

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, INSURANCE REGULATION
ADMINISTRATION COMMISSION
FLORIDA LAND AND WATER ADJUDICATORY COMMISSION
BOARD OF TRUSTEES OF THE INTERNAL IMPROVEMENT TRUST FUND
STATE BOARD OF ADMINISTRATION

The above agencies came to be heard before
THE FLORIDA CABINET, Honorable Governor Crist presiding,
in the Cabinet Meeting Room, LL-03, The Capitol,
Tallahassee, Florida, on Wednesday, May 13, 2009,
commencing at approximately 9:07 a.m.

Reported by:

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Registered Professional Reporter
Florida Professional Reporter
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APPEARANCES:

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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(Presented by BEN WATKINS)

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P R O C E E D I N G S

(The agenda items commenced at 9:25 a.m.)

GOVERNOR CRIST: Our next Cabinet meeting will be Wednesday, May 27.

And with that, Division of Bond Finance, Ben Watkins. Good morning, Ben.

MR. WATKINS: Good morning, Governor.

GOVERNOR CRIST: How are you?

MR. WATKINS: And Cabinet members. Item Number 1 is approval of the minutes from the March 24th meeting.

CFO SINK: Move it.

ATTORNEY GENERAL McCOLLUM: Second.

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

MR. WATKINS: Item 2 is a two-part resolution, The first is a resolution authorizing the competitive or negotiated sale of up to \$200 million in right-of-way acquisition and bridge construction bonds, and the second part of the resolution authorizes the issuance of up to a billion dollars for the same bonding program.

The billion-dollar authorization is simply to initiate validation proceedings, and then that will -- the individual sales relating to that

1 authorization, which is intended to cover a
2 four-year period for DOT's work program, will be
3 brought back to you each time we are going to
4 implement a piece of that authorization.

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

6 COMMISSIONER BRONSON: Motion on Item 2.

7 GOVERNOR CRIST: Is there a second?

8 CFO SINK: Second.

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

11 MR. WATKINS: Item Number 3 is a report of
12 award on the negotiated sale of \$300 million of
13 Lottery revenue bonds. The sale of the bonds was
14 negotiated with a 12-member syndicate led by
15 Merrill Lynch.

16 In this transaction, we utilized a retail
17 order period and a website, buyfloridabonds.com,
18 print media, newspaper advertising. We had a
19 one-day retail order period where we gave retail
20 investors in Florida priority for orders, and
21 received \$105 million in orders.

22 Because of the support from retail investors,
23 we were able to then upsize the transaction to
24 300 million, take institutional orders on the
25 second day, and received about \$130 million in

1 institutional orders, and Merrill Lynch underwrote
2 the balance. We agreed to an interest rate of 5.21
3 percent on that transaction.

4 ATTORNEY GENERAL McCOLLUM: I move the item.

5 COMMISSIONER BRONSON: Second.

6 GOVERNOR CRIST: Moved and seconded. Show
7 Item 3 approved without objection.

8 MR. WATKINS: And Item 4 is a report of award
9 on the competitive sale of \$200 million in Public
10 Education Capital Outlay bonds. The bonds were
11 awarded to the low bidder at a true interest cost
12 rate of 4.59 percent.

13 COMMISSIONER BRONSON: Motion on Item 4.

14 CFO SINK: Second.

15 GOVERNOR CRIST: Moved and seconded. Show
16 Item 4 approved without objection. Thank you, Ben.

17 CFO SINK: Ben, Governor.

18 GOVERNOR CRIST: Yes, ma'am.

19 CFO SINK: Can you just give us a little bit
20 of -- it seems that we've been able to come out and
21 do a few more bond issues. Would you just give us
22 a brief update on the state of the market and what
23 we see we're going to need to be doing through the
24 summer? Give us a temperature check.

25 MR. WATKINS: Okay. Market conditions have

1 improved markedly since the market disruption post
2 credit crisis in the fourth quarter of 2008. When
3 we came back in 2009, we have executed several
4 transactions using a combination of both negotiated
5 sales and competitive sales.

6 Currently the market is very strong for high
7 grade securities, so AA or better, with a very
8 simple credit structure like our state general
9 obligation bonds. And so we are able to -- we have
10 benefited from the investors' desire for safety and
11 security, state general obligation bond issues with
12 our high credit ratings. When we have financing
13 programs that are in lower rated categories, the A
14 category or lower, those bond issues are more
15 challenging to execute generally.

16 So frequent issuers with name recognition and
17 a high credit rating are very much enjoying the
18 benefit of a strong market. Lower rated credits or
19 small and infrequent issuers are still struggling
20 with accessing credit. But the market conditions
21 have improved tremendously relative to the
22 dislocation we had in the fourth quarter of 2008.

23 CFO SINK: Okay. And when would we expect --
24 I know Moody's has us on watch. Have they said
25 when they will -- will that watch just continue, or

1 do you expect that they will either affirm or
2 downgrade the State of Florida at some time
3 certain?

4 MR. WATKINS: There's a 90-day window relative
5 to resolving the credit watch. And what the rating
6 agencies were really doing was providing us, the
7 State of Florida and the Legislature, with an
8 opportunity to work through the budgetary process,
9 which we have done. We will be providing
10 information on how the State's budget was
11 formulated and balanced and the plan going forward
12 and then get clarity and resolution on that credit
13 watch issue.

14 CFO SINK: Okay. Thank you.

15 GOVERNOR CRIST: Thank you, Ben.

16 MR. WATKINS: Yes, sir.

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

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

6 Agenda Item Number 1 is a request for approval
7 for the minutes of March 13th.

8 ATTORNEY GENERAL McCOLLUM: So move.

9 COMMISSIONER BRONSON: Second.

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

12 MR. McCARTY: Agenda Item Number 2 is a
13 request for final adoption of proposed Rule
14 690-175.008, referring to no-fault accidents. This
15 was a subject of some contention in a previous
16 Cabinet meeting.

17 This rule would prohibit an insurance company
18 from charging an additional premium for a
19 policyholder for an accident which was not their
20 fault, and we have interpreted that to mean for
21 both new and renewal policyholders.

22 As a result of the adoption of the rule, we
23 held a public hearing on November 18th and received
24 public comment as well as written comment. And if
25 I could be allowed, I would like to go through some

1 of the commentary we received and the analysis we
2 went through.

3 We received a letter from the Property and
4 Casualty Association of America, PCI, which
5 provided a statistical and actuarial analysis
6 supporting the contention that drivers with
7 not-at-fault accidents constituted a higher
8 actuarial class. The Office has carefully
9 considered this, and while that may be true, it's
10 specifically in violation of the Florida statute,
11 which prohibits an insurer, regardless of an
12 actuarial class, from imposing or requesting an
13 additional premium for new or renewal policies
14 based upon not-at-fault accidents.

15 The second consideration was proposed by the
16 Florida Insurance Council and NAMIC, which both are
17 here today to speak on the issue, and they said
18 that the Office should not apply the new insured
19 rule because an applicant is different than an
20 insured, and it doesn't apply to an application.

21 We found this analysis to be flawed. Insurers
22 do not insure applicants; insurers insure
23 policyholders. Applicants don't pay premiums;
24 policyholders pay premiums. And that's contrary to
25 the plain meaning of the law. It makes no logical

1 sense for the Legislature to say it prohibits
2 someone renewing a policy from being upcharged for
3 a not-at-fault accident, but allowing it for a new
4 policyholder. Accordingly, we dismissed this as
5 well.

6 Lastly, you're also going to hear that there's
7 the potential of a growth in the Florida Auto JUA.
8 There was no evidence presented at the hearing that
9 that would be the case. I would like to point out
10 that the Florida Auto JUA currently has seven
11 policyholders. We have one of the most robust,
12 competitive markets in America.

13 They also claim that rates may go up as a
14 result of that, but I can assure you that the
15 Office will be vigilant in reviewing rate reviews
16 to ensure that they're actuarially sound and
17 consistent with Florida law.

18 And we would like to yield the floor to my
19 colleagues from the insurance industry, who would
20 like to present their issues.

21 GOVERNOR CRIST: Certainly. Good morning.

22 MS. REYNOLDS: Good morning, Governor Crist,
23 CFO Sink, Commissioner Bronson, and General
24 McCollum. My name is Liz Reynolds, and I am the
25 Southeast State Affairs Manager for the National

1 Association of Mutual Insurance Companies, or
2 NAMIC. NAMIC is a trade association representing
3 more than 1,400 member companies underwriting 40
4 percent of the property and casualty insurance
5 premium in the United States. In Florida, NAMIC
6 companies write 34 percent of the auto insurance
7 market.

8 Our members believe that the proposed rule
9 before you today is poor public policy and will
10 result in a negative impact on auto insurance
11 customers. Applicants with not-at-fault accidents,
12 or more accurately, unproven fault accidents on
13 their driving records will likely see increased
14 rates and find it more difficult to obtain
15 coverage.

16 The Office of Insurance Regulation has for
17 many years now correctly interpreted the Florida
18 statute to treat applicants and insureds
19 differently with respect to the use of unproven
20 fault accidents in the underwriting and rating
21 process.

22 It makes sense to require insurers to
23 ascertain fault before surcharging existing
24 policyholders or insureds, because companies have
25 access to information necessary for making such a

1 determination. Applicants, however, are a
2 different story. An insurer considering a new
3 applicant does not have access to crucial
4 information that would make it possible to confirm
5 that unproven fault accidents are truly
6 not-at-fault accidents. And statistics tell us
7 that drivers with past at-fault accidents are more
8 likely to have future claims.

9 Is it fair for auto insurance applicants with
10 unproven fault accidents on their records to pay
11 the same rates as applicants with sweet, clean
12 driving records? That's what will happen if this
13 rule is implemented. If applicants with clean
14 records must be pooled with applicants with
15 unproven fault accidents on their records, then
16 rates will rise for all, because losses for the
17 group will increase. Pricing will be less
18 accurate, and low risk or clean drivers will
19 subsidize high risk drivers.

20 Companies may also simply reject applicants
21 with unproven fault accidents on their records.
22 The rule would in fact give insurers an incentive
23 to do so. This ultimately could lead to private
24 market disruption and growth in the residual
25 market. Again, many drivers will be left with

1 higher rates, fewer choices, and the distinct
2 possibility of placement in the JUA.

3 OIR's current longstanding rule regarding
4 not-at-fault accidents for applicants and for
5 insureds is correct according to the law and is in
6 the best interest of consumers.

7 Florida does currently enjoy a healthy,
8 competitive auto insurance market. On that we can
9 agree. So there's no reason to create a solution
10 for a problem that does not exist.

11 GOVERNOR CRIST: Thank you.

12 MR. NEWMAN: Good morning, Governor and
13 members of the Cabinet. Brian Newman on behalf of
14 the Florida Insurance Council. And I'll echo
15 Ms. Reynolds' comments, and we certainly agree with
16 all the points she raised.

17 I would only emphasize the fact that the
18 impact of this rule is less choice for applicants
19 with unproven accidents. An insurance company can
20 refuse to write an applicant under this rule that
21 has an unproven accident, and some companies are
22 going to elect to do so if faced with the
23 alternative, if they can't charge an appropriate
24 rate for that individual. And that means less
25 choice for the applicants, and so we don't think

1 this new rule is consumer-friendly.

2 Speaking to the legal aspects of it, the words
3 "applicant" and "insured" have different meanings
4 in the industry and are used differently in the
5 same section that you find the statutory
6 prohibition. In particular, paragraph .06 of the
7 same statute prohibits an insurance company from
8 surcharging an applicant or an insured due to a
9 disability. There is no reference to prohibition
10 on an applicant or refusing to write an applicant
11 in the section that we're speaking about here today
12 that the Office of Insurance Regulation claims is
13 authority for this new rule.

14 And I would again reiterate what Ms. Reynolds
15 told you, and that is, the Office of Insurance
16 Regulation has consistently since this statute has
17 been on the books in its present form applied the
18 statute to allow companies to surcharge applicants
19 for unproven accidents. There has been no change
20 in the statute that precipitated this unnecessary
21 change in the way they interpret it, and we suggest
22 that that's inappropriate. It's not the correct
23 interpretation of the statute, and we ask you to
24 not go forward with this rule.

25 GOVERNOR CRIST: Thank you. Any questions or

1 comments?

2 ATTORNEY GENERAL McCOLLUM: I do.

3 GOVERNOR CRIST: Yes, please.

4 ATTORNEY GENERAL McCOLLUM: If I could, I
5 would like to ask the insurers if as a rule, all of
6 the insurance companies you represent do charge
7 more for applicants that have unproven, no-fault
8 accidents as opposed to applicants that have what
9 you call a clean record.

10 MR. NEWMAN: General McCollum, I think that's
11 the prevailing practice in the industry.

12 ATTORNEY GENERAL McCOLLUM: Kevin, I would
13 like to ask you, if this is so, will the argument
14 be true, in your opinion, or why wouldn't it be,
15 that the applicants with no record will actually
16 wind up having to pay more because they otherwise
17 would get a lower rate than the ones who have a
18 record of some sort?

19 MR. McCARTY: I don't have any -- I don't have
20 a breakdown. It is not my understanding that it is
21 the prevailing practice in the industry to upcharge
22 for people who are new business and are changing
23 from one company to another.

24 There was a contention that this was a
25 longstanding rule. This is not a rule. This was

1 born out of a disapproval of an individual company
2 that was using this practice. It is an
3 interpretation of the rule that is different than
4 it had been in the past, I would agree with that,
5 but it was the result of a disapproval of the
6 process.

7 But in order to be fair and to treat all
8 insurers uniformly, we initiated the rulemaking
9 process, because in our legal opinion of my general
10 counsel, the legislative intent was to apply this
11 to both new as well as renewal. And if there is,
12 there was no evidence presented at the hearing that
13 there would be any nonrenewals or nonacceptance of
14 policies based upon the change in this policy.

15 ATTORNEY GENERAL McCOLLUM: Kevin, I wasn't
16 really as concerned about the nonrenewal feature,
17 though that might, of course, occur, I suppose, as
18 I was about the comments they're making to us today
19 that applicants that have clean records are going
20 to wind up ultimately paying more because of this
21 proportionately to those who have records of
22 accidents that nobody knows whose fault they really
23 were except the word of the applicant.

24 And it makes common sense that their argument
25 sounds reasonable to me. I just wondered -- but

1 you don't believe that they're currently charging
2 more, as they've said they are, charging more for
3 those types of applicants?

4 MR. McCARTY: Again, that was not presented by
5 any individual company at the hearing. I certainly
6 will be happy to do a survey to confirm that, but
7 it is not my understanding that that is the uniform
8 practice. Thank you.

9 ATTORNEY GENERAL McCOLLUM: Do either of you
10 want to respond more to that point? I would just
11 -- Governor, with your permission, I would like
12 some clarification. Maybe both of you could
13 comment on it. I'm very interested in this, and I
14 think it has real bearing on this question.

15 MR. NEWMAN: General McCollum, again, the
16 Office has consistently interpreted this provision
17 as not prohibiting a surcharge to an applicant with
18 an unproven accident, and I believe that that is
19 the prevailing practice in the industry.

20 ATTORNEY GENERAL McCOLLUM: You believe that
21 they do have the surcharge?

22 MR. NEWMAN: They do. The prevailing practice
23 -- and these companies do it differently. I'm not
24 going to say they all rate the same, but the
25 prevailing practice in the industry is to surcharge

1 applicants with unproven accidents.

2 ATTORNEY GENERAL McCOLLUM: And do you concur?

3 MS. REYNOLDS: Yes, sir, I do.

4 ATTORNEY GENERAL McCOLLUM: Thank you. Thank
5 you, Governor.

6 GOVERNOR CRIST: Certainly. CFO?

7 CFO SINK: Yes. Let me ask Mr. Newman -- I
8 heard you say that if this rule were to pass, then
9 the companies would elect to refuse new applicants.
10 Are you suggesting that companies don't refuse new
11 applicants now?

12 MR. NEWMAN: Well, right now they have the
13 option of surcharging that applicant with an
14 unproven accident. If this rule becomes adopted,
15 then the companies are going to be faced with the
16 choice of charging less than they otherwise would
17 have for that applicant with an unproven accident
18 or simply not writing that business at all. What
19 I'm suggesting is that some of the companies are
20 going to elect to not write that business at all,
21 which leaves less choice for that applicant.

22 CFO SINK: And in the underwriting practices
23 of the company, does it make a difference to them
24 whether someone has one or two no-fault accidents
25 as opposed to maybe eight or nine? Because I could

1 certainly make the argument that a lot of us have
2 been involved in unproved or accidents that were
3 deemed to be no-fault, and I don't feel that I
4 should have a surcharge because of that.

5 On the other hand, if you've got an applicant
6 who happens to have been in eight to ten of these
7 so-called no-fault accidents over the course of a
8 year, I would ask that driver to go take the
9 defensive driving course.

10 MR. NEWMAN: Sure. That's a good point. I
11 think companies will treat these people
12 differently. You know, there's not a uniform
13 practice. Every company has a different rating
14 plan, a different underwriting plan, and we're
15 certainly not suggesting that there's complete
16 uniformity in that regard.

17 But it is the prevailing practice to charge
18 more premium, to surcharge applicants with unproven
19 accidents. They would charge that applicant,
20 quote, a higher premium to that applicant than they
21 would someone with a completely clean driving
22 record. That we know, and that is the prevailing
23 practice and has been acceptable with the OIR's,
24 you know, heretofore interpretation of this
25 statutory section.

1 The reason they're promulgating this rule is
2 because they're changing the way they interpret it.
3 I think Commissioner McCarty was correct. There
4 wasn't a prior rule on the books that interpreted
5 this statute in the way that certainly it does now.
6 It was the prevailing interpretation of the
7 actuaries that work for the Office that, you know,
8 "It's okay. Company, you can surcharge an
9 applicant for an unproven accident."

10 When that changes, some of these companies --
11 I don't know how many. I don't want to mislead
12 you, CFO Sink. Some of the companies are going to
13 decide, "Well, we just won't write those
14 individuals," and that's going to mean less choice
15 for them.

16 CFO SINK: Governor, could I just ask one more
17 question?

18 GOVERNOR CRIST: Of course, certainly.

19 CFO SINK: This would be for Kevin. Is it an
20 option for the OIR -- let's say, for instance, that
21 this rule is not passed. Is it an option for you
22 all to go back to the Legislature next year and
23 just have them clarify what the true intent was of
24 the law?

25 MR. McCARTY: Yes, certainly. But I would

1 like to direct your attention to specifically what
2 the statute says and why the OIR has concluded that
3 it does apply to new and renewal. It says,
4 "Imposing or requesting an additional premium for a
5 policy of motor vehicle," et cetera. But then it
6 goes on, therefore, "refusing to renew."

7 If the Legislature had only intended it to
8 apply to renewal, they would have said in the first
9 sentence, "Imposing or requesting an additional
10 premium on a renewal policy," because they were
11 specifying in the second part about nonrenewing,
12 you couldn't do it on a current policyholder. So I
13 think the fact -- if they meant renewal
14 specifically, then they would have said it in the
15 first paragraph.

16 GOVERNOR CRIST: Commissioner? General,
17 you're good?

18 ATTORNEY GENERAL McCOLLUM: I don't have any
19 questions.

20 GOVERNOR CRIST: Any other comments,
21 Commissioner?

22 MR. McCARTY: No, sir.

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

25 (No response.)

1 GOVERNOR CRIST: I'll move it. Is there a
2 second?

3 (No response.)

4 GOVERNOR CRIST: Failing a second, we're on
5 Item 3.

6 MR. McCARTY: Agenda Item 3 is a request for
7 final adoption of a proposed amendment to Rule
8 690-138.005, examinations by non-employees.

9 In 2007, the Legislature authorized the Office
10 to contract with outside vendors to examine
11 companies. Section 624 and other parts of the
12 Florida Insurance Code requires the Office to
13 periodically examine companies for compliance with
14 the code provisions as well as rules promulgated by
15 the Financial Services Commission. This is
16 particularly important in these challenging
17 economic times when resources have been stretched
18 to allow us to outsource these and save the
19 taxpayers money.

20 The Legislature set forth specific criteria
21 for selections to make sure there's no conflict of
22 interest. The Legislature also set up a standard
23 so that you charge rates that are consistent with
24 those charged within the industry. This rule
25 implements the legislative change by setting up

1 criteria for charging specialists, establishing a
2 process for examination and the amount the
3 examiners are compensated.

4 ATTORNEY GENERAL McCOLLUM: I move Item 3.

5 CFO SINK: Second.

6 GOVERNOR CRIST: Moved and seconded. Show it
7 approved without objection. Thank you,
8 Commissioner.

9 MR. McCARTY: Thank you, Governor.

10 GOVERNOR CRIST: You're welcome.

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

3 MS. SALIBA: Good morning, Governor and
4 Cabinet members.

5 We have two items this morning. The first is
6 recommending approval of the minutes from the March
7 24th meeting.

8 ATTORNEY GENERAL McCOLLUM: Move Item 1.

9 COMMISSIONER BRONSON: Second.

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

12 MS. SALIBA: The second item, we have today
13 with us the Honorable Robert Cohen, who is the
14 chief judge and executive director of Division of
15 Administrative Hearings, to present their annual
16 report and performance contract.

17 Judge Cohen?

18 MR. COHEN: Thank you, Lisa.

19 GOVERNOR CRIST: Good morning, Your Honor.

20 MR. COHEN: Good morning, Governor, members.

21 I'm pleased to be here to present our annual
22 report. The annual report was filed the 1st of
23 February of this year. And I'll give you some
24 highlights of where we stand today, because so much
25 of that report is based upon last fiscal year,

1 which ended in mid-2008 in terms of the year-end
2 statistics. I'll try and update it so you'll have
3 a better picture of where we are, because there
4 have been some updates and improvements.

5 We continue to move forward with our
6 electronic filing, and it's a huge project for us.
7 It's still not mandatory, as we discussed last
8 year, but for the first time this year, the Senate
9 actually asked us to propose some language to make
10 it mandatory in workers' comp cases. And they
11 reviewed the language, and we hope that by next
12 year there will be a little more support to move
13 that through the legislative process.

14 We're up to over 30,000 electronically filed
15 documents per month in workers' comp, and that has
16 resulted in significant savings, not significant
17 savings to us. We've saved money. By getting
18 everything electronically, we take out the step of
19 having to get a paper document, scan it, upload it
20 into the system so it's on the docket. We have
21 saved. We've made reductions in our staff over the
22 last several years. But it has saved the industry.
23 It has saved the attorneys and the people filing
24 these documents a significant amount of money just
25 in postage, in paper, in courier services, in

1 everything related to filing documents with us.
2 Now when they complete the document at their
3 computer, click, filed, done. It's there for them
4 to see. They have a receipt. They can file it up
5 to the last second, and it really does speed up the
6 process that way.

7 We also were given authority last year to
8 engage in the task of serving as the official
9 reporter for agencies who want to give all their
10 final orders, even ones that don't come through
11 proceedings at the Division, but their final orders
12 and the attached documents with those orders and
13 make those available to the public on our website.
14 So far three agencies have started working with us
15 to have this done, and some are well into it. The
16 Department of Agriculture and Consumer Services --
17 thank you, Commissioner -- is the first one to
18 reach out and go for this. The Department of
19 Highway Safety and Motor Vehicles also, and the
20 Department of Environmental Protection have all
21 started now with that process. And there is even
22 some discussion that next year the Joint
23 Administrative Procedures Committee may seek to
24 make this a mandatory requirement so that these
25 documents can be available on our website to the

1 public for all agencies.

2 We've done some technical things that have
3 made our systems more secure. Of course, with all
4 of the spamming and the garbage that we receive, as
5 does every agency, we're constantly on the alert
6 and constantly putting up additional firewalls and
7 keeping that out.

8 We've set up a mirror of our servers in
9 Orlando so that we can do some shuffling around,
10 even though we send things off-site. Our backup
11 goes to sites that are even out of state in case of
12 times of weather or national disasters. We have
13 set up a mirror in Orlando so there can actually be
14 a transfer. If North Florida were shut down for
15 some reason, we would have Central Florida, and
16 vice versa.

17 We have further expanded our non-state entity
18 work. The school board work is up. We handled
19 again the Senate claims bills this year. Overall,
20 this year, we had 22 percent of our hearing
21 officers were actually for agencies who contract
22 with us and pay us on an hourly basis, which has
23 lessened the burden and will lessen the burden down
24 the road on the agencies who pay to maintain our
25 services.

1 Our agency referrals have increased again. We
2 raised it up by another 3 percent, the actual cases
3 we received on the adjudication of disputes side.
4 We've had a greater than 30 percent increase in
5 cases from three agencies. Business and
6 Professional Regulation, Highway Safety and Motor
7 Vehicles, and Management Services have all had
8 significant increases in the cases sent to us this
9 year. We've done this, of course, without
10 additional staffing. And, in fact, during the
11 special session this year, we actually lost one of
12 to our ALJ positions, our administrative law judge
13 positions, and so we're one judge fewer now, but
14 certainly able to handle the work.

15 On the workers' comp side, with all of the
16 changes in legislation, especially in 2003, which
17 greatly affected attorney's fees, there has been a
18 gradual decline in the number of petitions, the
19 number of cases filed with us every year.

20 The case came out of the Supreme Court last
21 year, the Murray v. Mariner Health case, which put
22 a reasonableness standard back into workers' comp
23 attorney's fees. The Legislature just passed a
24 bill which will remove that reasonableness standard
25 and go back to the amendments that were made in

1 2003 and will keep the workers' comp law where it
2 is. We expect there to be some more confusion and
3 continued challenges to that statute, the new
4 statute, just as there was the last time.

5 But what we have really seen this year is that
6 for the first time since 2003, the number of cases
7 -- and this is since the end of fiscal year
8 2007-2008. The number of cases coming in in
9 workers' comp has leveled off. We've not seen that
10 continued decline.

11 And also, there has always been since 2003
12 this claim that there would be so many cases where
13 claimants would not be able to get representation
14 and where claimants would be representing
15 themselves without legal counsel. The numbers, in
16 fact, of non-represented claimants is below now
17 what it was three years ago. So claimants are
18 getting lawyers. Lawyers are handling the cases.
19 Lawyers aren't always happy with the size of the
20 attorney's fee, but that's the way the law is
21 written.

22 The Statewide Nominating Commission, which
23 actually reviews the workers' comp judges and looks
24 at them in terms of initial appointments and
25 reappointments, is doing its job. They submit the

1 names to the Governor for approval each year. We
2 have been providing them with detailed statistical
3 data on how each judge going up for reappointment
4 has performed in his or her own right, but also in
5 comparison with all the other judges, and that has
6 done two things.

7 One, it has given them the type of information
8 they need to make good, clear decisions as to
9 whether a judge should be reappointed. But
10 secondly, it also sets the bar a little higher for
11 the judges. No one wants to be in the bottom half
12 of the class, so everyone is pushing hard to get
13 their cases through and move things along.
14 Actually, we had one judge who was not reappointed
15 by the Nominating Commission in 2008, and there's
16 another judge who was up for reappointment this
17 year who has decided to retire rather than going
18 for reappointment, because that judge's statistics
19 were subpar.

20 And I think that having this statistical
21 information and putting it out there and really
22 pushing the judges to work hard, while we give them
23 the tools they need to do their jobs, has really
24 shown some benefits, great benefits to the system.

25 We have made some major physical plant

1 improvements this past year. We opened the new
2 office in Miami, the workers' comp office, which
3 just moved from one tower in the state office
4 building to another, but new space, more secure
5 space, space that is accessible to any disabled
6 folks, which there are many who come for workers'
7 compensation cases who are disabled. It has really
8 improved the professionalism. It has improved the
9 overall tenor of how cases are handled in that
10 district. And accordingly, we have helped that
11 district improve its statistical data greatly.

12 We are handling more and more cases by video
13 teleconference. We have ten video teleconferencing
14 sites within our offices around the state where we
15 can handle testimony. We can have the judge stay
16 in Tallahassee and handle hearings. It works great
17 on the shorter hearings, the hearings where there's
18 not a lot of paper, there's not a lot of expert
19 testimony. And it saves a lot of money on travel,
20 which, of course, our travel budget has been
21 tightened up, as has everyone's, and expense
22 budget. So we are adding two more of those sites
23 this year.

24 And they have been great, not only for the
25 adjudication of disputes program, but for workers'

1 comp. Some areas of the state are experiencing, of
2 course, because of the downturn in construction,
3 not as many workers' comp claims, and so we have
4 those judges by video handling motion hearings and
5 actually handling hearings by video for judges in
6 those parts of the state that still have a very
7 high volume of cases, and it has worked out great.

8 As far as our performance standards, on the
9 adjudication of disputes side, we were -- on four
10 of the five standards, we either met or were within
11 a point. On one of the standards, we were off, and
12 it was mainly an error on our part, a batching
13 glitch. When the cases came in from one agency,
14 they didn't get timely set. When I say timely set,
15 this was -- on professional licensure cases, they
16 have to be set within 90 days. They were not all
17 set within 90 days. Our standard is 95 percent
18 must be set within 90 days. Only 87 percent based
19 on that glitch in our scheduling. But we still
20 closed 76 percent of those cases within 120 days,
21 and our performance standard is 77 percent, so we
22 were right on there.

23 We closed 5,800 cases this past year on the
24 administrative law side. That beat our standard of
25 4,400 we were supposed to close this year.

1 81 percent of all cases were closed within 120 days
2 of filing. The standard is 76 percent, so we were
3 way above that. And then 89 percent of all the
4 cases in the office were set within 90 days of
5 filing.

6 Most of the ones that aren't set within 90
7 days are because the agencies or the private
8 parties don't want them within 90 days. They want
9 more time for discovery. They have issues in terms
10 of staffing. Many of the agencies have reduced
11 legal staffs now, and they asked us to work with
12 them to spread the cases out so they can use fewer
13 lawyers to handle the number of cases that come to
14 us. And, of course, our goal is to work with them
15 and to ensure due process, not just to meet a
16 performance standard so we can say we set you
17 early. And we don't engage in the game of we set
18 the hearing, convene the hearing, and then five
19 minutes later, recess the hearing and come back a
20 month later. We really do set these hearings with
21 the intention of going forward and completing the
22 hearing when it's scheduled.

23 On the workers' comp side, we had remarkable
24 improvement this year. We are still working on a
25 significant backlog in South Florida. Where last

1 year we closed over 160,000 cases statewide in
2 workers' comp, this year we closed 116,000 of the
3 petitions. Our performance standard is only to
4 close 45,000 a year, so we're still catching up on
5 this backlog that has been inherited from Miami and
6 from some staffing shortages in Miami over the last
7 five or six years.

8 Last year when I reported to you, we only had
9 29 percent of our cases that were closed within the
10 statutory time frames, and that was a terrible
11 number, even though we were closing a backlog of
12 cases, as I said, 160,000. This year, we got up to
13 52 percent systemwide, so that nearly doubled where
14 we were last year. And that's still -- next year
15 we think we're going to be up there where we should
16 be.

17 The average days from petition to closure,
18 we're down almost 30 percent this past year.
19 88 percent of the mediations were held within 130
20 days, which is required by statute. That beat our
21 performance standard. The number of mediations
22 held was down last year, only 20,000 as opposed to
23 22,000 the previous year, but 50 percent of the
24 mediations again resulted in settlement of all
25 claims. 60 percent of the mediations resulted in

1 the settlement of at least some of the claims in
2 the case.

3 So mediation is still a very cost-effective
4 way of reducing the number of cases that go to
5 hearing. A 50 percent settlement rate is still
6 excellent. We've set our standard at 52 percent,
7 but 50 percent of mediations settling is good in
8 any area of the practice of law.

9 To conclude, I would just say that I'm honored
10 to stand here again as the director and chief judge
11 of the Division of Administrative Hearings. I take
12 office later this year as the president of the
13 National Association of Administrative Law
14 Judiciary. I'm currently president-elect of that
15 group. I've also been involved in forming this
16 year the National Association of Workers' Comp
17 Judiciary, which we're working with our workers'
18 comp judges and judges in neighboring states, but
19 now we've got some interest from states that aren't
20 so close by, but to improve the professionalism and
21 the quality of the workers' comp judiciary.

22 And I just have to say about my staff that
23 they are a wonderful, generous, dedicated staff.
24 I'm proud that even in a year of tightening belts
25 and of budget reductions that we made our gold

1 awards in the Florida state employees charitable
2 campaign, and we expect to push forward and do that
3 in the coming year.

4 I think the Legislature has recognized the
5 important role that we play in the system. While
6 we've experienced some cuts, they have largely kept
7 our complement of judges intact, which allows us to
8 handle the cases in a timely and efficient manner.
9 And we expect no decreases in the level of service
10 this year, even with some cuts that we had, and in
11 fact, we expect to do better this year than we did
12 in the past year.

13 GOVERNOR CRIST: Thank you, Your Honor. CFO.

14 CFO SINK: Thank you, Governor.

15 Thank you, Judge Cohen. Another good report,
16 very good progress. But one of the things you just
17 touched on -- and I'll be brief -- is the issue of
18 the mandatory electronic filing. I guess the
19 information you sent to us indicated that while we
20 had achieved savings of in excess of a million
21 dollars, that if we do have mandatory filing, that
22 could possibly be yet another million dollars in
23 savings. So what can we do to help push this
24 process along?

25 MR. COHEN: Well, I think now that we have

1 seen -- with Senate Appropriations, which looked at
2 this issue and said, "Give us some language," I
3 think now that we've seen there is actually some
4 interest among some members who will be back next
5 year and in leadership positions within the Senate,
6 that we're going to try to move this in with the
7 administrative procedures bill that comes in next
8 year and try and get this in. There's not a lot of
9 opposition.

10 Of course, we're going to make exceptions for
11 people who don't have access to computers, but
12 we're talking about lawyers. For the most part,
13 these people are represented by lawyers, and there
14 aren't many law offices out there anymore --

15 CFO SINK: All lawyers have computers now?

16 MR. COHEN: -- without computers. I hope so.

17 CFO SINK: Well, please keep our legislative
18 affairs office informed, because I think if all of
19 us can join in with our legislative affairs office,
20 we can make something good happen for the
21 taxpayers.

22 MR. COHEN: Absolutely. Thank you.

23 GOVERNOR CRIST: General.

24 ATTORNEY GENERAL McCOLLUM: Thank you,
25 Governor.

1 How did your budget fare compared to the
2 general courts, the circuit courts and the courts
3 of appeals, the Supreme Court, and all the other
4 active judicial offices?

5 MR. COHEN: I think we did a lot better, the
6 reason, number one, we're small. We're largely
7 trust funded, especially workers' comp is trust
8 funded on a minimal premium tax assessment. So
9 there were no general revenues involved in the
10 budget, very few items of general revenues that
11 flow to us through the budget. As I said, we lost
12 one judge position in the special session, but lost
13 no positions during the regular session. We did --
14 we lost the rest of our money that was in the OPS
15 money. We lost a little bit of expense money. We
16 lost a little bit of the operating capital outlay
17 money. But other than that, we fared pretty well,
18 and we're quite thankful that we are where we are.

19 ATTORNEY GENERAL McCOLLUM: Well, you reported
20 it very well today, but I just wanted to clarify
21 that. Of course, the courts have worked hard to
22 get the systems so they don't get subjected to the
23 annual flows of this.

24 A question for you about something unrelated,
25 but are you familiar with the Davis Productivity

1 Awards?

2 MR. COHEN: Absolutely.

3 ATTORNEY GENERAL McCOLLUM: Does your office
4 participate?

5 MR. COHEN: We do, and in fact, we are -- I
6 think the luncheon is coming up soon, because we
7 have received an award this year for our electronic
8 filing system.

9 ATTORNEY GENERAL McCOLLUM: Good. Well, I was
10 going to say, the things you're reporting on sound
11 like they ought to come under that aegis, and I
12 know some of us up here look at those as some
13 guidepost for efficiencies that some of the offices
14 in the state do or don't do. So thank you.

15 Appreciate it, Governor.

16 GOVERNOR CRIST: Thank you very much. Is
17 there a motion on the item?

18 CFO SINK: Oh, I move it. I'm sorry.

19 COMMISSIONER BRONSON: Second.

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

22 MR. COHEN: Thank you, Governor.

23 GOVERNOR CRIST: Thank you, chief.

24

25

1 GOVERNOR CRIST: Lisa Saliba, welcome back.

2 MS. SALIBA: Thank you.

3 GOVERNOR CRIST: Florida Land and Water
4 Adjudicatory Commission.

5 MS. SALIBA: Governor and Cabinet members, we
6 have one item today. We present for your final
7 approval a rule establishing the Wiregrass
8 Community Development District in Pasco County.

9 CFO SINK: I move it.

10 COMMISSIONER BRONSON: Second.

11 ATTORNEY GENERAL McCOLLUM: Second.

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

14 MS. SALIBA: Thank you very much.

15 GOVERNOR CRIST: Thank you, Lisa.

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1 GOVERNOR CRIST: Board of Trustees. Bob
2 Ballard, good morning, sir.

3 MR. BALLARD: Good morning, Governor. Good
4 morning, Cabinet members. I'm standing in for
5 Secretary Mike Sole.

6 GOVERNOR CRIST: Where is he today?

7 MR. BALLARD: He's in South Florida, and I
8 believe he's got a land negotiation that he's
9 working on.

10 GOVERNOR CRIST: A very important one.

11 MR. BALLARD: Yes, sir.

12 GOVERNOR CRIST: Thank you, Bob.

13 MR. BALLARD: Item 1 is the consideration of a
14 request to -- and we have three requests, to
15 approve the Guana Tolomato Matanzas National
16 Estuarine Research Reserve management plan, approve
17 the two updated management plans for the Guana
18 River Marsh Aquatic Preserve and the Pellicer Creek
19 Aquatic Preserve, and expand the boundary of the
20 GTM NERR to include the Matanzas State Forest and
21 the 2003 addition to the Faver-Dykes State Park.

22 ATTORNEY GENERAL McCOLLUM: I would move
23 Item 1, Governor.

24 COMMISSIONER BRONSON: Second.

25 GOVERNOR CRIST: Moved and seconded. Are

1 there any speakers on this item, Bob?

2 MR. BALLARD: No, sir.

3 ATTORNEY GENERAL McCOLLUM: Could I make a
4 comment?

5 GOVERNOR CRIST: Please.

6 ATTORNEY GENERAL McCOLLUM: I would just like
7 to say that, Bob, this is to my way of thinking one
8 of the most important pieces of business we're
9 doing. I know we're going about it quietly
10 probably this morning, but this is a lot of
11 acreage. It's an incredible piece of property, and
12 this plan is very, very important. I think people
13 in Florida are well served by the preservation
14 efforts that are being made in this particular
15 case, and I'm proud of your team for what they've
16 done.

17 MR. BALLARD: Thank you, sir. This is over
18 60,000 acres, and it's a great partnership with not
19 only the federal government -- and we get a lot of
20 grant money by being in this partnership. So it's
21 a great partnership with all of our partners,
22 including Forestry, State Parks, and others in the
23 counties around this area.

24 GOVERNOR CRIST: Thank you. Very good. It
25 has been moved and seconded. Show it approved

1 without objection.

2 MR. BALLARD: Item 2 is a request for
3 consideration of an option agreement to acquire
4 three noncontiguous tracts of land totaling 574
5 acres. These tracts are within the Department of
6 Agriculture and Consumer Services' Blackwater River
7 State Forest, and they are also within the Yellow
8 River Ravines Florida Forever project. This is an
9 acquisition from the Nature Conservancy. It is
10 located in Santa Rosa County, and the consideration
11 is for \$1,275,475, and this is 75 percent of
12 appraised value.

13 COMMISSIONER BRONSON: Motion on Item 2.

14 CFO SINK: Second.

15 ATTORNEY GENERAL McCOLLUM: Second.

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

18 MR. BALLARD: Item 3 is a request for
19 consideration of an option agreement to acquire
20 approximately nine-tenths of an acre within the
21 Pillsbury Mound Florida Forever project from South
22 Florida Museum and the Bishop Planetarium. This is
23 located in Manatee County. It's just inland of the
24 Manatee River.

25 ATTORNEY GENERAL McCOLLUM: Move Item 3.

1 CFO SINK: Second.

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

4 MR. BALLARD: That concludes our typical
5 agenda. Governor, if I may, the CFO's office
6 through the Cabinet aides has asked that we bring
7 forward things that have passed and have not passed
8 during the session that relate to the Board of
9 Trustees, and I would promise to go through this
10 quickly if you will indulge us.

11 GOVERNOR CRIST: Sure, please. CFO.

12 CFO SINK: I know you're prepared for this,
13 Bob, but what I'm thinking now, because we have a
14 couple of other issues, is maybe to defer this
15 until the next meeting when Secretary Sole will be
16 present. I mean, I like you fine, but I hate to
17 put you on the spot.

18 MR. BALLARD: You have just made my day.
19 Thank you.

20 GOVERNOR CRIST: Congratulations, Bob.

21 CFO SINK: Yes, we don't need -- thank you,
22 Governor. We'll let Secretary Sole come and take
23 the heat. Thank you for being prepared, though.

24

25

1 GOVERNOR CRIST: State Board of
2 Administration, Ash Williams.

3 MR. WILLIAMS: Good morning.

4 GOVERNOR CRIST: Good morning, Ash.

5 MR. WILLIAMS: Good morning, Governor and
6 members of the Board. Item 1 is minutes from our
7 April 28 meeting. Request approval.

8 GOVERNOR CRIST: I'm sorry. I couldn't hear
9 what you said.

10 CFO SINK: Minutes. I move approval of the
11 minutes.

12 MR. WILLIAMS: Thank you.

13 GOVERNOR CRIST: There's a motion on the
14 minutes. Is there a second?

15 ATTORNEY GENERAL McCOLLUM: Second.

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

18 MR. WILLIAMS: Item is a fiscal sufficiency
19 for the Department of Transportation right-of-way
20 acquisition and bridge construction bonds.

21 ATTORNEY GENERAL McCOLLUM: Move Item 2.

22 CFO SINK: Second.

23 GOVERNOR CRIST: Moved and seconded. Show
24 Item 2 approved without objection.

25 MR. WILLIAMS: Item 3 is an emergency rule

1 request for the Florida Hurricane Catastrophe Fund
2 to put out information reflecting changes in the
3 legislative session.

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

5 ATTORNEY GENERAL McCOLLUM: I move Item 3.

6 CFO SINK: Second.

7 GOVERNOR CRIST: Moved and seconded. Show it
8 approved without objection.

9 CFO SINK: Governor, can I just --

10 GOVERNOR CRIST: CFO.

11 CFO SINK: -- ask a few questions about the
12 Cat Fund? I understand, Ash, that the Cat Fund
13 Advisory Committee met yesterday -- and my
14 representative, Robert Tornillo, was there -- and
15 that there was quite a lot of conversation around
16 the debt capacity study.

17 MR. WILLIAMS: Yes.

18 CFO SINK: As it was explained to me, and it
19 may or may not be right, that there was a -- the
20 advisors gave us a broad range of what, in the
21 event of a storm, we might be able to bond out, and
22 I heard the range was from 4 to \$10 billion. There
23 was a lot of conversation around that.

24 Would you kind of shed some light on that,
25 because that was obviously part of the conversation

1 when our advisor came at a previous meeting and
2 suggested that the Board not take any action
3 regarding the fund because of the market
4 conditions. And I would just like for you to share
5 what you heard out of the meeting yesterday,
6 because I think it's important for all of us to
7 know.

8 MR. WILLIAMS: Of course. The summary was
9 correct. There were a range of opinions expressed
10 by different financial institutions. The
11 dispersion among them was quite substantial. John
12 Forney of Raymond James, our financial advisor,
13 summarized those with the conclusion that the
14 issuance capacity estimate should remain where we
15 estimated it at last point, which is \$8 billion.

16 As Mr. Watkins from the Division of Bond
17 Finance suggested earlier, we're in a market
18 environment that has continued to improve, but it
19 has improved more consistently and with greater
20 depth for high quality credit issuers. And there
21 was some disparity of view among the different
22 investment banking firms at the Advisory Council
23 yesterday as to what that issuance range should be.
24 And actually, the range was even broader on the
25 high side. I want to say the highest number that

1 was mentioned was --

2 CFO SINK: Twelve.

3 MR. WILLIAMS: Twelve-plus billion dollars, so
4 a very wide range. And our thinking is, given
5 direction that we're headed broadly, that staying
6 with the 8 billion is probably a good number.

7 It may also being worthy of note that some of
8 the same institutions who are involved more
9 directly in the investment banking side are also
10 formulating products they would like to sell us
11 that would guarantee commitments of capacity should
12 the capacity not be there in the open marketplace,
13 so perhaps that should be weighed as well.

14 CFO SINK: And, Governor, if I could ask just
15 a couple more.

16 I think one of the things that has been shed
17 -- that has seen the light of day is the issue of
18 pricing on this availability, which was not-- we
19 didn't inquire of it, and it wasn't disclosed when
20 you did the previous report, but it sounded to me
21 like we had said that there would be capacity. But
22 can you share with us at what pricing?

23 MR. WILLIAMS: Sure. The capacity numbers
24 that are on the large side would assume a
25 willingness to step up the yield on the paper to

1 attract buyers. And the implication could be --
2 and again, this is -- who knows where markets would
3 actually be at this point in time, but the
4 implication could be that you have yields in the
5 high single digit, low double digit ballpark.

6 And to put that in perspective, one of the
7 proposals that we've seen from one of the
8 investment banks for them to offer capacity
9 suggested a significant up-front payment in return
10 for a commitment to buy a certain amount of paper
11 with a yield in the low teens.

12 So when you hear that sort of offer with an
13 up-front payment, and we're saying we can access
14 the market ourselves if we pay up a bit in yield
15 potentially -- and with the markets in flux the way
16 they are, I think looking ahead, it has to be taken
17 with a grain of salt, certainly. But I think it's
18 conservative to say that one might very well have
19 to pay up for significant capacity, particularly if
20 the downgrade issue that Mr. Watkins referred to
21 earlier moves forward.

22 CFO SINK: So this 15 to 18 percent number
23 that I heard maybe second- or thirdhand is not
24 accurate?

25 MR. WILLIAMS: That seems like a very rich

1 number. Obviously --

2 CFO SINK: Well, regardless, a double digit
3 number, compared to what we're accustomed to
4 issuing bonds for, in the 4 to 5 percent range, is
5 pretty --

6 MR. WILLIAMS: Sobering.

7 CFO SINK: -- substantial and enormous and
8 gets us in debt ratio problems for sure on the
9 assessments.

10 All right. I just wanted to clarify that for
11 all of us.

12 GOVERNOR CRIST: Great. Thank you, CFO.

13 Item 4.

14 MR. WILLIAMS: Item 4 was another Cat Fund
15 rule request. We would like to withdraw that at
16 this time and come back when we've had the benefit
17 of summarizing all the rule changes needed and come
18 back to you with that all at once, so a motion to
19 withdraw would be appropriate.

20 ATTORNEY GENERAL McCOLLUM: I move withdrawal
21 of Item 4.

22 CFO SINK: Second.

23 GOVERNOR CRIST: Moved and seconded. Show
24 Item 4 withdrawn without objection. That's a wrap.

25 ATTORNEY GENERAL McCOLLUM: Governor.

1 GOVERNOR CRIST: Excuse me. General.

2 CFO SINK: Yes, Governor. I thought Ash was
3 going to, if it would be your pleasure, respond to
4 a letter that I sent asking him the status of some
5 of the suggestions that I had made a little over a
6 year ago about some reform issues at the Board.
7 And, of course, at that time we were operating with
8 General Milligan, who was graciously serving in an
9 interim capacity. And Ash has now been here for
10 six months, and so he's got his feet on the ground,
11 I hope, and I would just like a review of where we
12 stand on these suggestions, and I do have a couple
13 of motions to make.

14 GOVERNOR CRIST: Sure.

15 MR. WILLIAMS: I'll be happy to walk you
16 through a quick summary if you like.

17 CFO SINK: Thank you.

18 MR. WILLIAMS: Since the Local Government Pool
19 events of the fourth quarter of 2007, we've made a
20 number of changes that integrate a number of the
21 recommendations, CFO, that were made, that you made
22 in early 2008. We've also pursued the requirements
23 of House Bill 2422, which restructured the Local
24 Government Pool and established reporting, a Local
25 Government Participant Advisory Council, et cetera.

1 We have acted or are in the process of acting on
2 recommendations from several audits that have been
3 conducted over the past 18 months, some by outside
4 parties, some at the initiation of the State Board.
5 We have also looked at recommendations from
6 independent consultants and tried to digest lessons
7 that have been learned through the whole Local Pool
8 experience. Many of these changes compliment one
9 another. Some preempt others.

10 Specifically, if we look at the local
11 government investments area and reforming the LGIP,
12 we have continued to look at and pursue legal
13 remedies and potential settlements with those
14 institutions that sold certain of the securities
15 that became illiquid in the Local Government Pool.
16 And as a matter of fact, I had a meeting as
17 recently as yesterday on that subject.

18 The LGIP under the management of Federated
19 Investors has in fact been stabilized. It has
20 maintained its AAAM rating, and we've seen some
21 growth in deposits, roughly three-quarters of a
22 billion dollars. Assets under management in the
23 Local Pool are currently 6.1 billion. That's up
24 significantly from the pool's low after the wave of
25 redemptions were experienced.

1 The Local Government Participant Advisory
2 Council that is made up of local government
3 officials who are in fact investors in the Local
4 Pool and who also have investment expertise, by
5 statute appointed, of course, by you, the Trustees,
6 and subject to confirmation by Senate, is in place.
7 We've had our first meeting. It went very well.
8 Our second meeting will be coming up in the
9 not-too-distant future. The meeting agenda, the
10 minutes, the materials, and all audio recordings of
11 the actual proceedings are posted on our website so
12 that all Local Pool participants have access to
13 them.

14 In addition, the quality, frequency, and depth
15 of communications with our Local Government Pool
16 participants I think have increased pretty
17 significantly and include better organized and more
18 -- a more comprehensive and better organized,
19 dedicated website for Local Pool participants. We
20 also provide on that website regular updates,
21 weekly holdings, detailed disclosure, enrollment
22 documents, performance analysis, fees,
23 publications, investment guidelines, and other
24 things that may be of interest.

25 We've established quarterly phone calls that

1 are open to all Local Government Pool participants
2 that are jointly hosted by Federated and the SBA.
3 I did the last one myself and would anticipate
4 being on them on an ongoing basis. These are open
5 to all pool participants. We give people a
6 briefing on market conditions, what's going on with
7 the organization and the pool, and take any
8 questions anyone may have.

9 We've also recently named one of the senior
10 officers at the Board to be responsible for
11 relationship management. One of the things that
12 has taken place over the years is that the mandates
13 managed by the Board have increased dramatically.
14 We have 36 different trust funds currently. And
15 for those client investors to really understand
16 what's going on, I think we should do more than
17 simply post information on the Web or send them
18 reports. We should periodically meet with them,
19 ask them what their understanding of their
20 investment relationship is, answer any questions
21 they have about their portfolio, our organization,
22 the market environment, risks, et cetera. So we're
23 going to be moving into that area of relationship
24 management very much the way a private investment
25 firm might service its institutional clients.

1 We've made a number of operational changes in
2 the LGIP that really are probably beyond the level
3 of detail you would want to go into this morning,
4 but suffice it to say, there has been a great deal
5 done there, and I think the ultimate measure of the
6 propriety and acceptance of those measures can be
7 seen in the mood of our local government investor
8 clientele. I don't think those assets under
9 management would have increased as they have if
10 there hadn't been progress. We have actually won
11 mandates back and had Local Government Pool
12 participants who redeemed in full come back and
13 reinvest, and I think part of it is our effort to
14 respond.

15 I had a letter, for example, received last
16 Friday morning from a local government manager in
17 Crystal River, and I returned the call myself and
18 talked with him at some length. He was delighted
19 with that level of access. He's going to be
20 recommending that they grow their investments with
21 us going forward.

22 Some of the broader reforms that were
23 mentioned in your 2008 list, in the area of ethics,
24 there are a number of things I would like to report
25 on there. First of all, we have investor

1 protection principles. We talked about these and
2 some of our side letter provisions in the context
3 of placement agents at our last meeting. But I
4 think it's worthy of note that these investor
5 protection principles go far beyond placement
6 agents and look at conflicts and alignment of
7 interests holistically between the State Board and
8 those firms who would either be broker-dealers for
9 us, investment managers for us, or investment
10 consultants for us.

11 We also have ethics principles that Federated
12 Investors attests to on an annual basis to ensure
13 that there are no conflicts there. We have ethics
14 disclosure, or rather ethics agreements that are
15 signed by SBA staff on an annual basis. Everyone
16 who comes to work for us signs documents attesting
17 to the ethical standards we expect, and we have
18 annual training for all employees on ethical
19 certification and the expected ethical behavior.

20 Lastly, we have an employee hotline that is
21 operated by a third party outsourced firm, so that
22 if anybody who works for the SBA or does business
23 with the SBA at any point has a perception that
24 there's anything untoward going on, they can make a
25 call to an 800 number that's completely outside the

1 SBA and vent whatever their concern is. The one
2 person who has access to that vendor at the State
3 Board is our inspector general, and he reports
4 directly to me. So if there's anything that should
5 come up through that channel, there's a
6 cross-check.

7 We have also, I think, ramped up the activity
8 in the Audit Committee. I attend all the Audit
9 Committee meetings myself. I did one last Thursday
10 for a couple of hours. It was very productive. I
11 think the rapport there has improved significantly
12 over the past six or seven months. You can confirm
13 that with your own appointees to the Audit
14 Committee.

15 At the last meeting, we had as part of the
16 Audit Committee meeting a call with Deloitte. The
17 reason that's relevant is, you may recall that
18 Deloitte is the firm with whom we have contracted
19 to advise us on building an integrated enterprise
20 risk management and compliance system that is
21 independent of the individual asset classes.
22 That's a significant change from the traditional
23 business model at the SBA.

24 That initiative has progressed well. It began
25 in the fall of '08 with Deloitte doing an

1 assessment of our operations at a high level of
2 detail internally and comparing those with best
3 practice for SEC-registered private investment
4 advisors. They came back to us with a number of
5 specific policy recommendations. We are adopting
6 those and will create the new integrated investment
7 -- or enterprise risk management and compliance
8 unit probably in July of this year. And phase 2,
9 which we expect to receive shortly, is a much more
10 detailed, execution-oriented set of recommendations
11 having to do with staffing, resources, software,
12 et cetera.

13 The subsequent phase will extend this same
14 work to cover the Cat Fund and defined contribution
15 activities and other administrative activity, and
16 will also include guiding us on the creation and
17 implementation of a total fund risk model, which
18 will allow us from a ground-up securities position
19 level basis to look at our aggregate risks and
20 model how those will change with the addition or
21 subtraction of certain securities.

22 So that's a quick summary of where we are.
23 And I think on the questions of governance in your
24 2008 ideas with regard to the structure of the
25 Board, the activity frequency and depth and

1 reporting relationship of the Investment Advisory
2 Council and Audit Committee, et cetera, I guess my
3 comment, my response there would be that we're your
4 staff, and we'll do the best we can under any
5 governance model you feel is best, and we'll be
6 happy to serve you there. That's probably more
7 your place than it is mine to tell you what the
8 governance structure should be.

9 ATTORNEY GENERAL McCOLLUM: CFO, on your
10 proposals back then, one of the main ones you
11 focused on at the very beginning was the litigation
12 issue, which we were worried about. And I think it
13 should be pointed out, because I would certainly
14 like to see the Governor sign it, that we did pass
15 the -- the Legislature passed the Investor
16 Protection Act this session. That act was one that
17 our office drafted in working with the Office of
18 Financial Regulation.

19 And if you'll recall, back when we got into
20 all this discussion, we didn't have the tools at
21 the Attorney General's Office to go forward, the
22 authority to do some of the litigation and the work
23 that we now will have in this bill, Governor, CFO,
24 and Ash.

25 And I don't want to go into all the details of

1 it, but let me say that both on the civil side,
2 this legislation that Representative Grady
3 sponsored in the House and Senator Richter in the
4 Senate, this legislation would give the authority
5 to the Attorney General's Office to initiate, with
6 the approval of the OFR, an investigation into a
7 lot of the securities matters that previously we
8 weren't investigating.

9 And on the criminal side, the statewide
10 prosecutor did not previously -- does not until you
11 sign this bill, if you do, have the authority --

12 GOVERNOR CRIST: I'm pretty sure I will.

13 ATTORNEY GENERAL McCOLLUM: I hope you will.

14 GOVERNOR CRIST: Good lobbying effort.

15 ATTORNEY GENERAL McCOLLUM: He'll have the
16 authority after you sign it that he doesn't have
17 now to prosecute under the securities law fraud,
18 securities fraud and go after money laundering. So
19 I think that's a very -- that bill is a very
20 important step to investor protection, and I just
21 wanted to add that to your report, in the sense
22 that it's good tag-on.

23 GOVERNOR CRIST: Thank you, General.

24 ATTORNEY GENERAL McCOLLUM: I'm glad to hear
25 you probably will sign it. I'm encouraged.

1 CFO SINK: So am I.

2 Thank you very much. Obviously, last year a
3 good amount of the focus was placed on the reforms
4 that were needed at the LGIP. And like you, I have
5 heard good feedback from the investors and the
6 participants as I've gone around the state.

7 And I'm very interested in this Deloitte
8 project, which sounds like it's going into a great
9 amount of depth and will result in some changes in
10 the way the oversight and the risk management is
11 handled at the Board.

12 But to the other -- Governor and Attorney
13 General, one of the things that has just bothered
14 me ever since I got here was that we three are the
15 ones who are overseeing this -- it used to be a
16 \$125 billion State Retirement System, plus, as it
17 came to light, these other 33 mandates. And one of
18 the questions I might ask is, is it appropriate for
19 our staff who's managing the retirement system to
20 have so many other mandates, and how did they
21 happen to come up? And for us to spend maybe 10 or
22 15 minutes every two weeks that's tacked on to the
23 end of a Cabinet meeting, when a lot of other
24 things have happened, and sometimes the other
25 business of the Cabinet runs well into -- almost to

1 the noon hour, and this is just our afterthought,
2 the Board.

3 I think if we looked at the board structure
4 probably of other similar sized funds, or even
5 smaller sized funds, that you would see that the
6 board members would be there focused on management,
7 focused on -- we would have reports from the
8 Investment Advisory Committee directly to us. We
9 would have -- certainly good governance says that
10 you have the chair of the Audit Committee who comes
11 to every meeting and reports specifically on the
12 independent activities of the Audit Committee
13 per se.

14 And one of the things that I did do when we
15 came here -- I think it has been the practice
16 historically that each of our IGs formed the Audit
17 Committee. I have appointed an independent outside
18 person to be my representative on the Audit
19 Committee, and I think he -- he's Bill Sweeney. I
20 think he's making a huge difference.

21 And then there are other -- we would have
22 perhaps a legal report in some depth. And to me,
23 it just lends itself to more than just 15 minutes
24 every two weeks. So I would like to -- and, of
25 course, we need to discuss this, but I'm prepared

1 to make a motion that we initiate quarterly SBA
2 meetings, probably out at the Hermitage Center, and
3 structure a board meeting that looks more like what
4 a corporate type board meeting would look like so
5 that the three of us can begin to get more
6 information directly from some -- the people other
7 than just the executive director who typically
8 appears before us. So, Governor, I would like to
9 have some conversation and discussion about that.

10 GOVERNOR CRIST: Certainly, certainly.
11 General.

12 ATTORNEY GENERAL McCOLLUM: If I could,
13 Governor and CFO, I think the idea of getting our
14 advisory board together with us more regularly is a
15 good idea, whether we do that in a quarterly
16 structured meeting out at the offices off-campus,
17 so to speak, in your offices, Ash, or whether we
18 just do it at the end of a Cabinet meeting. I
19 think in large measure, the time the Governor has
20 as the Chairman of this Board of Trustees is
21 certainly something that should be taken into
22 account, but I would like to see that, Governor.

23 I talk to my appointees regularly, and you
24 probably talk to yours, and that's what we should
25 be doing. But I don't feel I share in the benefit

1 always of the views that are probably being
2 expressed by the others. There are six. I don't
3 know who might be watching this at home, but there
4 are six on this advisory board, and they
5 principally advise you, Ash, am I right, and you
6 have regular meetings with the advisory board? I
7 think we ought to explain that for everybody
8 listening at home, that this is a regular thing
9 that you call them in on and they participate.
10 Describe for us what our advisory appointees are
11 doing. We each appoint two of them. What do they
12 do?

13 MR. WILLIAMS: The Investment Advisory Council
14 is a statutory body. Florida law requires that the
15 individuals appointed -- and the appointments are
16 made by you Trustees, an aggregate of six
17 appointments. The law requires that these
18 individuals have investment expertise and
19 experience as a qualification. They're subject to
20 Senate confirmation. They serve for multi-year
21 terms.

22 And as a practical matter, over the years,
23 what has evolved is a pattern where we hold
24 quarterly public meetings. They are noticed in
25 advance. Materials are sent out in advance to the

1 members in very significant detail going into
2 investment performance, the attribution information
3 relating to performance, risk information, any
4 organizational issues we may have, and perhaps most
5 importantly from your standpoint, any proposed
6 changes in investment policy or any changes in risk
7 profile or any changes in strategy as a consequence
8 of market environment.

9 So those meetings take place quarterly in a
10 public forum. The transcripts are commonly, I
11 believe, posted on our website. There's full
12 background. They're open to the public. The press
13 commonly attend. We generally have a dial-in line
14 open so anyone who wants to participate and can't
15 be present can dial in and listen to the meeting.

16 And they've been very, very useful events.
17 Before we bring any policy recommendations to you,
18 they have been vetted in public by the IAC as the
19 final checkpoint on the analysis that we've done
20 internally together with our outside consultants
21 and investment advisors, all of whom, by the way,
22 attest to being fiduciaries, so they have full
23 liability for the advice they give us, but it's a
24 cross-check.

25 I think the other thing that I've always seen

1 in the IAC is, I view them as a personal resource.
2 These are capable folks, and I speak with them
3 regularly. As a matter of fact, I guess it was
4 Thursday before last, I spent a couple of hours
5 with one of them after hours. We went for a walk
6 in the woods and talked about a number of market
7 opportunities and what have you. That was just
8 something we did because it was of interest to the
9 two of us.

10 ATTORNEY GENERAL McCOLLUM: Well, Ash, I think
11 my point in having you describe it is that we are
12 structured, I believe the three of us agree,
13 differently than some of the other states in how we
14 operate overseeing the pension funds and the
15 responsibilities of the State Board of
16 Administration. The three of us as elected
17 Trustees, elected office holders who are the
18 Trustees, through the legislative direction you
19 have there in the structure actually have delegated
20 -- or the Legislature delegated this group of
21 advisors to be the ones who do this interface and
22 oversee what might be otherwise done by a board, if
23 you want to call it that, in some other state. So
24 I just wanted to clarify that.

25 But I do want to amplify something the CFO is

1 saying. I would like to have the benefit of more
2 regular opportunities -- and quarterly sounds good
3 to me, four times a year -- to interface with all
4 of these folks that are on the council, to hear
5 what they say, because the only time I get to
6 hear -- I believe we had them up here one time, I
7 think, in some meeting, Governor, since I've been
8 in office. The only time I hear from my two
9 appointees -- I could call any of them, but they're
10 the ones who call me. That's probably who calls
11 you and so forth. But to have all six of them -- I
12 know they might not all be able to come, but all
13 six of them potentially there to answer our
14 questions, allay our concerns, be involved with us,
15 would be a good idea. Now, whether it's a
16 full-fledged meeting with -- you know, I'm not sure
17 of that, but the Audit Committee, I would like to
18 hear from them too.

19 So I think the CFO is right in the broad sense
20 of this. I don't know that we need to formalize
21 that, but I think you certainly should have the
22 authority and know that at least I would join the
23 CFO in interest in having the opportunity to have a
24 report beyond Ash, not -- Ash, we love you. You're
25 doing a great job as far as I know, but we would

1 like to have a report from our team that advises
2 you more regularly. I think that's really what
3 you're suggesting, CFO, and I certainly would
4 concur in that.

5 CFO SINK: Well, I would like to make a motion
6 that the Board, in addition to the regular kind of
7 ministerial business that has to come at the
8 Cabinet meetings, the things that are timely, like
9 fiscal sufficiency and that sort of thing, that we
10 hold quarterly board meetings just like other
11 professional boards do, where we would discuss the
12 business of the SBA in the sunshine, that at these
13 meetings we would have reports directly to us from
14 all the advisory committees, including the
15 Investment Advisory Committee and the Audit
16 Committee, and we would get a legal report. We
17 should have a report from the inspector general --
18 I would be curious to know if any calls have been
19 coming in -- and that we would begin this later
20 this summer after our summer break.

21 So, Governor, that's the motion that I'm going
22 to offer.

23 GOVERNOR CRIST: Very good.

24 ATTORNEY GENERAL McCOLLUM: Governor, I would
25 just like to know your thinking on this, because

1 you've got to call it. It's your time. You're the
2 chairman. I'm willing to have these meetings, but
3 whether we structure it formally or not, I think
4 you need to tell us, because you are our chairman.

5 GOVERNOR CRIST: Well, I appreciate that,
6 General. Thank you. I would concur. I think that
7 the notion of having quarterly meetings is a good
8 idea. I think it's a productive measure. I'll
9 second it. And I think that by doing so, we have a
10 better opportunity and the public at large has a
11 better opportunity to see the inner workings of the
12 SBA, and that's really what it's all about.

13 ATTORNEY GENERAL McCOLLUM: Well, I certainly
14 concur. I just wanted to give you the opportunity
15 to express that view before I just wound up saying,
16 "Hey, let's embrace it. Go do it." But I agree
17 with it. I agree with it.

18 CFO SINK: Well, it's more time -- it's more
19 time-consuming, obviously, for the three of us, but
20 I think it's --

21 ATTORNEY GENERAL McCOLLUM: Well, it's
22 important that we do it.

23 CFO SINK: Especially in these times.

24 ATTORNEY GENERAL McCOLLUM: No, it's very
25 important that we do it. I think that's a very --

1 and if you wanted to have a vote on it, I'm ready
2 to vote yes.

3 GOVERNOR CRIST: Okay. All in favor signify
4 by saying aye.

5 ATTORNEY GENERAL McCOLLUM: Aye.

6 CFO SINK: Aye.

7 GOVERNOR CRIST: Aye.

8 CFO SINK: Governor, I do have a second motion
9 that I would like to present.

10 GOVERNOR CRIST: Certainly.

11 CFO SINK: The other issue that has been
12 alluded to is the governance structure of the SBA.
13 And General McCollum, as you said, of course, the
14 three of us, it's in the constitution that the
15 three of us are the board of the State Board of
16 Administration. And we are three elected officials
17 that came here -- that were elected by the people
18 to serve, enormous numbers of duties. In addition
19 to the work we do here as Cabinets members,
20 obviously each one of us has -- and certainly, you,
21 Governor, have enormously large government
22 operations to run. And I think that we ought to --
23 that the State ought to consider expanding the
24 membership of the Board of Trustees. That was just
25 an idea that I put forward.

1 I'm getting ready to make a motion that we
2 name a group, a working group that I would like to
3 discuss with the two of you who would work over the
4 summer to look at the best practices in terms of
5 governance structures, look at what other states
6 do.

7 Some states have a single trustee, which I
8 would never agree with. That's why New York is in
9 a problem right now, because of conflicts and
10 political influence peddling because they had a
11 single trustee.

12 But in other states, the board representation
13 is much broader. It has representatives who come
14 from the investment or the financial world. Some
15 of them have requirements that participants -- or
16 there is employee representation on the board.

17 So the idea that I threw last year was that we
18 could expand from three to five, add a financial
19 professional, add an investment professional, and
20 that was just one idea. Clearly, whatever we may
21 or may not decide to come up with has got to go to
22 the Legislature, and then they next spring would
23 have to agree to put it on the ballot for a
24 constitutional amendment.

25 So I'm just opening this up for discussion,

1 that either our chiefs of staff or each of us could
2 appoint some independent people to work over the
3 summer and come back to us by the 1st of September
4 with a study of the range of options that we might
5 offer in terms of proposals to go to the
6 Legislature next year.

7 ATTORNEY GENERAL McCOLLUM: May I comment,
8 Governor?

9 GOVERNOR CRIST: Yes, of course, General,
10 sure.

11 ATTORNEY GENERAL McCOLLUM: Let me say that I
12 have no problem with my staff working with yours or
13 both on yours on any ideas that might be out there.
14 I want to state, though, up front my own thinking.

15 I'm a little skeptical, CFO, about changing
16 the board structure, us, the three Trustees, to add
17 anyone to it who is not an elected official who has
18 the same more or less rank. We might maybe want to
19 bring in Commissioner Bronson or something to this.
20 But I'm skeptical about that, and I just state that
21 up front. But I'm very open to the idea that we
22 might find a way to add some expertise to the
23 Advisory Council that we were just talking about
24 meeting regularly.

25 My personal concept of this, just looking at

1 the rest of the country -- and I have done, as you
2 have, looked at all that, especially in light of
3 all the news that has been going on about the
4 problems some of the others are having. And I'm
5 thinking, despite the Investment Pool issue that
6 came up earlier, we actually have done remarkably
7 better in terms of some of this than others have.
8 And while I'm game to look at it, my thinking is
9 that we don't want to fix something that ain't
10 broken, as they say.

11 And so I would urge that whatever we do, be it
12 an informal, ad hoc group of our team, and then
13 they come back and we have further discussion on
14 it. But I'm particularly interested in hearing
15 what the Advisory Council members currently say,
16 but I'm thinking that maybe we each appoint another
17 Advisory Council member. Maybe that's the route we
18 go. You don't have to change to constitution to do
19 that, and the expertise that you are looking for
20 and I'm looking for that maybe we're missing in all
21 this could be added in that way. But that's just
22 so that the creative thinking of whoever is meeting
23 can go beyond the idea of just looking at changing
24 our board as such, which is a more difficult
25 process.

1 CFO SINK: Oh, well, absolutely. It has to
2 get 60 percent of the people in Florida to agree.

3 What about if I offer a motion that the three
4 of us identify a person from our staffs by -- let's
5 say we need to identify our person by June the
6 15th, because if we don't appoint anybody, then the
7 group doesn't meet, but that we each appoint a
8 person by June the 15th to work on the project over
9 the summer, to look at all of these options,
10 whether it's to expand the Investment Advisory
11 Committee, whether we need an Audit Committee --

12 ATTORNEY GENERAL McCOLLUM: I'll second the
13 motion. That's fine.

14 CFO SINK: And come back and report to us by
15 September the 1st. If it might be your pleasure,
16 I'll have my chief of staff, Jim Cassady, kind of
17 take the lead on getting everybody together, or it
18 doesn't matter, but somebody needs to be in charge.

19
20 ATTORNEY GENERAL McCOLLUM: I don't care who
21 takes the lead. There are only three of us. I
22 don't -- you know, it's the Governor's pleasure as
23 far as I'm concerned.

24 CFO SINK: They all work together pretty well.

25 ATTORNEY GENERAL McCOLLUM: Again, I would

1 yield to my chairman, the Governor.

2 CFO SINK: The chair. Are you going to
3 volunteer Eric to do it?

4 GOVERNOR CRIST: Well, you already volunteered
5 Jim, so I'll let you. No, I think it's a great
6 idea.

7 CFO SINK: He's not looking very happy back
8 there. Look at those arms crossed.

9 GOVERNOR CRIST: No, I think it's a great
10 idea. It's always good to study, it's always good
11 to review, and it's always good to analyze the way
12 things are being done, especially when it relates
13 to so much of the people's money. And so I think
14 it's a wonderful idea. It sounds like it's a
15 unanimously approved motion.

16 ATTORNEY GENERAL McCOLLUM: Something else,
17 and I'm going to be brief, Governor, if I might.

18 GOVERNOR CRIST: Of course.

19 ATTORNEY GENERAL McCOLLUM: Ash, there was a
20 disturbing article I know you've read and we've all
21 read in the St. Petersburg Times May the 2nd about
22 the Investment Pool, and all that went on, and
23 different things that were said, and whether there
24 were too risky options out there. All of that goes
25 to things we've been over quite a bit here. I

1 think most of us, all of us up here are very
2 satisfied with the responses that we've gotten.
3 And we, as you know, hired outside folks even
4 before you came aboard to advise us in the
5 Investment Pool matters being resolved, and I think
6 in a very appropriate way right now and has come a
7 long way to completion. So I'm not asking you to
8 report more on that, except to respond to some of
9 the article, some of the specifics that were
10 disturbing, if you know the answers, because I
11 realize some of this took place before your watch.

12 The article says that in the summer of 2007
13 when Bloomberg had a number of pieces, I guess two
14 articles that came out about the tranches and the
15 collateralized debt obligations that might be in
16 our funds or not in our funds, that our spokesman,
17 Michael McCauley, was, you know, checking around
18 and came out to -- came to the conclusion that
19 certain things we didn't do, because he was asked
20 specifically if the pension fund has exposure to
21 the firms that were selling the collateralized debt
22 obligations. And he went on down to give some
23 responses over time that this article says were
24 very misleading, inaccurate, false in part,
25 et cetera.

1 And the part they say was false, it says,
2 "McCauley wrote that the pension fund held CDOs but
3 said none was tied to the subprime portion of the
4 market. He capitalized the word 'none.' That was
5 false. At the time, the pension fund had at least
6 five CDOs linked to the subprime market."

7 Do you know the accuracy of this reporting in
8 terms of the accuracy of his response, which
9 apparently was being labeled in the paper as
10 misleading or false?

11 MR. WILLIAMS: Well, obviously, I wasn't there
12 at the time. What I do know is that there's a
13 tremendous periodicity that affects the accuracy of
14 information in this area, and here's what I'm
15 talking about. When you say a security linked to
16 subprime or did you have subprime exposure, the
17 structures that the SBA owned in the Local
18 Government Pool and elsewhere were in fact
19 structures that in and of themselves were
20 investment grade, in most cases, the highest
21 investment grade, and in some cases might have also
22 been insured by a monoline credit guarantor. So
23 when you're buying a product and it's a AAA
24 product, I think the focus was probably on the
25 structure itself.

1 And the other question is, when you're looking
2 at an asset-backed security and you're looking at
3 what the assets are that are backing it, the nature
4 of those assets can change over time. Mortgages
5 that in late 2006, early 2007 might have been
6 performing and might have as a structure been
7 investment grade, by December of 2007 could very
8 well have been downgraded to subprime status. And
9 that's why it's important -- why I said
10 periodicity, because the period you're talking
11 about when the question was asked and when it was
12 answered, if you're looking at it in the context of
13 what we know today, could be different.

14 ATTORNEY GENERAL McCOLLUM: So you think this
15 article is wrong in its conclusions on this point?

16 MR. WILLIAMS: I know Mike McCauley, and I
17 think Mike McCauley is an honest and
18 forward-looking person who wasn't trying to deceive
19 anyone. And that's not our culture.

20 As a matter of fact, we now have continued --
21 and that's why we've embraced the outreach that we
22 have to the local governments, because we're in the
23 trust business, and if we can't be open with our
24 clients, look them in the eye and tell them the
25 truth and have them accept that we are telling them

1 the truth, we have a problem.

2 There is no question that in the past, for
3 whatever reason, there were perceptions that the
4 level of openness was not what it could be. I
5 think people have perceived that. They've learned
6 lessons and are trying just as hard as we can to go
7 in the right direction. And I think greater
8 openness in every channel we can reach is in our
9 interest.

10 For example, we continue improving our web
11 pages and will, but as an example, the SBA's home
12 page right now includes updated information on the
13 AUM of every single one of our 36 funds. That's
14 assets under management. We have all our current
15 investment reports. We have our current monthly
16 and quarterly reports to you, the Trustees, on the
17 website. We're providing information on our debt
18 service accounts and on other things that could be
19 of interest, including corporate governance. We
20 also have on our website -- we have two websites
21 that are linked, sbafla.com and myfrs.com. The
22 myfrs.com website, which provides information to
23 FRS beneficiaries, has had 1.6 million visits in
24 the past 12 months, the most recent 12-month
25 period. That's a lot of information given out to

1 people.

2 We also have a service that we contract out
3 through Ernst & Young that provides independent
4 financial guidance not just on the selection of
5 employment options and benefits under either the
6 Florida investment plan or the Florida retirement
7 plan, but financial advice generally. If any of
8 you in this room as beneficiaries have an issue
9 financially and you want guidance, you can call
10 Ernst & Young for free and get a personalized,
11 customized advisory package from them. We had
12 198,901 beneficiaries take advantage of that
13 service in the most recent 12-month period.

14 ATTORNEY GENERAL McCOLLUM: I think this is
15 very commendable, Ash, but back when this was all
16 going on, we weren't as transparent when the
17 Investment Pool issue came along as you are now.
18 That's a great step forward.

19 I have one other question about this article.
20 I could ask a lot, but I'm not going to do that.
21 These are the two that disturbed me the most that I
22 wanted you to respond to.

23 It says, "In 2007, Mike Lombardi headed the
24 SBA's short-term trading desk." There are quite a
25 few things talking about Mike's activities, but

1 what bothered me was the portion of the article
2 that talked about before Lombardi's short-term
3 trading desk, and I'm just quoting from the
4 article, bought securities, it received
5 confidential memos, e-mails and investor reports
6 from brokers and sponsors that screamed out
7 warnings. Some examples from the reports, quote,
8 There is currently no market for the securities,
9 unquote; quote, rating agencies may not fully
10 reflect the true risk of an investment; quote, the
11 issuer may have insufficient funds to pay the notes
12 as they mature and the holders of the notes may
13 suffer losses, unquote; quote, a substantial
14 exposure to nonprime, and in particular subprime,
15 U.S residential mortgage market may decrease and
16 sales could result in losses to investors, unquote;
17 and then the insurer, quote, is subject to a
18 potential lack of diversity, illiquidity, interest
19 rate volatility, credit risks associated with the
20 underlying investments, embedded leverage in
21 derivative instruments and other investment risks.

22 Then they go on to say, "Take Axon Financial
23 Funding, a complex financial product registered in
24 the Cayman Islands. At least two of Axon's
25 dealers, JPMorgan Chase and Credit Suisse, sent a

1 confidential memo to Lombardi's unit that listed 20
2 pages of risks, including potential, quote, losses
3 due to defaults, unquote, in mortgages backing the
4 securities. Lombardi's unit bought Axon anyway,
5 \$225 million for Citizens Property Insurance, 425
6 million for other SBA funds. Citizens took a loss
7 of \$111 million. The SBA still has \$380 million of
8 Axon, and its current value is \$176 million."

9 Now, that sounds pretty damning. What can you
10 say to assure us that either this is wrong or that
11 it's something that is being represented in a way
12 that perhaps the public should see it differently?

13 MR. WILLIAMS: Well, I think the most
14 important thing I can offer you is that the Local
15 Government Investment Pool is no longer managed by
16 any of the people who were involved with it at the
17 time. It's under the control of Federated
18 Investors, which is an independent, highly regarded
19 SEC-regulated investment advisor. We're capturing
20 the benefit of their services for the local
21 governments at an extraordinarily effective cost.
22 So even net of fees, it's still a significant
23 advantage, I think, for the local governments to
24 invest in the Local Government Investment Pool
25 offered through the State Board of Administration.

1 And I think guidelines have been appropriately
2 tightened.

3 Understand, too, there was a change in the
4 statute. The old statute directed that the Local
5 Government Pool be operated in a manner to maximize
6 return for local governments, to maximize the use
7 of their resources.

8 ATTORNEY GENERAL McCOLLUM: Well, Ash, first
9 of all, is this accurate? What I just read to
10 you -- you have historical reference on this. This
11 isn't somebody reporting whatever like the other
12 one. Is and was this accurate, what's being
13 reported that I just read?

14 MR. WILLIAMS: In terms of specific reports
15 and when Mike Lombardi might have received them, I
16 don't know the detail of that. I wasn't there at
17 the time. I do know this: Mike Lombardi no longer
18 has individual portfolio authority, and the pool
19 has changed very dramatically.

20 ATTORNEY GENERAL McCOLLUM: But we did buy
21 Axon, and that portion of this is accurate?

22 MR. WILLIAMS: We did. And I'll give you my
23 honest view on that, General. Axon and Ottimo,
24 which I think was another one of the structures
25 that was mentioned there, are structured financial

1 products that are exactly the sort of thing that
2 personally I don't like. They're structured
3 products that are very complex. They're very hard
4 to understand, and they're somewhat opaque.

5 And I think the experience of the State Board
6 and the Local Pool in 2007 was emblematic of what
7 happened to institutions all over the world. You
8 had a period of time where there was an evolution
9 of thought on the part of institutional investors
10 where structured products that yielded higher
11 returns than more straightforward investment
12 products and were rated AAA by independent rating
13 agencies, Standard & Poor's, Moody's, et cetera,
14 and in many cases also had third-party credit
15 insurance, which was referred to in one of the
16 pieces you read, those securities were gobbled up
17 by institutions all over the world, who I would
18 argue in retrospect effectively subverted their own
19 credit due diligence norms in favor of AAA ratings
20 and credit guarantees.

21 And you're back to the fundamentals, in my
22 view. If you're going to be -- I just think the
23 best way to invest is to really understand fiscally
24 what you're doing and keep it very straightforward
25 and avoid things that --

1 ATTORNEY GENERAL McCOLLUM: Well, I know this
2 article is Monday morning quarterbacking. It's
3 critical in the past, and it's revisiting the past,
4 but I think it's very important that we do that in
5 the context of the present. Transparency was
6 missing then. It clearly was missing. What the
7 Governor and myself and the CFO, and I think I
8 speak for all of us, want is never to have that
9 happen again.

10 MR. WILLIAMS: I hear you.

11 ATTORNEY GENERAL McCOLLUM: And we don't want
12 investments that are like this one, but we also
13 don't want your -- at least I don't want your
14 management team out there to be afraid to invest in
15 common stocks, to take some of the normal risks
16 that are out there in the marketplace that we have
17 to invest in in order to make a return. And you've
18 explained that time and again to us. I think that
19 a lot of people don't understand it. And some of
20 this article, not that portion I read, would lead
21 one to believe that you can't take any risk. There
22 has to be some. It just has to be prudent. I
23 think that's the word that's used.

24 So I'm not here to lecture or anything. I
25 just wanted to bring the article up. It hasn't

1 been spoken about by our Board or Trustees
2 previously. It was very prominently in the paper
3 just a couple of weeks ago, and I felt I needed to
4 bring it up. Maybe somebody else wants to comment
5 on some of it. But I'm glad you've explained what
6 you have. I'm disappointed in the past, and I'm
7 looking forward to a better future. And some of
8 the things we're doing today and you already have
9 done will make that, I believe, history.

10 CFO SINK: Governor, General.

11 GOVERNOR CRIST: CFO.

12 CFO SINK: That's exactly why I appreciate the
13 agreement to have some more extended board
14 meetings, because this is -- I agree with your line
15 of questioning and your comments. And I think when
16 we have more time set aside to really focus on some
17 of these accountability and transparency issues at
18 the SBA and have more of a dialogue with Ash that
19 we'll delve into not only the things that happened
20 in the past, but also how we operate going forward.

21 And Ash knows that I am somewhat concerned
22 about the fact that all the same people who were
23 involved in these situations are still in senior
24 management at the SBA, and that's something that I
25 think he ought to address with us at some point in

1 time to assure us that they're capable and
2 qualified and are operating truly under a new
3 culture of openness and transparency.

4 ATTORNEY GENERAL McCOLLUM: So should our
5 Advisory Council, the board we're talking about.
6 That's very important. And so thank you for your
7 comments. Thank you, Governor.

8 GOVERNOR CRIST: Of course. I think this has
9 been a very healthy discussion, and I want to thank
10 my colleagues on the Board for their concern. I
11 think the important point of the day and of this
12 discussion is that openness is paramount and
13 transparency is critical. And going forward, I
14 feel assured, Ash, with your leadership and the
15 continued involvement of my colleagues, by way of
16 the motion that has been presented today, that's
17 exactly what will occur. Thank you very much.

18 MR. WILLIAMS: Thank you, Governor and
19 Trustees. If I could leave you with two quick
20 points, one a follow-up to General McCollum on the
21 comments that you quoted out of that article.

22 If you read the placement memorandum, or the
23 red herring, as they're known in the industry, for
24 just about any investment, it will categorically
25 list every possible thing that could go wrong in

1 the most strident and frightening language that you
2 could possibly imagine. And the reason is simple:
3 If things go bad with an investment -- and that
4 does happen with investments. They go bad. We all
5 know that right now. But it's a way for the
6 manager who has put that investment together to
7 shield themselves from legal liability. So there's
8 always a disclosure document that says all kinds of
9 terrible things, and you accept those risks going
10 in.

11 ATTORNEY GENERAL McCOLLUM: If I might add to
12 that, I know we have a lot to go right now, Ash. I
13 have been aware of the SEC filings that are
14 required, and I think you're referring to those
15 largely. Every one I've ever looked at, and I've
16 looked at a lot of them, you go through this
17 incredible list of all the risks that are there.
18 So I hope that that's not what the reporter was
19 simply referring to, because that is -- but if it
20 is, then, of course, that's not and should not be
21 an issue. But if in fact there were real warnings
22 here that weren't observed -- and we know that Axon
23 clearly went south and it was not a proper
24 investment for us -- then that's a whole 'nother
25 story.

1 But every financial statement for every
2 corporation contains, you know, "If we don't meet
3 this." That's a requirement of the Securities and
4 Exchange Commission, if I recall.

5 So I'm glad you pointed it out. I don't want
6 to belabor it, Governor, but that's probably a good
7 point that Ash has made.

8 MR. WILLIAMS: The last thing is a nugget of
9 good news. We've all talked about how we can do
10 things better, but in the category of "Well, gee,
11 that's good to know," you might like to know that
12 as of yesterday's close, we're up 3.1 percent
13 year-to-date. We are at \$99.145 billion. That's
14 up from a low that was roughly \$16 billion lower
15 than that in early March. So there are a few
16 things that are working, and we'll continue to try
17 and keep them working and do better.

18 GOVERNOR CRIST: Great. Thank you very much.

19 (Proceedings concluded at 11:06 a.m.)
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CERTIFICATE OF REPORTER

STATE OF FLORIDA:

COUNTY OF LEON:

I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 1 through 90 are a true and correct record of the aforesaid proceedings.

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

DATED THIS 27th day of May, 2009.

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