the -- we've conducted rule workshops to
7 be able to get input on the industry, and these
8 rules are the results of these rule workshops that
9 we held in Orlando, Tallahassee and Fort Lauderdale.

10 One of the rules that is not in here, which you
11 will see on an upcoming agenda, will be relating to
12 a disciplinary matrix. The new bill requires us to
13 adopt a penalty matrix for all violations of Chapter
14 560.

15 That was in the rule workshops. We received
16 some very good comments from the Office of Statewide
17 Prosecutor, and we're going to be redrafting that
18 rule on some of those -- based on those comments and
19 holding a subsequent rule workshop just on that one
20 particular provision. But the rest of the rules are
21 being presented in this notice that's before you
22 today.

23 GOVERNOR CRIST: Is there a motion?

24 CFO SINK: Move it.

25 ATTORNEY GENERAL McCOLLUM: Second.

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

3 MS. MORELAND: The Office requests approval to
4 publish a notice of proposed rule for permanent
5 rules relating to the effect of law enforcement
6 records on applicants seeking licensure as mortgage
7 brokers, mortgage lenders and mortgage broker
8 businesses.

9 On August 12th this Commission approved the
10 Office's request to proceed with adopting permanent
11 rules on this issue. You also approved a notice of
12 rule development. That notice of rule development
13 was published on August 22nd. The comment period
14 for that ended on August 29th.

15 After we had published this, we noticed some
16 drafting errors and some areas that needed to be
17 clarified. And so this notice addresses those
18 issues.

19 ATTORNEY GENERAL McCOLLUM: I move Item 6.

20 GOVERNOR CRIST: Is there a second?

21 CFO SINK: Second.

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

24 ATTORNEY GENERAL McCOLLUM: Governor, may I
25 have a comment on this?

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1 GOVERNOR CRIST: Certainly, General.

2 ATTORNEY GENERAL McCOLLUM: I just want to
3 comment that while I moved it and I support this
4 rule, there are still continuing differences of
5 opinion between the lawyers in my office who
6 analyzed the rule and the powers that we are
7 exercising in our OFR responsibilities here, as a
8 commission over the OFR, and the counsel in their
9 offices.

10 And so I'm not sure how that will play out in
11 any tests down the road in the future, if there are
12 any. But I certainly support what is being done
13 here, and we need to make this rule become a fact.
14 But there are still legal questions in my office
15 about them.

16 GOVERNOR CRIST: Thank you. Thank you,
17 General.

18 MS. MORELAND: And the last item is a report by
19 the chief inspector general.

20 GOVERNOR CRIST: Excellent. Morning, Melinda.

21 MS. MIGUEL: Good morning, Governor. Good
22 morning, members of the Cabinet. Thank you for the
23 opportunity to testify to you today.

24 As you are aware, in recent months the Office
25 of Financial Regulation has been under scrutiny.

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1 This is warranted, given the importance of the
2 Office's mission and responsibility to ensure the
3 people of Florida are protected.

4 On July the 29th of this year you asked your
5 inspectors general to examine the Office of
6 Financial Regulation and its regulation of the
7 mortgage industry. We have reviewed the licensing
8 practices, complaint management, examinations and
9 investigations of the Office of Financial
10 Regulation.

11 Management of the Office of Financial
12 Regulation have been briefed on our conclusions.
13 And as you will see in the final report, their
14 comments are contained therein.

15 It is important to acknowledge the dedication
16 of the employees of the Office of Financial
17 Regulation and the assistance that they gave us
18 during this review.

19 These employees deserve recognition for their
20 efforts to provide us with the information and
21 records we needed while continuing to carry out
22 their responsibilities.

23 I also wish to thank the inspectors general,
24 staff and those in the chief inspector general's
25 office for their sense of urgency and for dedicating

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1 long nights and weekends to complete our review on
2 schedule and with a commitment to a fair and
3 objective report.

4 Generally, our report shows that the Office of
5 Financial Regulation has made progress in addressing
6 some of its critical challenges, but more progress
7 is needed.

8 We found that while the Office was providing
9 applicant name, date of birth and Social Security
10 number to obtain state criminal history information,
11 fingerprint cards were not being provided to the
12 FDLE, as required by the law that passed in October
13 of 2006.

14 They began complying with this law as of March
15 24th of 2008, after implementing system changes
16 initiating electronic exams for licensees and making
17 comprehensive rule changes to match the requirements
18 of that law.

19 We found that from October 2006 to March of
20 2008, the Office issued licenses without the federal
21 criminal history background checks being conducted,
22 as also specified in that law and outlined in an
23 agreement with the Florida Department of Law
24 Enforcement that was signed in March of 2006.
25 Management explained that they were not equipped to

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1 begin the processes immediately.

2 We found that while or until the recent
3 adoption of the emergency rules on August the 12th,
4 no written criteria was in place to ensure
5 consistency in the way that the Office handled
6 license applications for those with criminal
7 backgrounds.

8 The Office relied upon staff experience for
9 that consistency and now perform a case-by-case
10 review of files with criminal histories now at the
11 bureau chief and director level.

12 We found that the process was subjective and
13 the supervisory review was not consistently
14 documented. We confirmed that there is no statutory
15 requirement to conduct background checks on
16 licensees upon license renewal. However, management
17 indicated that this would be pursued in the upcoming
18 legislative session.

19 We also confirmed that licensing requirements
20 for loan originators, including background checks,
21 have been removed from Florida law in 1991, and as
22 it stands today, loan originators are not
23 specifically subject to licensing requirements by
24 the State that include checking backgrounds.

25 Management stated that the recent federal law

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1 would assist them, and they are seeking
2 corresponding state regulations for loan originators
3 this upcoming session.

4 The Office does not have current written
5 protocols regarding the processing of people's
6 complaints. The Office does not document or track
7 calls and requires callers to submit their
8 complaints in writing.

9 At a minimum, without protocols and
10 documentation, the Office cannot ensure resources
11 are properly allocated. But more importantly, the
12 Office cannot assure a prompt, coordinated response
13 to those that call upon the Office for assistance.

14 We found some inefficient use of resources
15 including and regarding investigations. We found a
16 lack of corresponding administrative action by the
17 Office on individuals involved or charged in
18 criminal cases.

19 We found examiners were working criminal cases
20 with law enforcement without coordinating with the
21 Office's investigators, oftentimes across the hall,
22 or availing themselves to their expertise and
23 relying upon the criminal justice arm of that
24 office.

25 We also found that the Office's investigators

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1 were actively seeking prosecution of criminal cases
2 with law enforcement rather than referring cases
3 when possible. While this may be needed in more
4 complex cases, not all cases require this level of
5 involvement or resources.

6 Scrutinizing the resources dedicated to these
7 areas could ensure proper balance on the Office's
8 primary regulatory responsibilities while still
9 ensuring public safety.

10 While Florida has the highest reported mortgage
11 fraud in the nation, the office may only impose
12 administrative fines up to \$5,000 per final order.
13 This amount may be far too small to deter those
14 seeking to defraud, and the fines may need to be
15 increased.

16 We generally found that in some instances, the
17 Office was not complying with the letter of the law,
18 and in other instances, the laws, rules and
19 procedures were not sufficient to protect the people
20 of the state of Florida.

21 Our written report includes greater details on
22 our conclusions and recommendations and our report
23 will be posted to the Cabinet website immediately
24 after this meeting.

25 This concludes my presentation, and me and my

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1 colleagues are available to answer any questions
2 that you may have. Thank you.

3 GOVERNOR CRIST: Thank you very much, Melinda.
4 Any questions? Thank you.

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1 GOVERNOR CRIST: Office of Insurance
2 Regulation, Commissioner McCarty. You're doing
3 great work --

4 MR. McCARTY: Thank you, Governor. Good
5 morning, Governor and members.

6 GOVERNOR CRIST: -- on behalf of the people.

7 MR. McCARTY: First of all, before we get into
8 the agenda, I'd like to announce that we have
9 initiated a financial investigation with the
10 Securities Valuation Office in New York to identify
11 all insurance companies doing business in Florida
12 that have been invested in Lehman Brothers, and we
13 are in the process of vetting through those files
14 now.

15 GOVERNOR CRIST: Thank you.

16 MR. McCARTY: Agenda Item Number 1, request for
17 approval for final adoption of 690-203.201, forms
18 incorporated by reference, medical discount card's
19 annual report. Pursuant to Florida law, within
20 three months at the end of a fiscal year, medical
21 discount card companies organizations must file an
22 annual report with the Office of Insurance
23 Regulation on forms adopted by the Financial
24 Services Commission. The purpose of this amendment
25 is to adopt those forms by reference.

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1 ATTORNEY GENERAL McCOLLUM: I move Item 1.

2 COMMISSIONER BRONSON: Second.

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

5 MR. McCARTY: Agenda Item Number 2 is request
6 for approval to adopt Proposed Rule 690-149.205,
7 .206, .207 Florida Administrative Code, standard
8 risk rates. Health insurers are required to provide
9 conversion policies to individual insureds upon
10 conclusion or termination of a group policy.

11 Under Florida law, the Office of Insurance
12 Regulation is annually required to conduct a survey
13 to determine a standard risk premium to establish
14 those rates. Insurers are allowed to charge up to
15 200 percent of the standard risk premium. This rule
16 implements the results of the Office's survey.

17 GOVERNOR CRIST: Motion on Item 2?

18 CFO SINK: Move it.

19 ATTORNEY GENERAL McCOLLUM: Second.

20 GOVERNOR CRIST: Moved and seconded. Show it
21 approved without objection.

22 MR. McCARTY: Agenda Item Number 3 is the
23 request for final adoption of Rule 690-144.007,
24 credit for reinsurance. As you know, reinsurance is
25 insurance for insurance companies. In Florida

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1 insurance companies rely very heavily on
2 reinsurance. In the Florida property insurance
3 market, insurance is purchased by primary insurers
4 to cover catastrophic losses that exceed what the
5 company is able to pay. The cost of reinsurance, as
6 you know, is a very important component cost of
7 reinsurance in Florida.

8 Currently, there are two ways to get
9 reinsurance. You can get reinsurance through
10 accredited insurance companies, reinsurance
11 companies, which are those that are domiciled in the
12 United States, or those that are called
13 unaccredited, which are domiciled outside of the
14 United States.

15 We have different treatment for them on their
16 financial statements. Foreign companies are
17 required to post collateral up to a hundred percent
18 of reserves. This creates a trapped capital in the
19 marketplace.

20 In 2007, in the regular session, the Florida
21 Legislature authorized the insurance commissioner
22 the ability to establish lower collateral
23 requirements for those foreign reinsurers that are
24 able to demonstrate that they're financially sound
25 and are highly rated by A.M. Best, Moody's or

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1 others.

2 This rule implements the statutory changes by
3 setting up a procedure for which a reinsurer may
4 become eligible to receive the benefits of this new
5 law. This rule will allow for greater competition
6 in the reinsurance marketplace and will increase the
7 amount of new capital that can be devoted to insured
8 losses in Florida and other places.

9 ATTORNEY GENERAL McCOLLUM: May I ask the
10 commissioner a question, Governor?

11 GOVERNOR CRIST: Sure, of course, General.

12 ATTORNEY GENERAL McCOLLUM: Will this likely
13 result in at least some marginal lowering of
14 reinsurance premiums?

15 MR. McCARTY: Lowering of --

16 ATTORNEY GENERAL McCOLLUM: Yeah. Could that
17 result in lowering of reinsurance premiums that have
18 to pay this additional collateral?

19 MR. McCARTY: Yes, it would. It would be
20 marginal, but yes, it would. There's a tremendous
21 cost of letters of credit or posting the cost of
22 collateral. Removing those impediments only for the
23 very highly rated, financially sound companies would
24 we do this. And, yes, it would reduce those
25 frictional costs.

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1 Furthermore, it sends a positive signal to the
2 reinsurance marketplace. We had the benefit of
3 meeting with Lord Levene on our trade mission and
4 had some extensive conversations following that
5 meeting regarding the changes in our collateral
6 rule, what positive message that sends to Lloyd's,
7 which is a huge part of our Florida reinsurance
8 marketplace.

9 Domestics count for less than ten percent. So
10 knocking down these barriers of trade would be
11 beneficial not only to Florida but for free trade
12 around the world.

13 ATTORNEY GENERAL McCOLLUM: I move the rule, or
14 move the item.

15 COMMISSIONER BRONSON: Second.

16 CFO SINK: Governor.

17 GOVERNOR CRIST: Yes, CFO.

18 CFO SINK: Do you want to vote before -- I have
19 some questions. Let me go ahead.

20 GOVERNOR CRIST: Go ahead.

21 CFO SINK: General McCollum, thank you for
22 asking that question because I want to add something
23 here. This is a big deal. And, Kevin, am I correct
24 that Florida is the -- it's something that's been
25 debated for years, literally, amongst the National

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1 Association of Insurance Commissioners and has
2 basically gone nowhere.

3 And am I correct that Florida is the first
4 state to take definitive action about the collateral
5 requirements?

6 MR. McCARTY: I regret to announce that we are
7 the second state to take that action.

8 CFO SINK: Did New York get ahead of us?

9 MR. McCARTY: New York was ahead of us but only
10 by a hair. Texas is now joining us, and the
11 National Association has been motivated by the
12 movement of the largest states in the country.

13 Florida is in a unique position with regard to
14 this, Madam CFO, because so much of our risk is
15 Florida-born risk, or Florida domestic companies, so
16 that it actually has a potential of having greater
17 benefit here.

18 This has been an issue that has been wrestled
19 with for a number of years within the National
20 Association of Insurance Commissioners. We intend
21 to have a similar rule, very similar to what both
22 New York and Florida has done, completed at the
23 national level by the end of this year.

24 CFO SINK: Well, the couple of things I wanted
25 to bring up is because I, too, had the opportunity

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1 to meet with the people of Lloyd's probably about a
2 year ago. And this was one of their -- I dare say
3 one of their number one priorities.

4 And so I recognize that this is an enormous
5 financial benefit for these foreign-based reinsurers
6 not to have to post collateral and to tie up their
7 capital.

8 And so always, in the interest of looking out
9 for the people of Florida, we're getting ready here
10 to make a huge concession to this industry that's
11 really important to us because we have to have
12 private reinsurance. And according to my plan, we
13 would be having more private reinsurance if I could
14 convince the Legislature.

15 But be that as it may, I said to the people of
16 Lloyd's, well, you know, you're going to reduce your
17 cost, so are you going to pass the benefit back
18 to -- eventually to the policyholders in our state?
19 And their answer was basically no.

20 So, again, I was -- we have a sheaf of letters
21 here in favor and against. And, of course, the
22 foreign reinsurers, Lloyd's and the Bermuda market,
23 which as Kevin knows is really the key to our
24 reinsurance market, are the Bermuda reinsurers even
25 more than Lloyd's.

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1 And even in the Lloyd's, the letter -- and I'm
2 sure you've studied it more than I have, Kevin.
3 They are certainly dancing and hedging around any
4 specific benefit or the hope of us having a
5 significant benefit in terms of direct impact upon
6 our Florida policyholders.

7 Now, be that as it may, I'm very supportive of
8 this because I think it levels the playing field --

9 MR. McCARTY: Right.

10 CFO SINK: -- between the domestic carriers,
11 who post no collateral, and the international
12 carriers, many of whom are far stronger financially
13 than the domestic carriers, and we're giving our
14 insurance commissioner an enormous amount of leeway.

15 That's the other thing I think we as board
16 members have to recognize, that we are giving our
17 insurance commissioner enormous leeway in terms of
18 whether or not and how much collateral should be
19 posted according to his own evaluation of the
20 financial strength of these international carriers.

21 But I must say that I remain very disappointed
22 and very unimpressed with the reinsurance industry,
23 about their -- how bold they have been in stepping
24 up and saying, we want this, but we can't assure you
25 that it will have any impact upon the people that

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1 the four of us care about, which is the person who
2 is paying high insurance premiums in our state.

3 GOVERNOR CRIST: We have a motion and a second.
4 General?

5 ATTORNEY GENERAL McCOLLUM: I just wanted to
6 follow up, if I could, Governor. Kevin, you and I
7 have talked before, and I think we may have done it
8 here in the Cabinet meetings, about the fact that
9 it's my opinion that these foreign reinsurers are
10 making 30, 35 percent profit on their premiums.

11 And I know that when you have a marketplace the
12 way it is today and it's a risk area, that people
13 charge whatever the market will bear. But the
14 concern I've had is your ability to really regulate
15 this foreign market, because these companies are
16 overseas.

17 And it seems to me that you advised us that you
18 were working towards a closer opportunity or better
19 opportunity to gain more information on their
20 businesses and how they operate.

21 And that goes in conjunction with what the CFO
22 is talking about, because we all care about reducing
23 the premiums on the reinsurance, which in turn would
24 make a big difference, or should at least, on our
25 private property casualty insurance market.

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1 Do you feel you've made any progress in getting
2 more cooperation from these companies to give you
3 more transparency about their operations, more
4 opportunity to see their books, if you will, and
5 know what they're making or not making or that sort
6 of thing?

7 MR. McCARTY: And certainly part and parcel to
8 doing this is going to require a greater cooperation
9 with the regulated entities. And in my opportunity
10 to travel with the Governor to Great Britain, I took
11 that opportunity to meet with the financial services
12 authority, to enter in initial agreements on mutual
13 agreements that we can enter into for the purposes
14 of achieving that kind of transparency, also to
15 subject them to Florida laws, Florida courts, so
16 that we have the confidence in the terms of payment
17 of claims.

18 We're also going to give a benefit for those to
19 put in Florida deposit institutions, which also we
20 are encouraged. I had some conversation with BaFin,
21 which is the cross-sector regulator for Germany,
22 having similar conversations in terms of that
23 transparency.

24 So certainly, General, that is our goal, to
25 establish the relationships with the chief

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1 regulators over those reinsurers, so that we can
2 open their books and records, subject them for
3 examination process as well, and to ultimately
4 through -- as the CFO mentioned, we want to knock
5 down these barriers of trade.

6 It doesn't make a whole lot of sense that we
7 have these dual standards in a global market that
8 requires the eliminations of these kinds of
9 impediments so there's a free-flow of capital.

10 Some of that capital will go to China or to
11 India or other developing nations. But ultimately I
12 think the signal of us being a free trade state will
13 help promote better markets for Florida and bring
14 stability in the marketplace, which will ultimately
15 do that.

16 As to the issue of the profitability, we've
17 seen great fluctuations in the cost of global
18 reinsurance. Those are largely driven by the cost
19 of -- oftentimes as a result of hurricanes or large
20 losses. And the capital markets require greater
21 rate of return, so we see great spikes in that.

22 We have seen some stabilization in the last
23 couple of years, which we remain cautiously
24 optimistic that those cost savings will be passed on
25 to Floridians and to others similarly situated as

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1 Florida.

2 CFO SINK: Governor, one more question.

3 GOVERNOR CRIST: Sure.

4 CFO SINK: Kevin, would it be reasonable for us
5 to ask you -- because I'm quite interested in what
6 the results of our actions will be. Would it be
7 reasonable to ask you and doable to give us an
8 update on a regular basis -- and you tell me --
9 maybe once every six months, with a listing of all
10 the foreign reinsurers, along with the collateral
11 requirements that you have, that you have determined
12 that they will be subject to?

13 MR. McCARTY: Commissioner Bronson's office has
14 asked me a similar situation, what would be a
15 prudent time. And I think actually probably after
16 we go to contract in August would be a good time
17 because that would be after we would be able to
18 measure it compared to companies that have purchased
19 from the reinsurance.

20 Most of our reinsurances come up in June to
21 wrap around the Cat Fund. So probably August would
22 be a good point in time, if that's acceptable to
23 you.

24 CFO SINK: Okay. Thank you.

25 MR. McCARTY: I can assure you I will use great

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1 judgment and prudence in doing this. And we're
2 going to be doing this with the State of New York.
3 I mean, our rules are very, very similar. And so
4 our goal is to take our initiative with our partners
5 in New York, Superintendent Dinallo, and take it
6 nationally so this becomes the national standard.

7 GOVERNOR CRIST: Thank you. The item has been
8 moved and seconded. All in favor please say aye.
9 Aye.

10 CFO SINK: Aye.

11 ATTORNEY GENERAL McCOLLUM: Aye.

12 COMMISSIONER BRONSON: Aye.

13 GOVERNOR CRIST: All opposed like sign. Motion
14 carries unanimously.

15 MR. McCARTY: Thank you, Governor. Agenda Item
16 Number 4, request for approval for publication of
17 proposed Rule 690-164.040, determining reserve
18 liabilities for preneed life insurance. Preneed
19 life insurance is a product that is purchased by
20 consumers to prefund their funeral expenses.

21 This proposed rule conforms Florida with the
22 national standards. This rule will help ensure that
23 companies selling the product have adequate
24 reserves.

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

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1 COMMISSIONER BRONSON: Motion on Item 4.

2 ATTORNEY GENERAL McCOLLUM: Second.

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

5 MR. McCARTY: Agenda Item Number 5 is request
6 for approval for publication of proposed Rule
7 690-204.010, .020, .030, .040 and .050, viatical
8 settlement providers. Pursuant to legislation
9 passed in the Viatical Settlement Act, policies are
10 purchased at a discount in the face value and then
11 they're sold to the secondary mortgage market.

12 The proposed rule implements the section
13 defining two terms that are not defined in the
14 statute. One is control or effective control, and
15 the other defines secondary market.

16 It also establishes two forms for the industry
17 to use for collecting reports for the Office, and it
18 prevents providers from collecting double fees.

19 ATTORNEY GENERAL McCOLLUM: Move Item 5.

20 GOVERNOR CRIST: Is there a second?

21 CFO SINK: Second. And I have a question.

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

24 CFO SINK: Kevin, there continues to be a lot
25 of noise around stranger-owned life insurance and

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1 this issue and this product line. Can you just give
2 us a brief kind of summary, update of where Florida
3 stands now in addressing these issues?

4 We have such a large elderly population here.
5 And, of course, my office is involved in doing a lot
6 of financial literacy work, particularly focused on
7 seniors. And I'm a little concerned, and I'm
8 interested in where you see we stand in terms of the
9 offering of stranger-owned life insurance.

10 MR. McCARTY: Thank you, Madam CFO. And the
11 Office shares your concern, particularly given our
12 large senior population and the potential
13 vulnerability to stranger-initiated or
14 stranger-owned life policies.

15 I'd like to, before I begin, differentiate that
16 from the traditional viatical policies. This came
17 about many years ago when there was a need,
18 particularly in the AIDS epidemic, for people to be
19 able to sell their policies in order to secure
20 funding for a variety of reasons.

21 Today you may have a policy and may have had a
22 policy for 20 years but your life insurance needs
23 have changed over your lifetime and you may no
24 longer have the same need and want to have the
25 ability, as a property right, to sell your interest

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1 in that policy. So viatical companies serve a very
2 positive need.

3 Differentiating that from the
4 stranger-initiated policies, this is where people
5 may be -- and last week or the week before, we held
6 a public hearing, and your office was in attendance
7 at our public hearing, to do a fact-finding mission
8 to see what potential harm might be done by some of
9 these stranger-initiated life policies.

10 Some of the evidence presented at that hearing
11 is very disconcerting and potential of defrauding
12 our consumers, particularly our seniors, into
13 purchasing policies under false pretenses, telling
14 them they're getting free insurance, setting them up
15 in loan agreements that may in fact be -- have very
16 serious consequences.

17 We had the very famous Larry King case, who
18 purchased a large policy and then went to purchase
19 more life policy and found out that he was no longer
20 eligible because he was tapped out and it exceeded
21 the amount he could.

22 So what we need -- we're in the process of
23 taking the information we collected at that public
24 hearing, distilling it down and reissuing a report.
25 And we'll be making recommendations, and we'll be

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1 happy to provide you an advanced copy of that
2 report.

3 But at this point in time, Madam CFO, we will
4 be recommending legislative adjustments this
5 session, specifically addressing the issue of
6 stranger-initiated policies. Not only its impact,
7 potential impact on seniors and the defrauding of
8 seniors and potentially costing them their life
9 savings, it has a debilitating effect on the
10 insurance world because it will ultimately raise the
11 cost of life insurance for all Floridians. And we
12 certainly want to do what we can to prevent that.

13 CFO SINK: Okay. So you'll come back to us
14 later with your specific recommendations of what
15 you're intending to go to the Legislature with?

16 MR. McCARTY: Yes, ma'am.

17 CFO SINK: Okay, thank you.

18 GOVERNOR CRIST: Thank you. Next item? Item
19 6, I think it is, Commissioner.

20 MR. McCARTY: Yes. Item 6 is request for
21 approval for publication amendments to Rule
22 690-138.005, examinations by nongovernment
23 employees. Section 624 Florida Statutes and other
24 sections of the code require the Office to examine
25 companies on a periodic basis.

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1 In order to better serve consumers and to
2 conserve resources, the Legislature authorized us to
3 contract with outside vendors. This rule implements
4 the legislative changes by setting out criteria for
5 the specialists, establishing an application process
6 for experts who wish to contract and carry out
7 financial examinations.

8 GOVERNOR CRIST: Is there a motion on Item 6?

9 CFO SINK: Move it.

10 COMMISSIONER BRONSON: Second.

11 GOVERNOR CRIST: Moved and seconded. Show it
12 approved without objection. Thank you,
13 Commissioner.

14 MR. McCARTY: Thank you, Governor, members of
15 the Commission.

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1 GOVERNOR CRIST: Administration Commission,
2 Lisa Saliba. Good morning.

3 MS. SALIBA: Good morning, Governor, Cabinet
4 members. The first item we have for you is
5 recommend approval of the minutes from the July
6 29th, 2008 meeting.

7 ATTORNEY GENERAL MCCOLLUM: I so move.

8 COMMISSIONER BRONSON: Second.

9 GOVERNOR CRIST: Moved and seconded. Show the
10 item approved without objection.

11 MS. SALIBA: Next, we are requesting deferral
12 of Item 2 to the September 30th, 2008, Cabinet
13 meeting.

14 COMMISSIONER BRONSON: Motion on Item 2, to
15 defer.

16 CFO SINK: Second.

17 GOVERNOR CRIST: Moved and seconded. Show it
18 deferred.

19 MS. SALIBA: Thank you.

20 GOVERNOR CRIST: Thank you.

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1 GOVERNOR CRIST: Department of Agriculture and
2 Consumer Services, Jim Karels. Good morning, sir.

3 MR. KARELS: Good morning, Governor and
4 Cabinet. Item Number 1 on Department of
5 Agriculture's agenda is approval of the minutes of
6 the July 29th meeting.

7 ATTORNEY GENERAL MCCOLLUM: I move it.

8 COMMISSIONER BRONSON: Second.

9 GOVERNOR CRIST: Moved and seconded. Show it
10 approved without objection.

11 MR. KARELS: Item Number 2 is 5I-7 rule
12 adoption. This item represents the next step in the
13 Department of Agriculture's effort to adopt rule for
14 the Rural and Family Lands Protection Program.

15 On July 29th you approved the Department's
16 initial rule language and the request to begin
17 rule-making. A notice of proposed rule-making was
18 published. A few technical changes were requested
19 by the Cabinet offices and JAPC. The changes
20 requested have been incorporated into the rule
21 presented to you today.

22 The Department is asking the Board to approve
23 the proposed rule as amended by the notice of change
24 and authorize the Department to adopt, file and
25 certify the proposed rule with the Secretary of

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1 State.

2 GOVERNOR CRIST: Is there a motion on Item 2?

3 COMMISSIONER BRONSON: Motion on Item 2.

4 ATTORNEY GENERAL McCOLLUM: Second.

5 GOVERNOR CRIST: Moved and seconded. Show it
6 approved without objection. Thank you very much.

7 Oh, Commish.

8 COMMISSIONER BRONSON: Governor, if I might.

9 GOVERNOR CRIST: Sure.

10 COMMISSIONER BRONSON: I wanted to recognize Ed
11 Kuester for his work on this rule. He's going to be
12 leaving us pretty soon. And he's done a tremendous
13 job for us over the past number of years on items
14 like this that have helped us get ready for new
15 programs, not only within the Department but how we
16 handle lands in the state of Florida, especially
17 those that have oversight by our Division of
18 Forestry and the Department of Agriculture. And I'd
19 like to officially thank him for all of his service
20 to the Department.

21 GOVERNOR CRIST: Thank you very much,
22 Commissioner. Thank you, Ed.

23 (Applause)

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

3 MR. SOLE: Good morning, Governor. Good
4 morning, Cabinet. Item Number 1, submittal of the
5 minutes for the July 29th, 2008, Cabinet meeting.

6 GOVERNOR CRIST: Is there a motion on the
7 minutes?

8 COMMISSIONER BRONSON: Motion on Item 1.

9 ATTORNEY GENERAL MCCOLLUM: Second.

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

12 MR. SOLE: Thank you. Item Number 2, request
13 consideration of the St. Joe Bay Aquatic Preserve
14 Ten-Year Management Plan. This management plan
15 encompasses some 73,000 acres of sovereignty
16 submerged lands.

17 It's located in the central panhandle region in
18 Gulf County. This plan was developed after two
19 years of work with stakeholders, the municipality,
20 Gulf County. There were five issues that were noted
21 in the plan that we need to focus on.

22 That includes water quality, protection of
23 seagrass habitat, coastal development, saltmarsh
24 decline and finally beach impacts on St. Joe
25 Peninsula.

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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. SOLE: Thank you. Item Number 3, request
6 consideration of an option agreement to acquire
7 19.17 acres within the Division of Forestry's Point
8 Washington State Forest in Walton County. This is
9 an inholding acquisition. The purchase price is
10 \$1,160,000, which is 94 percent of the approved
11 value.

12 GOVERNOR CRIST: Is there motion on Item 3?

13 COMMISSIONER BRONSON: Motion on Item 3.

14 GOVERNOR CRIST: Is there a second?

15 ATTORNEY GENERAL McCOLLUM: Second.

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

18 MR. SOLE: Thank you. Item Number 4, request
19 consideration of a purchase agreement to acquire
20 1,063 acres within the Upper St. Marks River
21 Corridor Florida Forever Project. This is a Group A
22 project, and the acquisition will be from the Nature
23 Conservancy. The purchase price is \$5,093,669,
24 which is 97 percent of the approved value.

25 This property, if acquired, will be managed by

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1 the Florida Fish and Wildlife Conservation
2 Commission as an addition to the Kirk Edwards
3 Wildlife and Environmental Area. This is a key
4 connection. It connects several conservation
5 properties in this region.

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

7 COMMISSIONER BRONSON: I'll make the motion for
8 Item 4.

9 ATTORNEY GENERAL MCCOLLUM: Second.

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

12 MR. SOLE: Thank you. Item Number 5, this
13 requests consideration of a purchase agreement to
14 acquire 384.71 acres within the Wekiva-Ocala
15 Greenway Florida Forever Project. Again, this is a
16 Group A list project located in Orange County. This
17 project is often referred to as Pine Plantation.

18 The purchase price is approximately
19 \$35 million, which is 125 percent of the appraised
20 value. We have several partners in this
21 acquisition, and I think it's worth noting the
22 numerous partners that are involved.

23 The Board of Trustees is proposed to contribute
24 some \$10 million, which is 29 percent of the total
25 purchase price. And the Board of Trustees will

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1 receive, however, some two-thirds of the actual
2 title interest.

3 We also have St. Johns River Water Management
4 District, which is contributing \$5 million to the
5 purchase price. They will receive one-third of
6 title interest. The Orlando-Orange County
7 Expressway Authority is contributing \$5 million to
8 this project, and 40 acres of title will be conveyed
9 to Orange County. And finally the Department of
10 Transportation is contributing \$15 million to the
11 purchase with no title interest.

12 I think it's important to note that this -- in
13 addition to this purchase price, the Expressway
14 Authority is also providing \$2.5 million to the
15 seller for other considerations, which includes
16 their attorney's costs, consultant fees and costs
17 relating to the property and the transaction.

18 Governor and Cabinet, this is an important
19 acquisition for the State of Florida. It is a key
20 component to the Wekiva Parkway Protection Act,
21 which designates specifically in law that this
22 acquisition is the highest priority for the
23 Department of Environmental Protection, the
24 Expressway Authority and finally the St. Johns River
25 Water Management District.

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1 ATTORNEY GENERAL McCOLLUM: I move Item 5.

2 COMMISSIONER BRONSON: Second.

3 GOVERNOR CRIST: Moved and seconded. Any
4 questions?

5 CFO SINK: Yes, Governor.

6 GOVERNOR CRIST: CFO.

7 CFO SINK: I have several. I think it's
8 important that -- I'm sitting up here today because
9 I think it's important for me to be concerned about
10 the way we use our taxpayer dollars. We're living
11 in a very tough time financially in the state.

12 And before we just approve this particular
13 item, we all need to be transparent and shed some
14 light on this transaction. And so let me go
15 through, in my study of the transaction, just some
16 facts that we have uncovered.

17 Let's go back and think about the Wekiva-Ocala
18 project. In one of my prior lives, I was
19 peripherally very interested and involved in the
20 intense and long negotiations about the importance
21 of protecting the Wekiva-Ocala Greenway because it's
22 an important water recharge area, et cetera. And
23 I'm sure, Commissioner Bronson, you were here at
24 that time, and maybe you were, too, Governor.

25 At the same time it was known all along that

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1 there needed to be an expressway project, or there
2 needed to be a road project. So the environmental
3 community was very concerned about how this
4 expressway would get built and where. And
5 agreements were reached.

6 So I think the fact that we've got five
7 different governmental entities that have come
8 together here in cooperation to make a deal work to
9 proceed along is certainly commendable. But the
10 Department of Environmental Protection, which is our
11 responsibility, does have a well-defined process for
12 identifying environmentally important lands to buy.
13 There's a clear process for approving appraisals.

14 The Wekiva-Ocala project has been on the
15 acquisition list since 1995. But this particular
16 project, the Pine Plantation, was never a part of
17 that project originally, until somebody cleverly
18 slipped into a law a couple of years ago that this
19 parcel would be a part of getting the expressway
20 done.

21 So we are going to -- I put together some
22 numbers here, and I'll just pass them out because
23 this is just -- I understand that this deal is going
24 to get passed, not with my vote. But I want
25 everybody in the audience and everybody listening

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1 and for it to be on the record exactly what this
2 deal is about.

3 GOVERNOR CRIST: I wouldn't assume too much on
4 those votes.

5 CFO SINK: Well, the seller's purchase price
6 two years ago was -- this seller bought this
7 property for -- and by the way, can we put up this
8 particular map, Mike?

9 And let me just refer you to this map, if you
10 can see. This parcel that we're proposing to buy is
11 the one in the crosshatches. Do you see where the
12 expressway is proposed to go? So this parcel has
13 nothing to do with building the expressway, except
14 for somebody slipping it into law that this parcel
15 has to be bought before the expressway is built.

16 And it's my understanding that this -- the
17 parcel through which the expressway goes is actually
18 owned -- has another owner; is that correct?

19 MR. SOLE: Say again, CFO. I'm sorry.

20 CFO SINK: It's a separate owner. It's not the
21 same owner.

22 MR. SOLE: The two parcels, I thought, were the
23 same owner.

24 CFO SINK: They are the same owner.

25 MR. SOLE: No.

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1 CFO SINK: No, they're not the same owner,
2 so --

3 MR. SOLE: Do you mean these two parcels?

4 CFO SINK: No. Yes, the crosshatched parcel
5 plus the parcel that the expressway is actually
6 going to be built, constructed over.

7 MR. SOLE: There are two separate owners. I
8 apologize.

9 CFO SINK: Okay, two separate owners. All
10 right. And this -- the owner of the property in
11 question today bought it two and a half years ago
12 for this \$22.7 million, after this owner knew that
13 the law had -- that this parcel that he bought was
14 going to have to be bought by the State. So this
15 owner knew right off, when he bought this parcel,
16 that this land was going to be required to be bought
17 by the State.

18 So in June of this year, because DEP has an
19 appraisal process, we got an appraisal of
20 \$28 million, 72,000 an acre. You know, it's been
21 two and a half years, 58,000 to 72,000, sounds
22 reasonable to me.

23 But yet we're being asked today to approve our
24 part of this deal, but the total amount being paid
25 to the current owner is \$38 million. And you heard

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1 Mike pass by, but he did disclose that this was 125
2 percent of the appraised value.

3 So we are being asked today to pay, with all of
4 these -- with all the costs in, \$98,000 an acre.
5 That is a -- in this era, Commissioner Bronson, when
6 land values have actually been declining as opposed
7 to heating up, I think we have to disclose that the
8 owner of this parcel is being enriched to the tune
9 of about \$15 million over his purchase price.

10 But the important thing I think to me is this
11 issue about the appraisers -- the appraisals. We
12 have, you'll see at the bottom, the DEP-approved
13 appraisals. They got two appraisals. Am I correct?

14 MR. SOLE: Yes, ma'am.

15 CFO SINK: One for 28 million and another for
16 25 million. So why in the world are we, in this --
17 this is the taxpayers' money, whether it's the
18 Orlando Expressway Authority money or the Florida
19 Forever money or the other money, or the Water
20 Management District money, it's our taxpayers'
21 money.

22 And I, in good conscience, cannot sit here and
23 approve a sale for more than our own appraised value
24 for a piece of property that is not even critical to
25 the purchase -- to the building of the expressway,

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1 when we have a lot of other -- I bet, Mike, if I
2 asked you what you would do with an extra \$10
3 million, you could give me a whole list of land that
4 we could be buying that's much more critical. And
5 we have enormous -- we have absolutely enormous
6 needs here.

7 So notwithstanding the fact that there are
8 many, many issues around this deal, I think wasting
9 \$10 million of our taxpayers' money is just not a
10 good use in this period of time. So I'm going to be
11 voting against this.

12 ATTORNEY GENERAL McCOLLUM: Governor.

13 GOVERNOR CRIST: Thank you. General.

14 ATTORNEY GENERAL McCOLLUM: First of all, I'd
15 like to clarify something. Mike, it's my
16 understanding that the price was derived by
17 negotiations that were done. There are, what, four
18 parties to this purchase on our side, you know, the
19 Expressway Authority and so forth.

20 And the difference was split basically between
21 the valuation of our appraisers and the valuation of
22 the owner's appraiser. Forty-four million, I think,
23 was their valuation of this property.

24 And I think that the reason for that was simply
25 that, first of all, my understanding is this

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1 property is something that is environmentally
2 sensitive, is something that we want to acquire, and
3 I believe the environmental organizations would like
4 to acquire it.

5 And I think we even have a representative of
6 the Audubon Society here who we all know very well
7 who would speak to that, and I'd like to hear that.

8 But I believe that it is something that's
9 important to the State. It's not simply the highway
10 issue that we're talking about. This is
11 extraordinarily sensitive land all around this area.

12 I used to represent the area where the Wekiva
13 River Basin is, and I remember working very hard
14 with the Audubon Society and others to get the
15 Wekiva River declared a national wild and scenic
16 river. I think it still may be only one of two in
17 Florida.

18 And this is part of that land that's so
19 sensitive around there that we -- we who live in
20 that area, and I do live in that area, want to see
21 it acquired.

22 And I don't want to see us paying way too much
23 for it, but it's been years and years in
24 negotiations and discussions to try to get land
25 acquired in this area, to try to get this -- not

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1 just the idea of getting a highway built through,
2 we'd all love to have a connector -- but to try to
3 make it so that we are actually preserving what we
4 need to preserve of this Wekiva Basin, this very,
5 very sensitive land.

6 And my impression is that while, yes, this
7 person is profiting, whoever owns it right now, it's
8 not -- you know, you don't just go out and say, hey,
9 you accept our appraisal. There's no reason why
10 they're going to accept that. And we may never buy
11 this parcel if we don't do it today. We may never
12 get it into state hands. And we never want to see
13 this developed. We don't want to see that happen to
14 this property.

15 So I'd like to hear from any of the
16 environmental representatives who are here today.
17 Am I right about -- first of all, am I right about
18 the splitting of the difference?

19 MR. SOLE: General, yes. There were other
20 appraisals that were accomplished by the seller, and
21 they were significantly higher than the Department's
22 appraisal. In fact, based upon those numbers, we
23 felt it our duty to go ahead and do those additional
24 appraisals to try to get a better understanding of
25 the difference.

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1 But, General, you are correct. There were two
2 appraisals originally, one done by the Expressway
3 Authority, one done by the seller. They were very
4 far apart. And that's what prompted us to do our
5 appraisal, to come in with an independent review.

6 ATTORNEY GENERAL McCOLLUM: So the \$35 million
7 is somewhere sort of halfway --

8 MR. SOLE: In between.

9 ATTORNEY GENERAL McCOLLUM: -- in between.

10 MR. SOLE: Yes, sir. And we do have two
11 speakers on this issue, Governor, Charles Lee as
12 well as the Expressway Authority, if now is a good
13 time to hear from them.

14 GOVERNOR CRIST: Certainly.

15 MR. SOLE: Charles.

16 MR. LEE: Governor, members of the Cabinet,
17 Charles Lee representing Audubon of Florida. I've
18 got some handouts which the staff is going to
19 deliver and both put on the overhead. I've actually
20 got two.

21 But before I get to the handout, I need to talk
22 a little bit about the process because regretfully I
23 have to take fairly specific and direct exception to
24 something that CFO Sink just said with regard to the
25 idea that this property slipped into a bill, I

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1 believe were the words that were used.

2 Having been involved from the inception in two
3 of the task forces that were created during the last
4 administration to deal with this very difficult
5 issue of how do you weave a major expressway through
6 the most environmentally sensitive lands, we think,
7 in the state of Florida, I can tell you with
8 definition that these parcels of land that ended up
9 in the bill were identified out of the process. It
10 was not by accident, and it was not by a slip-in.

11 And they were identified because the consensus
12 was, if there is to be a major road through this
13 area, then its effects must be mitigated in advance
14 so we do not lose the environmental character of the
15 Wekiva River system.

16 And one of the fundamentals that came out of
17 the two task forces that deliberated prior to the
18 passage of the 2004 legislation was that we needed
19 to take the major parcels that were poised to
20 basically blossom into development, either crossed
21 by or immediately adjacent to the route of this
22 expressway, the major identifiable continuous block
23 parcels, and take the largest ones off the table for
24 future development.

25 And that's why you ended up with legislation

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1 that with regard to three of these parcels, the one
2 that's relevant today being one of the three, we
3 call the obligatory parcels that the expressway
4 needs to -- that it needs to be acquired before that
5 expressway goes through.

6 And what I put in front of you specifically --
7 and I hope you have the handout because I'm not
8 confident that the colors on the overhead are quite
9 as sharp as they should be. You will see the circle
10 with the X in the brightest red area in the middle
11 of the page, and that is the location of this
12 particular property.

13 The bright red signature on this map indicates
14 the most valuable and vulnerable recharge areas in
15 the Wekiva springshed, and this is the largest
16 property in the center of the biggest one.

17 And the Wekiva River is a unique river. Most
18 of its flow comes out of those springs. Where do
19 those springs get the water? They get the water
20 from the recharge that happens in areas like the
21 Pine Plantation property. And it so happens that
22 the character of the geology on the Pine Plantation
23 property puts it at the highest level of recharge
24 value. It's also very close, proximate to Rock
25 Springs, the second largest spring in the system.

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1 So if in fact the expressway were to propagate
2 this property, flipping over into development, that
3 recharge would be lost in whole or in part. And the
4 result would be damage to the spring. That is why
5 this parcel appears on the list that ended up in the
6 legislation.

7 And I can tell you that the purposes for the
8 four parcels were diverse. Some of the parcels were
9 because of the wildlife corridor value. Others were
10 because of the innate wetland character of the
11 property. And this one was because it was highly
12 valuable for recharge.

13 It should be pointed out that immediately south
14 of this you have Kelly Park Road, leading less than
15 a quarter of a mile to the west of the boundary of
16 this property to one of the only two interchanges
17 allowed by the act that passed the Legislature on
18 the Wekiva Parkway issue.

19 And so if this property isn't purchased, the
20 result inevitably is going to be intense development
21 on this property. It's in a pattern of annexation
22 into the City of Apopka. Orange County, which had a
23 very good land use plan, lost the battle with the
24 City of Apopka and ended up with this property
25 moving toward annexation.

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1 And I can tell you from experience that in that
2 area this is going to go four units per acre or
3 denser, and I would suggest it will ultimately go
4 commercial because of its proximity to the
5 expressway.

6 The other thing that I want to leave with you
7 is a sense of history. And the other document,
8 which I hope has been distributed -- maybe you could
9 put that up there, Mike. I have a strange sense of
10 deja vu, of having been to this rodeo before.

11 And the issue happens beginning in 1988 when
12 the first Wekiva Protection Act was passed when
13 Governor Martinez was in the governor's chair. And
14 it, like the Wekiva Act that passed in 2004, also
15 established a special prioritization on the parcels
16 within the area.

17 And there was a major parcel that's within a
18 few miles of this one known as Wekiva Park Estates,
19 which was one of the key parcels to be acquired. In
20 1988, the same time the Legislature was deliberating
21 on that act, the owners of Wekiva Park Estates
22 bought it for \$1 million.

23 In 1990 the State made its first offer at
24 \$2.8 million, and in October of 1990 the State made
25 its final offer that it could make voluntarily right

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1 at the top of the appraisals. The State's appraisal
2 on that property was \$3,550,000. The seller thought
3 it was worth at least twice as much and refused.

4 In November of 1990, by unanimous vote, the
5 Cabinet authorized eminent domain. And Attorney
6 General Butterworth, in March of 1991, filed an
7 eminent domain action on this parcel.

8 In 1992 the Court awarded title to the State,
9 and after a jury trial in November of 1992, there
10 was a jury award of \$6,650,266 to the owner of the
11 property. After debate and litigation that
12 continued on attorney's fees for another year,
13 ultimately the courts awarded, on top of that value
14 for the land, 202,746 in attorney's fees.

15 The cost of acquiring that parcel in the
16 Wekiva, similarly situated to this one, ultimately
17 panned out at 193 percent of appraised value.

18 The law passed in 2004 makes these parcels
19 prerequisite to the ability to proceed with the
20 expressway. If this one goes to eminent domain, my
21 prediction, based on a lot of history in these
22 matters, is that the price you have today is going
23 to look good compared to what you will ultimately
24 pay if this goes to eminent domain.

25 Another prime example I'd like to give you of

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1 more recent history, you may know of the splendid
2 parcel of land in the Panhandle known as Topsail
3 Hill. The State had an opportunity to buy Topsail
4 Hill for a negotiated price of \$34 million. That,
5 by the way, is only 670 acres, a fairly small piece
6 of property.

7 The State, because of the debate about the
8 value of the property, ended up demurring from the
9 chance to buy it at that negotiated price for
10 \$34 million. Ultimately, because of its value, it
11 went to eminent domain. And a couple of years later
12 the State paid \$84 million for that piece of
13 property.

14 So I would urge you to look at this parcel in a
15 way as a purchase in lieu of eminent domain, because
16 in reality, the situation of the expressway and the
17 situation of the long negotiated effort to protect
18 the Wekiva system has focused on these specific
19 parcels as keystones that need to be protected to
20 prevent development spinoffs and to achieve specific
21 environmental goals and are now engrained in the
22 environmental picture as mitigation for the
23 construction of the expressway.

24 A lot of people have deliberated over this a
25 long time, local governments, community leaders,

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1 environmentalists, landowners. And this solution,
2 in terms of the recommendations coming out of these
3 committees that were ultimately passed by the
4 Legislature, is a solution which we believe achieves
5 a great deal of community consensus.

6 I understand the discomfort about the 125
7 percent, but I also feel firmly that there is
8 justification to move in that direction. And to
9 step aside from this one, based on the history that
10 I know, coming up here over 30 years and watching
11 similar situations pan out, is that if you miss this
12 opportunity, when this comes by you again, the
13 likelihood will be, all the history I know, that the
14 numbers are going to be a lot higher.

15 If you have any questions, I'll be glad to take
16 them. But I would urge a positive vote on this item
17 in light of the history, the facts that we know
18 about. Thank you.

19 GOVERNOR CRIST: Thank you.

20 CFO SINK: Well, Governor --

21 GOVERNOR CRIST: CFO.

22 CFO SINK: -- I just want to add a comment that
23 fortunately for us in this case, in order to
24 accomplish the building of the expressway, we do not
25 need this parcel of land, absent some law that was

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1 passed that says that the State had to buy it. The
2 point is that I think if we ever got to that point,
3 we could -- the interests of Orlando would prevail,
4 which is it's critical that this expressway be
5 built, and this parcel is not at all really key.

6 For environmental purposes, I'm fine with
7 purchasing it at -- according to the guidelines that
8 we've always had, which we buy it at an appraised
9 value. But I understand Mr. Lee's interest in the
10 property from an environmental preservation
11 standpoint, but I don't think in this case we need
12 to be -- we need to consider a threat of this
13 enormous eminent domain price increase, because
14 that's not what's needed to get this expressway
15 built.

16 GOVERNOR CRIST: Commissioner. Thank you.

17 COMMISSIONER BRONSON: Well, you know, like the
18 CFO, I was looking at this price, and I asked my
19 staff this, and we went over it yesterday. But I
20 also am familiar with what happens when a major
21 roadway goes in, values, especially if you've
22 already got a one parcel per quarter acre or
23 something, whatever that designation is.

24 And, of course, now we also are looking at
25 tacking this recharge area on with the current

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1 Wekiva Park area and all of the -- and I think you
2 can see on this map the number of springs that are
3 very close to this area. And, of course, we also
4 know how much money we have spent on trying to get
5 Lake Apopka back to some form of at least having
6 Alligators with only two eyes instead of however
7 many they have now.

8 And this whole process is really joined at the
9 hip, unfortunately. And if we -- the thing that
10 kind of sticks out in my mind is, if we don't do it
11 now, even though I'm not overly enthused about that
12 extra cost myself, will we be able to do it at all,
13 assuming that somebody may decide to exercise their
14 option to build on this and either do a commercial
15 or some other type of designation on this land. And
16 once you've missed it, you've missed it.

17 So if it's going to be that critical to tie
18 in -- and I've been very big on the springs
19 initiative for North Florida, as many probably are
20 aware. And I think that once you miss that
21 opportunity to protect the springs by having that
22 recharge area, you may never get it back again.

23 And what is that worth? I was hoping it wasn't
24 going to be worth 25 extra million dollars, but it
25 may actually be worth that ten to twenty years from

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1 now when we go back and say why in the world didn't
2 we complete this thing when we had the opportunity.
3 So that was my reasoning for supporting this and for
4 making that second.

5 I'm not overly enthused at paying the higher
6 cost, but I think the higher cost to us in the end
7 is going to be to lose this piece of property when
8 we could preserve it.

9 CFO SINK: Can I just make one -- I'll make one
10 last comment, too, that we also need to think about.
11 Can we put the map back up there --

12 MR. SOLE: Yes, ma'am.

13 CFO SINK: -- of the two parcels, please?
14 Because we do need to think about this, because I
15 guarantee you this is what's going to happen. We're
16 getting ready to pay \$98,000 an acre. Let's say,
17 we'll remove the -- we'll say \$90,000 an acre for
18 this property.

19 You see the other parcel, the parcel that
20 really is important to the community in order to
21 build this expressway? That appraisal is going to
22 come in at \$90,000 an acre because we are -- that's
23 the problem with getting involved in this spinning
24 ball of continually increasing and going above
25 appraisal values, is that we're setting the new

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1 standard for the next appraisal that's done. And I
2 don't know who owns this other property, another
3 owner. But if they're listening today, they ought
4 to be darn happy. They're sitting here getting
5 ready to get \$90,000 an acre for their grove or
6 whatever it is. We just have to recognize that.

7 MR. LEE: They've been listening for a long
8 time, and I think the reality of the matter is that
9 they are not a willing seller, and that because the
10 road does bisect them, they're awaiting the eminent
11 domain process.

12 And I think that the eminent domain process may
13 yield a higher value on that property because of a
14 variety of factors relating to transportation
15 condemnation. But the fact of the matter is,
16 environmentally, both of these parcels are crucial.

17 And the final -- I do want to add one element
18 of sort of our analysis of the situation. We have a
19 community consensus on the construction of what may
20 be the most forward-looking, environmentally
21 friendly road in the state through this area, with a
22 significant elevated passageway to protect the
23 crucial wildlife corridor.

24 State Road 46, which this will replace, is the
25 heaviest killer for black bears on any segment of

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1 road in Florida, and this road will replace that
2 with ample wildlife crossings and elevated sections.

3 But I can tell you, because we are active in
4 the community, that there are forces that are not
5 happy about the fact that we had task forces and
6 that we have legislation and that we have a highway
7 design that will preclude a lot of real estate
8 development opportunities throughout this area by
9 constraining it to a limited access highway.

10 There are forces, including former county
11 commissioners in Lake County, including people who
12 actually weighed in in the legislative session,
13 whose interest is actually to see no expressway
14 through this area.

15 They'd like to just force the Department of
16 Transportation, because of the failure of the
17 expressway effort, they'd like to force the
18 Department of Transportation to simply expand State
19 Road 46 through its five-year plans, on the surface,
20 continuing the wildlife problem.

21 And the reason they want it on the surface is
22 because they want it available as frontage to
23 promote their development ideas.

24 If there's a bobble in this and if the
25 consensus around building this road right, according

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1 to the recommendations of the task forces, according
2 to priorities set by the Legislature, if we miss
3 this opportunity, I can tell you that what will
4 happen is there will be interests that will insert
5 themselves to try to undo the whole deal with regard
6 to the expressway and to go back to that surface
7 road.

8 And that's one of the reasons we are so
9 concerned that we need to complete this consensus by
10 voting yes on this proposal today. Thank you.

11 GOVERNOR CRIST: General.

12 ATTORNEY GENERAL McCOLLUM: I can't overstate
13 how important I think this is to my area of Florida.
14 I've been living with it for years in one form or
15 another. And this is environmentally sensitive land
16 if there ever was. Recharge is important. Recharge
17 is a nice word to talk about it. But if you've got
18 higher ground where -- I've learned over the years
19 from lots of friends in the environmental community
20 and in our studying soils and all in Florida, it's
21 not the swampland that feeds these springs, it's the
22 higher ground. That's the recharge that
23 Commissioner Bronson is talking about.

24 And if we take away this and pave it over, you
25 can see in the map that CFO Sink has how many other

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1 building structures are around. This land is not --
2 it does not have that on it. It's why it's so
3 important to the area that we preserve it, because
4 so much development has occurred here.

5 And it's a reasonable price. Now, let me make
6 something clear, Mike. I think I understand this,
7 but I want you to make it clear to my fellow Cabinet
8 members. The original -- the price we're paying is
9 35 million, total.

10 MR. SOLE: Yes, sir.

11 ATTORNEY GENERAL McCOLLUM: That's not -- we're
12 not paying all that, right? We're splitting it up
13 among different parties, right?

14 MR. SOLE: Correct, General.

15 ATTORNEY GENERAL McCOLLUM: So what is the
16 State's share of the 35 million?

17 MR. SOLE: The Board of Trustees is 10 million.

18 ATTORNEY GENERAL McCOLLUM: Okay.

19 MR. SOLE: The Department of Transportation is
20 15 million, and the Expressway Authority is 5
21 million. So it's the 10 -- it's the Department of
22 Transportation and the Board of Trustees, which is a
23 total of 25 million. And St. Johns River Water
24 Management District an additional 5 million.

25 ATTORNEY GENERAL McCOLLUM: Right. And I know

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1 he meant well by saying it a minute ago, but
2 Commissioner Bronson, I think, was saying we're
3 paying an extra 25 million. We're not. We're
4 paying 7 million over our own appraisal, right?

5 MR. SOLE: Correct.

6 ATTORNEY GENERAL McCOLLUM: And we're not
7 paying all of the 7 million over it. We're paying
8 our percentage and our fraction of that over it.

9 MR. SOLE: That's correct.

10 ATTORNEY GENERAL McCOLLUM: And other parties
11 are paying it. And by doing that, by paying that
12 very small additional amount, comparatively speaking
13 here, sharing that burden with everybody else, we're
14 going to get this really critical environmental land
15 and we're going to let this finally have a beltway
16 around Orlando, or at least move in that direction,
17 which we can't go until we do it, so -- by state
18 law.

19 So I'm -- I just think this is really, really
20 important that we do this. But I know there are
21 people here from the Expressway Authority. That's
22 just my view.

23 MR. SOLE: Governor, I have one more speaker,
24 Mike Snyder with the Expressway Authority.

25 MR. SNYDER: Thank you, Mike. I'll be a lot

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1 quicker. Again, I appreciate the opportunity to
2 speak before the Cabinet on this particular issue.
3 And I'm really going to -- Charles has said a lot of
4 information. I'm not going to repeat things. I
5 want to talk about why this is important to
6 transportation, why is the Expressway Authority
7 putting in the money that we're putting in and why
8 is Stephanie Kopelousos putting in \$15 million to
9 fund this.

10 I think it comes down to, we go back five years
11 ago. I've been doing this for 38 years. I may look
12 this young, but I've been doing transportation
13 construction for 38 years. I'm a road builder.

14 But I go back about six years ago when I was
15 the district secretary for Central Florida for the
16 Department of Transportation, and we met with the
17 environmental community about the importance of not
18 four-laning and six-laning State Road 46. The
19 Expressway Authority was looking to do what was
20 called the northwest extension back at that time, up
21 through the Apopka area.

22 We were set to be in a position, the
23 transportation community was set to be in a position
24 to do significant damage to the environment. We met
25 with the environmental community, Charles Lee and

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1 others at that particular time. We agreed to stop
2 our plans. We agreed to cooperate with the task
3 force. We agreed to look at another way to do
4 transportation in Central Florida.

5 We spent five years working very closely with
6 not only the environmental community but also the
7 political community, the business community, private
8 citizens, along with the task force.

9 What has evolved out of all of this is a level
10 of cooperation that has not been seen, I believe, in
11 the state of Florida ever to build a highway
12 transportation system so critical that the
13 completion of the beltway around Orlando is.

14 We have evolved to a preferred alignment, which
15 is in our nomenclature the route that we're taking
16 to a public hearing this fall, that meets, I
17 believe, all of the expectations of the
18 environmental community, with elevation of the
19 structure in the critical areas, the protection of
20 the habitat, the protection of the watershed.

21 Everything that we needed to do, we have met
22 that commitment all the way through here. It's been
23 a level of cooperation, again, as I mentioned,
24 that's not been seen before, but it's a promise that
25 we made on the transportation side over five years

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1 ago to work very closely with everybody.

2 No, we don't need this piece of land, this 400
3 acres or so south of Hoss Road as it particularly
4 relates to the highway itself. But we needed to
5 honor the commitment we've made to this community
6 for the last five years. And that is, in order to
7 build a transportation system, we need to be a
8 partner.

9 Stephanie Kopelousos recognized that when she
10 put her \$15 million up. My board went in and
11 unanimously approved it several weeks ago, to put
12 our money up. We've recognized that level of
13 cooperation. And that level of cooperation is going
14 to build a beltway around Orlando, a project that's
15 been talked about for 20 years, and we couldn't move
16 forward.

17 We have an alignment in place, an agreement in
18 place. We have -- moving towards the environmental
19 land that has been sought after for a long time to
20 make this a reality.

21 And I just wanted -- that's why I wanted to
22 take a minute to stress why our participation,
23 OOCEA's and the Department of Transportation's money
24 into a piece of land that we don't actually
25 physically touch, why it's important to building the

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1 Wekiva Parkway. Thank you.

2 GOVERNOR CRIST: Any other questions or
3 comments?

4 ATTORNEY GENERAL McCOLLUM: One observation. I
5 believe my calculation says our percentage of the
6 additional 10 or \$7 million is something like
7 250,000. It's a very small amount compared to the
8 total additional 7 million being paid here, so --
9 what the Board of Trustees is voting on today over
10 the appraised value that we -- of our own appraisal.
11 And I'd really urge a yes vote.

12 GOVERNOR CRIST: Secretary, was there anybody
13 else scheduled to speak?

14 MR. SOLE: No, sir.

15 GOVERNOR CRIST: Any other comments or
16 questions? We have a motion and a second. All in
17 favor say aye.

18 ATTORNEY GENERAL McCOLLUM: Aye.

19 COMMISSIONER BRONSON: Aye.

20 GOVERNOR CRIST: All opposed say no.

21 CFO SINK: No.

22 GOVERNOR CRIST: No. It fails. I wanted to
23 comment that I support the environmental argument on
24 this. I support the transportation argument on
25 this. I cannot support the price tag on this. And

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1 with all due respect to the gentleman who just spoke
2 about the Expressway Authority or whatever it was
3 putting their money in, it's not their money. It's
4 the people's money.

5 And these different entities don't have a dime
6 but for what the taxpayers give them. And so I have
7 to agree with the CFO. I understand the argument
8 that -- well, I just -- I'll stop there. Thank you,
9 Secretary.

10 MR. SOLE: Thank you. Item Number 6, request
11 consideration of the September 2008 Florida Forever
12 Five-Year Plan. This plan lists the description of
13 all 107 projects that are on the Florida Forever
14 List.

15 It also includes the Acquisition and
16 Restoration Council's recommended September 2008
17 Florida Forever Priority List. And, finally, this
18 item also presents the Department's Florida Forever
19 Work Plan as adopted by the Acquisition and
20 Restoration Council.

21 GOVERNOR CRIST: Is there a motion on Item 6?

22 COMMISSIONER BRONSON: I'll move Item 6.

23 CFO SINK: Second.

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

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1 MR. SOLE: Thank you, Governor, Cabinet.

2 GOVERNOR CRIST: Thank you, Secretary.

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1 COMMISSIONER BRONSON: State Board of
2 Administration, General Milligan.

3 MR. MILLIGAN: I'm on my way.

4 GOVERNOR CRIST: Big day for the general.

5 MR. MILLIGAN: Another good day, Governor,
6 another good day.

7 GOVERNOR CRIST: Yes, sir, that's right.
8 You're recognized.

9 MR. MILLIGAN: Thank you, sir. Item 1, request
10 approval of the minutes of August 12th, 2008.

11 GOVERNOR CRIST: Motion on the minutes?

12 CFO SINK: Move it.

13 GOVERNOR CRIST: Is there a second?

14 ATTORNEY GENERAL McCOLLUM: Second.

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

17 MR. MILLIGAN: Item 2, request approval of
18 fiscal sufficiency of an amount not exceeding 75
19 million State of Florida, Department of
20 Transportation, State Infrastructure Bank Revenue
21 Bonds.

22 GOVERNOR CRIST: Is there a motion on Item 2?

23 CFO SINK: Move it.

24 ATTORNEY GENERAL McCOLLUM: Second.

25 GOVERNOR CRIST: Moved and seconded. Show it

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1 approved without objection.

2 MR. MILLIGAN: Item 3, request approval of
3 fiscal sufficiency of an amount not exceeding
4 36 million State of Florida, Board of Governors,
5 University System Improvement Revenue Refunding
6 Bonds.

7 ATTORNEY GENERAL MCCOLLUM: Move it.

8 CFO SINK: Second.

9 GOVERNOR CRIST: Moved and seconded. Show it
10 approved without objection.

11 MR. MILLIGAN: Item 4, request approval of the
12 SBA quarterly report required by the Protecting
13 Florida's Investment Act. As detailed in the
14 quarterly report, the SBA has sold 100 percent of
15 the prohibited investments in advance of the
16 September 19, 2008, statutory deadline.

17 ATTORNEY GENERAL MCCOLLUM: Move it.

18 CFO SINK: Second. And I --

19 GOVERNOR CRIST: Go ahead, CFO, sure.

20 CFO SINK: I just want to comment that this was
21 an enormous undertaking by part of the SBA over
22 really a relatively short period of time to
23 accomplish the goals of this legislation.

24 And I'm still waiting to -- I have asked for
25 some information regarding, as we sold out of the

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1 various holdings, what our cumulative gains and
2 losses were. In other words, what was the cost of
3 us taking this policy initiative. And I presume,
4 General, we're still awaiting that information.

5 MR. MILLIGAN: It is still a rough estimate at
6 this stage. I can give you a ballpark, if you'd
7 like. It's somewhere between 45 and 61 million.

8 CFO SINK: Of --

9 MR. MILLIGAN: In losses.

10 CFO SINK: Of losses.

11 MR. MILLIGAN: With that said, that was as of
12 the end of June. And, of course, energy investments
13 went up fairly good over that period of time, and
14 now they've settled back down. So the losses today
15 may not be quite as severe as they were reflected,
16 estimated at the end of June. But we will have
17 details on that when all of that data is pulled
18 together.

19 CFO SINK: We just have to recognize that there
20 was a cost.

21 MR. MILLIGAN: There was a cost.

22 CFO SINK: As there usually is whenever you're
23 divesting. And of course, Governor, you were in
24 Brazil, so you know that many of these holdings were
25 energy-related holdings.

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1 MR. MILLIGAN: Yes, they were.

2 CFO SINK: We were having to sell them to a --
3 in not a good market for our purposes. But it was
4 the right thing to do, and we accomplished it, and
5 it was done very, very well by our SBA staff. I
6 just wanted to make that comment. I think I
7 seconded it.

8 MR. MILLIGAN: Credit goes to the foreign
9 equities staff, with Janice Yecco running that and
10 the terrific job they did. Item 5 is --

11 GOVERNOR CRIST: Wait a minute. Wait a minute.
12 I'm sorry. The item has been moved and seconded.
13 Show it approved without objection. Forgive me.

14 MR. MILLIGAN: Item 5 is the Florida Retirement
15 System Defined Benefit Plan long-term performance
16 through fiscal year end June 30, 2008, and requested
17 by CFO Sink.

18 My original plan was to kind of give a report
19 that we had pulled together as of last week. And,
20 of course, the events over the weekend and yesterday
21 have caused me to maybe reflect a little bit on how
22 we approach this discussion.

23 So I'd like to kind of do it in three parts.
24 We sent out late yesterday an update on the State
25 Board of Administration's financial sector

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1 investments. This was largely due as a result of
2 requests from your staffs as well as from the news
3 media and other interested parties, particularly
4 participants in the retirement fund and participants
5 in the Local Government Investment Pool.

6 I think in summary this quick, concise report
7 basically just says we continue to monitor closely
8 rapidly evolving financial market events involving
9 Lehman Brothers, Merrill Lynch, Washington Mutual
10 and other prominent financial institutions.

11 The overwhelming majority of the assets managed
12 by the SBA are conservatively invested for the
13 long-term in a highly diversified portfolio. The
14 FRS Pension Plan, which is specifically the one we
15 were talking about a couple of weeks ago, is
16 extremely healthy.

17 In fact, the FRS Pension Plan was in a surplus
18 situation as of July 1, 2008. That is, the
19 FRS Pension Plan is estimated to have assets
20 exceeding future benefit payments by about 105 to
21 106 percent, or about 6.9 billion.

22 We provided in that little report that we put
23 out yesterday SBA investments in several firms
24 experiencing financial stress. I'd like to use CFO
25 Sink's basket of eggs analogy to try to put things

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1 into perspective. Lehman Brothers, total holdings
2 equal about one egg in 500. Washington Mutual,
3 total holdings equal about one egg in 1,000. AIG's
4 total holdings equal about one egg in 1,000.
5 Merrill Lynch, total holdings equal about one egg in
6 200.

7 So the point is that while there is certainly
8 liability and there is potential for losses, the
9 severity of those losses, because of the huge
10 diversity of the investment portfolios of the SBA,
11 are not something that people need to be concerned
12 about if they are in the retirement system.

13 For that matter, the people in the Local
14 Government Investment Pool have no investments in
15 Lehman, nothing in Washington Mutual, nothing in AIG
16 and a small amount in Merrill Lynch, which is
17 trading at just about par.

18 So what the situation is, while there is
19 certainly very much a concern about the financial
20 markets, we are diverse enough to, I think, avoid a
21 catastrophic problem.

22 In terms of the independent consultant report
23 that was done by EnnisKnupp, which was going to be
24 kind of the focus of my discussion, that was -- the
25 question was, what is the 2007-2008 fiscal year

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1 investment performance impact on the pension plan
2 funding status, that you -- you have the report.
3 And the bottom line, full funding will be preserved.
4 And you couldn't ask for anything better, I think,
5 from an independent assessment of where we are in
6 terms of the pension plan.

7 I have a short presentation that maybe it will
8 help try to put a few things into perspective, if I
9 could have that first slide. And basically what
10 this is saying is that our job, our objective, is to
11 take care of the beneficiaries and try to control
12 volatility. The second one is a little more
13 difficult perhaps, and the next slide will show you
14 what has happened historically.

15 Starting back in '91 -- maybe I better first
16 say the managed return is that second column. The
17 absolute nominal rate of return reflects the managed
18 return plus inflation. And then the difference is
19 shown over in the right-hand column.

20 Why we had a problem in '91, I'm not so sure.
21 Maybe the savings and loan problem caused that. I
22 don't know. '94, I'm not sure at all. I do know in
23 2001 we had the dot-com failures that caused a lot
24 of problems in the financial market -- or in the
25 market. And '02 of course was 9/11, with a little

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1 spillover into '03, and then of course in '08.

2 And you'll notice that, frankly, even '08 was
3 not any worse than the dot-com. It wasn't as bad as
4 the dot-com. So we have down periods and we have up
5 periods. And because we have a diverse investment
6 portfolio, we can absorb, and we are in this for the
7 long-run. It's not a short-run concern.

8 And tomorrow will be a better day. There's no
9 question about it. We all know that. We will come
10 back within the financial markets.

11 The next slide just tries to give an idea of
12 what has happened historically and that we are in
13 pretty good shape actuarially. As you know, we
14 became -- had a surplus in 1998, and that's carried
15 forward. We've stabilized it, attempting to
16 stabilize it at 107 percent. This year we're
17 projecting it will be about 105 percent because of
18 the market volatility.

19 The next slide talks about the contribution
20 rates, which is very important to governments. And
21 as you can see, as a result of the surplus, the
22 contribution rate has dropped down dramatically
23 below what the normal cost rate would be.

24 That's the cost when you look at entry level
25 people coming into government, what the total cost

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1 would be based on all of the factors of will they
2 stay, will they retire, how long will they stay,
3 et cetera, et cetera.

4 And that normal cost rate, we have been, over
5 the years, since 1998, been able to keep the
6 employee contribution rate below the normal cost
7 rate.

8 You'll notice that -- and that will probably be
9 the case again this year, even with -- because they
10 will be going back, frankly, to where we were at the
11 end of 2006, and there will be an increase -- excuse
12 me -- 2008, there will be an increase, but I don't
13 think it will get up to the normal cost rate.

14 But that will be done -- if you look at the
15 next slide, the actuarial evaluation process is what
16 determines what the contribution rate will be. I
17 won't go into great detail. The Department of
18 Management Services, Division of Retirement does
19 that actuarial evaluation. The Legislature will
20 ultimately set the employee contribution rates this
21 coming winter, and we'll see where they stand.

22 Next slide. We do quarterly performance
23 reviews. We do an annual asset liability review.
24 The next one is due in spring of 2009. And we do a
25 formal asset liability study every three or four

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1 years. And we did the last one in the spring of
2 2007. And you all, as a result, made adjustments in
3 the way the resources, assets were allocated within
4 the SBA, and reduced the investment risk by over 10
5 percent, which I think has paid some dividends even
6 now as we have seen the drop in the market.

7 And that concludes that portion of Item,
8 whatever it is, 5, unless you have some questions.

9 GOVERNOR CRIST: Any questions?

10 CFO SINK: No. Thank you. That's exactly what
11 I was looking for.

12 GOVERNOR CRIST: Yeah, thank you, General, very
13 much.

14 MR. MILLIGAN: That was for information only,
15 sir. And let me go to Item 6.

16 GOVERNOR CRIST: Well, if I -- I wanted to
17 compliment you, if you don't mind. On behalf of the
18 people of Florida, I want to thank you for having
19 such a diversified portfolio that keeps us in good
20 stead and protects their investment. Item 6.

21 MR. MILLIGAN: Well, thank you, but it's really
22 a super staff out there that does a great job.

23 GOVERNOR CRIST: Thank God for that.

24 MR. MILLIGAN: And once again, we're lucky to
25 have the employees that we have in state government.

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1 GOVERNOR CRIST: Indeed, yes, sir.

2 MR. MILLIGAN: That was for information only,
3 Governor. Item 6, I normally -- I put this on here
4 just so I have a chance, if there's some topical
5 issue.

6 I don't have a lot to say today, other than I
7 will say, last week, which I think -- I know your
8 offices were notified. We put out the invitation to
9 negotiate for the Ring Bill that was passed by the
10 Senate that is designed to really promote SBA
11 investment in Florida.

12 And thus far, although it's early, thus far I
13 believe the response is going to be huge. And it
14 will take a considerable effort on our part to
15 really sort through all of the people that are
16 interested in participating. With that, sir --

17 CFO SINK: Let me say something about that
18 because many people have asked me about this, as
19 trustees of our pension fund. But I was in
20 Pensacola probably last week, and they're an area of
21 our state that has to compete with Alabama for
22 economic development.

23 And I'm sure both of you are aware that Alabama
24 has got an enormous economic incentive program for
25 bringing all sorts of businesses in there. And

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1 they're feeling like they can't compete very easily.

2 So in this time of economic challenge for our
3 state, I'm anxious to get Ash Williams in place,
4 which he'll be here, red-letter, October the 20th,
5 on my calendar.

6 But we haven't had a history in our state of
7 responsibly using our pension -- our 120-plus
8 billion in pension investments to help our own
9 people. And there was just a different philosophy
10 at the SBA and perhaps amongst trustees before.

11 But if there was ever a time when we need to
12 responsibly think about ways that we can use our
13 retirement system money to help encourage job
14 growth, job development, economic activity, we're a
15 huge state, it's not like we're going to concentrate
16 all our eggs in a small state. We're a huge state.

17 I think now is absolutely the time. And so one
18 of the first things I want our new director to
19 really grab hold of is not only this legislation
20 that was passed that finally required the SBA to
21 step up and make some -- and look at making
22 investments in Florida businesses, but just as a --
23 from us as the trustees concerned about our economy,
24 to look at the whole big picture of what other,
25 many, many other states, how they used their pension

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1 monies to help themselves as opposed to invest in
2 Switzerland.

3 ATTORNEY GENERAL McCOLLUM: May I add onto
4 that, Governor?

5 GOVERNOR CRIST: General, please.

6 ATTORNEY GENERAL McCOLLUM: You know, I think
7 what CFO Sink is bringing up is very pertinent, and
8 I know that General Milligan has looked at this, but
9 obviously we do need Ash aboard before any further
10 processing goes on.

11 But my understanding -- and, General, you
12 correct me if I'm wrong, but we have a small
13 portion, not, you know, anything radical, just a
14 small portion of our investments in venture capital
15 today, which is, if done prudently, is a perfectly
16 sound investment, just as some is in real estate.
17 We're diversified.

18 But my understanding is that none of the
19 venture capital money that we have invested as a
20 state system is going into a business or any
21 businesses in Florida.

22 Now, I know there is a need for a mechanism to
23 control that. We probably don't want, CFO Sink, for
24 us to be directly investing in specific businesses
25 from the State Board of Administration.

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1 But the managers, or whoever we get to manage
2 this stuff -- and it really needs to be worked
3 out -- need to be looking at early stage venture
4 capital as at least a portion of this, and that
5 comes to Florida, that's invested through funds that
6 invest in the companies that are startup companies
7 in our state, that are particularly high tech and
8 biotech and create jobs.

9 And that's something that -- you're talking
10 about that, and I think you are, CFO Sink, that I
11 strongly support. I've been mystified by why we
12 have not done that earlier and sooner. And I know
13 there's resistance in some of the managers who work
14 well, and we praise them, they do a great job out
15 there in your shop, General Milligan.

16 But I'm hopeful that as a consensus, as the
17 board, the commission guiding this, that when Ash
18 comes aboard, we can all work together to find a way
19 to make this happen. It just needs to happen.

20 We cannot continue to expect businesses to move
21 to Florida. And we have such a great opportunity,
22 with these patents and inventions around our
23 universities in the state now, to see small
24 businesses grow into big businesses that are
25 meaningful to our state in clean industry that would

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1 give us jobs and give us a tax base that's far
2 different from what we have today.

3 And so while it may be small in comparison to
4 our big pension funds, CFO, you and I are in 100
5 percent agreement. This is a very important part of
6 Florida's future, and I look forward to working with
7 you and with the Governor and with General Milligan
8 and Ash and others on this in the future.

9 CFO SINK: And, General, I just put together a
10 team of people to look at how we can take advantage
11 of the new bill passed through Congress, the Home
12 Foreclosure Act. There is a potential of us
13 bringing hundreds of millions of dollars of federal
14 money into Florida to help with our real estate
15 industry and affordable housing.

16 And I just -- you just triggered a thought in
17 my mind that maybe we want to look at some kind of
18 housing investment. I mean, we have a real
19 estate -- we have a real estate portfolio within the
20 FRS, the retirement system, and maybe some of those
21 monies could be, again, with a good return, invested
22 in helping us, with this drawdown federal money.

23 And we've got an absorption problem here now.
24 The realtors were saying that we generally have a
25 six- to eight-month supply of inventory of vacant

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1 housing or housing for sale. Today we're sitting
2 with a 22- to 24-month supply of housing on the
3 market.

4 So we have all got to work together to figure
5 out a way to encourage second home buyers or to
6 encourage more people from the north to move to
7 Florida or families to buy new housing, so that we
8 can start bringing that inventory down. And there
9 may potentially be a role for our retirement system
10 money.

11 MR. MILLIGAN: Having -- let me just make a
12 couple of very quick comments. Having sat up there
13 at one time as a trustee of the State Board of
14 Administration and the concern that you have to have
15 in terms of your fiduciary responsibility to the
16 beneficiaries, that always has to play into the
17 decision-making.

18 We also have a fairly substantial investment
19 already in Florida, including in real estate. And
20 I'd be happy to send to you all a quick summary of
21 where we are in that area and kind of the scope of
22 real estate, which you will find covers a wide gamut
23 of real estate issues. So let me send that to you.

24 But I certainly agree with you a hundred
25 percent that we should be doing whatever we can to

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1 bolster the economy of Florida.

2 GOVERNOR CRIST: That's a great piece of
3 legislation that Senator Ring proposed, and I signed
4 it because I agree with all the foregoing comments
5 that you've made and am excited about it. It's a
6 significant investment, and it should really
7 stimulate Florida's economy. Thank you, General.

8 MR. MILLIGAN: Yes, sir.

9 GOVERNOR CRIST: Good day.

10 (Whereupon, the meeting was concluded at 11:30
11 a.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

Reporter,

counsel

I, Jo Langston, Registered Professional

do hereby certify that the foregoing pages 5 through 99,
both inclusive, comprise a true and correct transcript of
the proceeding; that said proceeding was taken by me
stenographically and transcribed by me as it now appears;
that I am not a relative or employee or attorney or
of the parties, or a relative or employee of such attorney
or counsel, nor am I interested in this proceeding or its
outcome.

IN WITNESS WHEREOF, I have hereunto set my hand
this 1st day of October 2008.

JO LANGSTON
Registered Professional Reporter

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