

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

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Representing:

DEPARTMENT OF REVENUE

DEPARTMENT OF LAW ENFORCEMENT

ADMINISTRATION COMMISSION

BOARD OF TRUSTEES, INTERNAL IMPROVEMENT TRUST FUND

STATE BOARD OF ADMINISTRATION

The above agencies came to be heard before  
THE FLORIDA CABINET, Honorable Governor Crist  
presiding, in the Cabinet Meeting Room, LL-03,  
The Capitol, Tallahassee, Florida, on Tuesday,  
December 8, 2009, commencing at 9:05 a.m.

Reported by:

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Registered Professional Reporter

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Representing the Florida Cabinet:

CHARLIE CRIST  
Governor

CHARLES H. BRONSON  
Commissioner of Agriculture

BILL McCOLLUM  
Attorney General

ALEX SINK  
Chief Financial Officer

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P R O C E E D I N G S

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(Agenda Items Commenced at 9:40 a.m.)

GOVERNOR CRIST: And now we have Department of Revenue, Lisa Echeverri. Good morning, Lisa.

MS. ECHEVERRI: Good morning. Item 1, we request approval of the minutes from the November 17th meeting.

GOVERNOR CRIST: Is there a motion?

CFO SINK: Move.

ATTORNEY GENERAL McCOLLUM: Second.

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

MS. ECHEVERRI: Item Number 2, request permission to publish notice of proposed rule-making for Rule Chapter 12-3. This will update the administrative procedures for bringing items before the Cabinet to reflect statutory changes.

ATTORNEY GENERAL McCOLLUM: Move it.

CFO SINK: Second.

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

MS. ECHEVERRI: Item Number 3 requests permission to publish notice of proposed rule amendments to Chapter 12D-10. This will allow

1 12D-10 to conform to the changes we are making to  
2 Rule Chapter 12D-9 for the Value Adjustment Board  
3 procedures.

4 CFO SINK: Move it.

5 ATTORNEY GENERAL McCOLLUM: Second.

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

8 MS. ECHEVERRI: Item Number 4, we request  
9 permission to publish five notices of proposed  
10 rule-making. These notices are to amend rule  
11 chapters to remove unnecessary language, update  
12 rules to reflect statutory changes and  
13 administrative changes and clarify procedures for  
14 taxpayers.

15 CFO SINK: Move it.

16 ATTORNEY GENERAL McCOLLUM: Second.

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

19 MS. ECHEVERRI: Item Number 5, we request  
20 permission to adopt rule changes to Chapter Rule  
21 12E-1. These are child support enforcement rules  
22 and will adopt changes by federal law and update  
23 administrative procedures.

24 ATTORNEY GENERAL McCOLLUM: Move Item 5.

25 CFO SINK: Second.

1           COMMISSIONER BRONSON:  Second.  And, Governor,  
2           can I make a comment?

3           GOVERNOR CRIST:  Sure, of course.

4           COMMISSIONER BRONSON:  I have -- and because of  
5           this Item 5, I wanted to bring this up while I had  
6           it on my mind.  I've had a call from a businessman  
7           in Central Florida who has indicated, because of the  
8           way the laws are written on child support, that in  
9           many cases he's having problems getting his workers  
10          to work because, of course, automatically if they're  
11          not making payments, their driver's license is  
12          pulled.

13          And he says, "I can tell you, I'm not going to  
14          pay a guy who is not coming to work."  And he's  
15          trying to figure out a way that we could get these  
16          people where they can get to work to make the money  
17          to make their child support payments.

18          So I would like, because of the way this was  
19          written, to work this issue out, that maybe we ought  
20          to ask the Legislature to look at some way to modify  
21          the way the law is written on child support so we  
22          can keep the fathers out there working so they can  
23          make their payments.  Otherwise they won't be able  
24          to make any payments.

25          So I'd like to take this opportunity to ask you

1 to consider that. I'm going to talk to some  
2 legislative leaders on this issue and see if we  
3 can't get something worked out.

4 GOVERNOR CRIST: Thank you, Commissioner.

5 MS. ECHEVERRI: We would love to sit down and  
6 work on that issue. Driver's license suspension is  
7 one of our harshest remedies and avenues for  
8 administrative enforcement. And many times it's a  
9 matter of getting that parent to come in and sit  
10 down and work out a payment agreement with us,  
11 getting an income deduction order in place with  
12 their employer, and we can reinstate that driver's  
13 license for them.

14 GOVERNOR CRIST: It's pretty harsh when they're  
15 not paying child support, too.

16 MS. ECHEVERRI: It's usually after multiple  
17 attempts.

18 GOVERNOR CRIST: It's moved and seconded. Are  
19 there any objections? Show Item 5 adopted without  
20 objection.

21 MS. ECHEVERRI: Item Number 6 requests  
22 permission to adopt changes to multiple forms to  
23 update them for the 2010 tax year.

24 CFO SINK: Move it.

25 COMMISSIONER BRONSON: Second.



1           GOVERNOR CRIST: Moved and seconded. Show it  
2 approved without objection. Thank you, Lisa.

3           MS. ECHEVERRI: Thank you. And since this is  
4 our last Cabinet meeting for the year, I would just  
5 like to wish each of you a joyful holiday season and  
6 a prosperous new year.

7           GOVERNOR CRIST: You, too. Thank you.

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1           GOVERNOR CRIST: Mark Zadra, Florida Department  
2 of Law Enforcement.

3           MR. ZADRA: Good morning. First let me offer  
4 the commissioner's apology for not being here this  
5 morning. Yesterday his daughter-in-law gave birth  
6 to his first granddaughter, Allison Walker Bailey.  
7 And he is down attending to this grandfather duties.

8           GOVERNOR CRIST: Please give him our  
9 congratulations.

10          MR. ZADRA: In his absence, however, he has  
11 forwarded some holiday greeting cards that he wanted  
12 to give to each of you.

13          GOVERNOR CRIST: Thank you.

14          MR. ZADRA: And, of course, he would want you  
15 to open those because they're actually in  
16 conjunction with an announcement that we made  
17 yesterday, which was our 12 Days of Fugitives  
18 campaign that we did in partnership with the  
19 Department of Corrections.

20                 This is an intensive public outreach blitz  
21 that's designed to generate tips and information  
22 about the whereabouts of 12 of Florida's oldest and  
23 most violent prison fugitives. The campaign offers  
24 a reward and a toll-free tip line, which is  
25 877-FLA-WANTED. And we'll focus on one fugitive

1 every day, we began that yesterday, in hopes that  
2 the public will provide authorities with information  
3 leading to their capture.

4 Some 300 media outlets will be featuring the  
5 fugitives in print and online photo galleries, which  
6 show their photo when they were in prison and  
7 age-enhanced photos of what they would be believed  
8 to look like now. Also would like to recognize the  
9 Florida Outdoor Advertising Association and the  
10 network of companies that were providing donated  
11 space on digital billboards, approximately 90 of  
12 them across the state that will feature the faces of  
13 these fugitives.

14 We did it at a very low cost. The printing was  
15 actually done in-house for approximately \$172, and  
16 we probably received anywhere from \$1,000 for each  
17 of those 90 areas that will be showing those photos.  
18 We're very appreciative. And obviously we're very  
19 excited and have high hopes that we will capture  
20 some of these bad guys.

21 We have three items on the agenda today. The  
22 first being the minutes of the August 25th Cabinet  
23 meeting. Respectfully submit it for your approval.

24 GOVERNOR CRIST: Is there a motion on the  
25 minutes?

1 COMMISSIONER BRONSON: Motion to approve.

2 ATTORNEY GENERAL McCOLLUM: Second.

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

5 MR. ZADRA: The next item is our fiscal year  
6 '09-'10 annual performance report and purchases over  
7 100,000 for the first quarter. And as you know, we  
8 entered into this fiscal year with fewer resources,  
9 like most other agencies, than in previous years,  
10 yet our members continue to meet or exceed most all  
11 of our performance standards. This is truly a  
12 compliment to them and to our leadership team for  
13 ensuring that we remain focused on our core mission.

14 A few of the highlights from our first quarter  
15 include, Governor -- and I was with you in Orlando  
16 when we announced that crime in Florida for the  
17 first six months was down 7.9 percent, violent crime  
18 down 9.7 and non-violent down 7.6 percent.

19 And also, General, alongside your office, we  
20 arrested three individuals in Miami-Dade County for  
21 trafficking and contraband prescription drugs as  
22 part of a multi-million-dollar drug diversion  
23 scheme. And in partnership with various other law  
24 enforcement agencies, we arrested members of two  
25 separate Central Florida organized theft rings

1 responsible for over \$2 million in total retail  
2 losses. I would be happy to answer any questions  
3 with respect to our performance report and  
4 respectfully request that it be approved.

5 GOVERNOR CRIST: General.

6 ATTORNEY GENERAL McCOLLUM: I don't have a  
7 question. I just want to say that that drug  
8 diversion case that we worked with you on was an  
9 incredibly large case that resulted not only in  
10 these three people being arrested, but it was a  
11 million dollars worth of prescription drugs in a  
12 semitrailer.

13 And that's something we all ought to be  
14 concerned about. There are a lot of prescription  
15 drugs being diverted today. And your team does an  
16 admirable amount of work, a tremendous amount of  
17 work on something where I think everybody is  
18 overworked on right now. We have a big problem in  
19 that area. But I think you're to be commended for  
20 that, and I would move Item 2, Governor.

21 COMMISSIONER BRONSON: Second.

22 GOVERNOR CRIST: Moved and seconded. I would  
23 also echo the comments of the General and thank FDLE  
24 and all of law enforcement for the great work that  
25 you've done this year. To have that level of

1 reduction in crime, particularly violent crime,  
2 during a challenging economy is a real compliment to  
3 you and your colleagues. So thank you for that.

4 MR. ZADRA: Thank you, Governor and General.

5 GOVERNOR CRIST: Of course. Show it approved  
6 without objection.

7 MR. ZADRA: Our third and last item deals with  
8 our 2010 proposed legislative items. First please  
9 let me speak to you briefly about our lack of new  
10 issues contained in our legislative budget request.  
11 We are continuing to evaluate the resource needs of  
12 the agency. And given the economic challenges that  
13 we all face, we decided not to submit any new  
14 funding items in our proposal that was the  
15 October 15th deadline.

16 But we are working in conjunction with the  
17 Governor's Policy and Budget Office and the  
18 Legislature and, of course, you as Cabinet members  
19 on the few issues which could potentially be  
20 submitted as part of a supplemental budget request  
21 during that window in January.

22 We were specifically concerned, as we talked  
23 with the Legislature and our analyst there, that any  
24 new items would have to be or come about through the  
25 substitution of current budget items. And we just

1 did not feel that we're in a position to eliminate  
2 any of our current most valuable services that  
3 impact our core mission in order to bring others on.  
4 But we are still addressing those.

5 And, General McCollum, I know one of those is  
6 certainly the DNA database that we saw a copy of the  
7 letter that you sent to the speaker of the House and  
8 Senate president to address the new legislation from  
9 last year. And, CFO Sink, also likewise, we have an  
10 issue that we're still looking at that deals with a  
11 few positions to support the mortgage broker  
12 backgrounds that go into effect in October of 2010.

13 So we will continue to work with you and the  
14 Legislature and bring those back to you on any items  
15 that we would ask to be submitted as part of a  
16 supplemental.

17 Next we anticipate including a few items as  
18 part of our general agency bill during the upcoming  
19 legislative session. First it will provide for a  
20 relief of firearm disability for persons who were  
21 previously committed or adjudicated mentally  
22 defective and allow them to purchase a firearm  
23 unless there is other disqualifying information  
24 available.

25 And this is necessary to bring Florida into

1 alignment with federal requirements. The relief  
2 petitions would be provided through a court order.  
3 And we do not anticipate receiving a large number of  
4 petitions. And, in fact, from the Florida  
5 standpoint, we have not received any to date.

6 Next, it will increase the number of state  
7 agencies submitting fingerprints to the Department  
8 of Law Enforcement for background checks, and more  
9 particularly the retention of those fingerprints, so  
10 that we would allow FDLE to monitor arrest  
11 information and provide back to the employers, the  
12 contractors and licensees about those who have been  
13 arrested.

14 It would further eliminate any state background  
15 rechecks at a cost of \$24, as there would just be a  
16 six-dollar record annual fee for those retention  
17 purposes. Next there are some technical changes  
18 with respect to our Florida Criminal Justice  
19 Standards and Training Commission and the Florida  
20 Criminal Justice Executive Institute. And, finally,  
21 it will delete an obsolete reference in statute to  
22 the Monroe County crime laboratory. This lab was  
23 closed by FDLE on July 1st, 2001, as a cost saving  
24 measure.

25 I would be happy to answer any questions about



1           this item and then respectfully request approval of  
2           these items to be part of our general bill.

3                   GOVERNOR CRIST: Any questions?

4                   CFO SINK: Yeah. Go ahead.

5                   GOVERNOR CRIST: Commissioner.

6                   COMMISSIONER BRONSON: The one thing that I --  
7           and I understand about trying to keep these records  
8           and the cost of doing so. I mean, there's no doubt  
9           there's a cost in doing that. What I'm concerned  
10          about is what this may do to my budget. With a  
11          six-dollar per year per fingerprint file, that could  
12          get pretty expensive on my own budget, since we are  
13          responsible for having quite a number, by law, that  
14          have to be kept.

15                   And, of course, every person that gets a  
16          concealed weapons permit in Florida and so forth, as  
17          you're well aware, also has to send in fingerprints.  
18          So that number could be substantial with a  
19          six-dollar per year.

20                   I just would hope that we can talk to the  
21          Legislature about what those expenses are going to  
22          be for state agencies as well, because that's an  
23          expense that I don't have right now but I will have  
24          in the future if this is passed.

25                   GOVERNOR CRIST: Good point. CFO?

1 CFO SINK: Yeah, Governor, I wanted to add that  
2 our department is very enthusiastic about the  
3 fingerprint retention because we license probably  
4 about 400,000 insurance agents and brokers and  
5 funeral and cemetery providers, and we think this  
6 will help us streamline and be more efficient.

7 It's my understanding, Commissioner, that the  
8 proposal is that the extra six dollars then becomes  
9 a part of the licensing fee that these people are  
10 already paying in order to get licensed. But the  
11 benefit is that when they have to come back, they  
12 don't have to get rechecked or re-fingerprinted  
13 again because we already have their prints on file.  
14 Is that correct? Which obviously saves a lot of  
15 time on the part of the person wanting the license  
16 as well as our department.

17 MR. ZADRA: Yes. And if I may address both of  
18 those questions. Commissioner Bronson, first to  
19 yours, sir, I think I can alleviate all of your  
20 concerns from this standpoint. For being criminal  
21 justice and having part of the criminal justice,  
22 criminal justice is -- you know, the law enforcement  
23 officers in the state are currently being retained.  
24 There will be no charge to state agencies to have  
25 that law enforcement component. For those

1 individuals that you have backgrounds, there will be  
2 no charge.

3 Also, what we are proposing is that the state  
4 agencies themselves will petition or ask FDLE to  
5 retain their prints. So those with a concealed  
6 weapons permit would not come into play here. These  
7 would be the ones that already currently by statute  
8 are required to be retained, such as our  
9 schoolteachers, port workers, criminal justice,  
10 juvenile justice, those as well as, as CFO Sink  
11 indicated, those that were passed last session with  
12 respect to the mortgage brokers.

13 So, again, if it was that a state agency and  
14 part of their licensing regulatory function chose to  
15 retain those prints or have us retain those, they  
16 would ask us to do that. So this is not a directive  
17 that they must. That would be up to the Legislature  
18 to decide.

19 But, again, as CFO Sink said, the issue that we  
20 currently have in Florida -- and FDLE has been  
21 participating on several work groups to address this  
22 whole background issue that most recently came up.  
23 And what we found is that while currently someone  
24 may do a background, and oftentimes there's a  
25 five-year recheck, so that means you could do my

1 background today. Tomorrow I could be arrested, and  
2 unless it was published in the newspaper or someone  
3 happened to know that, we could actually go four  
4 years, 11 months and 30 days and not know that I've  
5 had a criminal history for a disqualifying offense.

6 By having that fingerprint retained, within a  
7 24-hour period, if I'm to be arrested any time, that  
8 notification would be made back to the employing or  
9 licensing agency, where they could then take  
10 immediate action. And that's the six dollars. So  
11 in lieu now of having to do an annual check at  
12 \$24 by retaining that print, we could do that for  
13 six dollars. So actually in some situations it  
14 would actually be a cost savings.

15 GOVERNOR CRIST: General?

16 ATTORNEY GENERAL McCOLLUM: Not on  
17 fingerprints, but I just wanted to amplify what you  
18 commented on about the letter I sent to Speaker  
19 Cretul and President Atwater about the DNA funding.  
20 It is an incredibly important thing, as you know,  
21 for us to have as many samples as possible on file  
22 and the ability to match DNA.

23 In the criminal justice area today, as the  
24 Florida Department of Law Enforcement knows probably  
25 better than anybody else, we have the opportunity to

1 solve crimes we never could have solved before  
2 because of DNA. And, of course, in some cases we  
3 have the opportunity to clear people of crimes that  
4 they're accused of because of the DNA.

5 And so while it is a very tough budget year and  
6 I know you're restrained in what you request, I want  
7 to make sure that anyone watching or listening,  
8 amplify what you said, knows that I made that  
9 request as Attorney General, and I may be able to  
10 push that in a way you can't, but I'm going to. I  
11 hope that you do get the funding that is necessary,  
12 at least part of it, to complete that program or  
13 make it -- to get further along the road, to take  
14 those samples and to have the ability to use them.  
15 Thank you.

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

17 CFO SINK: Move it.

18 ATTORNEY GENERAL McCOLLUM: Second.

19 GOVERNOR CRIST: Moved and seconded. Show it  
20 approved without objection. Thank you, Mark.

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1           GOVERNOR CRIST: Administration Commission.

2           Lisa Saliba. Good morning, Lisa.

3           MS. SALIBA: Good morning, Governor, Commission  
4           members. We have two items today. The first, we  
5           present for your consideration Monroe County's  
6           petition for a waiver of the Commission's rule to  
7           reduce the residential building permit allocation by  
8           20 percent.

9           Based upon the determination at the November  
10          17th meeting, Monroe County had not made substantial  
11          progress. The Commission is authorized by rule to  
12          impose sanctions. We've had the last week to work  
13          with the staffs of Community Affairs, Environmental  
14          Protection, Department of Health, and the local  
15          government officials. And we're happy to report  
16          today that we do have consensus on the draft  
17          legislation presented to the Commission at the last  
18          meeting.

19          Additionally, we have Secretary Pelham and  
20          Secretary Sole here for questions. Four speakers  
21          from Monroe County are here to make brief remarks.  
22          We have Representative Ron Saunders, Mayor Sylvia  
23          Murphy, Commissioner Mario Di Gennaro, and  
24          Commissioner George Neugent.

25          And first we'd like to invite Representative

1           Saunders to speak. We were advised that he was  
2           making it today. We'll move on then to Mayor Sylvia  
3           Murphy with Monroe County.

4                   GOVERNOR CRIST: Morning, Mayor.

5                   CFO SINK: They let you go first today.

6                   MS. MURPHY: Gee, thanks. Good morning,  
7           Governor, Cabinet and Cabinet aides. I'm pleased  
8           once again to be here representing the Florida Keys.  
9           Last month we were here and requested that you  
10          accept your staff's recommendation, which includes a  
11          finding that we have made additional progress toward  
12          achieving our goals, continuing the Florida Keys  
13          Area of Critical State Concern designation,  
14          acknowledging that more time and significant funding  
15          is needed to complete this work program, and  
16          recommending that there be no reduction in building  
17          permit allocations.

18                   We are here today to ask that you do consider  
19          our petition for a variance, that you act upon your  
20          staff's recommendation and authorize the secretary  
21          of the Administration Commission to enter the draft  
22          final order that is before you.

23                   Accompanying me today are Roman Gastesi, our  
24          county administrator, Christine Hurley, our new and  
25          very welcomed growth management director, Bob

1 Shillinger, our chief assistant county attorney, and  
2 two of my fellow commissioners, who will speak to  
3 you, George Neugent and Mario Di Gennaro.

4 And please remember, we are trying. We will  
5 get there. Thank you for your support. And don't  
6 forget, a little bit of money wouldn't hurt.

7 GOVERNOR CRIST: Thank you, Mayor. Morning,  
8 Commissioner.

9 MR. NEUGENT: Good morning, Governor, Cabinet.  
10 We bring with us wishes from the fabulous Florida  
11 Keys for happy holidays and a great new year. Good  
12 morning, Governor, and to the members of the  
13 Cabinet. I also respectfully request that you  
14 accept and act upon your staff's recommendation.  
15 Granting the variance recognizes the economic  
16 challenges and current circumstances we confront not  
17 only in the Florida Keys but also throughout the  
18 state.

19 Monroe County is ready to continue completing  
20 the tasks outlined in the work program. And we are  
21 excited about the opportunities that lay ahead.  
22 Members of the Cabinet, I would like to personally  
23 commit my energy, as the senior member of the  
24 commission, to making substantial progress on the  
25 outlined tasks. We've been working together for



1           several years now, and I am confident that we are  
2           all fully invested in attaining the goal of a  
3           sustainable Florida Keys.

4           I would also like to thank DEP, DCA and DOH for  
5           drafting consensus legislation that provides a  
6           coordinated strategy to assist the communities of  
7           the Florida Keys. I would also like to thank the  
8           stakeholders, some who are here today, environmental  
9           groups that support this also.

10           We have been working closely with and are  
11           coordinated with our municipal partners in the  
12           Florida Keys and then finalized our comments and  
13           edits. And, again, I'd like to thank you for your  
14           consideration. Thank you.

15           GOVERNOR CRIST: Thank you. Morning, Mario.

16           MR. DI GENNARO: Good morning, Governor. Good  
17           morning, honorable Cabinet members. Let me be very  
18           brief since you do have a full agenda. I'm kindly  
19           asking you to approve and act upon your staff's  
20           recommendation. I'm honored to be a part of this  
21           partnership and am pledging my fullest dedication  
22           and support to this plan presented to you.

23           I am confident that we will complete this work  
24           plan within the time and parameters of the new  
25           drafted legislation that will be presented. This

1 task must be completed. It is the future and  
2 survival of Monroe County.

3 Attorney General, I am pleased to tell you the  
4 County, including all the municipalities, have  
5 dotted their I's and crossed their T's. I can tell  
6 you with confidence that Monroe County and the  
7 municipalities are united and in agreement. And I  
8 would like to compliment you on your suggestion from  
9 the last meeting that you gave us a little bit of  
10 direction in which way to go.

11 ATTORNEY GENERAL McCOLLUM: Well,  
12 congratulations, Mario. That is a tremendous  
13 accomplishment. It really is. And remember, we  
14 said we could do it? You did it.

15 MR. DI GENNARO: I was -- you had my knees  
16 shaking a little bit, but we went out there. We  
17 went to work, and we accomplished it in a timely  
18 fashion. And thank you for showing us the right  
19 direction and postponing the vote until we completed  
20 what we were supposed to completed.

21 ATTORNEY GENERAL McCOLLUM: Thank you.

22 MR. DI GENNARO: The final chapter, the County,  
23 municipalities, the State of Florida will be  
24 successful in protecting our near-shore waters and  
25 environment for the future of our children and

1 children's children. As you know, Governor, I have  
2 been working extremely close with DEP, Secretary  
3 Mike Sole. Let me take this opportunity to  
4 recognize his unwavering support and accessibility.  
5 And I would like to thank him publicly for his  
6 dedication.

7 Let me sincerely thank you, as does our  
8 commission, for the opportunity to lead, and we  
9 pledge not to fail. Thank you again, Governor,  
10 honorable Cabinet members. If there's any  
11 questions, I'd feel honored to answer them for you.  
12 If not, in closing, I would like to wish you and  
13 your families a wonderful, wonderful happy holiday.

14 GOVERNOR CRIST: Thank you, Mario.

15 MR. DI GENNARO: Any questions? Thank you.  
16 God bless you. Have a wonderful holiday. It's a  
17 pleasure to be here.

18 GOVERNOR CRIST: Thanks, Mario.

19 MS. SALIBA: We ask for your approval of the  
20 staff recommendation.

21 ATTORNEY GENERAL McCOLLUM: I move Item 1.

22 COMMISSIONER BRONSON: Second.

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

25 MS. SALIBA: Thank you very much. We have Item

1           Number 2, consideration of the Division of  
2           Administrative Hearings' recommended order and  
3           amended determination of noncompliance submitted by  
4           the Department of Community Affairs. The issue  
5           before the Commission pertains to two future land  
6           use map amendments which change land use  
7           designations in Palm Beach County. Both amendments  
8           also change Palm Beach County tier designation for  
9           these parcels.

10           Petitioners Rosa Durando and 1000 Friends of  
11           Florida challenged the decision to find the  
12           amendments in compliance, and the administrative law  
13           judge found that the amendments are internally  
14           inconsistent with Palm Beach County's own  
15           comprehensive plan and they failed to apply all the  
16           criteria of the managed tier growth system.

17           Upon those findings, the judge ordered DCA to  
18           enter a final order determining the amendments not  
19           in compliance. The staff recommendation for your  
20           consideration today adopts the ALJ's final order,  
21           with some exceptions, and directs Palm Beach County  
22           to rescind the amendments.

23           I was advised this morning that the scheduled  
24           speakers are all in agreement with the draft final  
25           order submitted for your consideration and they have

1           asked for your favorable consideration. We don't  
2           have anyone scheduled to speak. However, we are  
3           prepared to take your questions on this issue.

4           GOVERNOR CRIST: Any questions?

5           CFO SINK: Move it.

6           ATTORNEY GENERAL McCOLLUM: Second.

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

9           MS. SALIBA: Thank you very much.

10          GOVERNOR CRIST: Thank you.

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

3           MR. SOLE: Good morning again, Governor,  
4 members of the Cabinet. Item Number 1, submittal of  
5 the minutes for the October 13, 2009, Cabinet  
6 meeting.

7           COMMISSIONER BRONSON: Motion for approval.

8           ATTORNEY GENERAL McCOLLUM: Second.

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

11          MR. SOLE: Thank you. Item Number 2 is a  
12 request from Seminole County to the Board for  
13 release of a deed restriction and reverter on  
14 two-tenths of an acre. This is a parcel that's  
15 located in Seminole County on Mullet Lake Park. The  
16 Board of Trustees conveyed this in 1944. It's  
17 largely an outparcel somewhat connected to the  
18 county park. And at this stage they would request  
19 that we remove the reverter. The consideration is  
20 \$14,400, which would be paid by Mr. Avery Wisdom,  
21 who wants to purchase this.

22          COMMISSIONER BRONSON: Motion on Item 2.

23          ATTORNEY GENERAL McCOLLUM: Second.

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

1           MR. SOLE: Thank you. Item Number 3, request  
2           consideration of final adoption the proposed  
3           amendments to Chapter 18-24. This is our Florida  
4           Forever Land Acquisition and Management rule. You  
5           saw this last amendment at the October 27 Cabinet  
6           meeting. We published the recommended rule, and we  
7           received some fairly minor non-substantive changes  
8           from the Joint Administrative Procedures Committee.  
9           We've made those amendments, and at this stage we're  
10          proposing adoption.

11          Again, real brief, the rule primarily addresses  
12          the Florida Forever ranking system. Currently we  
13          have the A List, the B List and the top 21. We plan  
14          to modify -- this rule modifies that, in which what  
15          we'll present eventually to the Board of Trustees is  
16          basically five separate categories, where projects  
17          will be ranked in those categories.

18          ATTORNEY GENERAL McCOLLUM: If I could,  
19          Governor.

20          GOVERNOR CRIST: General, sure.

21          ATTORNEY GENERAL McCOLLUM: I just want to  
22          commend the program and once again say that Florida  
23          Forever is so important that I hope -- and I think I  
24          speak for every member of this Cabinet -- that the  
25          Legislature finds some funding in this very tight

1 budget year to do some of this and to keep this  
2 program alive. It is really, really important that  
3 we do this. So with that in mind, I would move Item  
4 3.

5 GOVERNOR CRIST: Is there a second?

6 CFO SINK: Second.

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

9 MR. SOLE: Thank you. Item Number 4, request  
10 that we withdraw this item from the agenda.

11 GOVERNOR CRIST: Is there a motion to withdraw?

12 CFO SINK: Move it.

13 GOVERNOR CRIST: Is there a second?

14 ATTORNEY GENERAL McCOLLUM: Second.

15 GOVERNOR CRIST: Show it withdrawn without  
16 objection.

17 MR. SOLE: Thank you. Item Number 5, this is  
18 consideration, an application from TRG Oasis and the  
19 City National Bank of Florida for a five-year  
20 submerged land lease for a 68-slip marina on the  
21 Caloosahatchee River in Fort Myers. It's a  
22 mixed-use facility. Twenty-seven slips will be open  
23 to the public. Twenty-nine will be for the  
24 residents of the condo. And there are 12 that are  
25 temporary use for both the boat launch as well as



1 dry storage.

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

3 CFO SINK: I move it.

4 COMMISSIONER BRONSON: Second.

5 GOVERNOR CRIST: Moved and seconded. Show it  
6 approved without objection.

7 MR. SOLE: Thank you. Item Number 6, this is a  
8 request for consideration an application from  
9 Diversified Yacht Services in Fort Myers. This is a  
10 modification of an existing submerged land lease.  
11 They request to reconfigure the existing 41-slip  
12 facility.

13 It is a slight change to the existing facility,  
14 in which it will now be -- while it's a first come,  
15 first serve facility, they're having longer than  
16 one-year leases, so they will no longer be subject  
17 to the ten-year lease terms. So it will be a  
18 five-year lease, as well as they won't get the  
19 discount. Consideration is for \$9,200, and the  
20 Department recommends approval.

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

22 CFO SINK: Move it.

23 ATTORNEY GENERAL McCOLLUM: Second.

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

1           MR. SOLE: Item Number 7, request consideration  
2           an application from BP Products of North America to  
3           renew and modify a five-year submerged land lease  
4           for increasing their preempted area. This is a  
5           commercial docking facility used in conjunction with  
6           an upland fuel distribution center. They've had a  
7           lease since 1991, but it's worth noting that over  
8           time we recognized that the vessels that they were  
9           bringing in were a little bit larger than the lease  
10          area.

11           So we did pursue enforcement action against BP.  
12          We did get \$154,000 in lease fees in arrears because  
13          of the size of the additional preemption. And at  
14          this stage, the Department recommends approval of  
15          the modified lease, which expands it, as well as the  
16          private easement. The consideration is for  
17          \$187,000.

18           GOVERNOR CRIST: Is there a motion on Item 7?

19           COMMISSIONER BRONSON: Motion on Item 7.

20           ATTORNEY GENERAL McCOLLUM: Second.

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

23           CFO SINK: I would like to ask a question,  
24          Governor.

25           GOVERNOR CRIST: Of course.

1 CFO SINK: You know what's coming.

2 GOVERNOR CRIST: Actually, I don't.

3 MR. SOLE: Yes, ma'am.

4 CFO SINK: I'm talking to Secretary Sole. He  
5 knows what's coming. You know, I can understand  
6 why, with the tens of thousands of private docks and  
7 facilities around the state, how we have a resource  
8 problem and how we missed this. But BP is one of  
9 the largest corporations in the world. How is it  
10 that they're in violation since -- for 18 years and  
11 either they don't catch it themselves, or maybe they  
12 do.

13 But surely it seems -- just describe to me,  
14 what's our process? How do we allocate our  
15 resources? It seems to me that we ought to be  
16 looking at the very largest users and lessees of our  
17 submerged lands first. I can understand the  
18 individual who has the dock that might be mildly out  
19 of compliance, but this is a big deal.

20 MR. SOLE: CFO, I agree. I think one of the  
21 things that is a good story here and which  
22 technology is helping us as we go on, the way we  
23 actually caught this violation is because our  
24 staff -- and I'm proud of them for their efforts --  
25 in reviewing this proposal for modification, got out

1 the aerial photos to get a feel for what size  
2 vessels were actually using this.

3 And son of a gun, you know, they looked at the  
4 aerials and they said, ooh, and they overlaid the  
5 lease boundary on it and they said, we think they're  
6 preempting more area than their lease provides for.  
7 I think technology is helping us in relationship to  
8 finding these areas.

9 And I will candidly say, I do not believe BP  
10 thought they were in violation. This is one of  
11 those scenarios where they've had a lease. They've  
12 been paying their lease fees. They felt that the  
13 boats were coming up as they always -- boats have  
14 been getting bigger as fuel oil has been delivered  
15 to this state. So this is one of those scenarios  
16 where I think technology has actually helped us in  
17 identifying these noncompliance issues.

18 One of the benefits of having these five-year  
19 lease renewal terms is our ability to make sure and  
20 do that compliance. And I think that's something  
21 worth noting, and it's something I have to remind  
22 myself candidly, because I'll be the first one to  
23 admit that I would like to see our lease terms be  
24 longer, because a lot of times folks are in  
25 compliance and other than working on paperwork, we

1 don't seem to be getting much value added for some  
2 of these lease renewals.

3 But I will tell you I do agree that having a  
4 short-term, the five-year lease gives us that  
5 opportunity to make sure, validate that they're in  
6 compliance to ensure that the people are getting  
7 what's due to them.

8 I think in this case, although it was 19 years  
9 in which we assessed lease fees in arrears, it's  
10 uncertain as to when the larger boats actually came  
11 into place here at this facility.

12 CFO SINK: Okay. Thank you.

13 MR. SOLE: Thank you. Item Number 8, request  
14 consideration an application from Beach Drive  
15 Development for a ten-year sovereignty submerged  
16 land lease for a 28-slip commercial  
17 open-to-the-public docking facility located in St.  
18 Andrews Bay in Bay County. This application was  
19 noticed. There were no objections. The Department  
20 recommends approval.

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

22 COMMISSIONER BRONSON: Motion on Item 8.

23 CFO SINK: Second.

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

1           MR. SOLE: Item 9, request consideration an  
2 application from Ozean Marine, LLC, for a  
3 modification of an existing submerged land lease to  
4 construct an 83-slip private yacht club. The  
5 facility is located in Boggy Bayou in Okaloosa  
6 County. This is primarily a change from a  
7 commercial facility to a private yacht club.  
8 Originally the facility was a 50-slip commercial  
9 marina.

10           GOVERNOR CRIST: Is there a motion on Item 9?

11           ATTORNEY GENERAL McCOLLUM: Move it.

12           COMMISSIONER BRONSON: Second.

13           GOVERNOR CRIST: Show it approved without  
14 objection.

15           MR. SOLE: Governor, that ends the official  
16 agenda. We had nine items. As you recall, the  
17 Attorney General asked me to give the Cabinet a  
18 brief overview on where we are with the numeric  
19 nutrients standards. And at this time, if there's  
20 no questions, I'd like to jump right into that.

21           GOVERNOR CRIST: Sure.

22           MR. SOLE: Thank you, sir. Let me set some  
23 background. This is a complex issue. And I feel  
24 it's effective to give a little background to where  
25 Florida is with its water quality standards and then

1           jump into some of the specifics of where things are  
2           going in the courts and EPA.

3           As background, the Clean Water Act looks to  
4           states to adopt water quality standards for the  
5           protection of the environment, protection of its  
6           people. Florida has done so. The Department of  
7           Environmental protection primarily holds that  
8           responsibility, and we send those standards to our  
9           environmental regulatory commission for final  
10          adoption.

11          Now, when you hear the word "standard,"  
12          everyone thinks of a numeric standard. Benzene, one  
13          part per billion is our standard for drinking water.  
14          Arsenic, we have standards for protection of not  
15          only the public health but toxic criteria for  
16          environmental issues. Copper, you hear it often in  
17          association with marinas because copper is actually  
18          toxic to many flora and fauna in our state.

19          We have good data to establish what those toxic  
20          levels are, and we can actually set a number. We  
21          also have standards that are narrative, and they're  
22          descriptive in nature because there is not a simple  
23          answer. And nutrients are one of those scenarios  
24          where we've held and maintained for many decades a  
25          narrative standard. And I'm going to give you the

1 narrative standard in simple-speak. Basically,  
2 levels do not cause an imbalance of flora and fauna.

3 It's a scenario where -- and let me explain why  
4 first we have a narrative standard currently for  
5 nutrients. I will tell you that nutrients are  
6 natural constituents in our environment. Without  
7 nutrients, we would have an imbalance of flora and  
8 fauna because things would become sterile and would  
9 not be able to grow.

10 Also what you find in Florida is it's very  
11 complex as to the needs of nutrients in certain  
12 water bodies, because there is a need issue as well.  
13 For the Everglades we know that our nutrient levels  
14 are extremely low, in fact, the lowest that we have  
15 in Florida, hence all the efforts that we have taken  
16 to set the numeric standard for the Everglades,  
17 which is very stringent. At the same time there are  
18 other areas of the state that don't have this need  
19 for low nutrients and actually need more nutrients.  
20 So there's significant variation when you look at  
21 the landscape of Florida waters.

22 Florida, also being a little bit more complex,  
23 has probably one of the most diverse set of water  
24 bodies in the nation. Our springs, we have the  
25 Everglades, we have estuaries, we have black rivers,



1 we have clear rivers. It is very diverse here in  
2 the state of Florida. So it's been very difficult  
3 to just say, "and the number is X."

4 And I'm going to give you a simple example or a  
5 simple analogy. It's like speed limits. When you  
6 go through a neighborhood or a residential area, you  
7 expect the speed limit to be slow, 25 miles per  
8 hour. That makes sense. However, would you set  
9 that same speed limit for our highways at 25 miles  
10 per hour? Wait a second. That doesn't make sense.  
11 But 25 miles an hour is safe in residential but it's  
12 unnecessary along our highways because our highways  
13 are designed for higher speed.

14 Well, the analogy goes to the same -- exists  
15 for our water bodies. Some of our water bodies are  
16 extremely sensitive. The Everglades, our springs, I  
17 would set the speed limit low, at 25 miles per hour.  
18 Some of our water bodies don't have the same level  
19 of sensitivity, and that speed limit, as an analogy,  
20 could be set much higher and it's more like a  
21 highway. The difficulty is, again, there's not a  
22 one-size-fits-all. I want to present that to you  
23 just as an understanding of some of the challenges  
24 that exist out there.

25 Now, with that said, I will say that our

1 narrative standard here in the state of Florida has  
2 only partially served Floridians because, candidly,  
3 it has worked extremely well in identifying  
4 problems. Where we have problems, we have listed  
5 these water bodies as impaired. We can see it. We  
6 can see the algal blooms. We can see the imbalance  
7 of flora and fauna and we can say, yes, we have a  
8 problem, we need to address it.

9 What it hasn't done is give us sufficient  
10 capacity to prevent some of these problems. So I  
11 will tell you that without question, work does need  
12 to be done in establishing a numeric nutrient  
13 standard, because today we have 16 percent of our  
14 rivers listed as impaired, 36 percent of our lakes  
15 listed as impaired and 25 percent of our estuaries  
16 listed as impaired, primarily for nutrients.

17 With that said, as early as 2001, we at DEP  
18 recognized the need to look to improving our  
19 narrative standards. The problem is you need the  
20 science. While there's a desire and a will to move  
21 forward, you cannot set these standards without  
22 adequate science. Now, the good news is, I'm here  
23 to tell you that Florida leads the way in this area.

24 We own some one-third, almost one-third of the  
25 water quality data in the nation's database.

1 Florida owns one-third of the data set in the  
2 nation's database on water quality. So we have been  
3 aggressively pursuing this data so that we can set  
4 the science. We've also spent millions of dollars  
5 in achieving and looking at not only the water  
6 quality data but the relationships of this water  
7 quality with some of the flora and fauna here in the  
8 state of Florida.

9 I will tell you that our regulatory actions to  
10 date have also continued to pursue reduction in  
11 nutrient levels here in the state of Florida. Our  
12 domestic wastewater systems, 44 percent of them now  
13 are only discharging to surface water when it used  
14 to be much higher. We have invested billions of  
15 dollars in infrastructure improvements in our  
16 wastewater so as to reduce the nutrient loading to  
17 our state.

18 Just two years ago, Governor, you signed a bill  
19 that actually eliminated ocean outfalls, which are  
20 dumping some 300 million gallons a day of  
21 nutrient-laden water into our Atlantic Ocean. We  
22 are a leader. And I will tell you we are a leader  
23 in re-use, which is also taking discharges out of  
24 waters and getting them used and that water used for  
25 beneficial purposes.

1           Well, let me jump to today, or at least the  
2           recent efforts. In July of 2008 a coalition of  
3           environmental advocacy groups, represented by  
4           Earthjustice, filed suit against the U.S.  
5           Environmental Protection Agency in federal court  
6           here in the Northern District, claiming that EPA was  
7           obligated to set numeric nutrient standards pursuant  
8           to the Clean Water Act.

9           While that case was pursuing, EPA in January of  
10          2009, of this year, actually issued an official  
11          Clean Water Act determination that committed the  
12          agency, EPA, to establishment of numeric nutrient  
13          criteria and essentially mooted the original claim.

14          Now, this is something that in early of this  
15          year I was in discussion with EPA about. And,  
16          candidly, I will tell you that one of the things  
17          that I spoke with EPA at that time is I advised  
18          them, you know what? I think I have the science to  
19          move this issue forward, and we at DEP will initiate  
20          rule-making to adopt numeric nutrient standards.

21          So we aggressively pursued this. We held  
22          several workshops with stakeholders all across the  
23          state of Florida, and we actually proposed rules on  
24          our website and were about to present those to our  
25          environmental regulatory commission when, on August

1 19th, a day before that briefing, EPA entered into a  
2 consent or a settlement agreement with Earthjustice,  
3 basically settling their claims and establishing  
4 that they, the EPA, were going to adopt federally  
5 numeric nutrient criterion for the state of Florida.

6 I will tell you this was extremely  
7 disconcerting to me, since EPA had been side by side  
8 with us as DEP had been developing these numeric  
9 nutrient criterion at the state level. And for  
10 suddenly EPA to change that dynamic and say, no, no,  
11 we're going to do it, was somewhat troubling.

12 Notwithstanding that issue, it's also worth  
13 noting that we had several intervenors involved with  
14 the court case, and many of them, including folks  
15 representing municipal and industrial interests,  
16 raised concerns about primarily the federal process;  
17 should the federal government be setting these  
18 standards for the state of Florida or should that be  
19 something that Floridians do.

20 Unfortunately, as that process went through the  
21 courts, the reality is the judge declared that, no,  
22 no, I will enter into this settlement agreement, it  
23 will be part of the court record, and it will be a  
24 consent decree. So in front of us today and what is  
25 real and part of the judicial system is there is a

1 consent decree that has been signed that Judge  
2 Hinkle has said he plans to enter that establishes  
3 that EPA, by January of 2010, will propose numeric  
4 nutrient criterion for the state of Florida and, by  
5 October of 2010, will adopt them as part of the  
6 court record. It similarly goes on to say that they  
7 will propose numeric nutrient criterion for our  
8 estuaries by January of 2011 and adopt them ten  
9 months later in October of 2011.

10 Now, the concern that I have is that, as we  
11 have moved forward at the Department in developing  
12 these numeric nutrient criterion, our process is  
13 very public. As I pointed out, every time we  
14 propose something, we are subject to defending the  
15 science that we present. And I think that's a good  
16 process. I think it has served Florida well. If we  
17 cannot defend our science, then we need to go back  
18 and sharpen our pencils.

19 Unfortunately, the federal process is not so  
20 open. And as it stands, it is unknown specifically  
21 as to what EPA plans to propose in January. They  
22 are talking with us at DEP and we are presenting  
23 them arguments and science to help facilitate their  
24 final development and recommendations. But I will  
25 tell you today, I do not know what they will

1 propose.

2 I will also tell you that as we've worked with  
3 EPA in their development of numeric nutrient  
4 standards, there are some concerns in this dialogue  
5 that we have shared with them. One of them is  
6 fairly significant, and it's how they deal with  
7 downstream effects.

8 I will tell you that some of the proposals EPA  
9 has proposed or identified results in standards that  
10 actually are more stringent than our natural streams  
11 are. Streams that are unaffected by man's  
12 activities still do not meet the standards. Now,  
13 this clearly doesn't make sense. And this is  
14 something that I hope, as time goes on, we will see  
15 improvement in EPA's proposal, and I'm hopeful that  
16 that will happen.

17 I will also say that our investment in the  
18 total maximum daily load program, this is the  
19 program where, where we see impairment, we jump in  
20 with both feet. We engage the public. We engage  
21 EPA. And we create, based upon the science specific  
22 to that water body, a specific criterion for them to  
23 adhere to. It's a numeric criterion for that water  
24 body.

25 Unfortunately, EPA wants to kind of look at all

1           that again. So we basically take the millions of  
2           dollars that we've invested in TMDLs, the hundreds  
3           of millions of dollars that have been invested in  
4           the infrastructure to meet these TMDLs, and we put  
5           all that effort into question.

6                     Now, we continue to talk with EPA, and I'm  
7           optimistic, because they are working with us to  
8           date, and that as January hopefully looms, we will  
9           see something that can be worked with here in the  
10          state of Florida. I will tell you that I won't know  
11          that until January, and obviously we won't know it  
12          officially until October of 2010, when it becomes a  
13          federal standard.

14                    The one thing that we do need to keep in the  
15          back of our minds, it's not something we need to  
16          decide today, is what Florida does. If we can  
17          support the standards, then everything works out  
18          well. If we cannot support the standards, then  
19          things get a little tricky because it's a federal  
20          standard. If I can't support it at the state level  
21          and I can't get the Legislature to support the  
22          standard, then what we might have is two separate  
23          systems in the state of Florida dealing with water  
24          quality, and that just doesn't make sense.

25                    So this is a challenging issue that we at DEP



1           are working with. I appreciate, General, the  
2           opportunity to give hopefully a brief overview. I  
3           will tell you also that while I hadn't planned on  
4           having speakers, a lot of folks have showed up today  
5           and have asked to speak. But let me first open it  
6           up to answer any questions that you may have.

7                     GOVERNOR CRIST: General.

8                     ATTORNEY GENERAL McCOLLUM: Governor. Mike, I  
9           appreciate very much that overview. It was very,  
10          very good. I think all of us -- I certainly want to  
11          see us have the appropriate nutrient level in the  
12          water in Florida. You have described a very complex  
13          water system that we have in our state. And you've  
14          also described what seems to me to be a very  
15          outrageous move by the department, by the  
16          Environmental Protection Agency of the federal  
17          government, to supersede and to intervene in this.

18                    I'm disturbed by the process. I don't know  
19          what the outcome is going to be. Obviously, all of  
20          us would join in encouraging every possible way to  
21          get their rule, if they're going to promulgate one,  
22          as I guess they now are required to do by this  
23          consent decree and the judge's order, by January,  
24          that they get it right, if there's any way they can  
25          do that.

1           But setting that aside for a moment, just  
2           looking at it from the standpoint of the state  
3           versus the federal role here, yes, there is the EPA,  
4           yes, there are Clean Water Act requirements. But  
5           for the federal government to come in, in the time  
6           frame you described, and impose this type of  
7           procedure, not even taking into consideration the  
8           progress that was being made, the commitments that  
9           were made just in the past year alone to get to some  
10          kind of measurements here in the state, I can't help  
11          but describe that as an outrageous abuse of federal  
12          power.

13           So having said that, I certainly encourage what  
14          you're doing to work with them, and I know all of us  
15          do. We'll join, as I think the CFO is doing, a  
16          letter to the appropriate parties. And I know that  
17          Congress has sent a letter recently on that as well.

18           I'll add one other comment to it. At the end  
19          of the day, we all hope they come to the right  
20          conclusions, and that would be, as you say, the best  
21          outcome. But it's my understanding of the rules,  
22          the procedures, the law, if you will, that once this  
23          promulgation is made in January, somewhere around  
24          next October there will be an opportunity, if they  
25          don't do the thing the way that we think they

1           should, to challenge this.  There's the potential --  
2           I don't know that we would do this, but potential to  
3           go to court, potential to bring this before some  
4           judicial body or some semi-quasi-judicial body at  
5           least would be there.  Am I correct in that?

6           MR. SOLE:  General, you are correct.  I do want  
7           to point out that unlike Florida law, where if I  
8           propose a rule and it becomes challenged, it doesn't  
9           go into effect, in the federal case, if they propose  
10          and adopt a rule and it gets challenged, it does go  
11          into effect throughout the challenge period.

12          So as I stand here today, under that consent  
13          degree, I make the assumption that there will be a  
14          numeric standard in October of 2010 in effect in the  
15          state of Florida that's federally adopted.  I will  
16          offer one thing that I forgot to mention, General,  
17          is that I did go to Washington and talked with Pete  
18          Silva, he's the water administrator for EPA, and  
19          asked that at a minimum they come down to Florida  
20          and vet their science with Floridians.  And they  
21          have committed to do so.  While I suggested it would  
22          be before January, they will do so after they  
23          propose their initial numbers.

24          ATTORNEY GENERAL McCOLLUM:  If I could, Mike,  
25          the other thing that's not clear in all of this,

1 even though you've given us a great discussion of  
2 it, is the cost that's going to be involved in this.  
3 I'm assuming that, you know, the best case scenario,  
4 there will be some costs involved, and that was  
5 going to be true under whatever you were proposing.

6 MR. SOLE: Yes, sir.

7 ATTORNEY GENERAL McCOLLUM: But the potential  
8 for the costs to go through the roof here doing  
9 things you've described like regulating water bodies  
10 and nutrient amounts in them that don't -- that you  
11 take the nutrient level below what's normal and  
12 natural, I mean, it's ridiculous.

13 And the State would bear some of that. The  
14 local governments would bear some of these costs.  
15 Private industry would bear costs. And all of this  
16 at a time when the economy is not doing well. It's  
17 just -- this is a part of this train wreck that  
18 they're potentially putting us in front of.

19 And, again, we all hope that's not the outcome.  
20 But by not letting you finish the product you were  
21 working on and by superseding the State, that's  
22 where the federal government has put us all in  
23 jeopardy. And it isn't just a question of an  
24 outcome that might not be desirable or an outcome  
25 that we might not agree with. It is an outcome

1           where it might protect the environment, it might  
2           disturb it, it might disrupt it, it might do damage  
3           to it. And it's certainly going to be very  
4           expensive at all levels of government and to the  
5           private businesses and citizens of the state of  
6           Florida.

7           MR. SOLE: And, General, that's probably the  
8           most salient point, I think, worth making today, is  
9           that, you know, I love Florida. I think Floridians  
10          love Florida. And if a Floridian knows that in  
11          order to protect Florida, they need to do -- take  
12          certain actions which take investments, I think  
13          Floridians are willing to take that on.

14          But if I can't defend why they need to do  
15          something and if the science isn't there to say, no,  
16          no, you need to go this far, when in all probability  
17          the money they're asking us to invest won't help  
18          protect the environment, I think Floridians have a  
19          problem with that. And that's not unreasonable for  
20          them to share that concern.

21          And I think that's what we need to focus on, is  
22          making sure -- we know we're going to have to make  
23          investment here in Florida to help protect these  
24          water bodies and reduce nutrients. We need to make  
25          sure that number is correct, because we need to make

1           sure the investments are well spent and not  
2           frivolously spent on actions that don't necessarily  
3           help protect the environment. That's the issue that  
4           we need to focus on. We're trying to work with EPA,  
5           to present that information to them so that whatever  
6           the outcome is, it's hopefully in the best possible  
7           case.

8                    ATTORNEY GENERAL McCOLLUM: Thank you very  
9           much, Mr. Secretary. Thank you, Governor.

10                   GOVERNOR CRIST: Yes, sir. Commissioner.

11                   COMMISSIONER BRONSON: Thank you, Governor.  
12           Cabinet members, as you're aware, and one of the  
13           things that helped bring this to the Cabinet and to  
14           the public was the Department of Agriculture, myself  
15           as Commissioner of Agriculture, entered into part of  
16           the litigation, albeit too late. If I had known EPA  
17           was about to do what they did in this case, I would  
18           have jumped in this much earlier.

19                    There's a couple of statements and things and  
20           questions I'd like to ask Secretary Sole. First of  
21           all, Mr. Secretary, when did you know that EPA was  
22           headed down this road? When did they say to you,  
23           although you've done all of this science and been  
24           working diligently for 15, 20 years on trying to  
25           develop this information -- I would like the public

1 to understand that one of the arguments made by  
2 Earthjustice was, well, Your Honor, it's taking too  
3 long. If they've got to get this done, did they  
4 want this done by science or did they want it done  
5 by politics, to say, we're more worried about how  
6 long it's taking than the science of how we get  
7 there and do it the right way. When did you get an  
8 idea that's where they were headed?

9 MR. SOLE: Right before -- in December of 2008  
10 I got a call from EPA that basically they said they  
11 were considering taking this action in light of the  
12 lawsuit. That call wasn't the most disturbing,  
13 because at that time we told EPA, no, we'll take it  
14 on at DEP. We think we're ready. We think we have  
15 the science finally to be able to promulgate rules.

16 And, again, Commissioner, it's worth noting  
17 that from that point, in January of '2009 up until  
18 August of 2008 (sic), we had been working side by  
19 side, using the State's process and procedure to  
20 adopt this. It wasn't until roughly July or August  
21 that EPA suddenly started mentioning, well, maybe  
22 we're just going to do this. And it was, again,  
23 very, very disturbing.

24 COMMISSIONER BRONSON: Well, Governor, if I  
25 could continue, I find this disturbing in many ways.

1           Number one, while agriculture is very much  
2           interested in how this is going to come out, and the  
3           public in this country may need to get interested in  
4           where their food is going to come from if this goes  
5           the wrong way based on somebody's feelings instead  
6           of science, as to who is going to grow the food  
7           supply and support the economic stability and the  
8           national security of this country, as to who is  
9           going to feed our military in crisis, because I  
10          assure you this is headed down that path if it's not  
11          done by factual science, then we've got some real  
12          economic issues for Florida, real economic --  
13          because quite frankly, as I read it, Mr. Secretary,  
14          they can't come to Florida after we've done all this  
15          work and attack our science without going to every  
16          other state, and especially since we have water  
17          coming in from Georgia and Alabama that we can't  
18          control, that's going to have a major economic  
19          impact not on just agriculture and our food supply  
20          but every city and county, municipality, water  
21          authority and other issues that are going to affect  
22          every man, woman and child in this state to the tune  
23          of not billions, possibly trillions of dollars if we  
24          have to meet some standard that is not picked out,  
25          not hand-picked out of the air, as we have done on



1 the Everglades, has been my statement from the very  
2 beginning, because we'll never meet that one either.  
3 It's going to cost us billions. But we have other  
4 economic issues here in the state of Florida. And I  
5 feel that there's going to be enough people to start  
6 asking where is their science. And I hope you're  
7 asking --

8 MR. SOLE: Yes, sir.

9 COMMISSIONER BRONSON: -- where is your science  
10 compared to all the work we have done in the state  
11 of Florida. And, Governor, and I want this Cabinet  
12 to understand, I was offended by a statement made to  
13 the federal court obviously, or at least to the  
14 media, by Mr. Guest, that says not only are we not a  
15 leader in this but we have substantially degraded  
16 waters, when I know that agriculture alone has spent  
17 millions of dollars and have made major moves to  
18 reduce the amount of nitrogen and phosphorus put in  
19 the water system of this state.

20 How could the claim that it's actually getting  
21 worse and not getting better, when both the state  
22 through the Legislature, signed by the Governor, and  
23 businesses of all types, not just agriculture, have  
24 spent millions of dollars improving our water  
25 quality, how could that statement be accepted by --

1 well, I shouldn't ask you how can it be accepted by  
2 the Court. You have no -- but that statement cannot  
3 be true, based on what I personally know is going on  
4 in the state of Florida.

5 MR. SOLE: I am hugely confident that statement  
6 is not true. I will tell you that Florida has a lot  
7 to be proud about on our actions to address water  
8 quality. We're the first state in the union to  
9 adopt stormwater rules to address nonpoint sources.  
10 Our agriculture community has probably one of the  
11 most robust BMP programs to help reduce nutrient  
12 runoff into our state waters and have addressed  
13 2.1 million acres of property that they have  
14 developed BMPs for.

15 Without question, we're the first state that  
16 has developed in our impaired water rules numeric  
17 criterion for identification of nutrient impairment.  
18 Florida is a leader. And I will tell you that when  
19 it comes to water quality, that's probably why EPA  
20 is in our backyard today, because we have the data  
21 and we have the information. Unfortunately, the  
22 difficult issue is they didn't let us finish.

23 COMMISSIONER BRONSON: Well, Governor, I just  
24 want to hope, I guess, that this Cabinet, sitting as  
25 the Trustees of the Internal Improvement Trust Fund,

1 responsible for Florida waters and the navigable  
2 waters of this state, that we demand as a body that  
3 factual science is what is going to drive this final  
4 decision at the federal court level. And thank God  
5 we have different levels of the federal court we can  
6 go to if we think it's not being done properly.

7 Because this is Yogi Berra time here. This is  
8 deja vu all over again. We're about to adopt  
9 something that is unachievable as a true ten parts  
10 per billion in the Everglades, knowing that over  
11 trillions of years we have produced more natural  
12 phosphate rock sitting naturally under Florida land  
13 right now, and we're talking about a phosphate issue  
14 where we have natural sources that have been  
15 developed over millions of years sitting here by the  
16 millions of tons, that we're going to be affected by  
17 something like this when naturally it may not be  
18 able to be done.

19 And I hope that this Internal Improvement body,  
20 as trustees, will stick together, along with our  
21 Legislature, to make sure whatever comes out of this  
22 is going to be done by factual, sound science,  
23 verified by third party verification so that we  
24 don't have one group or organization, including  
25 agriculture or anybody else, that's going to dictate

1           this.  It's going to be based on factual science.  
2           If we can do that, we're going to have to live with  
3           whatever the outcome is, but we can't do it if it's  
4           based on a political situation and not a true  
5           scientific situation.

6           MR. SOLE:  And, Governor and Commissioner, I  
7           will tell you, you have my commitment that we at the  
8           Department of Environmental Protection will continue  
9           to work with EPA.  And if we have questions on that  
10          science, we will let you know.

11          GOVERNOR CRIST:  Thank you, Secretary.  Thank  
12          you, Commissioner.  CFO.

13          CFO SINK:  Governor, I do have a number of  
14          comments to make, but I understand we have a number  
15          of speakers --

16          MR. SOLE:  Yes, ma'am.

17          CFO SINK:  -- who wanted to present their  
18          viewpoints.  And I'll defer until we give the  
19          speakers an opportunity.

20          MR. SOLE:  Let me ask the speakers, I know I've  
21          mentioned this, if we could please keep it brief,  
22          I'd be grateful.  I know that there's a big agenda  
23          still to come for the Cabinet.  Our first speaker  
24          will be Jim Alves with the Hopping firm.

25          MR. ALVES:  Good morning.  Thank you very much

1 for the opportunity to very briefly talk to y'all  
2 about this issue. My name is Jim Alves. I'm with  
3 Hopping, Green & Sams. I've been representing the  
4 regulated community in this matter. What I'd like  
5 to emphasize first is we have very good, sound  
6 information as to what the new federal standards  
7 will be.

8 EPA recently released a Technology Support  
9 Document. And when you've worked in this area for  
10 25 years, you know that the conclusion presented  
11 there almost always turns into the standard. So we  
12 have a very specific range identified by EPA in the  
13 document that from their perspective will serve as a  
14 foundation for what they are fixing to do under the  
15 consent decree.

16 I would submit to you that that range, very  
17 narrow range of standards that they have identified  
18 are completely unprecedented. Statewide nutrient  
19 standards, statewide numeric nutrient standards are  
20 unprecedented, and standards this low are certainly  
21 unprecedented.

22 I think it's important to keep in mind that  
23 this consent decree was worked out behind closed  
24 doors between EPA and a small handful of  
25 environmental advocates. DEP did not have a seat at

1 the table, as far as I know, and certainly the  
2 regulated community in Florida, such as agriculture,  
3 such as wastewater treatment plant facilities or  
4 stormwater utilities managed by local government,  
5 they didn't have a seat at the table.

6 Now, there was a very brief hearing in federal  
7 court. But I would emphasize it was quite brief.  
8 All of the participants, agriculture, local  
9 governments, many others, asked emphatically and  
10 repeatedly for an opportunity to produce evidence to  
11 show the Court, to demonstrate, instead of just  
12 lawyers making some comments, to call witnesses,  
13 scientists, in the effort to prove that the premise  
14 for the consent decree was misplaced. And the judge  
15 simply did not allow them to do that.

16 So it was very disappointing to the regulated  
17 community that they didn't have a seat at the table  
18 when the consent decree was worked out, and they  
19 felt that they didn't have an opportunity to  
20 demonstrate through factual evidence that the basis  
21 for the consent decree was misplaced.

22 Now, what Mr. Sole said previously, and I  
23 certainly agree with, is there has been, despite the  
24 growth that's occurred in Florida over the last  
25 couple of decades, there's been tremendous progress

1           in cleaning up Florida's waters. That's due in part  
2           to a consent decree that was entered ten years ago,  
3           in 1999. That's the consent decree that required  
4           Florida to have a program implementing, basically  
5           listing waters that are impaired, including  
6           specifically waters impaired for nutrients, and then  
7           creating total maximum daily loads using Florida's  
8           existing narrative standard to clean up those  
9           waters.

10           That's exactly what the environmental groups  
11           asked for ten years ago in 1999, and that's what  
12           they got. And we got a schedule to line those  
13           waters up and to create TMDLs and get them clean.  
14           And that's what's been happening in Florida.

15           To give you an idea of the time scale that they  
16           asked for and they got in the consent order, the  
17           deadlines for DEP to take these actions extend into  
18           2011, and even at that, the TMDL program doesn't  
19           stop. The waters keep getting evaluated, and they  
20           keep getting cleaned up if necessary. Hopefully  
21           there will be fewer and fewer waters as we move  
22           forward.

23           So as a result, we have several dozen TMDLs,  
24           total maximum daily loads, for nutrients in Florida.  
25           And each of those total maximum daily loads have

1 specific nutrient levels that are identified and  
2 tailored to the specific waters. And more TMDLs are  
3 being created every month. EPA has approved those  
4 TMDLs, and so we have a circumstance here where -- I  
5 know Mike wants me to finish, but I promise I'll be  
6 real quick.

7 GOVERNOR CRIST: He's very subtle, isn't he?

8 MR. ALVES: Yeah. EPA, how can they approve  
9 these TMDLs -- the ink isn't even dry on some of  
10 those approvals, and now they're saying these waters  
11 specifically need numeric standards. They can't  
12 have it both ways. They've approved these TMDLs as  
13 protecting Florida's waters, and now with all the  
14 regulated community buy-in that we've had over the  
15 last ten years or so in working on TMDLs and their  
16 being very proactive, it's all just being thrown  
17 away.

18 I just have one more point, Mike. And I'm  
19 sorry. I'll stop soon. When people argue for what  
20 EPA is doing -- and I'm not trying to be  
21 disrespectful -- what they tend to do is show you a  
22 picture of green water, and then they jump to the  
23 conclusion that we need numeric nitrogen standards.

24 Obviously, green water is unacceptable. Algae  
25 blooms are unacceptable in Florida. We all agree on



1           that.  But that's why we have the TMDL program.  
2           Presumably, if there's a water body that keeps  
3           getting algae blooms, it's either on the list or it  
4           will be on the list and it will get cleaned up under  
5           the TMDL program.

6           My concern is, with these numeric standards,  
7           we're going to go backwards.  And I think instead of  
8           accelerating the process, there's a grave risk that  
9           it could actually slow it down.  Thank you.

10          CFO SINK:  Governor, could I -- I'm sorry.  I  
11          missed -- would you just tell me who you're here to  
12          represent or who you are representing?

13          MR. ALVES:  Sure, sure.  My clients include  
14          Florida's wastewater treatment plant operators,  
15          basically local government that takes society's  
16          wastewater and cleans it up, and also Florida's  
17          electric power industry, which is trying to make  
18          electricity available throughout Florida and also  
19          trying to make it affordable.

20          CFO SINK:  Thank you.  That's helpful.

21          MR. ALVES:  Thank you.

22          MR. SOLE:  And speaking of the wastewater --

23          GOVERNOR CRIST:  Secretary?

24          MR. SOLE:  Sir.

25          GOVERNOR CRIST:  How many speakers do you have?

1           MR. SOLE: I have four speakers, three more  
2 speakers that have requested to speak.

3           GOVERNOR CRIST: Great. Thank you.

4           MR. SOLE: Paul Steinbrecher.

5           MR. STEINBRECHER: Thank you, Secretary.

6 Governor, Cabinet --

7           CFO SINK: Excuse me.

8           MR. SOLE: I did that too quick. I'm sorry.

9           GOVERNOR CRIST: I didn't catch the last name  
10 either.

11          MR. SOLE: Go ahead.

12          MR. STEINBRECHER: Let me do that. Good  
13 morning. My name is Paul Steinbrecher. I'm a  
14 professional engineer in the state of Florida, and  
15 I'm here speaking to you today as the vice-president  
16 of the Florida Water Environment Association Utility  
17 Council, what you would think of as the umbrella  
18 organization for Florida's municipal wastewater  
19 utilities.

20          GOVERNOR CRIST: Great. If I could, isn't the  
21 last gentleman -- is it Tim?

22          MR. SOLE: Jim Alves.

23          GOVERNOR CRIST: Jim, I'm sorry. Allen?

24          MR. SOLE: Alves, A-L-V-E-S.

25          CFO SINK: So you're the same client that the

1 previous speaker --

2 MR. STEINBRECHER: We're specifically the  
3 Utility Council, the wastewater utilities.

4 CFO SINK: Wastewater Utility Council.

5 MR. STEINBRECHER: Correct. And I'll refer to  
6 ourselves as the Utility Council.

7 GOVERNOR CRIST: Thank you, Jim. Thank you,  
8 Paul. My ears aren't what they should be.

9 MR. STEINBRECHER: I beg your pardon. Who we  
10 are essentially, you can think of the Utility  
11 Council when you flush the toilet, but we're the  
12 people who take care of that. That's who we are.  
13 Our members --

14 GOVERNOR CRIST: God bless you. Somebody's got  
15 to do it.

16 MR. STEINBRECHER: Our members serve you and  
17 7 million other Floridians by treating everyone's  
18 sewage waste and protecting the environment in the  
19 most cost-effective means possible. I'm here  
20 talking to you today because the Utility Council is  
21 concerned about these potential federal numeric  
22 criteria for Florida.

23 The Utility Council commissioned a professional  
24 engineer to estimate the cost of complying with  
25 these proposed rules. Excuse me. This is that cost

1 estimate report. Based on the criteria currently as  
2 we understand them being proposed, the range of  
3 those criteria by EPA that Jim just talked about  
4 with you, the total cost to utilities statewide will  
5 range between \$48 billion and \$99 billion. This is  
6 wastewater utilities only, one market segment in  
7 Florida. After the cost of -- financing costs are  
8 included, 48 billion to 99 billion.

9 In terms of what this means to a utility bill  
10 in Florida, it would approximately double the  
11 current utility bill from \$57 per month for the  
12 average water, wastewater bill in Florida, to  
13 \$118 per month. That's over \$700 per year for the  
14 average residents in Florida.

15 The costs will, of course, disproportionately  
16 impact low income citizens. Using metrics from the  
17 American Waterworks Association Research Foundation  
18 and state income data, we estimate that these cost  
19 increases will make our services unaffordable for  
20 significantly more than the 12 percent of Floridians  
21 that currently are listed at or below the poverty  
22 level.

23 These impacts to our ratepayers and the  
24 citizens of Florida would be easier to accept if  
25 EPA's criteria protected the environment better than

1 DEP's current regulatory program would. But  
2 instead, these exorbitant costs will be borne by our  
3 citizens and businesses really for dubious  
4 environmental benefit.

5 As the secretary already noted, Florida has a  
6 quite mature and sophisticated water quality  
7 standards program that has -- has had and is  
8 continuing to have very positive effects in the  
9 state. Across Florida, utilities have built and are  
10 planning now and continuing to build significant  
11 infrastructure to ensure protection of Florida  
12 waters.

13 Many of these projects are specifically  
14 designed to meet scientifically-based narrative  
15 criteria that Jim just described for you and TMDLs  
16 that have already been developed by DEP and have  
17 already been approved by EPA. We're concerned and  
18 we're talking to you today because now these  
19 environmentally beneficial projects may actually  
20 need to be stopped and re-engineered to what are  
21 questionable numeric standards. We will be going  
22 backwards. This is an unfortunate waste of  
23 resources which diminishes our ability to use  
24 limited monies on other worthwhile programs.

25 And I'm also about done. Thank you, Secretary.

1 Obviously, the stakes are very high here. And  
2 Florida needs to participate actively in the federal  
3 government's development of nutrient standards.  
4 Because of this, the Utility Council would like to  
5 ask this body, respectfully, to establish a panel of  
6 state water quality experts to review whether EPA's  
7 criteria are scientifically sound and to review  
8 whether those criteria take into account the large  
9 body of water quality restoration programs currently  
10 underway, such as the TMDL program. That's one  
11 thing.

12 We would also request that you direct Florida's  
13 regulatory agencies to analyze the economic impacts  
14 of these proposed criteria on the public sectors  
15 that they regulate. DEP, DACS and all of the water  
16 management districts have very competent economists  
17 on staff that do this work every day right now. It  
18 would only make sense for these economists to  
19 analyze the impact of the most significant federal  
20 water quality regulation ever imposed on Florida.

21 CFO SINK: Governor, could I ask a question?

22 GOVERNOR CRIST: Certainly.

23 CFO SINK: I heard you throw out some cost  
24 numbers. But how did you develop these numbers when  
25 no numeric standards have been established yet?

1           MR. STEINBRECHER: We actually based those cost  
2 estimates on criteria that had been proposed by DEP.  
3 The criteria that now are being shown, the range of  
4 criteria that are now being shown in a technical  
5 document by EPA are lower and more stringent than  
6 those criteria that we based this cost estimate on.

7           CFO SINK: So the EPA already has numbers out  
8 there? Is that correct, Secretary Sole?

9           MR. SOLE: CFO, EPA has identified some  
10 potential proposed numbers, but I don't think they  
11 have published anything for public discussion or  
12 consumption at this time. My numbers -- I hate to  
13 say it that way. The Department's recommendations  
14 have been part of rule-making and very public. So  
15 as a baseline, I think there is some fairly sound  
16 footing for some of these costs. Albeit, I will say  
17 that I don't know what the final numbers of EPA is  
18 going to be and whether or not -- what the final  
19 impact will be.

20           CFO SINK: But certainly, if they abide by the  
21 court order, which I presume they will, in January,  
22 there will be -- they're proposing to issue some  
23 specific numbers, and then you can go back and do a  
24 more accurate economic analysis.

25           MR. STEINBRECHER: That's correct. And we

1           expect it will be significantly higher at that point  
2           because it would be based on standards that are more  
3           stringent than this cost estimate was based upon.

4           CFO SINK: Well, but that's speculative because  
5           we don't know what they're going to issue until we  
6           get to January.

7           MR. STEINBRECHER: I think you had stepped out  
8           just briefly when Mr. Alves was covering this part  
9           of the issue. But there is a document, it's called  
10          a TSD, that has been issued by EPA now. And that  
11          document shows a range of expected values in which  
12          they would expect to promulgate --

13          CFO SINK: Okay. I apologize.

14          MR. SOLE: Thank you, Paul.

15          MR. STEINBRECHER: Thank you.

16          MR. SOLE: Our next speaker is Mr. Kurt  
17          Spitzer, representing Florida Stormwater  
18          Association. Kurt.

19          MR. SPITZER: Thank you. Governor, members of  
20          the Cabinet, I'm Kurt Spitzer with Florida  
21          Stormwater Association. We are a  
22          300-organizational-member association that has an  
23          interest in water quality improvement and  
24          implementation of Florida's stormwater programs.

25          We have been intimately involved with the TMDL



1 program now for the past ten years. And I guess you  
2 could say we are the folks that are sort of on the  
3 front line of water quality improvements in Florida.  
4 We're not here to tell you that we don't think that  
5 there's a nutrient problem in Florida. There is.  
6 But what we are here to tell you is that Florida has  
7 made great, great strides in terms of addressing our  
8 water quality problems over the past ten years.

9 We have the best TMDL program in the country,  
10 one that, oh, by the way, actually implements TMDLs  
11 in addition to just listing water bodies as being  
12 impaired. We've spent tens of millions of dollars  
13 on our own technical advisory committee of DEP,  
14 looking at ways to implement numeric nutrient  
15 criteria ourselves at the state level.

16 Thirty-four percent, 34 percent of all of the  
17 water quality data in the country is from Florida.  
18 And most of that was developed by local government.  
19 And with the advent of these new numeric nutrient  
20 criteria, we know that your cities and counties will  
21 be facing an enormous new cost.

22 We've not costed them out. We don't know what  
23 the numbers are yet. But our existing estimate of  
24 the cost of the current TMDL program is around  
25 \$60 billion in capital costs alone. So we know that

1           numeric criteria as perhaps currently drafted by EPA  
2           would be a more significant cost, certainly in the  
3           billions of new dollars. But, you know, like you,  
4           local governments juggle a lot of different issues  
5           all the time. And to go back to the taxpayers or a  
6           ratepayer and say, we need to have a significant  
7           increase in what's coming out of your pocket to fund  
8           a standard that might result in water quality  
9           standards that are lower than natural conditions is  
10          a hard sell to -- with your members of the public.

11           You know, those of us in local government  
12          have -- believe that the government closest to the  
13          people governs best. And at the local level, we  
14          call that home rule. Well, it applies to the state  
15          and federal governments, too, except you call it  
16          states' rights. And in the Clean Water Act, the  
17          development of water quality criteria is reserved to  
18          the states. Florida has the best program in the  
19          country. We believe that Florida should have been  
20          able to continue on with the development of  
21          Florida's numeric nutrient criteria.

22           As we move forward, we'll look forward to  
23          continuing this partnership with the secretary and  
24          members of the Cabinet and hopefully can find a  
25          suitable resolution of this issue. Thank you very

1 much.

2 GOVERNOR CRIST: Thank you, sir.

3 MR. SOLE: Thank you. Our final speaker is  
4 Mr. Manley Fuller with the Florida Wildlife  
5 Federation. I think he also may have two with him  
6 as well.

7 MR. FULLER: Thank you, Mike. Manley Fuller,  
8 Florida Wildlife Federation. Governor and Cabinet,  
9 Florida's economy depends on clean water, our  
10 beaches, our rivers, our springs. There's a lot of  
11 hard work being done by professionals all over the  
12 state and at the Department to try and address water  
13 quality problems. We don't dispute that one second.

14 But our springs, you look at spring after  
15 spring after spring and nutrient levels are going  
16 up. We have -- unfortunately we have beach  
17 closures. That doesn't help the economy of Florida.  
18 We want scientific standards. We don't want  
19 standards set higher than natural background. We  
20 recognize, as do -- as other people have, that  
21 Florida has different types of waters. We will urge  
22 the EPA and believe EPA will include those factors  
23 in their rule-making and as it goes forward.

24 We -- Florida has collected a tremendous amount  
25 of water quality data, and it is a leader in terms

1 of doing that in the country. That's true. And EPA  
2 is utilizing that, and we want to see  
3 scientifically-based standards as well. There were  
4 a number of points made by previous speakers that  
5 I'd like to recognize our counsel, Monica Reimer  
6 with Earthjustice, to touch on briefly, as I know  
7 your day is -- you've got a lot of other things you  
8 need to deal with today. So this is Monica Reimer  
9 with Earthjustice Legal Defense Fund.

10 MS. REIMER: Governor and Cabinet, we were not  
11 going to speak unless the other people spoke. So we  
12 do not have, you know, like a presentation. But I  
13 do have some photographs that I would like to share  
14 with you, and I was wondering if I could bring these  
15 up to you and present them to you, if that would be  
16 okay.

17 GOVERNOR CRIST: We don't get to see the big  
18 one? I suspect we will. Thank you.

19 MS. REIMER: Governor and Cabinet, this is the  
20 St. Johns. It's a tributary of the St. Johns River.  
21 This is a toxic blue-green algae bloom. This  
22 picture was taken on the day that the proposed  
23 consent decree was filed with the Court. This algae  
24 bloom on the St. Johns River has been there for six  
25 months this year.

1           The first photograph that I'm showing here,  
2           toxic algae. What I showed you the picture of is a  
3           serious public health threat. This is a warning  
4           published by -- and it gets posted by health  
5           departments. It's been posted on the  
6           Caloosahatchee. It's been posted on the St. Lucie.  
7           It's been posted all over the St. Johns, and it's  
8           being posted more and more frequently.

9           On the second photograph, this is a photograph  
10          from the St. Johns River. It's known as the green  
11          monster of 2005. This toxic algae bloom was present  
12          on the river for months. It smells like dead meat  
13          when it decomposes. They had to shut down boat  
14          traffic on the river because it causes respiratory  
15          issues.

16          A huge part of Florida's economy is based on  
17          people recreating on the waters of Florida. The  
18          problem today with recreating on Florida's waters is  
19          that they aren't safe anymore. This is a photograph  
20          of rashes caused by exposure to toxic algae  
21          outbreaks. These kinds of rashes are very commonly  
22          caused by Lyngbya, which is the algae that is most  
23          commonly found in the springs. For example, the  
24          Wakulla Springs has Lyngbya in it. Ichetucknee has  
25          Lyngbya in it.

1           The next slide, tourism is essential to our  
2           economy. I do not think that that is a debatable  
3           statement. This is a photograph of red drift algae  
4           along Bonita Beach. This is caused by nutrients  
5           coming off the land. It is not toxic. However,  
6           when it decomposes, it smells like sewage. It tends  
7           to show up during the tourist season. It can form  
8           banks three feet high, and they have to bring dump  
9           trucks out to take it off the beaches and dispose of  
10          it in landfills. This is occurring with great  
11          frequency now all over the coast of Southwest  
12          Florida.

13          The next slide, this is a photograph of the red  
14          tide approaching Little Gasparilla Island. I don't  
15          think I need to tell you what the effects of red  
16          tide are. I think they're very well known now.

17          The next slide, toxic algae poisons drinking  
18          water. Caloosahatchee River -- this is the  
19          Caloosahatchee River. This was the week that we  
20          filed the lawsuit. This is a toxic algae bloom. It  
21          shut down the water treatment plant on the river,  
22          which serves 30,000 people. It ruins springs.  
23          We're all here, we all know about Wakulla Springs.  
24          I don't think I need to share with anybody the  
25          problems that nutrients cause in springs and it's

1 causing in virtually every spring in the state of  
2 Florida.

3 And, lastly, there's the issue of the enormous  
4 damage that is done to the value of waterfront  
5 property from Southwest Florida -- this is the  
6 Caloosahatchee River in 2005 -- to Northeast  
7 Florida. The last photograph, which is the one I  
8 started with, which is this year.

9 This is the reason that we filed the lawsuit.  
10 This is the reason that we believe that the schedule  
11 set out in the consent degree is reasonable. I  
12 think that you need to understand that the people at  
13 EPA answer to politicians just like you. They don't  
14 want to do something reasonable (sic), and they sure  
15 as heck don't want to embarrass their bosses by  
16 doing something stupid. And what you are hearing  
17 people suggest that they would do falls in the  
18 stupid category, and they're not going to do it.

19 We may have some disagreements. The numbers  
20 may be higher than I want them. However, the  
21 utility people that came up here and were talking to  
22 you, here's the problem with the wastewater  
23 treatment plants. They are discharging water at  
24 1,000 to 3,000 to 4,000 to 5,000 parts per billion.  
25 And if you use DEP's numbers, they're going to have

1 to get to 120. There is no number a utility company  
2 is going to accept. They will challenge any number,  
3 whether that number is presented by EPA or DEP.

4 I am here. I am happy to answer questions  
5 about the lawsuit. And there are a lot of things  
6 that were said. A lot of those questions were  
7 answered in federal court. But I'm more than happy  
8 to answer anybody's questions.

9 COMMISSIONER BRONSON: Governor.

10 GOVERNOR CRIST: Yes, Commissioner.

11 COMMISSIONER BRONSON: Well, I've been  
12 following this for quite some time, and I can tell  
13 you that some of the assertions that your  
14 organization has made have been patently wrong. And  
15 I would like to also say the Court didn't hear from  
16 the other people in this lawsuit situation. They  
17 did not get to hear, as Paul Harvey says, the rest  
18 of the story.

19 Now, I will not deny that you don't have algae  
20 outbreaks like this from time to time that can be  
21 worked on, that can be cleaned up. The whole state  
22 of Florida does not look like that, number one.  
23 Number two, I'm not sure whether Earthjustice is  
24 aware of this, but red tide and algae blooms have  
25 been recorded for thousands of years, before there



1           were a whole lot of people around except for the few  
2           that started recording history, and it's been around  
3           for a long time.

4           Oil deposits are known today to be more a cause  
5           from decaying algae than they are from decaying  
6           dinosaurs, because they're producing oil right now  
7           today from algae grown right here in the state of  
8           Florida for that purpose.

9           So there's a lot of misstatements, misnomers.  
10          There are a lot of commonly and naturally occurring  
11          elements here besides the man-made causes for this  
12          that causes certain types of algae blooms. What  
13          we've got to do is figure out a way to control it,  
14          work with our total maximum daily loads, as has  
15          already been put forward by a number of groups and  
16          organizations. We've reduced it.

17          I believe I saw where Mr. Guest made a  
18          statement that the waters are worse than what  
19          Florida says and they're continuing to be degraded,  
20          when we know for a fact they're better than they  
21          were just a few years ago and we're making major  
22          strides on that. We've just got to work harder at  
23          it.

24          But let me also state to your organization that  
25          I have a statement that I've made many times, where

1           you can be educated beyond your intelligence. And  
2           that means that you take common sense, throw it  
3           totally away. You focus on one sole end point, as  
4           if you can get there without costing trillions of  
5           dollars, and the fact that there may be no  
6           scientific developed way to get there mechanically  
7           because it hasn't been developed yet. Now, it may  
8           be developed in the future, but it's not developed  
9           now.

10                   And we're going to have to meet a criteria that  
11           there is no scientific way for us to get to and  
12           costs us billions of dollars getting there. And the  
13           results could be what we've already heard. It could  
14           actually be worse for Florida in the end because we  
15           can't get there and because people are going to  
16           lawyer up and go to court to fight this thing  
17           because it's an unjust assessment on what I think is  
18           a very practical approach that Florida has taken and  
19           DEP has taken.

20                   And I've made mention many times before, I  
21           don't always agree with DEP either. But when  
22           they've been working with us and we've been reducing  
23           the nutrient loads in Lake Okeechobee and the  
24           Kissimmee River as much as possible, at least the  
25           lower end so far, the Suwannee River has voluntarily

1 reduced loadings from agriculture alone -- forget  
2 that this thing is so much bigger than agriculture.  
3 This is going to affect every citizen that has  
4 nothing to do with agriculture except the fact that  
5 they do like to eat at least one time a day and that  
6 that food production could be totally done away with  
7 because of some rule that the federal government is  
8 going to make.

9 And also, I'd like for Earthjustice to go back  
10 and look at the constitution of Florida, too, and  
11 the ability of this body to work with DEP and the  
12 various industries here to reduce these loadings,  
13 which they have been doing and can be proven to have  
14 been done, that we protect our ability as a  
15 sovereign state under the constitution of the United  
16 States and the State of Florida.

17 And I don't care whether Earthjustice files a  
18 suit or whether the federal judge thinks he's right  
19 or not, I want sound science, and I want to know  
20 what the facts are and what the truth is here. And  
21 what I heard in this lawsuit, there were a lot of  
22 misstatements and misfacts given here that a judge  
23 made a ruling on, and unfortunately for him because  
24 he listened to DEP (sic) and Earthjustice instead of  
25 giving Florida, DEP, and the people who had tried to

1           intervene in this lawsuit a chance to give the Paul  
2           Harvey rest of the story to this issue and has ruled  
3           accordingly, which is now putting us in a pretty  
4           tough position.

5                     And, you know, I'm all for cleaning water.  
6           We're doing it right now today. But I'm telling  
7           you, to get to the levels that I'm hearing about  
8           that EPA has basically already adopted but hasn't  
9           made it official yet -- I mean, we've been studying  
10          this for years and they're going to come out with a  
11          report in January that tells us what this number is?  
12          That's not even practical, much less logical or  
13          scientific based.

14                    And so this is going to continue. But I'm not  
15          willing, as a member of -- elected member of this  
16          body, to give up Florida's sovereignty on this  
17          issue, when I know we're doing the right thing for  
18          the right reason and the best way we know how to do  
19          it, to have a federal agency come in and give a  
20          doctrine to us that cannot be verified by factual  
21          science. I just want Earthjustice to know that's  
22          where I stand as a member of this body.

23                    MS. REIMER: I appreciate your comments,  
24          Commissioner.

25                    GOVERNOR CRIST: Thank you, Commissioner. CFO.

1 CFO SINK: Thank you, Governor. I don't have a  
2 question for you at all. I do have some comments to  
3 make, though. And, Mike, do you -- one of the  
4 things that was brought to my attention -- we've  
5 heard a lot today about Florida has made progress,  
6 we have taken the lead. And my staff pulled up  
7 something I just wanted to very quickly show  
8 everyone, which is this is the -- Mike, you could  
9 probably explain it better. But this is the  
10 phosphorus content or pollution points. And I'll  
11 let you explain it a little more.

12 But what you see here is, in the year 1982, we  
13 reached a peak level. And since 1982, according to  
14 this graph that was prepared by DEP, look at the  
15 tremendous, enormous progress that has been made in  
16 reducing phosphorus in our bodies of water.

17 And obviously it should be a point of concern  
18 that you see that things were going along fine until  
19 probably about 2004, and we have seen some increased  
20 loads since then. But it does bear out the fact  
21 that we have made tremendous progress in this area.  
22 And then you may want to amplify just quickly, and  
23 then I just have a few brief comments to make.

24 MR. SOLE: Real brief. One of the things that  
25 you look at in Florida's history, we were one of the

1 first states to actually ban the use of phosphates  
2 in detergents. It was these actions that helped  
3 reduce some of the phosphorous loading into our  
4 water bodies. And you can see from the graph,  
5 clearly there's tremendous progress.

6 Without question, in 2004, 2005 we got a little  
7 bump up. Let's reflect what happened in 2004, 2005.  
8 We had quite a bit of rain those two years. We had  
9 multiple hurricanes that came in and put a lot of  
10 water on our landscapes. And, again, when you look  
11 at nutrients, primarily, one of the predominant  
12 sources is that stormwater from our landscapes.

13 So these are things that we need to continue to  
14 work on. And I'm going to say it again. Without  
15 question, I do believe that Florida needs to move  
16 forward with numeric standards to help prevent some  
17 of the challenges. Every one of those green  
18 pictures that were shown, well, we either already  
19 have adopted a TMDL on that water body or are in the  
20 process of adopting one.

21 And, in fact, it's just worth noting, I signed  
22 the TMDL for the St. Johns tributaries, which is one  
23 of these pictures, just this Monday. And Florida's  
24 program is so much better than most of the nation's  
25 because once you set the TMDL, there's a requirement

1 to do something. Under the federal program,  
2 it's kind of -- they put the numbers up there and,  
3 okay, that's -- we did a great job. Florida's law  
4 requires us to take action. And it goes to the  
5 Commissioner's point that we will take action to  
6 address these problems. But, again, on the  
7 prevention side, I think we need to do more. So I'd  
8 love to answer any questions.

9 CFO SINK: Well, it seems to me that we're in a  
10 situation now where the courts are involved, whether  
11 we like it or not, and they've issued a ruling that  
12 the EPA has to do something by some time certain.  
13 So our challenge has to be, well, what do we do now  
14 and how do we approach it and what's the best  
15 solution in order to assure that the EPA has all  
16 this input from all our various interested entities.

17 And it looks to me like it's a balance issue,  
18 that we all agree that we want cleaner water and we  
19 need to proceed along with all the things that we've  
20 done and continue on with the numeric numbers based  
21 on science that the DEP is doing and, number one,  
22 assure that the DEP (sic) is aware of all the work  
23 that we've done, and I know you've been working with  
24 them, although they've been quiet lately, and that  
25 we get their assurance that they're going to take

1           into account an acknowledgment that this potentially  
2           has an enormous economic impact on our state.

3           So I just happened to be in Washington last  
4           week, and I was really encouraged that all of our  
5           congressional delegation had been informed about the  
6           seriousness of the situation. And I'm going to have  
7           the opportunity to speak actually with the EPA  
8           administrator, Lisa Jackson, later this week.

9           And what I want to encourage her to do is two  
10          things. One is to be sure that we have this open  
11          dialogue and that they respect the science that  
12          we've already done and acknowledge that we have done  
13          a lot of work; and, secondly, that she consider the  
14          possibility of working with the litigants on  
15          extending the time frame.

16          I don't understand how some federal authority  
17          like EPA in 60 days can come up with all these  
18          numbers without coming back and looking at what  
19          we've done that's based on science. That's not even  
20          physically possible. And work in a collaborative  
21          way so that all the economic interests, the  
22          utilities and the wastewater people and the cities  
23          and the counties and the agriculture industry come  
24          up with some kind of solution that's really workable  
25          and represents a good balance for us.



1           MR. SOLE: Governor, that concludes my brief  
2 presentation on the numeric nutrient criterion.

3           GOVERNOR CRIST: I think the General has a  
4 comment.

5           ATTORNEY GENERAL McCOLLUM: I just want to  
6 thank you, Mike. I know it had to be a little  
7 longer than you intended. I think the one thing  
8 that I've gleaned from the discussion that may have  
9 not been clarified enough is the fact that this  
10 lawsuit that was filed not that long ago --

11          MR. SOLE: 2008.

12          ATTORNEY GENERAL McCOLLUM: -- that it was a  
13 decision, a voluntary decision on the part of EPA to  
14 enter into a consent decree when they did, in the  
15 middle of when you were doing all this work that  
16 they knew about.

17                 And that's why I said it was outrageous. We do  
18 have the consent decree now. The judge has done  
19 whatever he did. And my folks were following it. I  
20 know that the Agriculture Commissioner, Commissioner  
21 Bronson intervened in it, and there were a lot of  
22 things discussed over there. Apparently there's a  
23 very technical ruling on his part.

24                 But, nonetheless, CFO Sink is right. We're at  
25 a point now, regardless of that history, where we

1           need to do everything we can to try to dissuade EPA  
2           from doing something foolish here, and then look at  
3           what they've done and then come back to revisit  
4           this.

5                     But I wanted us to all have this discussion.  
6           I'm just really pleased you came up and gave us this  
7           opportunity. I think it also gives the public, the  
8           people of the state of Florida, Governor, a better  
9           opportunity to understand this issue because it is  
10          very, very important. And I wouldn't have taken  
11          this time this morning if it weren't. And I, for  
12          one, want to thank you, Governor, for allowing this  
13          to take place and, Secretary Sole, for your making  
14          that presentation.

15                    MR. SOLE: Thank you, sir.

16                    GOVERNOR CRIST: Certainly, General. I  
17          appreciate that. You know, it just struck me that  
18          obviously there is concern about the ruling by the  
19          U.S. District Court. And it would seem to me -- we  
20          had some very learned presenters today, Jim Alves  
21          and Paul Steinbrecher -- I hope I'm pronouncing this  
22          correctly -- Manley, Kurt.

23                    And it would strike me that if there is that  
24          level of concern, that there's an appellate process  
25          available. And I would presume, although I probably

1           shouldn't, that those who would have the greatest  
2           concern with it would be looking at that. Do you  
3           know if that's occurring?

4           MR. SOLE: It is as it relates to there's not  
5           only the question of entering into the consent  
6           decree, which Judge Hinkle has agreed to, there is  
7           still question in the courts, Governor, today as to  
8           whether or not EPA had the right and authority to  
9           make the Clean Water Act determination. And that  
10          issue is still being pursued in the courts.

11          GOVERNOR CRIST: I would think so. So, you  
12          know, it seems to me that, as former attorney  
13          general, as the current one can attest, if you have  
14          a frustration with what a court is doing, it's not  
15          the U.S. Supreme Court, it's not the court of last  
16          jurisdiction. So there are plenty of opportunities  
17          to appeal, to be heard, to request that science be  
18          an integral part of this process.

19          I would think, even if the appeal is based on a  
20          concern about the process in and of itself, that  
21          certain parties maybe weren't privy to it and had an  
22          opportunity to be heard, that would seem to violate  
23          fundamental fairness to me. So I would think there  
24          are many ways to address this to reach a fair and  
25          reasonable and just conclusion.

1           ATTORNEY GENERAL McCOLLUM: Governor, if I  
2 might.

3           GOVERNOR CRIST: Of course, General.

4           ATTORNEY GENERAL McCOLLUM: The point I made at  
5 the beginning with Mike, with Secretary Sole, was  
6 that as this process is in the law, they have to  
7 issue EPA's ruling, and then I believe, it's their  
8 procedures, but about next October there would be  
9 some ripeness for a challenge.

10           And depending on whether we liked it or we  
11 didn't agree with it, but obviously we don't agree  
12 with it, absolutely there could be a legal  
13 challenge. And I would hope that in the intervening  
14 time, we'd have an opportunity to hear from you  
15 about your views on whatever they've ruled. And  
16 then if we need to challenge it legally, I think the  
17 State ought to be involved in it, not just the  
18 outside parties, Governor, if that's the case.  
19 Maybe it isn't. Let's hope it's not.

20           GOVERNOR CRIST: Well, that's a great point,  
21 General. And I think that, you know, some have  
22 indicated to us today that they have an indication  
23 of where the EPA may go and what their numbers may  
24 be, which is great. I mean, I wish I had a crystal  
25 ball a lot of times, but I don't. So you don't know

1           what it's going to be until it's delivered.

2                   And that's why, General, as you indicate, the  
3           fact that there's a process down the road, in the  
4           event that it is as Draconian as some might predict  
5           today, if it is, then you have that opportunity at  
6           that time to challenge it. Thank God for America.  
7           Are we done?

8                   MR. SOLE: Yes, sir. Thank you.

9                   CFO SINK: Can we take a break?

10                   GOVERNOR CRIST: Yeah, of course. We're going  
11           to have some SBA business to attend to. Why don't  
12           we take about a ten-minute break, and then we'll  
13           reconvene. Thank you.

14                   (Recess taken)

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1           GOVERNOR CRIST: SBA, better known as the State  
2 Board of Administration. Ash Williams.

3           MR. WILLIAMS: Good morning.

4           GOVERNOR CRIST: Good morning. It is still  
5 morning. Thank you, Ash.

6           MR. WILLIAMS: Barely. Item 1, request  
7 approval of the minutes from our October 27 meeting.

8           ATTORNEY GENERAL McCOLLUM: So moved.

9           CFO SINK: Second.

10          GOVERNOR CRIST: Moved and seconded. Show the  
11 minutes approved.

12          MR. WILLIAMS: Item 2 is a fiscal determination  
13 for the Florida Housing Finance Corporation.

14          CFO SINK: Move it.

15          ATTORNEY GENERAL McCOLLUM: Second.

16          GOVERNOR CRIST: Moved and seconded. Show Item  
17 2 approved without objection.

18          MR. WILLIAMS: Item 3 is also a fiscal  
19 determination for the Florida Housing Finance  
20 Corporation Affordable Housing Guarantee Fund term  
21 loan.

22          ATTORNEY GENERAL McCOLLUM: Move Item 3.

23          CFO SINK: Second.

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

1           MR. WILLIAMS: Item 4, another fiscal  
2           determination for Florida Housing Finance  
3           Corporation Multifamily Mortgage Revenue Notes.

4           CFO SINK: Move it.

5           ATTORNEY GENERAL McCOLLUM: Second.

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

8           MR. WILLIAMS: Item 5 is approval for five  
9           amended rules for the Florida Retirement System  
10          Investment Plan.

11          ATTORNEY GENERAL McCOLLUM: Move it.

12          CFO SINK: Second.

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

15          MR. WILLIAMS: Item 6 is an interest rate  
16          exception for the Southern Grove Community  
17          Development District No. 5. This is in relation to  
18          the VGTI, Vaccine and Gene Therapy Institute of  
19          Florida. And this is one, Governor and Trustees,  
20          that I'd like to thank everyone who has worked on  
21          this. There's been a tremendous amount of effort  
22          put into this issue in a very short period of time  
23          between OTTED, VGTI as the issuer, the underwriter,  
24          Division of Bond Finance, staff at the State Board,  
25          et cetera. We do have the folks here from VGTI if

1           there are any questions today, but our  
2           recommendation is approval.

3                   GOVERNOR CRIST: Great. I would recommend  
4           that, too. But I'd like to give them the  
5           opportunity to say a few words, if you don't mind.  
6           Would love to hear from you. You took the trouble  
7           to come here.

8                   MR. MARK WILLIAMS: Governor Crist, members of  
9           the Board, thank you very much for having us here  
10          today. My name is Mark Williams. I am the chief  
11          operating officer for VGTI Florida. It is indeed  
12          our pleasure to be able to participate in this  
13          wonderful initiative that the State of Florida has  
14          embarked upon.

15                   We are already present in St. Lucie County. We  
16          are occupying, rent-free I might add, the third  
17          floor of the wonderful Torrey Pines Institute. That  
18          rent-free was part of the local match to help bring  
19          us here. We already have about 30 scientists  
20          working on the Treasure Coast looking for cures.  
21          And I use the word "cure" because that's how they  
22          use it, looking for nothing short of a cure for  
23          diseases such as HIV, swine flu, West Nile virus and  
24          other types of diseases.

25                   What our scientists seek to do is to improve



1 the human condition by actually using the human  
2 body's own immunology system. Their work is focused  
3 on enhancing that system, so that as a country and  
4 nation and a state, we move away from curing these  
5 diseases by bombarding people with chemicals that  
6 can be poisonous in and of themselves and actually  
7 use the human body's own systems.

8 We are already embarked on partnerships with  
9 Martin Memorial Hospital in St. Lucie County for  
10 clinical trials that we think have tremendous  
11 promise. And so once again, we thank you very much  
12 for this opportunity to come to Florida and begin  
13 this important research.

14 GOVERNOR CRIST: You're quite welcome. I  
15 would -- first I want to commend you and thank you  
16 for the initiative that you have taken and the  
17 investment in Florida. I also want to commend my  
18 predecessor, Governor Bush, as well as Senate  
19 President Pruitt, for their leadership in this area  
20 and what it's done for Florida and the expansion of  
21 economic opportunity for our state, let alone the  
22 great strides that can be made to enhancing the  
23 quality of life of our fellow man because of the  
24 work that you and Torrey Pines and Scripps and Max  
25 Planck and others do. It's just a tremendous

1           tribute to Florida and Florida's leadership and  
2           continued vision for the future. I think the  
3           General wants to say something.

4           ATTORNEY GENERAL McCOLLUM: I just wanted to  
5           add, Governor, what a great program this is and the  
6           opportunity for us in the state, but more  
7           importantly for the people that you're working to  
8           help find cures and disease cures for. Our state is  
9           now becoming known, because of your work and the  
10          collaboration of a few others, as a center of health  
11          research. And I think, as that goes forward, we  
12          can't help but benefit by that as a state, but we're  
13          going to benefit by that as a nation and the people  
14          of the world are going to benefit by it.

15          My understanding today, though, is that you're  
16          here because we need this exception on interest  
17          rates because the private builder couldn't do  
18          something and we have to bond to build, and you  
19          don't have a building, right? Is that right? Is  
20          that what we're here about?

21          MR. MARK WILLIAMS: We do need to build a  
22          building.

23          ATTORNEY GENERAL McCOLLUM: And we want to help  
24          you get that building.

25          MR. MARK WILLIAMS: Yes, sir.

1           ATTORNEY GENERAL McCOLLUM: So I'm certainly  
2 prepared to move this, but I'm sure glad that you're  
3 here and we appreciate it.

4           MR. MARK WILLIAMS: Thank you very much.

5           GOVERNOR CRIST: Great, thank you, Mark.

6           CFO SINK: Second.

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

9           MR. WILLIAMS: Thank you. Item 7, we'll move  
10 into the SBA quarterly meeting agenda. The first  
11 thing we have is investment performance reports for  
12 the Florida Retirement System DB and DC Plans,  
13 Florida PRIME, and the Hurricane Catastrophe Fund.  
14 We have with us this morning, to give you a direct  
15 and objective assessment of our performance,  
16 Mr. Steve Cummings, who is the chief executive of  
17 EnnisKnupp, and also Kristen Hanto, senior associate  
18 from Ennis. So let me call on Mr. Cummings.

19           MR. CUMMINGS: Thank you, Ash. Good morning,  
20 Governor Crist, CFO Sink, General McCollum. Good to  
21 be with you again. As Ash mentioned, I'm Steve  
22 Cummings. And I have quite a bit of information in  
23 this presentation. With your permission, I'm going  
24 to hit the highlights during my oral comments, but  
25 either I or my colleague, Kristen, will be pleased

1 to answer any questions that you might have. I  
2 understand you have a very full agenda today.

3 GOVERNOR CRIST: That's all right. Let me  
4 apologize to you and to my colleagues for getting  
5 back here a little bit late. I didn't want to be  
6 gone quite that long. But I had an important visit  
7 with Senator Crist. And so with that, we look  
8 forward to your comments.

9 MR. CUMMINGS: Thank you very much. Let me  
10 begin my comments by asking you to turn to slide  
11 five in our presentation. It's a graphic several  
12 slides in. There it is right there. This is a good  
13 way to frame my comments to you today. This is a  
14 graph that shows what a dollar invested in the  
15 various capital markets would have returned an  
16 investor over the 12 months ending September 30th,  
17 2009. And my comment today for all of these funds  
18 are addressing performance for periods ending  
19 September 30, 2009.

20 As is no surprise to anybody in this room, a  
21 dollar invested in the stock market, whether in ours  
22 or abroad, declined precipitously from  
23 September 2008 through early in 2009 and then nicely  
24 recovered since that time. Nothing short of a  
25 roller-coaster ride for equity investors around the

1 globe.

2 If there are three points I can leave the  
3 trustees with today as it relates to my comments,  
4 they are that it has been a nearly unprecedented  
5 volatile period in the world's capital markets. We  
6 all know that. The second is that your portfolios  
7 have held up their own very nicely relative to their  
8 market benchmarks and relative to their peers. And  
9 the third comment is that your portfolios have done  
10 so while incurring below market average costs.

11 So although the absolute returns that we've  
12 earned in some cases have been quite disappointing,  
13 relative to market indices and your peers, the  
14 performance has been favorable and cost effective.  
15 And that's a theme that I will comment on several  
16 times.

17 We skip two pages forward to slide seven. We  
18 have a graphic that is an important compliance  
19 issue. These bars show the asset allocation of the  
20 defined benefit plan managed by the Florida  
21 Retirement System as of the end of September. This  
22 was about \$110 billion at that time. That's an  
23 increase of about \$10 billion since the last report  
24 we rendered as of June 30th of this year.

25 And what this graphic indicates is that the

1 portfolio was in compliance with policy guidelines  
2 and ranges. There were no asset classes that fell  
3 outside of their prescribed ranges.

4 We slide forward two slides to slide nine. We  
5 look at our first performance exhibit for the  
6 retirement plan. This graphic shows for, again,  
7 periods ending September 30th, the results of the  
8 FRS relative to its market benchmark and to the  
9 absolute rate of return target that is our long-term  
10 goal of CPI plus five, Consumer Price Index plus  
11 five percentage points per year. You'll see that  
12 the recent quarterly returns on an absolute basis  
13 were quite favorable, nearly 12 percent, and quite  
14 favorable relative to the benchmark, both  
15 benchmarks. Intermediate periods, the one-year and  
16 three-year, less robust, as is the case for all  
17 investors. And then over longer time periods, five  
18 and ten years, the FRS program is comparing nicely  
19 to the market benchmark but failing to achieve that  
20 Consumer Price Index plus five percent.

21 If you turn to the very next slide, however, we  
22 show that same comparison over a longer period of  
23 time. And you'll see that the last 15 and last 20  
24 years the FRS performance has handily beaten that  
25 Consumer Price Index plus five percent index. That

1 benchmark is designed to be a very long-term  
2 benchmark.

3 My only other comment on this exhibit is that  
4 the SBA is not alone in failing to achieve over the  
5 last five and ten years benchmark results that are  
6 measured against Consumer Price Index. Almost every  
7 single institutional investor of size would have a  
8 similar-looking picture for the five and ten years  
9 relative to that type of index. Only a few would  
10 have the favorable results that we see for the  
11 longer time periods here for the FRS pension fund,  
12 both 15 and 20 years, beating that benchmark quite  
13 handily over long periods of time.

14 CFO SINK: Governor, could I ask a question  
15 about that, please?

16 GOVERNOR CRIST: Of course, certainly.

17 CFO SINK: This is a pretty stunning graph. It  
18 just brings the issue up to me, is this investment  
19 objective, is this something that we ought to be  
20 rethinking? Because it obviously appears for ten  
21 years we haven't even come close to achieving it.  
22 And I know that a lot of the long-term projections,  
23 because we do have a long-term horizon because of  
24 our future liabilities, are probably keyed off this  
25 assumption that we're going to have this

1 seven percent long-term return.

2 MR. CUMMINGS: That's an excellent question and  
3 one that, quite frankly, we grapple with and revisit  
4 with our clients on a regular basis. The irony here  
5 is that the time horizon for a program of this  
6 nature is in many cases infinite for an open plan  
7 that has new participants accruing fresh retirement  
8 benefits. And any fixed period of time fails to  
9 properly benchmark the true economic realities of a  
10 perpetual plan such as this one.

11 However, we need to be able to score-keep the  
12 results. We need benchmarks. We need to be able to  
13 convey to individuals and groups such as yourself  
14 whether or not the portfolio is on track, is it  
15 achieving its objectives. So we have this tension  
16 between the very, very long-term nature of the  
17 investment pool and our need to score-keep it.

18 In our opinion, we have a nice balance here in  
19 this retirement program with long-term and  
20 short-term goals. The performance benchmark that we  
21 looked at on the prior page is a mark to market,  
22 realtime score-keeping mechanism, where we can see  
23 are your stock portfolios keeping up with stock  
24 portfolios in general, are your bond portfolios  
25 keeping up with bond portfolios in general. It's



1 good for short-term measurement periods.

2 For the longer time period we continue to be  
3 comfortable with a Consumer Price Index benchmark  
4 for programs of this type because the benefits that  
5 are being funded by this program behave in a way  
6 that is linked to inflationary changes over time.  
7 But there is no single right answer. And I think  
8 it's an excellent point. And it's highlighted  
9 historically right now as a result of what we saw  
10 over the last year in the markets and the  
11 significant downdraft. But we do revisit it every  
12 time we do an asset/liability study, which is on the  
13 docket for spring.

14 ATTORNEY GENERAL McCOLLUM: Could I ask you,  
15 looking back on that last slide, it looks like the  
16 last quarter we actually were doing great. Is that  
17 correct?

18 MR. CUMMINGS: Yes. If you can return one  
19 slide back. Yes. This is one of the toughest  
20 periods for people in my business because we have a  
21 spectacular three-month period on an absolute and  
22 relative basis. And we're saying those words in a  
23 lot of board rooms across the country right now.

24 It comes on the heels of a devastating  
25 nine-month period, such that the one-year period

1           that's just right to the left, which includes that  
2           spectacular quarter, looks very weak. So we have a  
3           situation right now where we're encouraging our  
4           clients not to make any meaningful changes to their  
5           investment program based on the returns themselves.  
6           We're encouraging a long-term focus.

7                     I'm not telling you you didn't do great last  
8           quarter. You did, and something that we should all  
9           be proud of, but it has been a roller-coaster ride  
10          for sure.

11                    ATTORNEY GENERAL McCOLLUM: I just was wanting  
12          to point out that we did have a great quarter. And  
13          when we look at these -- the ones the CFO is  
14          pointing out, the long-term view versus short-term,  
15          changing objectives, we may very well meet the  
16          objective in the long-run. Historically we have met  
17          those objectives. So no one really knows. That's  
18          the problem, right?

19                    MR. CUMMINGS: Well, we're good historians, so  
20          we can tell you what happened over the last quarter,  
21          the year and the last 20 years. And at the risk of  
22          not having a single answer for you, we think both  
23          time periods are relevant, that we should never fail  
24          to keep track of how the portfolio is doing from a  
25          quarter to quarter standpoint, but we should also

1 keep our eye on the long-term ball. And these two  
2 slides do a nice job of book-ending that picture for  
3 you.

4 ATTORNEY GENERAL McCOLLUM: Thank you.

5 MR. CUMMINGS: If we can jump forward to the  
6 next slide. Thank you. This is a graph that I've  
7 shared with the Investment Advisory Council from  
8 time to time. And it shows the cumulative  
9 performance of the FRS relative to that market  
10 benchmark. This is a graph we've been paying a lot  
11 of attention to recently because we're focusing on  
12 how the portfolios performed relative to other  
13 market participants during this challenging time.  
14 And you can see a little increased volatility in  
15 that line towards to right-hand side, the most  
16 recent quarters. But it's not pronounced.

17 What that tells me as an investment consultant  
18 is this is a portfolio that's well diversified and  
19 kind of rode with the markets, the downs and the  
20 ups, which is in our opinion a prudent way for an  
21 institutional investment program to perform in these  
22 environments.

23 Let's take a look at peers now. If we jump  
24 forward to slide 15, we have a chart that shows  
25 you -- there you go. Thank you. This is -- in a

1 real sense there is no apples-to-apples peer for the  
2 FRS program. Each plan has a unique set of  
3 liabilities and a unique set of investments.

4 This is a comparison of the returns of the FRS  
5 relative to the largest -- the median of the largest  
6 ten plans in a universe called Trust Universe  
7 Comparison System, or TUCS for short. What you see  
8 here is over the most recent quarter and the longer  
9 periods, five and ten years, results that are very  
10 similar to those of these other large public  
11 retirement systems. A little bit different for the  
12 one-year and three-year. You performed better than  
13 that top ten group over the one-year and three-year.

14 And while we can't tell you exactly why that is  
15 because it's a median, we're not comparing you  
16 against a single fund, it's an aggregation of funds,  
17 it has to do primarily, in our opinion, with a  
18 different allocation in this program to fixed income  
19 versus alternatives. This program had slightly more  
20 in bonds and slightly less in alternatives. And we  
21 think that was beneficial during the market  
22 downdraft over the last 18 months.

23 CFO SINK: Excuse me. Could I ask you to -- I  
24 have a chart here called FRS Attribution Analysis.

25 MR. CUMMINGS: Yes.

1 CFO SINK: Can you put that up?

2 MR. CUMMINGS: That's slide 12. Yes.

3 CFO SINK: My numbering system is different.

4 MR. CUMMINGS: Okay. I apologize.

5 CFO SINK: I just think I have a previous --  
6 but the question I wanted to ask you here is you've  
7 got the five years ending, one year ending. And all  
8 these different asset classes, you would expect them  
9 to kind of, as I call it, skip around a little bit.  
10 Over one period of time they may be a little better,  
11 another period of time a little less. But in the  
12 two areas of strategic investments and private  
13 equity, both negative. The one year is negative and  
14 also the five year is negative.

15 And so from your position as a consultant, if  
16 you were looking at, which I know you do, you look  
17 at this chart, what would you conclude from this  
18 indication that in these two asset classes it  
19 appears that we're not achieving the results that we  
20 would have anticipated either in the short-term or  
21 the longer term period?

22 MR. CUMMINGS: That's an excellent question,  
23 and we ask it all the time. And what we look for is  
24 whether or not the investors responsible for these  
25 results can explain why they look the way they do

1 and why they expect them to not look the way they do  
2 going forward.

3 And the stories behind these two areas of the  
4 program are different, but they have a common -- a  
5 common feature. The strategic investments and the  
6 private equity components of this investment program  
7 consist of investments that are not priced in the  
8 marketplace every day. They don't mark to market,  
9 as it were. The benchmarks, however, for both of  
10 these areas do have a mark to market basis.

11 So when we have periods of time like we have  
12 lived through recently, where there's been dramatic  
13 swings in the publicly traded securities markets,  
14 the benchmark results have moved very quickly, while  
15 the underlying portfolios slowly reprice as the  
16 time -- as the clock proceeds. In both of these  
17 cases there are meaningful -- and perhaps, Kevin or  
18 Ash, you could give a more detailed nuanced response  
19 to this in terms of the actual underlying  
20 investments.

21 There's a substantial amount of investments in  
22 the private equity area of the program and also in  
23 the strategic investments that are not currently  
24 priced, there is news in there that has not been  
25 reflected in the valuations, while the markets, as

1 we've seen recently, have risen very rapidly. So  
2 relative to their benchmarks, they've  
3 underperformed.

4 If this persisted as those pricing mechanisms  
5 work their way through the investment program and we  
6 begin to see updated valuations, then that's an  
7 another conversation.

8 CFO SINK: And I know Ash is, I think, going to  
9 make some comments about these -- you're going to  
10 make some comments about this later on.

11 MR. WILLIAMS: Yes. Item 9, we'll be talking  
12 about this in detail.

13 CFO SINK: Okay. I just was curious to get the  
14 consultant's opinion about it.

15 MR. CUMMINGS: Sure. Did that answer your  
16 question?

17 CFO SINK: Yes. So in other words, if this  
18 persists, this kind of picture persists going  
19 forward next year and the year after, we ought to be  
20 asking some pretty serious questions about this  
21 asset class or how it's managed.

22 MR. CUMMINGS: Right. And every one of the  
23 asset classes is slightly different. But most  
24 private equity programs have about a 12- to 18-month  
25 lag before the portfolio is mostly repriced. And

1           that's not -- but to get a completely repriced  
2           portfolio sometimes takes as long as two or two and  
3           a half years.

4           CFO SINK:   Okay.

5           MR. CUMMINGS:  Let's see.  I was talking about  
6           peers, on slide 15.  And I think we covered that.  
7           The SBA also participates in a survey that's  
8           conducted by an organization called Cost  
9           Effectiveness Measurement, or CEM.  In my opinion,  
10          it's the industry leader in evaluating the costs  
11          associated with investment programs relative to the  
12          value added produced.

13          And I'll make a couple of comments on Cost  
14          Effectiveness Management peer group comparisons, on  
15          the very next slide, 17.  They do a very nice job of  
16          distilling all the information they have into a  
17          relevant peer group comparison.  So you can do a  
18          good job of seeing how the FRS results compare to  
19          peers.

20          And in this case CEM came up with a peer group  
21          of 17 public and corporate pension funds, 1.2  
22          trillion in total assets, average size of  
23          70 billion, ranging from 30 to 180, pretty  
24          reasonably similar.  If you look at the next slid,  
25          we have what we refer to as a floating bar chart.



1 This shows the return of the FRS relative to not the  
2 peer group but the entire universe of U.S. plans.  
3 So this is the whole kettle.

4 The top of these boxes is the best performing  
5 fund in that universe. The bottom of the box is the  
6 worst performing. And then the SBA is the circle.  
7 And the triangle, which is for all time periods,  
8 plots right on top of that circle, is the median of  
9 the U.S. universe.

10 What you see here is over the one-, three- and  
11 five-year period, the SBA has held its returns very  
12 consistent with median performance, slightly better  
13 than median. A ranking here of 48 means you're in  
14 the 48th percentile, or slightly better than median.

15 One thing that jumps out at me when I look at  
16 this chart is the staggering spread in results for  
17 the one-year period. We are not accustomed to  
18 seeing the high, mid and low results being this far  
19 apart. And I'm sure you all are wondering the same  
20 thing I am, which is what in the world was that one  
21 fund that got a 28 percent over the last year doing.  
22 And I wish I could tell you, but CEM maintains  
23 confidentiality of the underlying data. But  
24 somebody had a pretty good year.

25 I was going to skip two slides ahead and talk a

1 little bit about costs. This shows relative to that  
2 peer median, that 17-person peer median. The reason  
3 we use the peer medians here is there's a huge  
4 economy of scale in this business. Large investors  
5 are able to negotiate lower fees for custody and  
6 investment management. So we didn't want to compare  
7 you against the entire universe. We wanted to look  
8 at folks that have the same sort of economics as the  
9 FRS.

10 What you see here is a very strong picture. On  
11 these charts, being low is a good thing because it  
12 means -- what we're measuring here is costs. And  
13 you see here, in all categories, the total costs,  
14 the direct costs and the governance administration  
15 costs, the FRS is at or in the top decile of results  
16 in this 17-member peer universe. So very favorable  
17 cost picture.

18 Any questions on anything on the pension plan?  
19 I'm going to move to the investment plan if there  
20 are no questions. We go to slide 25. This is the  
21 participant -- the Florida Retirement System  
22 Investment Plan. It's different than the defined  
23 benefit plan in a couple of important ways. One is  
24 it's smaller. It's about four and a half billion  
25 dollars in size as opposed to 110 billion, but also

1           it's participant directed.

2                   When we look at participant-directed plans, we  
3           like to see a few things. We like to see that the  
4           participants have choice. We like to see that they  
5           have made good use of that choice in their  
6           investment decisions. We like to see low costs, and  
7           we like to see results that are favorable.

8                   The only one of those that I don't actually  
9           have data in my presentation on today is the  
10          participant behavior. We spent a lot of time at  
11          last week's Investment Advisory Council looking at  
12          the behavior of participants in this plan, their  
13          decision-making process. And it is good. The  
14          education is working, and participants are making  
15          good investment decisions.

16                   This chart focuses on the performance of the  
17          FRS Investment Plan in totality relative to two  
18          comparisons. One is a little bit tricky. And  
19          that's the average defined contribution plan. What  
20          we have attempted to do here is create a single  
21          number that represents the return of defined  
22          contribution plans nationwide over the one-, three-  
23          and five-year period. Compared to that proxy, the  
24          FRS Investment Plan trailed during the one- and  
25          three-year period and exceeded it during the

1 five-year period.

2 The more relevant benchmark, in our opinion, is  
3 the one that compares the FRS Investment Plan to an  
4 aggregation of the benchmarks for the underlying  
5 options in your program. Each of those options has  
6 a benchmark that's carefully constructed, and this  
7 is an aggregation of that investment success. And  
8 here you see a very strong picture, the one-, three-  
9 and five-year results all exceeding that benchmark  
10 by between 50 basis points, or .5 percentage points,  
11 and over one percent for the year.

12 I mentioned costs, which are on the next slide.  
13 And, again, it's a good picture. The investment  
14 plan expense ratio here is .25 percent, is lower  
15 than the peer group of .3. And we also gave you  
16 from Greenwich Associates comparative statistics for  
17 corporate America and public funds in general, which  
18 have cost structures of 44 -- .44 percent or .39  
19 percent. So relative to all three comparisons, the  
20 cost structure of this program is favorable.

21 And the following slide, I won't go into  
22 detail, but it shows the fee structures for each of  
23 the underlying funds relative to the mutual fund  
24 industry. And in every case the FRS is paying less  
25 fees than the industry averages.

1           The last slide, which is the next slide I was  
2 going to touch on, focuses on the value added, the  
3 results, the returns of this program. You can see  
4 the value added for the FRS Investment Plan is  
5 .83 percent, comparing well to both the peer group,  
6 with only .09 percent of value added, and the median  
7 of U.S. funds of .44. So on both comparisons, the  
8 results of this program have been very favorable on  
9 an absolute and relative basis.

10           Any questions on the investment plan? We can  
11 turn now to Florida PRIME, the LG --

12           CFO SINK: Excuse me. I do have one. I'm  
13 looking at the assets under management, under plan  
14 membership.

15           MR. CUMMINGS: Yes.

16           CFO SINK: Obviously, the plan started, I  
17 guess, back in '02 and '03, or certainly even --  
18 that was the start of the defined contribution plan,  
19 and it's seen steady growth, and it seems to have  
20 leveled out. This may not be a question you can  
21 answer, or maybe Ash or somebody else. Also in  
22 terms of the numbers of participants have kind of  
23 leveled out.

24           So are we thinking that this is kind of where  
25 we're going to be here on out, just more of a more

1 moderate to modest steady growth?

2 MR. CUMMINGS: I believe a lot of that has to  
3 do with what we see from the markets. Participants  
4 around the country have, when given the choice these  
5 days between selecting a defined benefit mode of  
6 retirement accrual or a defined contribution, we're  
7 seeing a preference, a tilt towards defined benefit  
8 plans because of the recent market experience and  
9 the concerns many of us and investors have about  
10 their ability to withstand that sort of correction.

11 That change in valuation that we're seeing here  
12 on this slide is almost exclusively a result of the  
13 markets changing, not participants making decisions.  
14 But the following slide, which shows the membership  
15 flattening off, I suspect -- and perhaps there's  
16 someone in the room that could add more detail to  
17 the actual underlying data here. I suspect there is  
18 a participant behavior effect going on here, where  
19 those given the choice are, more than they might  
20 have two years ago, tending to select the defined  
21 benefit plan.

22 CFO SINK: And maybe, Ash, do you know what  
23 percentage of the total participants, DB plus DC,  
24 this 122,000, is that about 20 percent or do you  
25 know right off the top of your head?

1           MR. WILLIAMS: Ron Poppell manages the DC  
2 program and has forgotten more about it than most  
3 people will ever know.

4           MR. POPPELL: Of folks making an active  
5 election, in March or June of '08, about 26 percent  
6 of them were electing the investment plan. Roughly  
7 20 percent were electing the pension plan. Over the  
8 last year, the people electing the investment  
9 plan --

10          CFO SINK: Wait a minute. Twenty-six plus 20  
11 doesn't add up to 100.

12          MR. POPPELL: Well, the others were defaulting.  
13 Fifty-five to 58 percent were defaulting. But based  
14 on survey data and focus groups that we've done, we  
15 know that about 40 percent of the defaulters are  
16 defaulting as their active choice to the pension  
17 plan. And what they've told us is that if they do  
18 nothing, we can't screw something up. That's what  
19 they've told us in the focus groups.

20          CFO SINK: Twenty-six percent are choosing the  
21 DC plan.

22          MR. POPPELL: That's what it was. It's now  
23 down to 23 percent. The pension plan has come up.  
24 So the people making an active election really  
25 hasn't changed. They're just now electing the

1 pension plan over the last year instead of the  
2 investment plan.

3 But over the last couple of months, we're  
4 starting to see that go back toward the invest plan.  
5 Like Steve said, you can watch the market, and the  
6 months that the market is good, they're coming to  
7 the investment plan. The months that the market is  
8 bad, they're going to the pension plan. You can  
9 just watch it and see it every single month.

10 CFO SINK: Okay, thanks.

11 MR. CUMMINGS: All right. Well, I was going to  
12 move to the PRIME. I have just a few comments left  
13 in my prepared remarks. If you turn to slide 33,  
14 which is the first, the very next slide. There you  
15 go. Thank you very much. These are the results  
16 relative to two benchmarks. The one that is most  
17 relevant for this portfolio is the one to the right,  
18 the net of expenses. We're comparing net to net  
19 returns.

20 We include the gross yield index because that  
21 was a historical benchmark. So the difference  
22 between those two is simply the expenses. You'll  
23 see that for all time periods, the performance of  
24 the LGIP, local government investment program,  
25 portfolio has been in sync with or in excess of the



1 net yield index benchmark.

2 And there's about \$114 billion in this program.  
3 I'm sorry. \$114 billion in the benchmark, in the  
4 benchmark. Kristen is going to kick me because she  
5 specifically told me that this morning.

6 The only other comment I was going to make is  
7 three slides forward, on slide 36, there's a lot of  
8 numbers here, but this is a totality of the  
9 proportion of original principal that has been  
10 returned to investors from Fund B. You'll notice  
11 that as of the end of September 2009, nearly  
12 75 percent of the original principal had been  
13 returned. Since then two other distributions have  
14 been made, one of about \$8 million in October and a  
15 little over 6 million for November. So now, I guess  
16 as we stand here today, it would be well over  
17 75 percent of that has been returned.

18 CFO SINK: Is there any anticipation that at  
19 some point in time there will be a recommendation to  
20 write off part of this remaining \$500 million?

21 MR. CUMMINGS: CFO Sink, I don't have the  
22 answer to that question, but perhaps Ash does.

23 MR. WILLIAMS: I'll take that one. Our  
24 analysis is that to really get a hard answer to that  
25 question, we're going to have to wait a while.

1 We're at this point holding collateral on a number  
2 of structures. And the maturities at the outer  
3 boundary are probably in the range of seven years  
4 out. It would not be unreasonable to expect there  
5 to be some portion of that that was not recoverable,  
6 but I think the very significant majority of it will  
7 be. And we won't know until we get a little closer  
8 to maturity.

9 MR. CUMMINGS: Thanks, Ash. The last few  
10 slides of my presentation have to do with the  
11 Florida Hurricane Catastrophe Fund. Advance two  
12 more slides. As you know, there's the Hurricane  
13 Catastrophe Fund and the Hurricane Catastrophe 2007A  
14 Fund. Both are invested in a short-term nature, and  
15 they total a little over \$7 billion as of  
16 September 30th. The next slide shows the results of  
17 the CAT, catastrophe fund, relative to its benchmark  
18 for periods ending September 30th, 2009, favorable  
19 results more recently and over the very long-term  
20 periods and weaker performance during the three- and  
21 five-year period. And the following slide shows the  
22 much shorter time frame results but also favorable  
23 for the 2007A Fund relative to its benchmark,  
24 handily exceeding it for both periods shown.

25 ATTORNEY GENERAL McCOLLUM: Could I ask you,

1           what are these funds invested in, what type of  
2           investments? I don't remember. Maybe Ash knows or  
3           somebody else, but I'm not familiar with what we  
4           invested in.

5           MR. WILLIAMS: The focus of the Cat Fund is  
6           safety and liquidity. Obviously, as an insurer,  
7           there's a possibility the fund could be called upon  
8           to pay substantial claim activity in a relatively  
9           compressed period of time, not overnight but  
10          certainly within a period of a single digit number  
11          of months.

12          We have been working very recently with the Cat  
13          Fund, we the State Board have been working with the  
14          Cat Fund and Raymond James, their external advisor,  
15          to revise those guidelines to more clearly emphasize  
16          both safety a liquidity, and we have recently closed  
17          out those discussions and will be bringing forward  
18          revised guidelines to that effect.

19          ATTORNEY GENERAL McCOLLUM: But this is some  
20          kind of paper. That's the only way it could be  
21          liquid, if it's not cash as such. It's --

22          MR. WILLIAMS: Correct. There would be a  
23          proportion of Treasuries. There are then  
24          limitations on maturities. You want to constrain  
25          credit risk, constrain duration risk, constrain

1 interest rate risk, et cetera. So there are a  
2 number of boundaries within which we can ensure that  
3 we have exactly the quality and liquidity that we  
4 should have.

5 ATTORNEY GENERAL McCOLLUM: I just think it's  
6 remarkable that, considering that's fairly  
7 conservative, that we've done so much better than  
8 the benchmark over the last year. So I guess that's  
9 the marketplace bouncing back again. But,  
10 nonetheless, that's an interesting phenomenon. It  
11 wouldn't normally occur in more conservative  
12 investments, I wouldn't think. Am I right?

13 MR. CUMMINGS: Yes, you're right. It has been  
14 a spectacular recovery. And everything that -- what  
15 hurt so badly last year has recovered very  
16 dramatically this year. This is just another  
17 example of that. The scale can be a little bit  
18 misleading here. The performance is clearly above  
19 that of the benchmark, but the numbers here are  
20 single digit returns. So we kind of expanded the  
21 scale so you could see the structure. But it has  
22 been an impressive recovery for these portfolios.

23 CFO SINK: Let me just ask a question, because  
24 what I'm looking at says that -- is this the Cat  
25 Fund? That our one-year return was .4 percent, and

1 the benchmark was 1. --

2 MR. CUMMINGS: Yes.

3 CFO SINK: Has that been revised?

4 MR. CUMMINGS: Yes. Yes. CFO Sink, I believe  
5 you have an earlier version of this presentation.  
6 When we were prepping for the meeting here last  
7 Friday, I believe, we discovered that the return  
8 that we were showing here for the Cat Fund was a  
9 yield-only return, it wasn't a mark to market return  
10 or a full evaluation. The benchmark was a full  
11 evaluation return. So we had an apples to oranges  
12 comparison.

13 We asked if we could get the mark to market  
14 return for the Cat Fund so that we could have an  
15 apples to apples comparison. The good news is we  
16 can. The bad news is it's only available for the  
17 last year and a half or so. So what we did was say,  
18 well, let's at least use the good data that we have  
19 for the period we have. So we took the historical  
20 yield return and appended to that series the updated  
21 mark to market return so that we could give you the  
22 most relative comparison. But that was a change  
23 that was made relatively recently as part of the  
24 preparation for this presentation. My apologies.

25 Well, I was going to wrap up my comments,

1 unless there were other questions, by saying it's  
2 been one heck of a 12- to 18-month period, an  
3 awfully tough downslide and an awful nice recovery,  
4 and just reiterate my opening comments, which is  
5 your funds across the board have held up well  
6 relative to the market, relative to peers.

7 And I can't emphasize enough the importance of  
8 maintaining a disciplined cost structure. And  
9 relative to large and small peers, the costs  
10 incurred by the various entities that you oversee is  
11 very competitive. With that, I will hand over the  
12 microphone. Thank you.

13 GOVERNOR CRIST: Thank you.

14 MR. WILLIAMS: Okay. Moving on, let's go to  
15 Item 8. We'll have a series of reports for you.  
16 The first is from Mr. Bill Sweeney, the chairman of  
17 the Audit Committee. And I would note that we have  
18 the entire Audit Committee with us today, would  
19 thank them very much for their guidance and service.

20 MR. SWEENEY: We have a brief report this  
21 morning. The first three items are items that we  
22 discussed in the last meeting. And that's the  
23 report of Deloitte & Touche. And we have moved that  
24 report, since they are here and they can speak for  
25 themselves, to Ash's agenda. And then we will also

1           have the response by management. So it will be a  
2           more comprehensive approach, and it also makes our  
3           agenda considerably smaller.

4           The other -- the second thing from the last  
5           meeting, we talked about CLU training. We have made  
6           some progress on that. We've done a survey of  
7           people at the SBA. It's an amazing number of  
8           attorneys, CPAs, certified financial people. And  
9           they all have some form of continuing education,  
10          including fraud examiners.

11          And in addition to identifying these people, we  
12          have encouraged management to have a new position  
13          that would be exclusively in charge of training for  
14          the employees of the SBA. So we think it's very  
15          important that we -- because you can have these  
16          continuing education programs brought to the  
17          facility here in Tallahassee. You can also identify  
18          programs that are directly related to our work.

19          For example, I know something about legal  
20          continuing education. You can have -- if you're in  
21          a bind, you can get a quick course on admiralty law.  
22          But we would rather not have -- we would rather have  
23          something on rebate and arbitrage and something that  
24          might be of interest of the trustees.

25          The liquidity question that was raised last

1 week, we had a brief presentation at our last  
2 meeting, which was last week. This is a problem of  
3 the contributions are not sufficient to make current  
4 payments. And the question becomes, how do we make  
5 up the difference. And we have asked the Board --  
6 we just had this brief presentation last week.  
7 We've asked management to make a full presentation  
8 at the next quarterly meeting. I think this is a  
9 very interesting problem and something that the  
10 trustees need to be aware of.

11 The fourth item on our agenda are audit  
12 findings. Now, this is a series that has been going  
13 on and continues to go on because we have auditors,  
14 we have external auditors, internal auditors and the  
15 auditor general. So we have accumulated what are  
16 known in the trade as findings and recommendations.  
17 And so we have whittled these down considerably.  
18 And, of course, they are not finally resolved until  
19 the internal auditor approves the solution from the  
20 SBA. And we have changed our internal audit  
21 program, that we think we will be through all the  
22 existing audit recommendations by the close of this  
23 fiscal year.

24 Now, you're always going to have audit  
25 criticisms during the year as we have audits. But



1 we have made substantial, with the assistance of  
2 many people at the board, to liquidate these  
3 outstanding recommendations, and I think that we  
4 will be at least caught up in the sense that you're  
5 never totally caught up, but we will be current.  
6 Some of these unfortunately had back-dates as long  
7 as five and six years. And so we will have all of  
8 those comments liquidated.

9 The final item is that we have discussed with  
10 the Board, and management concurs in this  
11 recommendation, that they prepare an annual  
12 financial statement at the end of the year for the  
13 two pension plans, or the pension plans, plural. As  
14 you know, the Cat Fund is audited. The local  
15 government thing has several different audits  
16 involved.

17 The pension funds will then produce a financial  
18 statement, which will be some considerable amount of  
19 work, particularly in the initial preparation. And  
20 then we will have that audited by an external  
21 auditing firm. And as I say, that has been -- that  
22 is a unanimous recommendation of the Audit  
23 Committee, and management agrees with it, and I  
24 think it will be an extremely helpful document and  
25 will isolate the financials.

1           We have a million, over a million people who  
2           are involved in this. And this isolates the  
3           financials for the pension fund which those million  
4           people are interested in. And I think it will also,  
5           if you've been through a modern audit, the auditors  
6           are also doing a lot about controls and other  
7           related matters. And, of course, the footnotes are  
8           also critical to that process.

9           So unless there are objections from our  
10          trustees, we would like to implement that plan.

11          CFO SINK: Governor --

12          GOVERNOR CRIST: Any objections?

13          CFO SINK: May I make a motion?

14          GOVERNOR CRIST: Sure.

15          CFO SINK: Thanks to you for all your work and  
16          also Melinda and Kim. It's been a long journey  
17          here. I would move that we accept the Audit  
18          Committee's recommendation to move forward with  
19          competitively procuring an audit firm to do an  
20          independent external audit of the pension fund  
21          apparatus.

22          ATTORNEY GENERAL McCOLLUM: I would second  
23          that.

24          GOVERNOR CRIST: Show it approved without  
25          objection. Thank you.

1 MR. SWEENEY: Thank you very much.

2 GOVERNOR CRIST: Thanks for the great work.  
3 Thank you, Melinda.

4 MR. WILLIAMS: Thank you, Bill. Next we have a  
5 report from the Participant Local Government  
6 Advisory Council, and we have the vice-chair, Patsy  
7 Heffner, with us today from Osceola County.

8 MS. HEFFNER: Good afternoon. The Participant  
9 Local Government Advisory Council has met four times  
10 in 2009. Our initial meeting was February the 25th,  
11 and our most recent meeting was November the 30th,  
12 which was held in Tampa. Since the last trustee  
13 meeting in August, the PLGAC has continued to work  
14 on issues that relate to the improvement of  
15 operations, client services and the management of  
16 the pool. Additionally, we have maintained a  
17 continued dialogue with the SBA in regards to  
18 Florida PRIME and Fund B.

19 We have continued to guide the development of  
20 new client communications, with a focus on  
21 broadening the participation and understanding of  
22 the major improvements and investment protocols of  
23 the fund. We've developed an improved -- a new  
24 policy on how gains and losses are treated in line  
25 with industry best practice and provided policy

1 guidance on the necessity of a reserve fund.

2 We've continued to oversee the implementation  
3 of the new website and the related rebranding of  
4 Florida PRIME, which was announced in August. We've  
5 continued achievement of Standard & Poor's AAAM fund  
6 rating on September 25th of 2009. We've continued  
7 to evaluate further enhancements to the pool's  
8 operation, including most recently the development  
9 of a new fee allocation procedure in line with  
10 industry standards among 2a-7 money market funds.

11 We appreciate the opportunity to serve, and we  
12 look forward to continuing our guidance in hopes  
13 that it will continue to strengthen the SBA and to  
14 increase and improve the trust and confidence of its  
15 participants.

16 GOVERNOR CRIST: General.

17 ATTORNEY GENERAL McCOLLUM: Patsy, I just want  
18 to compliment the advisory council. I think it's a  
19 tremendous amount of work that goes into this. We  
20 don't always see it. You report on it. And what a  
21 great improvement that has led to in terms of things  
22 since the precipitous moment we were in just a year  
23 or two ago. So we want to thank you for the effort,  
24 and obviously the result is showing. And I suspect  
25 more and more local governments will regain

1 confidence, will put money into this fund. And at  
2 the end of the day, we'll have a good program to  
3 serve local government.

4 MS. HEFFNER: I think you're absolutely right.  
5 Thank you very much.

6 ATTORNEY GENERAL McCOLLUM: Thank you.

7 GOVERNOR CRIST: Let me add to that as well,  
8 Patsy. Thank you very much for your leadership in  
9 restoring faith in this fund.

10 MS. HEFFNER: You're more than welcome.

11 CFO SINK: Governor, let me ask Patsy, we  
12 started this conversation a little bit before the  
13 meeting, but obviously this is the time of the year  
14 that all the tax collections are coming in, when  
15 typically the fund would be building up. And I'm  
16 just curious. We're sitting at, what, about five or  
17 six billion dollars now. What's your sense in terms  
18 of the fund building up over this period of time  
19 when the tax collections are coming in?

20 MS. HEFFNER: I do believe this is the time the  
21 fund will build up. I think we saw a drop in it  
22 towards the end of September, October, but that's  
23 typical because that's the end of the budget year  
24 for your local governments. And now, as our tax  
25 collections are coming in, I think you will see that

1 fund begin to increase.

2 CFO SINK: I would like to make a comment that  
3 obviously, with the -- it certainly gives me a lot  
4 of comfort to know that the actual participants and  
5 the investors in this particular fund are the people  
6 who are overseeing the way it's operating. And I  
7 know you're taking a lot of great care because it's  
8 your money and it's your taxpayers' money.

9 MS. HEFFNER: Well, this is true. And I would  
10 tell you, from a participant standpoint, we're very  
11 pleased to have the opportunity to do this. And  
12 we've seen just a tremendous improvement on behalf  
13 of SBA in their communications, both in volume and  
14 substance. And this has gone a long way to develop  
15 the confidence of the participants.

16 GOVERNOR CRIST: Thank you.

17 MR. WILLIAMS: Thank you, Patsy. Next we have,  
18 from the Investment Advisory Council, Rob Konrad,  
19 chairman of the council. We also have with us David  
20 Grain, one of the other council members. And I  
21 believe we may have one or more other members of the  
22 Investment Advisory Council participating by  
23 telephone today.

24 MR. KONRAD: The Board and Governor Crist,  
25 thanks for having us here today. Like Ash said, we

1           have David Grain with us from the IAC, and we thank  
2           him for making the trip up here to Tallahassee.

3                   CFO Sink was kind enough to join us at our last  
4           IAC meeting and brought with her three  
5           recommendations. I'd like to spend some time on  
6           those today. It's my understanding that the Board  
7           had requested feedback from these issues from the  
8           IAC, and I'd like to briefly share some of the IAC's  
9           thoughts with the Board. And I'm going to move  
10          through these, so feel free to stop me at any time  
11          if you have any questions.

12                   The first recommendation was to require regular  
13          independent audits of the SBA. I think this was  
14          addressed earlier. And the IAC supports this  
15          concept. And I think the Audit Committee ran  
16          through the details of this. The second  
17          recommendation requires fiduciary training for the  
18          trustees, the IAC, the Participant Local Government  
19          Advisory Council and the Audit Committee.

20                   The IAC generally supports this concept,  
21          especially for the trustees, as you are the  
22          fiduciaries for the fund. And our recommendation  
23          would be for the committee members to limit the  
24          training to essentially the beginning of their term.  
25          Just from a timing standpoint, it becomes difficult

1 with all the trips up to Tallahassee, and many of  
2 the participant members are in the profession and  
3 have received quite a bit of training in the past.

4 The third recommendation was the expansion of  
5 the Board of Trustees. The IAC spent quite a bit of  
6 time at the end of their December 3rd meeting and  
7 probably spent a good 30, 40 minutes reviewing  
8 different structures and the current structure of  
9 the SBA. And the IAC is generally comfortable with  
10 the current operational and oversight structure of  
11 the SBA. However, we do recognize that you, the  
12 trustees, are ultimately responsible, and it's  
13 important that you're confident in the structure and  
14 the process of the SBA moving forward.

15 CFO Sink raised some concerns that we believe  
16 merit further discussion, one being you having dual  
17 roles as cabinet members and trustees for the SBA,  
18 there may be time constraints that don't exist for  
19 other trustees of other large public funds.

20 A second concern was that there is the  
21 possibility of a complete turnover of the Board,  
22 which generally, in the private sector, wouldn't be  
23 accepted. And this could lead to the lack of  
24 institutional memory during a transition, however  
25 unlikely.



1           Should the Board and the Legislature decide to  
2           rework the trustee structure, the IAC would support  
3           a moderate expansion of the Board, preferably not  
4           more than five members. The structure we discussed  
5           was a five-member board. And if I can walk you  
6           through this, it would be the CFO as a trustee, the  
7           Governor having three appointees as trustees, and  
8           with a requirement that they have institutional  
9           money management background, and the fifth appointee  
10          being from the Attorney General, possibly being a  
11          member participant. And what we had in mind was  
12          someone with relative experience, similar to  
13          possibly an economics professor at the University of  
14          Florida.

15                CFO SINK: Or FSU.

16                MR. KONRAD: Or FSU.

17                GOVERNOR CRIST: Or USF.

18                MR. KONRAD: For that matter. While the Board  
19           explores how to change and possibly improve the  
20           structure of the SBA, the IAC had a couple of  
21           recommendations itself for the Board while  
22           researching the subject matter. We'd encourage the  
23           Board to continue to expand its line of  
24           communications with the IAC and other advisory  
25           councils. The opportunity to speak directly with

1 the Board on a quarterly basis has improved our  
2 communication between all the parties here and  
3 allows our efforts to be more productive. We hope  
4 the Board recognizes these benefits in the same  
5 light, and we appreciate the opportunity to come  
6 speak to you.

7 The second issue we wanted to raise is the  
8 number of mandates for the SBA that they're  
9 ultimately responsible for has more than quadrupled  
10 since the nineties. The IAC would like the Board to  
11 initiate a review of the mandates and whether there  
12 could be efficiency improvements at the SBA by  
13 outsourcing some of the smaller mandates possibly to  
14 the private sector or other qualified government  
15 agencies. From an operational and oversight  
16 standpoint, some of the smaller mandates utilize  
17 resources of the SBA that otherwise could be focused  
18 on larger initiatives.

19 The FRS has been successful over the years  
20 largely due to its dedication to its merit-based  
21 investment process. The IAC's major concern is to  
22 make sure the structure of the SBA is not  
23 politicized, that the investment process remains  
24 independent, and we believe to stray from these  
25 principles would be a big mistake.

1           I'd be happy to answer any questions you may  
2 have.

3           CFO SINK: Governor, let me -- Rob, thanks for  
4 your report and thank you for giving me the  
5 opportunity to share some of my thinking with you.  
6 I am interested in the -- I think we'll have an  
7 opportunity at the end of the agenda to talk about  
8 some of the governance issues with the board  
9 members.

10           But I appreciate your coming before us to point  
11 out the fact that the SBA does have a number of  
12 mandates and is something that you and the IAC think  
13 we ought to look at. Would you just share a little  
14 bit more with us along those lines?

15           MR. KONRAD: Sure. I will say, in my three  
16 years with the IAC, just the sheer number of  
17 mandates itself and some of the smaller mandates, I  
18 know it's difficult from our standpoint even to get  
19 through all the mandates. It's several years in  
20 sometimes before we're even able to get a full  
21 presentation and look into these things.

22           I know that from the SBA's standpoint, over the  
23 years it's been convenient to add mandates to them.  
24 And I think it would be prudent, given the topic of  
25 discussion, to look at those mandates, see if it's

1 not beneficial. There's plenty of groups, folks in  
2 the private sector and/or possibly other government  
3 agencies that may be able to handle these and free  
4 up some of the resources to the SBA to really have  
5 laser-like focus on the major initiatives.

6 CFO SINK: Well, you remind me that when we had  
7 the problem come up with the Local Government  
8 Investment Pool and we went back and tried to  
9 reconstruct what had happened with it, that the IAC  
10 mentioned that you all had never been asked to look  
11 at or been aware of or asked to look at any of the  
12 other investment mandates. So your focus really had  
13 been on just the operation of the pension, of the  
14 FRS, the retirement system.

15 MR. KONRAD: Correct. And our focus had been  
16 on the major initiatives and the major mandates in  
17 the FRS. And that was one of my first meetings, but  
18 the members of the IAC at the time did have that  
19 commentary.

20 CFO SINK: Governor, if it would be all right,  
21 I'd like to take the recommendation and I'll make a  
22 form of a motion that we direct the staff to begin  
23 to undertake a presentation to us as board members  
24 about the other, many other mandates that the SBA  
25 has and come back and begin to report at the next

1           quarterly board meeting and follow the IAC's  
2           recommendation that we think about the appropriate  
3           management of the other mandates of the SBA.

4                    ATTORNEY GENERAL McCOLLUM:    Might I comment?

5                    GOVERNOR CRIST:    General.

6                    ATTORNEY GENERAL McCOLLUM:    It seems to me that  
7           what Rob is suggesting, CFO, is that some of these  
8           mandates ought not to be there.  And rather than  
9           just have the reports coming to us about educating  
10          us on them, I would like to suggest that in the  
11          interest of time and efficiency that perhaps we have  
12          Ash and the IAC propose to us at the next meeting,  
13          if they're prepared to do that, some of the specific  
14          mandate changes they might like to have, if they do  
15          wish it, rather than simply reporting to us on the  
16          various areas.

17                   I'm happy to hear it.  But if there are a  
18          number of these that you've already come to the  
19          conclusion of that may be better we not be doing or  
20          farm out somewhere, then I think it would be really  
21          helpful if you specified that to us rather than just  
22          reporting.  And if that were a part of the motion, I  
23          would --

24                   CFO SINK:  I agree with you.  And in fact, we  
25          may want to delay it out for maybe not our next

1 meeting but the one after that so that the IAC would  
2 actually have the time and the opportunity to have  
3 their meeting and discuss some of the other  
4 mandates.

5 ATTORNEY GENERAL McCOLLUM: With that in mind,  
6 Governor, I would second that motion.

7 GOVERNOR CRIST: Sounds like a motion with a  
8 friendly amendment that has now been seconded. And  
9 without objection, show it approved. Good job, Rob.  
10 Thank you.

11 MR. KONRAD: Thank you very much.

12 MR. WILLIAMS: Thank you very much, Rob. Next  
13 we have Tom Beenck, our general counsel. Also  
14 Maureen Hazen, our assistant general counsel, is  
15 available if there are questions.

16 MR. BEENCK: Thanks, Ash. Good afternoon. My  
17 name is Tom Beenck. I'm general counsel here at the  
18 State Board of Administration. I'd like to first  
19 address the securities litigation counsel search  
20 that the Board has been conducting for the last  
21 several months. Following the sending out of the  
22 invitation to negotiate, we received 31 responses  
23 back from various law firms from around the country.

24 We had six members on our evaluation team. All  
25 of the members read each of the 31 responses and

1           scored them according to the dictates of the ITN.  
2           We had a public meeting on Tuesday, December the  
3           1st, of the evaluation team, where we discussed the  
4           responses, the scores, and we had a discussion as to  
5           who we should short list for interviews.

6                     We came up with -- following discussions, we  
7           came up with 12 firms, the highest 12 scoring firms.  
8           And interviews are to begin in about an hour from  
9           now out at the Hermitage Center. I see Dan is here.  
10          I know Maureen is here, and I'm here. So half of  
11          our evaluation team is in the room right now, so  
12          they won't start without us.

13                    We have a meeting scheduled of the evaluation  
14          team on, a week from tomorrow, Wednesday the 16th to  
15          discuss the results of our interviews. And at that  
16          time we will try to narrow it down from the 12 firms  
17          we're interviewing down to between five and eight  
18          firms to go forward with and execute contracts with  
19          the highest five to eight firms for securities  
20          litigation counsel.

21                    With regard to current actions that the Board  
22          has pending, in the last year --

23                    CFO SINK: Excuse me, Governor. Can I go back  
24          and ask just a couple of questions --

25                    GOVERNOR CRIST: Of course.

1 CFO SINK: -- about the securities litigation?

2 GOVERNOR CRIST: Sure, sure, please do.

3 CFO SINK: So your idea is to select these five  
4 to eight firms, and you would enter into a contract  
5 that would basically say what?

6 MR. BEENCK: It's a contract with each of the  
7 firms and say we're not committing to giving any  
8 case for sure, but if something comes up, we would  
9 like to have you come back, make a presentation to  
10 us, and we'll decide whether to go forward, having  
11 the firm file either an opt-out case, a class action  
12 case or some sort of other securities action. The  
13 firm would present itself to the Board.

14 CFO SINK: And would these five to eight firms  
15 be invited or would it be acceptable to them to  
16 present to you opportunities --

17 MR. BEENCK: Sure.

18 CFO SINK: -- to engage in cases where they  
19 believe that there's a legitimate opportunity for us  
20 to recover monies for our pension fund?

21 MR. BEENCK: If one of the firms or any of the  
22 firms comes and says, we have ABC Securities, we  
23 think you have a case here, here are what your  
24 losses are, let us take a look and see what your  
25 losses are, we'd be glad to listen to them and see



1 if we want to go forward with litigation.

2 CFO SINK: Well, I just want to say something  
3 about the process because over the -- actually, over  
4 the last two or three years since I've been in  
5 office, many of these types of securities litigation  
6 firms have been to visit with me and have expressed  
7 that they didn't feel that Florida was particularly  
8 aggressive or motivated to engage in this type of  
9 litigation activity. And obviously there can be a  
10 cost or there is always a cost associated with it.  
11 And we referred them over to the director and the  
12 legal staff over all this period of time.

13 But the reason that this is important is  
14 because I think we've just missed some enormous  
15 opportunities. And, Governor, you've been sitting  
16 as a board member for a while now. You might take  
17 the example of the Marsh & McLennan, the big  
18 insurance brokerage firm. General McCollum, I know  
19 that you had another issue with them. But one of  
20 these securities litigation firms actually did  
21 represent the pension fund of New Jersey and Ohio.

22 And they were able to, because they said that  
23 Marsh & McLennan made false statements to their  
24 investors and it caused losses in the stock holdings  
25 of those particular pension funds, and they got a

1 settlement for \$400 million. So this is big money,  
2 and these companies do engage in wrongdoing,  
3 unfortunately, occasionally.

4 And unless Florida, we're the fourth largest  
5 pension fund, unless we're there ready and willing  
6 and able to jump in and bring these suits, then our  
7 plan is disadvantaged because there are hundreds of  
8 millions of dollars worth of settlements out there  
9 that we can possibly take advantage of.

10 So I'm glad that you all have decided to put  
11 together this stable of firms so that we can be a  
12 little more quick and nimble about making these  
13 important decisions about whether or not it's cost  
14 justified and what the benefit might be of engaging  
15 in these types of lawsuits.

16 MR. WILLIAMS: The point is well taken, CFO,  
17 and the clarification that I got up to offer is that  
18 in a number of situations, to the extent there's a  
19 class action, we read about class actions every day,  
20 we will participate in any recovery from that class  
21 action, whether or not we choose to take a  
22 leadership role in it, because we'll be a member of  
23 the class.

24 And so what we're really positioning ourselves  
25 for here is the subcategory Tom mentioned as

1           opt-outs. And these will be circumstances in which  
2           we choose not to be a part of the class but to go  
3           our own way because we can control our own destiny,  
4           have a better recovery, bigger return on effort for  
5           ourselves.

6                       And the reason that we have gone through the  
7           process that Tom was reporting on a moment ago is  
8           that we wanted to establish, frankly, a new  
9           benchmark in objectivity and professionalism for how  
10          these firms are selected, get the very best that the  
11          world has to offer so that when an opportunity comes  
12          along that we do have loss exposure that's worth  
13          doing something about, there's a sufficient moral  
14          imperative in whatever the issue is -- fraud was the  
15          example used earlier, and that certainly would  
16          qualify -- and, thirdly, that we have decent  
17          probability of winning, that's exactly when we want  
18          to do the opt-out, and we want to go with the A team  
19          to do it. And that's why we went through this  
20          selection process.

21                      GOVERNOR CRIST: I would also echo the comments  
22          of the CFO. I think that being ready and being  
23          prepared to aggressively pursue some of these  
24          actions certainly could benefit Florida in the  
25          future. So I appreciate what you're doing.

1           MR. BEENCK: Sort of tying in with what Ash  
2           said, we have received monies throughout the year as  
3           a passive participant in class actions. We were  
4           involved in 97 settlements or 97 pay-outs this year,  
5           received approximately \$23.38 million from those  
6           settlements.

7           Currently we're also passive plaintiffs or  
8           passive participants in 233 other cases that are  
9           going on. I don't believe we have filed a case on  
10          our own as an opt-out since 2005, 2006. One of the  
11          cases that we did file, however, back a long time  
12          ago, 2001, has reached a settlement this year. And  
13          that's with Schering-Plough. And we were lead  
14          plaintiff representing members of the class.

15          The case filed in 2001 was fought very hard by  
16          Schering-Plough up until this year, and a settlement  
17          was reached to the tune of \$165 million. The case  
18          is currently pending approval by the trial court of  
19          the settlement. So we'll receive a pretty good  
20          benefit out of that settlement also.

21          GOVERNOR CRIST: Pardon me. Is the 165 for  
22          Florida alone?

23          MR. BEENCK: No. That's the class.

24          GOVERNOR CRIST: How much would be for Florida?

25          MR. BEENCK: I have to see what our share of,

1 the pro rata share of the stock outstanding was. In  
2 other words, they'll take it and say if we had half  
3 the shares outstanding, we'll get half of it. If we  
4 have a third, we'll get a third of it. It's just a  
5 matter of how big the class is and how big our  
6 shares were.

7 GOVERNOR CRIST: When you find out, if you  
8 could let us know, that would be great.

9 MR. BEENCK: Sure. I'd be glad to.

10 GOVERNOR CRIST: Florida first.

11 MR. BEENCK: Also the SEC investigation has  
12 been ongoing, as you know. There hasn't been much  
13 happening there, with the exception of a meeting to  
14 be scheduled hopefully either the 15th or the 18th  
15 between SEC folks in Miami and our executive  
16 business folks, executive director, deputy executive  
17 director and our outside counsel, Mike Pucillo.

18 So if that can happen, we hope to talk to the  
19 SEC about the changes we've made in PRIME Florida  
20 and see where they are in their investigation into  
21 the LGIP matter.

22 Other than that, we're sort of down to the  
23 basics of still responding to what I would consider  
24 to be an inordinate amount of public records  
25 requests. They're coming in daily and involve

1 almost every aspect of our investments and programs  
2 at the Board. We're to get them out as  
3 expeditiously as we can, and it takes up a lot of  
4 time of my people, but we're doing the best we can  
5 with it.

6 I guess the last item is just basic contract  
7 work, the nuts and bolts of what we do during the  
8 year. We have prepared 87 new contracts, 118  
9 amendments to old contracts and terminated 57  
10 contracts at the Board to date in '09. That  
11 completes my presentation. Any questions?

12 GOVERNOR CRIST: Thank you.

13 MR. WILLIAMS: Thank you, Tom. Next we have  
14 our inspector general's report, Bruce Meeks.

15 MR. MEEKS: Good morning.

16 GOVERNOR CRIST: Good afternoon.

17 MR. MEEKS: Afternoon, thank you. Been here a  
18 while. I'm Bruce Meeks. I'm the inspector general  
19 and ethics officer at the SBA. I'd like to take  
20 just a few minutes this morning to update you on the  
21 status of the SBA placement agent disclosure policy  
22 that we discussed on November the 17th.

23 After receiving guidance and direction from  
24 you, we did go back and modify the proposed policy  
25 to include a provision that requires disclosure of

1 the total amount of any and all compensation paid to  
2 placement agents by investment managers and funds  
3 who use placement agents, if any, in marketing their  
4 products and services to the SBA. So that has been  
5 done.

6 The final policy went into effect on  
7 December 1st, and I have had internal discussions  
8 with the general counsel, the deputy general counsel  
9 and the senior investment officer for private equity  
10 and strategic investments regarding the logistics  
11 and the procedures required to effectively implement  
12 the policy. This week I will meet with the other,  
13 our other senior investment officers to discuss  
14 their responsibilities in making sure that the  
15 policy is followed.

16 If I may, there's just one final matter that I  
17 would like to apprise you on. At our first  
18 quarterly trustees meeting on September the 1st, I  
19 informed you of a planned initiative to expand the  
20 SBA fraud hotline to be able to receive tips and  
21 complaints from external vendors and service  
22 providers, which you supported.

23 In October we successfully renegotiated our  
24 contract with the independent hotline provider, at  
25 no additional cost, I might add, to make this avenue

1 available beyond just SBA employees. So that  
2 measure is now in effect. We have sent a first wave  
3 of 191 letters to our managers, our brokers and our  
4 investment consultants for all asset classes,  
5 soliciting their help in our efforts to prevent and  
6 detect fraud, theft and financial misconduct.

7 We are currently compiling additional lists to  
8 communicate to other vendors and providers in our  
9 middle office and our back office. And that's about  
10 what I have for you this afternoon. Any questions?  
11 Thank you very much.

12 MR. WILLIAMS: Thank you, Bruce. Next we have  
13 corporate governance. We have Mike McCauley here  
14 today to talk about that, and we seek approval of  
15 our proxy voting guidelines today.

16 MR. McCAULEY: Good afternoon. We have the  
17 acceptance and approval of the SBA's corporate  
18 governance principles and proxy voting guidelines,  
19 which you have a copy in your packet, in addition to  
20 a cover memo and a one-page voting issue summary.

21 The SBA's corporate governance program covers  
22 primarily voting on equity securities that are held  
23 by the Florida Retirement System, the pension fund,  
24 the defined contribution fund, as well as other  
25 non-pension portfolios. And these guidelines cover



1           those voting decisions that are made in all of those  
2           individual portfolios.

3                   And it allows us to not only take a policy  
4           position on things and make a fiduciary, economic  
5           decision, but it allows us to consistently apply  
6           them across different portfolios. So we may own the  
7           same stock in seven, eight, nine different  
8           portfolios, and we vote on everything consistently  
9           across the board.

10                   They are really designed primarily with  
11           transparency in mind. What we've really tried to do  
12           over the last about 18 months, we've had kind of a  
13           first stage in the latter part of '08 and early '09,  
14           and we've completed the second stage in the second  
15           half of '09.

16                   But what we tried to do is achieve a level of  
17           transparency with each policy issue and guideline to  
18           where any reader who picks up the document, whether  
19           it be a beneficiary, a company representative, other  
20           investors, any kind of stakeholder, could really  
21           read the policy and have a pretty good understanding  
22           of what our policy position is and how we would  
23           actually vote on that position. We feel that that's  
24           something that many other investment organizations  
25           don't really achieve in terms of their guideline

1 creation. So we wanted to try to do that. I think  
2 we have.

3 Next slide. Regardless of the individual topic  
4 and the issue, we have tried to benchmark on other  
5 organizational issues and tried to select best  
6 practice and adopt best practice across the capital  
7 markets, primarily for publicly traded equities.  
8 But it covers a very comprehensive set of issues  
9 that are put for vote, some routine matters, some  
10 non-routine matters. But we see this kind of day in  
11 and day out.

12 So we cover things such as board independence.  
13 We want -- obviously, we want accountable directors  
14 who are qualified to serve as board members, board  
15 nominees. We tend to disfavor takeover protections,  
16 so we don't like to entrench management or allow  
17 them to become entrenched. If there's a better or  
18 well managed company that could acquire that poorly  
19 managed company, we like to make that as easy as  
20 possible for the markets.

21 Adequate disclosure for investors is another  
22 big one that's really woven throughout the guideline  
23 document. Whether it's compensation, executive  
24 compensation, evaluating the pay for performance,  
25 whether it's trying to determine if a director is

1 qualified or what kind of practices have taken place  
2 while they've served on the board, the disclosure  
3 mechanism, primarily via the proxy statement itself  
4 but other public filings, is really key. Without  
5 adequate disclosure, we're just not in a position to  
6 make an intelligent decision in many cases. And  
7 that still plagues many of the compensation items  
8 even today. The SEC has really revamped that over  
9 the last three or four years, but we're still  
10 struggling to get more and more information from  
11 companies.

12 The same can be said for sustainability issues.  
13 Environmental reporting is relatively weak now. And  
14 that's kind of a burgeoning issue. So we favor more  
15 and better substantive disclosure for investors.

16 Next slide. I won't go into detail on all  
17 these statistics, but these are just some high level  
18 program metrics. We vote about 34-, 3500 proxies  
19 every year. And if you count individual director  
20 elections as individual voting items, which we do,  
21 it's about 30,000 items that we vote on every year,  
22 and tend to largely go in line with management but  
23 not always certainly, some issues more than others.  
24 And in terms of all proposals on governance items in  
25 general generically, we vote in favor about

1 two-thirds of them.

2 Last slide. The last slide basically just  
3 covers some of the things I've already said. But  
4 these are the three major augmentations that we've  
5 made to the prior guidelines set which was really  
6 not updated since '05 in any formal way. We had  
7 kind of ad hoc desk procedure type changes but  
8 nothing formally made to the actual document.

9 What we've tried to do, kind of this falls  
10 under the transparency umbrella, what we've tried to  
11 do with this version of the document is create a  
12 foundation for every guideline of solid rationale  
13 that's based on empirical data. So if we're taking  
14 a policy A and taking a certain position, we like to  
15 look at empirical studies and other research in the  
16 markets that have stated it's better to go one way  
17 or the other on a certain item, it's more correlated  
18 significantly with value creation and economic and  
19 financial performance for the company.

20 So we've tended to fold those into every  
21 guideline that we can. And sometimes it's mixed.  
22 It's not always black and white on various policy  
23 issues, but we do the best that we can based on the  
24 research at hand.

25 And then the second and third bullet, we've

1 really tried to expand the policy narrative to  
2 provide more descriptive information and a better  
3 background on each policy item, in conjunction with  
4 the footnotes.

5 And then lastly, we've started to expand not  
6 only the narrative but set up new guidelines on some  
7 of these burgeoning policy issues, primarily  
8 environmental and emission related, but they also  
9 cover other extra-financial issues like Internet  
10 privacy and other sustainability issues, the human  
11 rights practices overseas for companies, that sort  
12 of thing. So we've tried to make it a more  
13 comprehensive, well-rounded document.

14 That's all I have, if you have any questions.

15 CFO SINK: Governor.

16 GOVERNOR CRIST: CFO.

17 CFO SINK: I just want to make a comment about  
18 Michael and the work that his group, his small group  
19 of two or three people do. But I have the  
20 opportunity to go to a lot of national state  
21 treasurers' meetings and come across people who are  
22 really engaged in these voting activities and work  
23 with pension plans.

24 And Michael and his team are really known  
25 nationally for being at the forefront of taking this

1 proxy voting opportunity, because it is an  
2 opportunity to really push good corporate governance  
3 very seriously. And I'm just very pleased that one  
4 of our kind of criteria when they're thinking about  
5 how to vote our proxies is a company's environmental  
6 policies and whether or not they're thinking ahead  
7 about issues of climate change and other good  
8 governance principles.

9 It truly is an opportunity for Florida because  
10 we are so large in terms of -- our voting blocks are  
11 huge, I guess hundreds of thousands of votes that we  
12 have because of the shares we own in most of the  
13 large Fortune 1000 companies. They've done a very,  
14 very good job. And we could do more, obviously.

15 MR. McCAULEY: We are -- we're the fourth  
16 largest public pension plan. We are usually about  
17 the number 40 or 45th largest share owner in any  
18 company in the United States. So they listen to us.  
19 We're not in the top five or top ten, but we are a  
20 large equity stakeholder.

21 GOVERNOR CRIST: General.

22 ATTORNEY GENERAL McCOLLUM: I'd just like to  
23 comment. I think they're very comprehensive, your  
24 explanations in the governance and proxy area. Many  
25 of these are case-by-case, not for or against, and

1       you have outlined rationale, what the setting is.  
2       So it's very transparent, and I think that's very  
3       positive. I would just encourage you and the staff  
4       to come to us occasionally and talk about a few of  
5       these individually, the more what I would call  
6       controversial types of votes that you may be about  
7       to take or be asked to embark upon.

8               That does not necessarily mean there's one I've  
9       got in mind right now to bring up here. But I know  
10      that does happen. And I don't mean a particular  
11      company necessarily. But you can get an issue area  
12      which would be very sensitive. And as the trustees,  
13      I think we ought to be at least consulted when you  
14      know far enough in advance to do that.

15             It doesn't mean we're going to dictate to you  
16      what to do. But the case by case -- each case  
17      example here is pretty broad. I'm all for what  
18      you're doing because you can't be specific and you  
19      shouldn't be in many of these areas. But that's  
20      something I would just request. I think probably my  
21      colleagues would concur.

22             And, again, that's not with any particular  
23      thing in mind, just sort of a thought in your mind.  
24      I'd like to plant a seed there that we would have  
25      that opportunity. Some of these could generate

1 quite a bit of public controversy.

2 MR. McCAULEY: Yes, yes. There's some  
3 visibility with some of these policy issues. We can  
4 certainly do that, would be happy to.

5 ATTORNEY GENERAL McCOLLUM: If we're prepared,  
6 I would move the adoption of these corporate  
7 governance principles and proxy voting guidelines,  
8 Governor.

9 GOVERNOR CRIST: Very well.

10 CFO SINK: Second.

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

13 MR. WILLIAMS: Thank you, Mike. We had had  
14 interest in a prior meeting on having some direct  
15 opportunity to learn more about the actuarial funded  
16 status of the Florida Retirement System. And toward  
17 that end, we have with us today the director of the  
18 Division of Retirement, Sarabeth Snuggs, and also  
19 Mr. Robert Dezube from Milliman, our external  
20 actuaries.

21 Our focus at the State Board obviously is  
22 constrained to investment of portfolio assets. The  
23 Division of Retirement has the benefits side. And  
24 the benefits side and the asset side come together  
25 when the actuaries do the analysis that reconciles



1           what our assets are versus our benefit liabilities  
2           and, therefore, what our net funded status is.

3           So why don't I introduce Sarabeth Snuggs to  
4           give a quick recap on what our process is going  
5           through the actuarial assessment every year, and  
6           then we can go from there.

7           MS. SNUGGS: Thank you, Ash. Good afternoon.  
8           Thank you for the opportunity to be here today to  
9           talk about the benefit side of the Florida  
10          Retirement System and the actuarial funding. And  
11          thank you, Ash, for the opportunity to be here and  
12          to share the work that we collectively do with the  
13          State Board of Administration.

14          Through the combined efforts of the Department  
15          of Management Services, of which the Division of  
16          Retirement is a division, the State Board, the  
17          executive and the legislative branches, we have one  
18          of the best run state retirement systems and one of  
19          the best funded state retirement systems in the  
20          nation. And it is not by accident that this has  
21          happened. Ash has said before, and I want to steal  
22          three of the principles that he says have caused us  
23          to be one of the best run and best funded systems in  
24          the nation.

25          Number one is that the FRS has reasonable

1           benefits. Number two, there's a history of prudent  
2           investing, which is thanks to the Legislature and  
3           the executive branch. And number three, there's a  
4           history of responsible funding. I want to focus on  
5           the responsible funding, not to say that the  
6           importance of the first two is diminished at all,  
7           but I want to concentrate on the funding today.

8           Our state constitution very clearly sets the  
9           tone for responsible funding. It requires that any  
10          increase in benefits must be funded on a sound  
11          actuarial basis. Our statutes carry out that  
12          mandate and provide the mechanism for that funding.  
13          Each year the Department of Management Services  
14          commissions an actuarial valuation of the FRS from  
15          our consulting actuary.

16          The work of the valuation begins after the  
17          fiscal year close-out in July and early August.  
18          Every five years we commission an experience study,  
19          and this year was one of the years that that study  
20          was completed. An experience study just covered the  
21          period 2003, 2008.

22          The law also has set up a Florida Retirement  
23          System actuarial assumptions conference, the purpose  
24          of which is to set both the economic and the  
25          demographic assumptions of the system. The

1 principals of this conference are set by statute,  
2 and they're professional staff of the governor's  
3 office, the coordinator of the Office of Economic  
4 and Demographic Research, professional staff of the  
5 Senate and the House.

6 The consulting actuary presents preliminary  
7 findings from the experience study and the valuation  
8 to this conference. This summer he presented a  
9 preliminary from the experience study in late July.  
10 He came back to the conference in October and  
11 presented findings from the midpoint of the  
12 valuation.

13 During that conference, the assumption  
14 conference adopts the assumptions that the actuary  
15 will use in actually preparing his valuation. The  
16 evaluation has just been completed and the actuary  
17 will talk with you a little bit about that during  
18 his presentation.

19 We have with you here today our consulting  
20 actuary, Mr. Robert Dezube of Milliman,  
21 Incorporated. He is with the Vienna, Virginia,  
22 office and has been with that office since 1986.  
23 He's a principal of that firm. Robert is a fellow  
24 of the Society of Actuaries, a member of the Academy  
25 of Actuaries and an enrolled actuary. He has an

1           undergraduate degree with high distinction from  
2           Pennsylvania State University and completed two  
3           years of graduate study at the University of Utah.

4           He is currently a member of the alumni advisory  
5           board to the actuarial program at Penn State. He  
6           has worked for over 30 years in employee benefits,  
7           with expertise in both qualified and non-qualified  
8           retirement plans.

9           I say all that to set the stage that he is a  
10          very qualified actuary and has provided great  
11          expertise to the Florida Retirement System for quite  
12          a number of years. And with that, I present  
13          Mr. Robert Dezube.

14          MR. DEZUBE: Thank you, Sarabeth. And I guess  
15          good afternoon, Governor and members of the Board.  
16          Thank you for inviting me here to discuss the 2009  
17          Florida Retirement System actuarial valuation. As  
18          Sarabeth said, my name is Robert Dezube. I am from  
19          Milliman. Our firm was hired to complete the  
20          July 1, 2009, actuarial valuation, and I am the lead  
21          actuary.

22          In your materials and on the screen, there's a  
23          summary of the key results, and I will address that  
24          later. I just wanted to first give you a background  
25          of what an actuarial valuation is, then get into the

1 results and then give you it from more of a  
2 historical perspective.

3 The primary purpose of an actuarial valuation  
4 is to measure the system's assets and liabilities.  
5 Since the 1980s the actuarial valuations were first  
6 done biannually. And then starting in 1997 they  
7 have been done annually, as of July 1 each year.

8 The liabilities are the value, in today's  
9 dollars, of the benefits that are being paid to  
10 current retirees, of which you have, if memory  
11 serves me, about 200,000-plus, plus the benefits  
12 expected to be paid to the 600,000 active  
13 participants of the defined benefit program.

14 Some of these participants are only in their  
15 twenties. They may work for the State or a  
16 participating local until their fifties, sixties.  
17 They may live another 30 or 40 years, until they're  
18 in their nineties. So you have promised them  
19 benefits through statute, through legislative action  
20 that you're going to pay for the next 60, 70, 80  
21 years. The whole purpose of the valuation was to  
22 put a value in today's dollars on those promises and  
23 then come up with a measure to compare it to how  
24 well you are funded.

25 When we do the valuation to measure those

1 benefit promises, we have to make assumptions  
2 because we don't have a crystal ball. We have to  
3 predict or assume what percentage of people are  
4 going to quit for the next 10, 20, 30 years. We  
5 have to look at when they're going to retire, will  
6 they go into DROP once they retire, will they take a  
7 joint and survivor pension, providing benefit  
8 payments to their survivors if they predecease them,  
9 how long will they live.

10 And more importantly, the two key assumptions  
11 also, what type of pay raises are they going to get,  
12 because the benefits they get are tied into the  
13 salaries they get when they leave employment, and  
14 also the investments of the fund, how well are they  
15 going to -- what rate of return are they going to  
16 earn, investments. That is probably the key  
17 assumption.

18 Measuring the assets is a little bit easier.  
19 We start with just the value, the market value of  
20 the investments in the system's trust fund. We  
21 depend on the State Board of Administration to  
22 provide us with the value of the marketable  
23 securities and, you know, a good faith value of  
24 securities that are not marketable. We then convert  
25 that into a smooth basis. And I will get into that

1 a little bit later. But the idea is we don't want  
2 to do everything and subject due to the market  
3 volatility. That's what an actuarial valuation is.

4 As Sarabeth mentioned, we have just completed  
5 the July 1, 2009 valuation. It was actually  
6 released on December 1st. As she said, the process  
7 started last summer with the completion of an  
8 experience study covering the July 1, 2003, through  
9 the June 30, 2008, time period.

10 An experience study is where we look backwards  
11 over the last five years and analyze how well our  
12 assumptions have done. We have made in the last  
13 five valuations assumptions about when people -- as  
14 I said earlier, when people would retire, quit, what  
15 type of pay raises.

16 And the purpose of the experience study is to  
17 compare those assumptions to what actually happened  
18 and then develop a new set of assumptions going  
19 forward. And part of it is pure number crunching.  
20 You can look at what happened. But it's also  
21 part -- becomes more subjective when you're trying  
22 to predict or assume will some trends that occurred  
23 in the past five years continue into the next five  
24 years or into the next 50 years.

25 For instance, turnover -- or the U.S. economy,

1           which is beyond the control of Florida, governs  
2           people's turnover. When you have a bad economy like  
3           we have now, people are less likely to quit their  
4           jobs. In a good economy where jobs are plentiful,  
5           you will have a lot more turnover.

6                        So we have to make these assumptions. We  
7           studied it. We proposed an updated set of  
8           assumptions. And then as Sarabeth noted, we met  
9           with the Florida Retirement System assumption  
10          conference twice, once in the summer to discuss the  
11          experience study and then again in the fall to  
12          discuss the valuation and present our preliminary  
13          valuation results, based on the proposed set of  
14          assumptions.

15                       The principals of the assumption conference  
16          adopted the proposed set of assumptions. So given  
17          that happened in October, mid-October or so, we then  
18          go back and we go back and kind of finalize the  
19          valuation.

20                       Part of the changes in the experience study or  
21          some of the assumptions that we changed I should  
22          mention. We left the economic assumption alone, the  
23          fact that we assumed the assets were going to earn  
24          seven and three-quarters. And we based that on  
25          discussions with the SBA. But we found out that



1       your retirees were living longer. There's no  
2       surprise in that. People are just generally living  
3       longer. But we had, when we did the last experience  
4       study in 2003, we found several sets of your  
5       retirees whose rate of longevity was actually worse  
6       in comparison to the general population. And that's  
7       an unusual finding. This time we found that it's  
8       more back to the norm. But that means people are  
9       living longer. If you live longer, you're going to  
10      make more benefit payments. It increases the  
11      liability.

12                So given all that, we then went and finished  
13      the valuation. And now I'm going to refer to the  
14      chart which you have as a handout. And I'm going to  
15      refer to the middle, which is called "With Current  
16      Corridor." And the primary result is that the  
17      funded percentage of the Florida Retirement System  
18      decreased from 106.7 percent as of July 1, 2008, to  
19      88.5 percent on June 30, 2009, which is an  
20      18 percent decrease.

21                The change in funded status was primarily due  
22      to the behavior of the market, the investment  
23      losses, and the change in the assumptions. For  
24      example, we assumed between 7/1/08 and July 1, 2009,  
25      as I said earlier, assets would earn seven and

1 three-quarters percent. They actually earned a  
2 negative 6.74 percent on a smooth basis. And I will  
3 explain that. And that meant the assets were  
4 actually \$18.7 billion less than we expected. Had  
5 they earned their seven and three-quarters, you  
6 still would have been a hundred percent funded.

7 And I've used the phrase now "the smoothing of  
8 assets." We smoothed the assets to eliminate the  
9 volatility in the market. As I mentioned, the first  
10 purpose of the valuation is to develop the funded  
11 status of the plan, the liabilities and the assets.  
12 That also is the basis for the Legislature to pass  
13 legislation, and to the Governor to sign it, the  
14 contribution rates to fund the benefits.

15 If we use market rates of return, we all know  
16 that the market is very volatile. And our  
17 recommendations on the contribution rates would be  
18 very volatile. We could have a recommendation of  
19 16 percent of pay one year, 9 percent of pay the  
20 next year, pop back up to 14 percent. It would make  
21 budgeting, to the extent that the contributions to  
22 the retirement system are a large portion of the  
23 budget, it would make budgeting very hard. It would  
24 also probably make my presentations when I come down  
25 every year, every time it spiked up, I would have to

1 be ducking.

2           Anyhow, Florida Statute and most government  
3 pension plans allow you to smooth the market rate.  
4 And what we do is we use what we call five-year  
5 smoothing. It's asymptotic. And we only recognize  
6 20 percent of the gains or losses in the market each  
7 year. So for instance, if the market were to earn  
8 13 percent and our assumption is seven and  
9 three-quarters, that's a five percent difference.  
10 When we did our valuation, we would only recognize  
11 20 percent of that extra five percent or  
12 one percent. So we would put some of the excess, we  
13 say, into storage.

14           What happened this year is the markets lost  
15 almost 20 percent. But because of the smoothing, we  
16 only recognized, as I said, the rate of return was a  
17 minus six percent. And so even though there's a  
18 decrease in the funded status, the decrease would  
19 have been a lot more if we had recognized the full  
20 market value. So it's really a budgeting technique.

21           One of the things of the corridor is that under  
22 current Florida law the actuarial value of assets  
23 cannot be less than 80 percent or greater than  
24 120 percent of the market value. And the corridor  
25 restriction does not come into play unless there are

1 dramatic asset gains or losses in any one year.  
2 This is the first time in recent history that the  
3 corridor has come into play.

4 And the purpose of the corridor is to ensure  
5 that the smooth value of assets does not greatly  
6 vary from the market value. So you're not  
7 substituting fiction for fact. But in this year, if  
8 the 80 percent/120 percent corridor had been  
9 suspended, repealed, the law changed, whatever is  
10 required, your funding ratio would have been 96.7.  
11 This is the bottom part of the slide.

12 As you see in the middle, you would have had  
13 your actuarial value of assets would have been  
14 129.8 billion. Your unfunded, this is in the  
15 middle, would have been 4.4 billion, and your funded  
16 percentage would have been 96.7 billion, I mean  
17 96.7 percent.

18 This is a problem with the corridor. A lot of  
19 states are looking at the use of the corridor, and  
20 there have been recommendations out there to either  
21 temporarily suspend the application of the corridor,  
22 changing the range limits or eliminating the  
23 corridor entirely. I'm just bringing this forth.  
24 Some states have never had a corridor because they  
25 believe the purpose of a smooth asset is to smooth

1 the values. And if the corridor does not allow you  
2 to do a full smoothing, as is happening this year,  
3 then you're fighting with one hand behind your back.  
4 So I just bring that forward.

5 Another point I want to focus on is that, as I  
6 said earlier, the valuation is a snapshot of one day  
7 in time. So the results of any single valuation  
8 should not be emphasized. It's the long-term trends  
9 that are more important. For example, we did our  
10 valuation as of June 30, 2009. The market value of  
11 assets then was 99 billion. I've been informed that  
12 as of December 7, 2009, the assets have grown over  
13 13 billion to \$112.7 billion. So they have bounced  
14 back greatly.

15 And I want to say historically, as Sarabeth  
16 said, the Governor and the Legislature have made  
17 great strides in funding the Florida Retirement  
18 System by requiring the recommended contribution  
19 rates to be implemented when they were determined.

20 I don't know how many of you remember, but if  
21 you go back 18 years, to 1991, and if you go back,  
22 it was even worse, at that point in time, the  
23 Florida Retirement System was less than 60 percent  
24 funded, and it was in the fifties and forties if you  
25 go back into the 1980s. Since that time there were

1 favorable asset returns. And as I said, the  
2 legislative and executive decisions to fund the  
3 actuarially recommended contribution brought the  
4 retirement system to be in excess of 100 percent  
5 funded in 1998. And, again, prudent use of the  
6 surplus, again, that required both the Legislature  
7 and the executive branch, had the Florida Retirement  
8 System remain in surplus status until 2009.

9 And so this doesn't sound all doom and gloom, I  
10 want to put this in a context for you. In reviewing  
11 the materials prepared by the other presenters, I  
12 noticed in tab ten, so this is not my material, this  
13 is one of the other presenter's, I'm going to steal  
14 them, there was a 2007 survey prepared by Standard &  
15 Poor's that was published in 2008, 2009, and it  
16 showed the Florida Retirement System as the third  
17 best funded system in the nation. Now, that's  
18 something to be proud of.

19 Obviously, I'd like to tell you that in 2009 it  
20 continues, but there's just no comparisons out there  
21 yet. But I do believe that every retirement system,  
22 almost every retirement system was invested in  
23 equities. They all felt the market downturn at the  
24 end of '08 through March 2009. And I have to  
25 believe that when the 2009 comparisons are

1 presented, which probably won't be until 2010 or  
2 2011, the Florida Retirement System will still be  
3 one of the top five funded systems. I mean, you are  
4 doing the right thing.

5 Finally, there is a little downer. The UAL  
6 re-emerged this year after not being there for 11  
7 years. It's going to stay there. It's going to be  
8 around for the next couple of years. We have done  
9 some projections. And I can tell you that unless  
10 there's extremely favorable market returns, I mean  
11 more than the 15 percent or so that the retirement  
12 system has experienced this year, and whether or not  
13 the 80/120 corridor is lifted, there will continue  
14 to be an unfunded liability for the next few years.

15 Having the unfunded liability is not -- it's  
16 not the doom or gloom as -- you've been 100 percent  
17 funded. You will be again as long as the money is  
18 contributed and the SBA continues to invest well.  
19 Thank you, and I'm open for any questions.

20 ATTORNEY GENERAL McCOLLUM: If I could,  
21 Governor.

22 GOVERNOR CRIST: General.

23 ATTORNEY GENERAL McCOLLUM: I think that was an  
24 excellent report, and it sounds to me like what  
25 you're really saying to us is, here is where we are

1           today actuarially and the valuations. Here are a  
2           few little problems with structure that we might  
3           look at down the road to tinker with. But overall  
4           you feel confident that our pension fund, our  
5           retirement system is as well funded as any of the  
6           top two or three in the nation.

7                     Is that -- so you're saying we're really doing,  
8           on a comparison basis, your belief is we're doing  
9           very well.

10                    MR. DEZUBE: As I said, you were number three.  
11           I have every reason to believe you're in the top  
12           five. And as someone who follows the news, I read  
13           state X is not funding, they have not put money in  
14           their pension plan for the last ten years, they've  
15           gone from 100 percent funded to 40 percent funded.  
16           And, you know, I never hear Florida in the news like  
17           that. So, yes, you are doing very good things.

18                    ATTORNEY GENERAL McCOLLUM: Thank you.

19                    GOVERNOR CRIST: I'm curious. Who is funded  
20           more substantially than Florida?

21                    MR. DEZUBE: This is from the 2007 survey. It  
22           shows Oklahoma and North Carolina. And then there  
23           is a second survey. I didn't bring it with me here.  
24           And that's put out by Standard & Poor's. There's a  
25           second survey put out by the National Association of



1 State Retirement Administrators, but that doesn't  
2 look at it as a statewide system. It breaks it down  
3 by individual systems.

4 So whereas Florida has one big system, for  
5 instance, the State of Washington may have four or  
6 five systems. So that lists about 115 or so. And  
7 in that, Florida was probably about number 10 or 11.  
8 But when you break it down to states, like of the  
9 four or five ahead of Florida, all were with one  
10 state. So even in that, when you just look at the  
11 number of states that were mentioned, Florida is  
12 still, I believe, number four in that survey. So  
13 North Carolina and Oregon.

14 GOVERNOR CRIST: Thank you very much.

15 MR. WILLIAMS: Thank you, Robert and Sarabeth.  
16 The last of our reports is the Hurricane Catastrophe  
17 Fund, Dr. Nicholson.

18 MR. NICHOLSON: Good afternoon.

19 GOVERNOR CRIST: Good afternoon.

20 MR. NICHOLSON: I'm going to give you kind of a  
21 quick update on the Florida Hurricane Catastrophe  
22 Fund's overall capacity. The last time we briefed  
23 you on this was based on the May '09 bonding  
24 estimates and that sort of thing. Since then we've  
25 re-estimated the capacity, and we feel like that the

1 amount of bonding that we can do now would be  
2 \$11 billion versus \$8 billion last May. That gives  
3 us a total capacity of \$19 billion, which if you put  
4 that in perspective, the Cat Fund had only \$11  
5 billion in 2003 and was increased to 15 billion in  
6 2004. Today we're at 19 billion, which is 8 billion  
7 more than we were in 2003. So I think that's a very  
8 positive situation.

9 Secondly, I want to report that we are pursuing  
10 a private letter ruling to be able to issue  
11 tax-exempt pre-event notes. We've put in our  
12 request and we have our first meeting with the IRS  
13 next week.

14 The other item that I want to talk about is the  
15 Cat Fund's 2004 and 2005 losses. As you recall, in  
16 2006 we issued \$1.35 billion of notes to fund our  
17 shortfall. We had to come back in 2008, last July,  
18 due to continued adverse development with regard to  
19 losses.

20 We are now still experiencing that adverse  
21 development, and we're looking at a third tranche of  
22 debt, which we'll probably come back to you maybe  
23 your last meeting in January with some details on  
24 what that is going to entail. We're looking at a  
25 range of -- I'm going to be very broad here -- I

1 think 300 to 600 million dollars that we're going to  
2 be short. And we've already enacted our bonding  
3 team and the documents are being prepared as we  
4 speak.

5 CFO SINK: Jack, are you thinking that we'll  
6 just add, tack on yet another year for the  
7 assessments? Is that the discussion underway, or  
8 are we going to have an increase --

9 MR. NICHOLSON: I don't think it's going to be  
10 that easy. I think the assessment will have to  
11 increase, and we're looking at that right now.  
12 Based on the magnitude of what we're talking about,  
13 we still have yearend reports that are due from the  
14 companies.

15 Unfortunately, like anything, you have to do it  
16 before you know the actual results. We are, due to  
17 our contract, the good thing, we do commutate losses  
18 for 2004 in May and then the following May the  
19 losses in 2005. So that's kind of an ongoing  
20 process. But we think that what we recommend to you  
21 is going to be sufficient to take care of any other  
22 issues, and we want to make sure we close it out.

23 CFO SINK: You think this will be the end of  
24 it.

25 MR. NICHOLSON: Right.

1 CFO SINK: All right.

2 MR. NICHOLSON: That would be the objective.

3 CFO SINK: Ideally, we could think of a way to  
4 have these people file their claims in some period  
5 shorter than, I guess, the five years that they have  
6 now, but that's for the Legislature to consider.

7 MR. NICHOLSON: Right. And there's also a  
8 study that OPPAGA is doing with regard to claims  
9 adjusting, and that may produce some good  
10 recommendations. And that's all.

11 MR. WILLIAMS: Thank you, Jack. So that  
12 concludes our recurring reports. We will move on  
13 now to Item 9, executive director and CIO update.  
14 The first thing we have here is an update on where  
15 we are with enterprise risk management and  
16 compliance. You will recall I've given you updates  
17 on several occasions on this subject. This is an  
18 effort that came in the wake of the local pool  
19 issues during the fourth quarter of 2007.

20 There was an audit done then. And one of the  
21 things that came from that audit exercise was that  
22 the SBA should really look at what its compliance  
23 capabilities were and what its independent  
24 compliance mechanisms are and how they could be  
25 improved. So the SBA retained Deloitte to do a

1 project in that regard and get us going in the right  
2 direction and guide us appropriately. I think this  
3 is a great example of what was talked about earlier  
4 in terms of value added through external audit and  
5 advisory relationships.

6 So rather than me give you the summary of what  
7 Deloitte did for us, we have with us today  
8 Mr. Michael Chung and several -- yes, there he is --  
9 several of his colleagues. Let me ask Michael to  
10 give a quick summary on the work Deloitte did in  
11 terms of giving us guidance. Then I will come back  
12 and tell you what we've done pursuant to their  
13 suggestions.

14 CFO SINK: Well, and as they come up, I know  
15 that you've been here for five hours already, so  
16 thank you for your long-suffering attendance here.

17 MR. CHUNG: No. This is very interesting,  
18 watching the proceedings. But good afternoon,  
19 Governor and members of the Board, and thank you,  
20 Ash. As Ash indicated, my name is Mike Chung. I'm  
21 a director in our asset management practice. And  
22 I'm responsible for leading our investment advisor,  
23 governance and oversight services in the Midwest.

24 And I was also responsible for overseeing the  
25 Deloitte team that performed the assessment of the

1 compliance program at the SBA, which we executed  
2 over the course of September of 2008 through June of  
3 2009. What I thought I'd do is spend just a few  
4 moments giving you an overview of the scope of the  
5 project as well as our approach.

6 Essentially, what we did was to assess the  
7 current state of the investment processes at the  
8 SBA, including the compliance program. We  
9 identified potential gaps, using as a frame of  
10 reference the registered investment advisors as well  
11 as our understanding of practices at similar  
12 organizations such as the SBA.

13 Then working very closely with the SBA, we  
14 worked to prioritize our findings using a risk-based  
15 approach. And as a part of this, we also looked to  
16 develop other methodologies for investment  
17 compliance monitoring and developed recommendations  
18 and an implementation plan.

19 I think the important thing to emphasize is  
20 that our intent was to provide consultive guidance  
21 to the SBA. We did not perform any testing of the  
22 operational controls to determine their efficacy,  
23 and we didn't issue any opinion in connection with  
24 our work.

25 Basically, the approach that we took was we

1 requested a number of documents related to the  
2 investment process and their compliance program,  
3 read through those materials to gain a baseline  
4 understanding. Then we conducted a series of  
5 interviews with a number of folks from the  
6 investments area to the operations area to the  
7 compliance as well as some of the executive staff.

8 Then we went through and walked through the  
9 control activities that the process owners performed  
10 on a day-to-day basis. From that, we compared what  
11 the SBA had in place against our understanding of  
12 practices of registered investment advisors as well  
13 as organizations such as the SBA, and we developed  
14 our recommendations from that.

15 As part of phase one we made a number of  
16 tactical recommendations, starting with how to  
17 structure their governance structure, separating the  
18 oversight function from management functions. And  
19 to the extent that it was not feasible given  
20 resource limitations or any other structural issues  
21 with the SBA, it was to put in place compensating  
22 controls as well as to clearly define the roles and  
23 responsibilities of the various individuals so as  
24 not to present any potential conflicts of interest.

25 Then we also made a recommendation with regard

1 to establishing an independent compliance function,  
2 headed up by a chief compliance officer and/or  
3 equivalent to oversee and administer the compliance  
4 program.

5 And then just getting back to one of the  
6 earlier points is processes -- establishing  
7 processes for monitoring compliance with the various  
8 investment guidelines, and given the fact that a  
9 number of your assets are managed by external  
10 managers, is putting in place an oversight program  
11 to understand how they're complying with your  
12 particular mandates and how they're overseeing the  
13 assets.

14 Continuing on, we also made some  
15 recommendations regarding educating the various  
16 individuals on the internal policies in place and  
17 understanding how the various business units operate  
18 together, in tandem. And another important aspect  
19 of this is to have a process for periodically  
20 assessing the efficacy of the compliance program.  
21 So we'll get into more of that in the phase two  
22 recommendations.

23 And finally, to wrap up phase one was to  
24 implement a training and education program,  
25 understanding that they are contemplating



1           redesigning the compliance program and then some of  
2           the internal policies and procedures would be  
3           changing.

4           Then as part of phase two, what we did was  
5           develop a series of recommendations regarding some  
6           initiatives regarding implementing the governance  
7           structure as well as the compliance program. So  
8           looking at a suggested governance model from the  
9           type of charters, from the procedural requirements,  
10          performance measures, membership of the various  
11          committees and how they could structure that.  
12          Putting in place a compliance department, as I said  
13          earlier, independent from its other functions,  
14          headed up by a chief compliance officer, clearly  
15          defining what the roles and responsibility of the  
16          compliance officer would be as well as the  
17          compliance department, and looking at this from a  
18          functional perspective as to which of the functional  
19          areas that they would be overseeing.

20          An important aspect of this would be to  
21          periodically assess the design of the various  
22          compliance controls as well as the efficacy of those  
23          controls, and then finally putting in place an  
24          oversight program to oversee your external managers.  
25          That would involve everything from the tools, the

1 reporting mechanism, the frequency of the visits  
2 that you would be conducting and how to report back  
3 to the Board or other members of the SBA. And then  
4 finally, putting together an implementation plan  
5 that included resource estimates, a time frame and  
6 plan of attack on how to implement all of these  
7 suggestions.

8 So I can either have Ash come up and give you  
9 an update as to where they stand with regard to the  
10 implementation. I'd be happy to take any questions  
11 that you may have.

12 CFO SINK: Well, Governor, I'd just like to  
13 make a comment.

14 GOVERNOR CRIST: Sure.

15 CFO SINK: This is an enormous body of work,  
16 and I'm sure you've had lots of resources that  
17 you've poured at it. And a lot of this stuff is  
18 just kind of compliance or risk management 101. And  
19 it's just unfortunate that it took the crisis that  
20 we had in the Local Government Investment Pool to  
21 cause everybody to wake up and realize that we  
22 needed to be running this big pension fund in the  
23 20th century instead of the 19th century.

24 And the good news is that we had a crisis and  
25 that we stepped up and realized -- and I think

1           General Milligan made this happen -- realized that  
2           we needed to have somebody, some experts come in and  
3           just review the whole compliance and control  
4           function of the SB -- of the retirement system from  
5           top to bottom.

6           And you can see just from this list the just  
7           enormous amount of tasks that we needed to work on  
8           and things that we needed to get done, all the way  
9           from the proper oversight of our external managers  
10          to being sure that we had a division between our  
11          risk and compliance officers and people who are  
12          actually involved in the investment activity, the  
13          division of responsibility.

14          So I appreciate your making the presentation  
15          and the really fine work. And I'm anxious to hear  
16          from Ash as to how we're doing in terms of actually  
17          implementing an enormous number of recommendations  
18          that you all made. Thank you for your work.

19          MR. CHUNG: You're welcome. I think two points  
20          to emphasize is that a lot of the things that they  
21          already had in place, our recommendations are with  
22          regard to making enhancements or potential  
23          improvements to something that may have been in  
24          existence.

25          So it wasn't as though they were developing

1 things from scratch, which is very similar to other  
2 organizations. So it may take an event such as this  
3 to trigger a thorough -- you know, an assessment of  
4 what they currently have in place. But we go  
5 through that with a number of our other clients as  
6 well.

7 And I would say what we saw at the conclusion  
8 of our phase one is that it was fairly consistent or  
9 in line with what we see with our other clients.  
10 And then these recommendations are more suggestions  
11 as to how they can enhance or improve their current  
12 infrastructure to help move things forward, so which  
13 I think to Ash's credit and his team, they have  
14 taken, I think, pretty much in lock, stock and  
15 barrel.

16 CFO SINK: Thank you.

17 GOVERNOR CRIST: I wanted to thank you as well.  
18 The recommendations, oversights and improvements  
19 that you've put forward can only help Florida do  
20 better. And we appreciate that. And I know that, I  
21 have confidence that Ash will lay out to us ways to  
22 go ahead and start implementing some of these and  
23 maybe some already have begun to be implemented.  
24 But we look forward to that, too. Thank you, sir.

25 MR. WILLIAMS: Thank you, Mike. So let's then

1           jump to it and talk about some of the things that  
2           we've done specifically in terms of furthering some  
3           of the enhancements that Mike referred to. First of  
4           all, I think the tone has been set clearly from the  
5           top. You have all communicated to me your  
6           expectations for our conduct in terms of  
7           transparency, integrity, risk management, et cetera.

8           Those values have been clearly communicated to  
9           our staff. And I think one of the things that came  
10          out very clearly in the Deloitte work is that the  
11          tone for compliance has to be set at the top. And  
12          there's no ambiguity about that at the State Board.

13          Additionally, we have begun building out  
14          organizationally exactly the framework that has been  
15          recommended. We've established various committees,  
16          documented the policies for how those committees  
17          run, how they're staffed, how we escalate  
18          recognition of various risks, et cetera.

19          I think the other thing we've done is that  
20          we've stopped and said you can't have compliance  
21          without first understanding what your risk exposures  
22          are. And we learned in that fourth quarter of 2007  
23          that risks aren't simply limited to securities going  
24          down in value. There are reputational risks. There  
25          are market risks. There are communication risks.

1           If an event happens and you're not set up to  
2           communicate in realtime effectively and clearly with  
3           the affected parties, that can create problems of  
4           its own. It can magnify experience, either good or  
5           bad. So we've taken a much more holistic look at  
6           risk and look at it from a standpoint of what is  
7           known as enterprise risk, which is risks from all  
8           perspectives to the overall interests of our  
9           organization or our enterprise.

10           So we've created a new unit known as Enterprise  
11           Risk Management and Compliance. We've recently  
12           named Eric Nelson to head that unit. Eric is a CPA,  
13           a 25-year SBA employee, has extraordinarily strong  
14           skills in process mapping and integration of  
15           solutions across different areas of the  
16           organization. And I think he's a good exec for this  
17           role and will do a good job with it. And there he  
18           is.

19           Additionally, we have re-purposed a number of  
20           existing staff, who were previously in what could  
21           essentially be considered compliance roles within  
22           the individual asset classes. We've pulled those  
23           people out of the asset classes, put them in this  
24           new independent unit we're talking about so that we  
25           don't any longer have even the appearance of a

1 conflict in terms of someone confirming whether  
2 policies and procedures have been complied with and  
3 who that person reports to. The appropriate  
4 independence is there. We're also adding additional  
5 folks, consistent with a budget voted on back in the  
6 summer, to fill in various key roles in that team.

7 You can't have compliance without something to  
8 measure and something to evaluate whether you're  
9 complying with it. Obviously, that comes back to  
10 policies and procedures. And we have rewritten a  
11 tremendous, tremendous number of our policies and  
12 procedures in a number of key areas, and we've tried  
13 to do them in a priority way. So we've looked at  
14 things like what's our overall risk budget, which is  
15 how we look at aggregate risk exposures for our  
16 portfolio, what are our limitations on leverage,  
17 what are our limitations on derivatives use, et  
18 cetera, et cetera, et cetera.

19 And we've just, to touch on a few other areas,  
20 looked at broker-dealer relationships, internal  
21 trading. Investment portfolio guidelines have been  
22 rewritten for 25 different portfolios. We've looked  
23 at rebalancing and liquidity assessments. Placement  
24 agent disclosure we talked about a little bit  
25 earlier. We're looking and have also done things in

1 the areas of custodial credit. We've completely  
2 revised what we're doing in securities lending.  
3 Terms we have in various of our contracts that we  
4 want to be consistent across all our relationships.  
5 Internal controls and fraud, how we value real  
6 estate investments, private market investments, how  
7 we develop contracts in that area, a number of  
8 things relating to information technology and data  
9 center control.

10 We're working on things, too, in the areas of  
11 business continuity, something that's pretty  
12 important in a hurricane-prone state, and also  
13 developing a senior operations group or further  
14 developing the one we already have in place.

15 So I think in short I would say there are a  
16 number of things going on in this area. The  
17 resources we had in this area were already quite  
18 strong. I think organizing them in a manner that  
19 even the appearance of conflict is taken away is  
20 very useful. We are in the confidence business and  
21 we earn trust every day, and we owe it to people to  
22 conduct our business and manage our organization in  
23 a way consistent with that reality.

24 I'm just looking at my notes to see if there  
25 are any key points I've missed here. I think we've



1 hit most of the key points. We've told you before  
2 about expanding our fraud hotline to include all our  
3 contractual service providers. We've now added  
4 third party real estate appraisals for all our real  
5 estate holdings. And we're moving in the direction  
6 of external audit, which we applaud.

7 So I think essentially that's the quick and  
8 dirty on what we're doing, but there are a lot of  
9 moving parts. This is something that we'll keep you  
10 and the Investment Advisory Council and the  
11 Participant Local Government Advisory Council and  
12 most certainly the Audit Committee informed on.

13 We also intend to have the chief of Enterprise  
14 Risk Management and Compliance be a regular  
15 presenter to our Audit Committee and perhaps to you  
16 as well if that's your choice. So unless there are  
17 any questions, that will cover what I had prepared  
18 for you in that area.

19 CFO SINK: Yeah, Ash, I do. Thank you for  
20 sending over Eric's bio. Congratulations. The good  
21 news and the bad news. Certainly the good news is  
22 that you've been invested in the SBA for 25 years  
23 and know the organization very, very well. Let's  
24 just not make the bad news be that because of your  
25 familiarity, you're not able to kind of step back

1 and show up at work on your first day with a fresh  
2 set of eyes and a new way of looking at things.

3 And I hope Ash will give you the opportunity to  
4 take part in a lot of professional meetings and  
5 trainings. I'm sure that there's an association of  
6 risk and compliance managers who get together  
7 frequently and talk about how you can really take a  
8 critical and new and fresh look at all the  
9 operations.

10 But, Ash, this is a pretty impressive list of  
11 policies that you all are working on. It's a pretty  
12 big assignment here.

13 MR. WILLIAMS: Well, there's a lot that's going  
14 on. And many of those policies are already done.  
15 They're not just in process. They're done and in  
16 place, and others will be.

17 All right. So let's move on. We had talked  
18 before, and I've met with all three of the offices  
19 about what we would call investment areas of  
20 interest. And this is sort of both sides of the  
21 same -- both ends of a barbell, for example.

22 What we're talking about here is areas that  
23 have been affected either positively or negatively  
24 by recent market events. And when I talk about  
25 recent market events, I'm talking about the

1 liquidity crisis, the recession, the decline in  
2 equity values, the weakening in real estate, the  
3 weakening in consumer spending, just the general  
4 economic challenge that our country now fortunately  
5 appears to be coming out of, and how does that  
6 affect our opportunity set, how does that affect our  
7 existing holdings.

8 So for the remaining two sections of Item 9,  
9 public market investments and private market  
10 investments, I'd like to share with you just a  
11 couple of thoughts in that area. CFO, you noted  
12 earlier gaps in performance in private equity and  
13 strategic. That's a great example of segue into  
14 this area.

15 And you'll see some interesting anomalies that  
16 seemingly might not make sense. Like when you look  
17 at our performance going back over the past three  
18 years, a major detractor in that performance is  
19 fixed income. Why? Because we had an overweight to  
20 credit exposure. Credit was hurt very severely  
21 during the credit crisis and the liquidity downturn,  
22 and that flowed through to our numbers.

23 But if you look at our numbers year to date,  
24 you will see that actually the biggest contributor  
25 to our performance is what? Fixed income. The

1 child that was troublesome yesterday is now the high  
2 performer.

3 Similarly, if we look at strategic, strategic  
4 has shown as a bit of a drag on performance, but  
5 it's actually, in looking at this year, it's perhaps  
6 our top performing area, up roughly 20 percent over  
7 the course of the year, done very, very well. So  
8 why is that? Or private equity, which shows a gap  
9 to its performance benchmark, what's going on there?

10 What you see, as Steve Cummings from EnnisKnupp  
11 said earlier, is there's a gap because these are  
12 nonmarketable assets. And when you talk about real  
13 estate, strategic and private equity, these are not  
14 assets that you can turn on a Bloomberg machine and  
15 see how they were priced in the past five minutes  
16 based on a live trade.

17 That can either help you or hurt you. We have  
18 seen, for example, the numbers that we're showing in  
19 private equity and strategic in large measure have  
20 been painful. What those numbers don't show is that  
21 there's been a very dramatic snap-back in those  
22 assets over the course of the current year.

23 And just as we've seen fixed income go from  
24 lagger to winner as credit spreads have tightened  
25 and fear and anxiety have ebbed a bit from when we

1           were looking at the edge of the abyss back in the  
2           fourth quarter of 2008, we have not seen that  
3           appreciation pass through in these private asset  
4           classes because the valuations aren't there. We get  
5           them at best on a quarterly basis, and it's not  
6           uncommon for them to be lagged for six months or so.

7                     That doesn't mean our reporting is defective.  
8           That's common in the industry. And we regularly  
9           have discussion with managers to understand their  
10          portfolios. So, for example, when you look at the  
11          private equity area and you see -- you might see  
12          holdings that would be common across different  
13          private equity portfolios that are companies that  
14          are known broadly to be challenged. Think of a  
15          Harrah's, a Hilton, a Freescale Semiconductor, names  
16          of that nature, a Reader's Digest. You might think,  
17          gosh, these are names I've heard. These companies  
18          all look like they've got awful prospects. You mean  
19          you own all these things? That's troubling.

20                    Well, on its face that's true, but there are a  
21          couple of key qualifications. First of all, there's  
22          the question of scale. If we look at what portion  
23          of our portfolio we're talking about, it's very  
24          small, that has these sorts of assets that are  
25          somewhat challenged currently.

1           We did sort of a worst case analysis and tried  
2           to look through all the different areas, real  
3           estate, private equity, et cetera, where there might  
4           be some problems, and try and look through them and  
5           say, worst case, what do we think our exposure to  
6           the down could be.

7           And we came up with a number that's less than  
8           one half of one percent. So you might say to  
9           yourself, well, gosh, if I had \$100 and I lost 35  
10          cents or 50 cents, would I lie awake that night or  
11          would I be able to go to sleep? I think you'd be  
12          able to go to sleep. And that's where we are. The  
13          other thing I would say is that on the private  
14          equity --

15          CFO SINK: Excuse me, Ash. So that would  
16          translate into about a half a billion dollars?

17          MR. WILLIAMS: Correct. And I said it that  
18          way, CFO, because if you say it the other way and  
19          say we may lose a half a billion dollars, most  
20          people would hear \$500 million, the hair on their  
21          neck would stand up and they'd say, "Good Lord, is  
22          my pension safe?"

23          That's exactly why, the reason I phrased it the  
24          way I did, because we have had some very high  
25          profile investments that have gone very badly.

1 Peter Cooper Village is one we talked about at great  
2 length at our last quarterly meeting. And while  
3 that's a bad experience, in the grand scheme of what  
4 we do, it's not a loss that's going to in any way  
5 impair what we're capable of doing, and it's a loss  
6 that's built into the performance numbers that you  
7 have before you.

8 And those numbers, through the close night  
9 before last, show us having earned roughly  
10 \$15.4 billion this year and performed 60 basis  
11 points ahead of target. That's net of all the bad  
12 news that we've been talking about. So it's not  
13 like there's some looming monster in the closet  
14 that's going to come out and be a negative surprise.

15 CFO SINK: Are there any single assets that  
16 would be a loss of more than -- Peter Cooper Village  
17 got a lot of attention. That was \$250 million. Are  
18 there any single assets remaining that are in your  
19 axis of concern that would be in excess of  
20 \$250 million?

21 MR. WILLIAMS: No.

22 CFO SINK: Okay, good.

23 MR. WILLIAMS: So where are we on this? Think  
24 about private equity for a moment. One of the  
25 things that led to the actions being done by general

1 partners in the private equity industry that's led  
2 to some of these investments they made that they  
3 paid, frankly, more than they should have for them,  
4 and they levered them up, which compounded the  
5 sin -- you'll remember the same two issues that were  
6 with us in Peter Cooper Village, paid too much for  
7 the asset and then compound that sin by leveraging it  
8 up the debt.

9 There's something very important here in  
10 private equity. And that's a lack of a catalyst to  
11 turn an unrealized loss into a realized loss. An  
12 unrealized loss is nothing but an accounting entry.  
13 A realized loss is when you've actually lost the  
14 value of an asset on a permanent basis. It's a big  
15 difference between mark to market and permanent  
16 capital impairment.

17 And in the case of something like Peter Cooper  
18 Village, the catalyst was the leverage and the  
19 presence of hard dates at which debt financing had  
20 to be refinanced. And if the value of the asset had  
21 declined below the level of debt, that refinancing  
22 was not going to work in a way that supported the  
23 equity value.

24 With private equity you have exactly the  
25 opposite situation. And it's a bit of a luxury.



1           The banks, in their anxiety and hunger to get  
2           business from the private equity firms back during  
3           the boom years, gave a number of the private equity  
4           firms what essentially amounted to seven-year bullet  
5           loans with no covenants, meaning that the banks had  
6           the use of the money -- or the private equity firms,  
7           rather, had the use of the bank's loans for fully  
8           seven years, commonly, the term of the partnership.  
9           And they could go out, use that money, not have to  
10          worry about the performance of the underlying  
11          companies or making any payments on those loans  
12          until they were at the very end of that period.

13                 Well, even several years into the downturn,  
14          we're still fairly early into that seven years. So  
15          if you talk to principals of a number of the major  
16          private equity firms, they will tell you part of the  
17          reason they were willing to pay more was they knew  
18          the banks were standing right there ready to give  
19          them non-recourse financing with no covenants for a  
20          period of seven years. So they will tell you, we've  
21          been cutting costs all day every day. We've been  
22          buying back debt when it was cheap during the  
23          downturn. We've been rehabilitating the balance  
24          sheets of our companies.

25                 And at the end of the day a lot of these

1 companies, Harrah's is a great example, are the  
2 leading operators in every market segment they are  
3 in. In every market they are in they're the  
4 dominant competitor and they commonly have got a  
5 very high operating margin. And to the extent  
6 they've taken out costs and reduced debt during the  
7 time they've held that investment, they've  
8 strengthened it.

9 And their estimate is that for the most part,  
10 when these partnerships come to their maturity  
11 three, four or more years down the road, that they  
12 will in fact have not only not have losses, but  
13 they'll have positive returns that are pretty  
14 significant, maybe not as rich as what we might  
15 target conventionally in private market. But an  
16 example of one GP we met with not too long ago was,  
17 he had an expectation the fund we were expressing  
18 some concern about would have a return in the low  
19 teens net of fees at maturity. So give it a while,  
20 let it work and go from there.

21 In real estate we have the opposite of that.  
22 We have -- real estate is something that has looked,  
23 on a relative basis, has looked pretty strong. So,  
24 for example, if you look at our real estate versus  
25 benchmark number here, you will see a plus 39 basis

1 point contribution over the last 12 months.

2 Well, what's not showing in that number is,  
3 just like private equity, valuations in real estate  
4 are lagged. And so to the extent we have directly  
5 owned properties, which is the majority of our  
6 portfolio, directly owned properties, they're leased  
7 up, cash flowing, very little if any leverage,  
8 those -- the decline in real estate values that  
9 we've all been through isn't fully reflected here.

10 So this would be a case where the underlying  
11 numbers are actually worse. And to the extent we  
12 have exposure in real estate, there is certainly  
13 nothing like Peter Cooper Village out there in terms  
14 of scale, but we do have a very small percentage of  
15 the portfolio in partnership structures that are  
16 levered and where we don't have control over them,  
17 we're simply a limited partner investor.

18 And there will be some of those, as soon I  
19 think as during the first half of next year, one in  
20 particular where there's a very good chance that a  
21 refinancing requirement that will come along will be  
22 challenged. Exactly where the markets are when that  
23 happens, we don't know. Will it provide an  
24 opportunity for us in some way to take advantage of  
25 the situation and make a secondary investment that

1 will mitigate the whole situation? We don't know.  
2 But that's the kind of thing that has to be looked  
3 at. The best news I can give you there is we're  
4 talking about a tiny percentage of our overall real  
5 estate exposure.

6 We recently had Townsend, which is the -- I  
7 would say the preeminent real estate, institutional  
8 real estate consultancy in the country, down for a  
9 presentation for the Investment Advisory Council  
10 meeting, not the most recent one, but the one  
11 before. And the conclusion of Terry Ahern from  
12 Townsend was that our portfolio has had far less  
13 exposure to the parts of the real estate economy  
14 that have suffered the worst in this downturn.

15 So for that reason we've come through better,  
16 number one. Number two, we have a tremendous volume  
17 of committed but undrawn capital out there, which is  
18 right where you want to be, because as we start  
19 seeing desirable assets come on the market at  
20 distressed prices, which has not happened yet,  
21 that's probably something that's going to take place  
22 over the next one to three years, we'll be in  
23 position to take advantage and buy things at the  
24 bottom with minimal leverage and have a really nice  
25 ride over the ensuing five, ten, fifteen years.

1           And on the properties that we own ourselves in  
2           real estate, which collectively are 88 percent, I'd  
3           say, of our portfolio overall, 88 percent plus, we  
4           own those properties. They're not highly levered.  
5           So to the extent their valuation has gone down  
6           temporarily, they're leased up and they're cash  
7           flowing, frankly it's like living in your house. If  
8           you don't intend to move out of our house and its  
9           value goes down by \$10,000, I still sleep pretty  
10          well at night because I don't have to sell it. If I  
11          had a mortgage that I had to roll over once a week,  
12          that might be different. But that's not the  
13          situation we have.

14                 So I think on a mark to market basis, in the  
15          real estate portfolio there is some embedded decline  
16          in assets in there that will come out over time.  
17          You're going to see some individual partnerships  
18          that are going to be challenged over the next couple  
19          of years, and you will see some joint ventures that  
20          may be challenged. But in joint ventures -- and  
21          these would be situations where we partner with  
22          someone in a particular market because of their  
23          knowledge of that region and their knowledge of a  
24          particular type of property.

25                 In those circumstances -- again, these are

1 situations we largely control, and we don't have the  
2 urgency necessarily of a financing that can leave us  
3 stranded. Worst case, we've got a couple of  
4 situations there where we might have a new building  
5 that we've been a partner in putting up, premier  
6 location, top quality building, but the timing on  
7 that building coming on the market and being leased  
8 up is now.

9 So you're coming on in a relatively depressed  
10 marketplace. And that's true whether it's  
11 residential, office, industrial, retail or whatever.  
12 In that circumstance, we might well choose to take  
13 the asset onto our books if we like it because the  
14 long-term value will be there. And what we don't  
15 want to do is be forced out of something that's  
16 ultimately a desirable product because of some  
17 liquidity issue that we can easily overcome.

18 CFO SINK: Ash, let me -- you just brought up  
19 something that kind of clicked with me, because it  
20 seems that many of our problems are in these  
21 participations in these LLPs or these big funds,  
22 like the Peter Cooper Village thing. We were a bit  
23 player, frankly, in a big program that got put  
24 together.

25 Are you thinking going forward that our

1 strategy ought to be, because of the size and scale  
2 of the Florida Retirement System, that we ought to  
3 be invested more in properties in which we are  
4 either the sole owner or we're one of the -- we're  
5 in a joint venture with somebody so that we can  
6 control our own destiny more, rather than just being  
7 at the mercy of one of these big funds where our  
8 opinion doesn't matter very much?

9 MR. WILLIAMS: There is room for both, CFO.  
10 And the way our portfolio is currently structured,  
11 we have a target of 70 percent in the what we call  
12 stable properties, the stabilized properties which  
13 we basically own, control and lease up. And then  
14 the target is for that remaining 30 percent to be  
15 stratified 20 percent across slightly more  
16 aspirational or high yield properties, and then for  
17 the top 10 percent to be the more aggressive  
18 vehicles. And those two more aggressive approaches  
19 will tend to be partnership-driven. In fact, our  
20 exposure in those areas is far lower. It's roughly  
21 11 percent across the two, not 30 percent. That's  
22 why we're better positioned.

23 My own view is that partnerships are not  
24 inherently evil, but one has to be aware of the  
25 overall environment. And to the extent the asset

1 management industry occasionally commits a sin, it's  
2 taking money and putting it to work at times when  
3 the better service to the underlying investor would  
4 be for that GP to sit on their hands and not put the  
5 money to work.

6 And the good news is we have a number of GPs  
7 that have done exactly that. And that's why we have  
8 the very large amounts of committed and undrawn  
9 capital that we do. So I think it -- it's not as  
10 simple as saying we should control every single  
11 property ourselves and operate completely unlevered.  
12 I think we should do a diversified mix that  
13 thoughtfully makes bets where we think bets can be  
14 prudently made and does so at a scale that we're  
15 comfortable with. Concentration is certainly an  
16 issue in something like Peter Cooper, tend to take  
17 smaller bites than 250s in single projects.

18 GOVERNOR CRIST: Ash, if I might, maybe a  
19 dovetail to the CFO's point, and this seems like an  
20 opportune time to raise it. In talking about making  
21 investments and utilizing Florida assets to make  
22 these investments on behalf of our pensioners, and  
23 we talked about it at our last meeting --

24 MR. WILLIAMS: Yes, sir.

25 GOVERNOR CRIST: -- and the notion of being



1           able to have Florida invest in Florida. And I don't  
2           know if you've had a chance to really analyze that  
3           prospect or could give us a little idea of what your  
4           thinking may be going forward, whether it is with  
5           partnerships with others or more exclusively  
6           determined by your shop.

7           MR. WILLIAMS: Thank you, Governor. That's  
8           exactly where I was headed next.

9           GOVERNOR CRIST: Fortuitous for us both.

10          MR. WILLIAMS: Precisely. I've taken a look at  
11          a couple of things. Number one, we've taken a look  
12          at what we currently have in Florida. And the  
13          answer is roughly \$875 million, give or take a  
14          little bit here and there. That includes roughly  
15          \$300 million in direct-owned projects, roughly 241  
16          in what we call programmatic joint ventures, an  
17          additional 335 in pooled funds in which we have some  
18          investment. And that 876, those pooled numbers, are  
19          our portion of that -- of those pools. If you  
20          looked at pools in aggregate, that number would  
21          balloon dramatically. But I think what we're really  
22          focusing on is what we own.

23          We have talked to a number of our managers  
24          about what the Florida opportunity is presently. We  
25          have talked to several GPs who are putting together

1 vehicles to either purchase what would -- finished  
2 lots, meaning lots that have been permitted,  
3 platted, streets and sewers are in, hard  
4 infrastructure is in and they're ready to go  
5 vertical with construction.

6 We've also talked to a couple of folks who are  
7 focusing on condos, particularly with a Southeast  
8 Florida focus. And I think our sense is at this  
9 point there's very, very little coming into the  
10 market in terms of top quality product that's  
11 available for sale.

12 What we have is a phenomenon known in the  
13 industry as extend and pretend. And what that means  
14 is, picture a circumstance where you have a bank  
15 that has loaned money on a project. You have an  
16 equity owner in that project. The value of the  
17 property has declined, potentially below the value  
18 of the debt. So the equity holder is effectively  
19 wiped out. If they sell the property tomorrow, the  
20 equity owner gets nothing and the bank gets  
21 something, but it's something less than what they  
22 loaned. So nobody in that equation has an incentive  
23 to step up and make a sale, because what will happen  
24 is if they do, the bank is going to have a huge  
25 write-down, the equity owner is going to have a

1 wipe-out, they're going to have a zero. And not  
2 everybody does what we do, like we did with Peter  
3 Cooper Village, and says publicly, we wrote it to  
4 zero in May. Not many private owners like to do  
5 that if they can avoid it.

6 So basically, you also have a circumstance  
7 where the bank regulators are, in a number of  
8 situations, granting forbearance because they don't  
9 want to increase hardship on banks at a time that  
10 banks are capital constrained and trying hard to add  
11 to their regulatory capital so they can get back in  
12 the lending business and move the economy more  
13 broadly.

14 So in that environment, the assets that you see  
15 actually coming up for sale are essentially  
16 distressed assets. And we don't really want to own  
17 distressed assets. We want investment-grade,  
18 top-drawer assets. To paraphrase or to quote  
19 directly Warren Buffet, something I subject you to  
20 with perhaps more frequency than I should, Buffet  
21 says, "I would rather own a great business at a fair  
22 price than a fair business at a great price."

23 And what we're seeing now is assets that are  
24 not necessarily top-drawer assets that are coming  
25 out at a discount because there's no alternative.

1           They're forced sellers. That doesn't mean they're  
2           the things you want to own. So we think that by  
3           being patient, staying on top of things, we already  
4           have a relationship with a major player that invests  
5           in the finished lot area, and we've done some things  
6           in different parts of the country there recently,  
7           and we have commitments in a number of other spheres  
8           in the real estate area that can play in Florida.

9           And I spoke this morning with one of the -- the  
10          principal of one of the funds we do business with  
11          who happens to be a native Floridian that I grew up  
12          with and is based over in Jacksonville and got the  
13          benefit of his insights. And his take was exactly  
14          what ours is. It's early in the game. Assets are  
15          really not in the market at this point. And unless  
16          you're talking about trying to do something in  
17          single-family homes or something like that, which  
18          really doesn't work for an institutional scale of  
19          investment, it's early days.

20          And I think we're in the game. We're known as  
21          a patient, smart player what deep pockets and a  
22          long-term view. And that's right where you want to  
23          be when the desirable assets do become available.

24          So where are we? That's basically the summary  
25          I had for you on the investments of focus. Again,

1 coming back to it, the very same circumstances in  
2 the market environment that challenge certain of our  
3 investments create terrific opportunities for us  
4 going forward. Over the past year we've committed  
5 north of \$3 billion, close to three and a half  
6 billion dollars to new partnerships and strategies  
7 that we think are particularly well-suited to the  
8 investment environment we're in and will be in for  
9 the next two to three years.

10 And looking at those, the sorts of expected  
11 returns range at the most conservative end of the  
12 spectrum from sort of high single digit net returns  
13 to mid-twenties plus in the more aggressive end.  
14 And we feel very comfortable with the partners that  
15 we've funded.

16 We've also positioned ourselves to do some  
17 things that the Board has not done before. We  
18 recently inked an agreement with Cambridge  
19 Associates, who is one of the most highly respected  
20 consultancies out there with a focus on hedge funds  
21 and venture capital. And we think that doing some  
22 things in the hedge fund area with investment grade  
23 players who are of institutional quality, that with  
24 the right transparency, et cetera, will be a great  
25 channel for us to access talent and capture some of

1 the opportunities that are out there to be taken  
2 advantage of currently.

3 So unless there are questions, we'll close out  
4 the executive director and CIO update and move on to  
5 governance.

6 GOVERNOR CRIST: Go ahead.

7 MR. WILLIAMS: Thank you. Just summarizing on  
8 the governance subject, we have three  
9 recommendations before us. One of them has been  
10 dealt with already today, the external audit issue.  
11 And we thank you for your action on that. On  
12 fiduciary training, we talked at the IAC meeting  
13 recently about fiduciary training, and we have an  
14 attachment in here from EnnisKnupp. They have a  
15 fiduciary consultancy practice. And we have what  
16 can only be described as an exhaustive draft  
17 curriculum for fiduciary training. So we offer that  
18 for your consideration.

19 And on the last point, governance structure,  
20 from a staff perspective, that's sort of above our  
21 pay grade. We would just leave you with the notion  
22 that we think you have an honest and capable crew  
23 running your ship for you, and we will get it from  
24 point A to point B with no loss of life or cargo,  
25 and the ownership of the ship we defer to you.

1 Thank you.

2 CFO SINK: Did you have a recommendation about  
3 the fiduciary training?

4 MR. WILLIAMS: Yes. I think fiduciary training  
5 is a terrific idea and it will be useful for us. I  
6 defer to you as trustees in terms of how much of  
7 your time you want to commit to the area. For the  
8 members of the IAC and the PLGAC, I think what we  
9 should do there, in deference to their status as  
10 volunteers, is do some sort of needs assessment in  
11 terms of their prior levels of experience and  
12 training and try and match fiduciary training to the  
13 individual's experience, so that we don't take  
14 someone who perhaps might be on three other boards  
15 and have already had current training and force them  
16 to set aside two full days for us. That's a bit  
17 much to ask.

18 But I think we could work that out, just in  
19 terms of recommendations in the normal course of  
20 discussion among your offices, the Board, the IAC,  
21 the PLGAC and the Audit Committee.

22 ATTORNEY GENERAL McCOLLUM: I have a  
23 suggestion, if I might.

24 GOVERNOR CRIST: General, please.

25 ATTORNEY GENERAL McCOLLUM: It seems to me that

1           our Cabinet staff, in this case the trustees, SBA,  
2           our own personal staff, it would be good if they had  
3           fiduciary training. They have more time to give to  
4           that than any one of the three of us do. I'm not  
5           saying we shouldn't have some, but I think that  
6           would be very helpful. And I would recommend that  
7           you set up something, particularly for our team that  
8           interfaces with you all the time, from the CFO's  
9           office, from mine and the Governor's. That would be  
10          very profitable for them, I think, right now and for  
11          us, because they're our eyes and ears every day in  
12          terms of relationships with you and with the  
13          Advisory Council.

14                 MR. WILLIAMS: That's right. And I think the  
15          point was made in discussion at IAC that some might  
16          say, well, gosh, not everybody here is a fiduciary,  
17          so why do all these people have to take fiduciary  
18          training? If you're a member of the IAC, you're not  
19          a fiduciary, or the PLGAC or the Audit Committee or  
20          your own staffs. And the answer of course is, well,  
21          if you're providing advice to a principal who is a  
22          fiduciary, that advice should be conditioned upon an  
23          understanding of what the fiduciary standards are,  
24          what you're expected -- what's expected of you and  
25          me as fiduciaries and therefore be calibrated



1           appropriately. And for that reason, I think your  
2           suggestion, General, is very well taken.

3           CFO SINK: So are we proposing then -- or let's  
4           make sure that we're clear. You're going to go back  
5           to the chair of the audit -- to the Audit Committee  
6           and say -- I mean, this is a pretty thorough list of  
7           topics that the consultant provided us, and ask --  
8           are we recommending -- well, let me just throw this  
9           out, that you would go back to the Audit Committee  
10          and ask them to pick and choose what from this list  
11          is appropriate and that they're interest in and  
12          likewise to the Investment Advisory Committee as  
13          well?

14          MR. WILLIAMS: I was sort of thinking out loud  
15          a moment ago, CFO.

16          CFO SINK: We're all thinking out loud here.

17          MR. WILLIAMS: What I was thinking was not so  
18          much letting them pick and choose, because with all  
19          due respect to the members of all those groups,  
20          there may be things that they don't know that they  
21          don't know.

22          CFO SINK: Right.

23          MR. WILLIAMS: So I think we're perhaps better  
24          off assessing the extent to which they've had  
25          fiduciary training through some other channel and in

1           that way making sure we don't duplicate things, and  
2           then we could work with EnnisKnupp to come up with a  
3           layered set of curricula, if that's the plural of  
4           curriculum, I don't know.  Curricula?

5           GOVERNOR CRIST:  Sounds like it could be.

6           MR. WILLIAMS:  We'll stipulate that.  That we  
7           come up with some sort of layers so that we have,  
8           say, a summary version that we could use for some  
9           people and the deep-dive detail for others.  I would  
10          work with EnnisKnupp on that and see what their  
11          recommendations are.  They've obviously wrestled  
12          with this at many, many different places.  We don't  
13          need to invent this wheel ourselves.

14          CFO SINK:  Well, I like the -- General, I like  
15          your idea that our staffs be exposed to this kind of  
16          training as well, but at the end of the day, the  
17          buck stops with the three of us.

18          MR. WILLIAMS:  Yes, it does.

19          CFO SINK:  And it seems to me that -- I mean,  
20          there are a number of topics on this extensive, I  
21          guess, eight-page list that I'm personally  
22          particularly interested in and think that I could be  
23          a better trustee if I had more exposure to selected  
24          of these topics.  And I think the three trustees  
25          ought to take advantage of a form of additional

1 training in the areas that we feel that we would  
2 like to have more information about.

3 Governor, I'm thinking maybe the most  
4 appropriate way would be for each of us to look at  
5 this ten-page list and make some determination. You  
6 know, we ought to -- just like everybody else has  
7 continuing education, the three of us ought to be  
8 committed every year to continuing to educate  
9 ourselves and expose ourselves to what the current  
10 thinking is in terms of good training, because all  
11 the other -- when we did the governance study, we  
12 saw that every -- all the boards are undergoing this  
13 type of fiduciary training.

14 I'm not sure for us to spend two whole days  
15 going through every one of these 80 items is  
16 necessary or appropriate. But I just -- I think  
17 we -- to me, we ought to commit ourselves to  
18 spending a two or three or half a day period of time  
19 being better informed about what fiduciary  
20 responsibilities we do have.

21 ATTORNEY GENERAL McCOLLUM: Maybe that could be  
22 something we do in here as one of the quarterly  
23 meetings or in a meeting that we have. We've spent  
24 three hours roughly today, and I suspect that we  
25 could add another three and take a half a day or

1 four or five hours at that. But I would certainly  
2 be willing to commit my staff to look at that,  
3 Governor, if you want to commit yours to it as  
4 well --

5 GOVERNOR CRIST: Happy to.

6 ATTORNEY GENERAL McCOLLUM: -- and among the  
7 three of us come up with something with Ash. I have  
8 no objection to continuing education. As a lawyer,  
9 I do continuing legal education all the time. I  
10 have to keep my numbers up. So I have no problem  
11 with that. But I don't know, out of this multipage  
12 thing just sitting here today, that I could say what  
13 any more than you could.

14 GOVERNOR CRIST: I think we ought to commit to  
15 have our staffs review it and get back to Ash.

16 MR. WILLIAMS: Thank you. And what might be  
17 helpful is I've spoken with Nancy Williams, who is  
18 the fiduciary consultant at Ennis who wrote the  
19 outline you have before you, and raised the  
20 question, you know, not everybody has got two full  
21 days to sit down and do this, is this available in  
22 sort of a medium version and a medium heavy and the  
23 full weight. And the answer was yes. So this can  
24 be crafted and calibrated in a way to suit the time  
25 commitment that folks are comfortable with. And we

1           can make materials available for a deeper dive at  
2           people's leisure.

3           CFO SINK: I do want to talk about the  
4           governance structure issue, but as I'm sitting here  
5           thinking that -- I'd like to suggest, Governor, we  
6           have had a lot of people who have been here since  
7           9 o'clock this morning. It makes for a very long  
8           period of time. And many of the people -- and we've  
9           had some people who I know were interested in  
10          speaking about some of the governance issues who had  
11          to leave because they didn't expect that we would be  
12          here at 2:30 in the afternoon.

13          And that's why I really think we ought to be  
14          able to have a separate time to have our board --  
15          our quarterly board meetings. And just like we've  
16          already established our calendar for all the Cabinet  
17          meetings for 2010 and all the Clemency Board  
18          meetings for 2010, I'd like to recommend that our  
19          staffs, if it's your pleasure, work together to  
20          establish when our four quarterly meetings will be  
21          for the SBA and also recommend that our next meeting  
22          be at the headquarters on Hermitage Boulevard and  
23          give us an opportunity as fiduciaries and trustees  
24          to go visit, be able to take a tour and visit the  
25          departments and the people who are actually out

1           there executing and performing the duties that we  
2           expect them to do, and an opportunity for us to  
3           thank them for the good, hard work that they do, so  
4           that people who are interested specifically in the  
5           SBA board issues know that we're going to be able to  
6           start at a time certain and we're going to end at a  
7           time certain and are able to participate more fully.

8           GOVERNOR CRIST: Sounds great.

9           CFO SINK: I did want to talk about the  
10          governance issue. Did you have something else to  
11          say, Ash?

12          MR. WILLIAMS: No. I was going to note that I  
13          understand we have three individuals present -- or  
14          at least we did earlier, I don't know if they're all  
15          still with us -- who wanted to be heard on the  
16          issue.

17          GOVERNOR CRIST: Hopefully they're with us even  
18          if not present.

19          MR. WILLIAMS: So I'd defer to you as trustees  
20          on the order you want to proceed on this, and on the  
21          structure question, I think that's --

22          GOVERNOR CRIST: Is that what they wanted to  
23          talk about, the three individuals?

24          MR. WILLIAMS: I believe so, yes.

25          GOVERNOR CRIST: Okay. Happy to hear from

1           them, sure.

2           MR. WILLIAMS: I had three names, Joan King  
3           from the FEA, Doug Martin --

4           CFO SINK: Joan had to leave about two hours  
5           ago. I saw her in the audience.

6           MR. WILLIAMS: We have Doug Martin from AFSCME  
7           and Randy Touchton from the firefighters.

8           GOVERNOR CRIST: Great. Gentlemen.

9           CFO SINK: Was CFO Gallagher going to speak  
10          also?

11          MR. WILLIAMS: Oh, I'm sorry. And Tom  
12          Gallagher, former treasurer.

13          GOVERNOR CRIST: Why don't we have the former  
14          CFO bring up the conclusion, in deference to him.  
15          And I'm sorry, I don't know your name, but why don't  
16          you come on up and tell us who you are. We'd love  
17          to hear from you.

18          MR. MARTIN: Good afternoon, honorable members  
19          of the State Board of Administration, Governor  
20          Crist, General McCollum, CFO Sink. My name is Doug  
21          Martin. I'm the legislative director of AFSCME,  
22          Florida Council 79, which represents under contract  
23          more than 55,000 state career service workers,  
24          including those at each of your agencies, and  
25          approximately 30,000 other employees at state

1           universities, cities, counties, school boards and  
2           hospitals.

3                     First let me thank you for your prudent  
4           stewardship of the State Board of Administration  
5           during its turbulent past few years. Your director  
6           and CIO, Ash Williams, is greatly respected among  
7           public pension managers nationally and enjoys our  
8           support and confidence.

9                     I'm here to speak in favor of expanding the  
10          trustees of the SBA beyond the three statewide  
11          elected officials comprising the board. We also  
12          support fiduciary training for trustees and long  
13          recommended an outside audit of the SBA.

14                    As the governance study by the SBA and AFSCME's  
15          research indicates, Florida is among a small  
16          minority, indeed a handful of public pension funds  
17          that does not include active employees or  
18          beneficiaries among its trustees. The governance  
19          structures of other states have involved for  
20          important reasons that are germane to Florida.

21                    The best governing boards of all types include  
22          high quality representatives of major stakeholders  
23          so that the trustees reflect a broad range of views  
24          that includes not just financial expertise but also  
25          the beneficiary whose pension is the major source of



1           their sustenance and the career employee who wants  
2           to ensure resources remain for future benefits.

3           Although each of you is a participant and some  
4           day will be a beneficiary, we think many discussions  
5           at the SBA sound like the billions and billions of  
6           the old Carl Sagan series on PBS. Let me give you a  
7           much smaller number, \$12,000. That is the average  
8           FRS benefit. Many of our state retirees who are not  
9           Medicare eligible must pay more than \$1,000 a month  
10          for family health care coverage, so that their  
11          entire pension checks are wiped out and some must  
12          write a check back to the State.

13          In summary, the State Board of Administration  
14          is not just an oversight body but is also a  
15          policy-making body that should reflect not just the  
16          government and financial interests of the state but  
17          also the human interests that are affected by these  
18          policies. That way, when the discussions end up in  
19          Carl Sagan territory of billions and billions,  
20          someone on the Board can bring it back down to earth  
21          in the \$12,000 pension wiped out by health insurance  
22          cost. Thank you for considering this important  
23          topic and your service to the people of Florida.

24                 GOVERNOR CRIST: Thank you. Any questions or  
25                 comments?

1           MR. TOUCHTON: Good afternoon, Board members.  
2           My previous experience with the Cabinet has been  
3           limited primarily in terms of being a party or  
4           either a part of a group that you've recognized for  
5           some type of either awareness fund -- I work for the  
6           professional firefighters, so basically in terms of  
7           fire prevention, I've had the privilege of being  
8           recognized and having had my picture taken with you.  
9           However, today I've been here since 8:45. And let  
10          me just say, God bless you and your staff for your  
11          service to the State of Florida.

12          My name is Randy Touchton. I'm the  
13          governmental relations director for the Florida  
14          Professional Firefighters. I'm going to be brief  
15          today. But we look forward -- our association looks  
16          forward to working with the board members in terms  
17          of basically the governance issue.

18          And two years ago, at our state convention, the  
19          delegates actually unanimously passed a resolution,  
20          which I guess they must have had some crystal ball  
21          or what have you, because the resolution sort of  
22          indicated that when the issue of governance as it  
23          related to the State Board of Administration ever  
24          surfaced, okay, then they wanted or directed Bob  
25          Carver, our president, or either myself as basically

1           their governmental relations director, to pursue, if  
2           you will, the expansion of the Board, and for that  
3           expansion to include a member or either a plan  
4           participant of the Florida Retirement System.

5           So we -- today my primary purpose in appearing  
6           before you is, number one, to let you know that we  
7           look forward to working with you on this issue and  
8           we hope that you'll include us. And then second of  
9           all, as I indicated, to go on record in terms of  
10          basically what our association -- we represent  
11          25,000 brave men and women that are in the fire  
12          service or either the fire rescue service. So thank  
13          you for the opportunity to come before you today,  
14          and I look forward to working with you.

15          GOVERNOR CRIST: Thank you. Former CFO. It's  
16          good to have you with us, Tom.

17          MR. GALLAGHER: Thank you. I guess I get to  
18          almost be last. It's a pleasure. I've not ever  
19          been here from this side, but it's been a very  
20          interesting day for me. I'm glad I don't have to do  
21          it every couple of weeks anymore.

22          GOVERNOR CRIST: Thanks for hanging in there  
23          with us.

24          MR. GALLAGHER: But I did do it for 12 years,  
25          as far as the SBA is concerned, maybe a few more

1           when I was -- Education didn't tie in with it. I  
2           didn't even tell anybody I was coming down here, and  
3           I really thought I was going to be out of here  
4           sooner than 2:30 or 3:00. It won't be 3:00, at  
5           least my part won't.

6                     But I really felt concerned about what was  
7           going to come up at this very end, and that's the  
8           governance. I want to tell you that I really  
9           enjoyed this meeting in regards to the SBA. Some of  
10          the rest of it earlier I've, you know, had enough  
11          of. That's the same issues back again usually,  
12          water quality, the Keys. Nothing changes on those.

13                    But what you all have done here with the SBA,  
14          maybe because of some of the things that happened  
15          with the Local Government Investment Pool, most  
16          likely because of that, I want to congratulate you  
17          on getting ahold of the ball and making some very  
18          good changes that I heard explained here today. I  
19          really found them very interesting. I think that's  
20          exactly what you ought to be doing. I think you  
21          have an excellent executive director. I was  
22          involved when he first got hired the first time  
23          around. So you've done well here as far as I'm  
24          concerned.

25                    And I can't help but say that there has been a

1 member of the Florida Retirement System on this  
2 board. Many of you might not know that. So there  
3 already has been. And I have to tell you that  
4 person didn't do any better or worse nor did that  
5 being on the retirement system have anything to do  
6 with his ability to make decisions one way or the  
7 other. And I hate to talk about somebody like that  
8 other than it's me, so I can. And so adding that  
9 only adds something that you do not want, and that's  
10 politics, in how this particular agency is run.

11 I spent about four to six years involved with  
12 the Council of Institutional Investors. As a matter  
13 of fact, I was co-chairman with Kathleen Brown, who  
14 was the treasurer of California. You're probably  
15 aware of her brother and her father, who was  
16 Governor of California. And she and I were  
17 co-chairmen of that. I got the advantage of getting  
18 some good fiduciary training and other things  
19 through that organization.

20 All the state pension funds, at least almost  
21 all of them, belong to it, so do some of the  
22 corporate funds, like General Motors and some of  
23 those. And so it really was a good place, and a lot  
24 of the executive directors participate and a lot of  
25 the fiduciary trustees.

1           We were and I believe still are the envy of  
2 most of those funds. And when you do a survey,  
3 they're not going to tell you that. But the reason  
4 we were is because of the lack of politics that gets  
5 involved in the decisions made inside of the State  
6 Board of Administration.

7           And all I can tell you is I listened to the  
8 reports that you've got. Example, the lowest cost  
9 per dollars managed across the country. Gee, I  
10 wonder how that happens. Because there's not a lot  
11 of people sitting where you all are trying to get  
12 people hired over here, sending names. And that  
13 happens, believe me, in every single pension fund.  
14 If you've got to get somebody hired, you each have  
15 your own place to get them hired. You don't have to  
16 call up, embarrass yourself trying to get somebody  
17 hired, so you don't. And if you did, the executive  
18 director is going to tell the other two, and then  
19 you're going to wish you didn't.

20           So you've eliminated the politics by this. The  
21 people who set up our constitution and redid it when  
22 it was done, when the Cabinet changed from seven to  
23 four, stayed with this three-member body. It was  
24 all statewide elected officials for that very  
25 reason; keep the politics out of decision-making on

1 investments.

2 And every single one of those funds across the  
3 country has -- and the executive directors have to  
4 deal with that politics thing, and it affects them.  
5 And they end up with -- when we listen to the lowest  
6 cost per outside manager, did you hear that? That  
7 rang a bell with me. How did that happen? I'll  
8 tell you how it happened. Because the politics  
9 wasn't involved. The only thing that was involved  
10 is the staff sitting there analyzing who was going  
11 to do what and how much they were going to charge  
12 them.

13 That's a wonderful thing. We all wish that  
14 happened in every one of our personal agencies that  
15 we were in charge of. Don't we? I'm sure we  
16 believe it happens, but it happens there, and it  
17 will continue to happen there. And the things that  
18 you've done to even enhance that happening there are  
19 wonderful. I can't say enough about what I heard  
20 today. Every one of those enhances it. And you as  
21 trustees, the three of you statewide elected  
22 officials need to keep it that way and not let the  
23 politics -- if you add another person and just fill  
24 those other chairs, think of the politics that will  
25 take place in who those other four are, just for a

1 starter.

2 I mean, is it going to be from the police union  
3 or the firemen union or is it going to be from  
4 AFSCME or is it going to be from all of them? What  
5 about the teachers? Well, how many teachers? There  
6 are more teachers than there are the others. You  
7 don't even -- the politics that's going to get  
8 involved in that. And, of course, in order to get  
9 this done, in my personal opinion -- I know there  
10 are some people who are lawyers. They probably know  
11 more than I do, but it's going to take a  
12 constitutional change to have them be real trustees.

13 Now, to have them sit up there, the Legislature  
14 could do that. They could sit there and they can  
15 say, okay, they vote, too, and their vote counts and  
16 all that. But the bottom line is, you're going to  
17 have a huge political fight in the Legislature just  
18 trying to figure out who is going to be there, if  
19 they added people. And a constitutional amendment  
20 to change it? I don't think so. I just think that  
21 would be a big mistake.

22 What you have here -- remember, they didn't  
23 have the whole seven-member cabinet when the  
24 constitution was written. They had three members of  
25 that cabinet, three responsible members, and let



1           them have the total responsibility for that fund.  
2           That's a big responsibility. It's one of the  
3           reasons I took place and got involved in the Council  
4           of Institutional Investors, to get a -- understand  
5           where I really was and what it was like to deal with  
6           other people that had that same responsibility. And  
7           that's one of the things you got elected for, like  
8           it or not.

9                     And you shouldn't be looking for somebody else  
10           to blame things on. "Oh, gee, you know, I went  
11           along with them when they did that and voted with  
12           them, but I wish I hadn't. They were the outside,  
13           and we wanted to give them some respect." I can  
14           hear all the excuses in the world.

15                    You shouldn't allow excuses among yourselves.  
16           The three of you should take the responsibility you  
17           accepted when you were elected and sworn in and keep  
18           that job and have it where it is and keep any other  
19           politics other than the politics of who gets  
20           appointed to be the executive director. And that's  
21           gone pretty smooth the last few times. But it's  
22           been very political in the past, let me assure you.  
23           But that's okay. That's where it ought to stop.

24                    And so I just want to tell you that I enjoyed  
25           the meeting. I think where you're heading is right,

1 with the exception of changing the way you govern.  
2 And this isn't the first time this has come along.  
3 I mean, in all fairness, CFO Sink, the public  
4 employees have many times always said, "We want a  
5 say on the board. We want a say."

6 Well, my question is, what would their say be?  
7 If they want to say anything, they need to be in the  
8 Legislature and say what their benefits are. The  
9 pension fund has nothing to do with benefits, other  
10 than making sure they're funded.

11 If they want to make sure their checks get out  
12 on time or their deposit isn't right, well, they  
13 need to go to the Division of Retirement. You see,  
14 many, almost all of those pension funds that we  
15 dealt with at the Council of Institutional Investors  
16 have both of them together. And, so, yeah, there  
17 might be a reason why they should be on the board  
18 there.

19 The bottom line is they want to be on the board  
20 because there are some politics that can be there.  
21 That's why. They can start influencing who manages  
22 the money. Talk to some folks that you know  
23 personally that are involved in local government  
24 pension funds in this state and find out what the  
25 politics is that goes on, because they've got public

1 employees on most of those. And also take a look  
2 across the state and see how many of them are funded  
3 like your pension fund is here. And you're going to  
4 find out they aren't. And you're going to find out  
5 there's a lot of politics that takes place in who is  
6 managing that money, who is coming in and gets  
7 contracts with them. And that is what you do not  
8 want to see happen in the state of Florida. At  
9 least I personally don't, and I hope you don't  
10 either.

11 I've taken too much of my time. I almost got  
12 to that 3 o'clock. Thank you very much for letting  
13 me be here. I certainly enjoyed it, and enjoy your  
14 jobs and enjoy your race. Thank you.

15 GOVERNOR CRIST: Thank you very much. Very  
16 good words. Any other discussion?

17 CFO SINK: Yes, Governor.

18 GOVERNOR CRIST: CFO.

19 CFO SINK: I am going to make a motion. I  
20 intended to do this the last time, and we decided to  
21 defer until this meeting because we wanted to -- you  
22 all wanted to get some input from the Investment  
23 Advisory Committee. But notwithstanding -- and I  
24 appreciate the comments that former CFO Gallagher  
25 made because -- and I totally agree with him. There

1           should not be any place for politics when it comes  
2           to managing the fourth largest pension fund in the  
3           country, or any pension fund, for that matter.

4           And I have not, in my time here, when CFO  
5           Gallagher and I went through my transition, he  
6           assured me that one of the -- as he so eloquently  
7           spoke today, that one of the benefits of the system  
8           that, just the way we've always operated, is to try  
9           our best to remove politics from the operation of  
10          the SBA.

11          But that being said, I remain -- I feel very  
12          strongly about this, that the fiduciary  
13          responsibility for this pension fund, we are in the  
14          21st century now. We've been through the worst  
15          financial crisis that our country has ever seen. We  
16          had a number of bumps along the road. And I'm  
17          thinking about not necessarily the three people  
18          sitting here right now, but I'm thinking about the  
19          future and what's the best way and the best  
20          oversight for us to have.

21          And I thought that the -- and I've always felt  
22          from the get-go that tacking three elected  
23          officials, none of whom have any requirements for  
24          any prior financial or investment knowledge, who may  
25          not even know what the right questions are to ask,

1 we heard that today in another context, shouldn't  
2 have the requirement of this type of responsibility  
3 and oversight.

4 So I think that it -- the situation just -- 15  
5 minutes tacked onto a Cabinet meeting every two  
6 weeks is just not enough. And, granted, we've  
7 started these quarterly board meetings, which I hope  
8 you will agree to continue. That's a good first  
9 step, because it's not only just us needing to hear  
10 directly from the staff at the SBA other than just  
11 the executive director, but it's also the public  
12 that we serve. It's all those teachers and  
13 firefighters and people, those million people who  
14 are depending upon their pension being protected.

15 And I think that we ought to have an expansion  
16 of the Board, and it will be up to the Legislature  
17 to decide the criteria or the qualifications or how  
18 the selections are being made. And there will still  
19 be responsibility, there will still be -- there  
20 should be one or more elected officials serving on  
21 the Board because CFO Gallagher is right, when  
22 you're elected by the people, as the three of us are  
23 statewide, we know who our bosses are. It's the  
24 people of Florida.

25 But we need more direct expertise to help us in

1           our decision-making process and not rely just upon  
2           these people back here. And the Investment Advisory  
3           Council, they're great. They're advisory, though.  
4           They don't have any fiduciary responsibility.

5                     And I'm prepared to make -- I'm just going to  
6           make a motion, I don't know what will happen to it,  
7           but I have to be on the record as saying that I want  
8           to move that this board recommend to the Legislature  
9           that they expand the board overseeing the retirement  
10          system and the investment mandates to include at  
11          least two other people, because we have to have an  
12          odd number, I'm sure, at least two other people, one  
13          being a beneficiary and the other one being someone  
14          who has established investment or accounting  
15          experience.

16                    GOVERNOR CRIST: General?

17                    ATTORNEY GENERAL McCOLLUM: Governor. A couple  
18          of thoughts on this. First of all, I do believe  
19          that Mr. Gallagher made an excellent point, and that  
20          is that we have a structure that is producing the  
21          envy of the country among others who are in a  
22          similar situation. And anybody professionally  
23          looking at this has to recognize the end results  
24          have been comparatively really good for us compared  
25          to others. And that's been amplified today by

1 several of the people who have commented.

2 Yes, we can improve, and we are. Our structure  
3 has emphasized a strong executive director, in this  
4 case Ash Williams, somebody who is really running  
5 this professionally, and the three of us are  
6 oversight trustees, but we're not the hands-on,  
7 day-to-day type of trustees that some of the other  
8 states have as their system of governance.

9 Now, I think it is a question for the  
10 Legislature. Obviously, the State Board of  
11 Administration, the three of us are constitutional  
12 officers. We're a product of the constitution. The  
13 Legislature can't add to the State Board of  
14 Administration. They obviously could change who  
15 governs the pension funds, who governs any one of  
16 those entities or those subjects of what we called  
17 mandates earlier, any of those enterprises that come  
18 under the State Board of Administration now for the  
19 purposes that we are given by the Legislature.

20 They could of course change that and say, we're  
21 going to create a whole new structure. It could  
22 include the three of us. They could exclude the  
23 three of us. They can do whatever they want. But  
24 they couldn't change the State Board of  
25 Administration as such.

1           However, saying that, I personally think that  
2           any change in the system we have today should be  
3           done with great caution. It seems to me that there  
4           are alternatives that would accomplish the same  
5           purpose that I sense that we all would like to see,  
6           and that is getting a little bit more input into  
7           this and having people look out for it.

8           And that's why I proposed an alternative that  
9           you're aware of, I'm sure, Governor and CFO Sink.  
10          And that alternative proposal includes the expansion  
11          of our current Advisory Council by three more  
12          members, so each of us could have another appointee  
13          that might provide more diversity of thought on it.  
14          It includes the same things that I believe you agree  
15          with already about audits and other statutory  
16          authority to formalize and strengthen the ethics.

17          I would suggest, if it's appropriate, I'd offer  
18          a substitute motion, and that substitute motion  
19          would be that we send both the proposal that the CFO  
20          has made today and the proposal that I've  
21          recommended to the Legislature, without any  
22          recommendation as a body, but that we send both  
23          proposals out there for their consideration and let  
24          them deliberate on it, which is their job. And I  
25          would offer that we do that, that we send them both



1 forward, but not recommend one or the other.

2 GOVERNOR CRIST: In essence, sending a couple  
3 of options --

4 ATTORNEY GENERAL McCOLLUM: A couple of  
5 options.

6 GOVERNOR CRIST: -- to the Legislature to  
7 consider during their next session --

8 ATTORNEY GENERAL McCOLLUM: Exactly.

9 GOVERNOR CRIST: -- as to the governance  
10 policy.

11 ATTORNEY GENERAL McCOLLUM: And I have that  
12 option here in written form, as does the CFO have  
13 hers, I'm sure. We can provide that, if you want to  
14 examine them both, Governor.

15 GOVERNOR CRIST: Sure. Well, I think I've  
16 heard the sum and substance of it. And I guess,  
17 CFO, I'd ask you, it sounds like a friendly  
18 amendment to me to put both proposals forward for  
19 the Legislature to consider during their session.

20 CFO SINK: Well, Governor, I just disagree with  
21 the Attorney General's approach because we have six  
22 fantastic members of the Investment Advisory Council  
23 now. I had the opportunity to meet with them last  
24 week. There is a tremendous amount of experience  
25 there. And I don't believe that by adding or

1           expanding to nine or twelve, that we get -- we have  
2           any value added. My focus is really on the people  
3           who have the fiduciary responsibility for the  
4           oversight of the pension fund.

5           GOVERNOR CRIST: Well, we have an original  
6           motion that does not have a second. We have a  
7           substitute motion that I'm prepared to second, and  
8           have. And I guess we can now vote on the substitute  
9           motion. All in favor say aye.

10           ATTORNEY GENERAL McCOLLUM: Aye.

11           GOVERNOR CRIST: Aye. All opposed?

12           CFO SINK: No.

13           GOVERNOR CRIST: Motion carries. Thank you  
14           very much.

15           (Whereupon, the meeting was concluded at 3:00  
16           p.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA )  
COUNTY OF LEON )

I, Jo Langston, Registered Professional Reporter,  
do hereby certify that the foregoing pages 5 through 242,  
both inclusive, comprise a true and correct transcript of  
the proceeding; that said proceeding was taken by me  
stenographically and transcribed by me as it now appears;  
that I am not a relative or employee or attorney or counsel  
of the parties, or a relative or employee of such attorney  
or counsel, nor am I interested in this proceeding or its  
outcome.

IN WITNESS WHEREOF, I have hereunto set my hand  
this 29th day of December 2009.

\_\_\_\_\_  
JO LANGSTON  
Registered Professional Reporter

