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Representing:

CITIZENS PROPERTY INSURANCE CORPORATION BOARD REPORT

DEPARTMENT OF REVENUE

FINANCIAL SERVICES COMMISSION, OFFICE OF INSURANCE REGULATION

BOARD OF ADMINISTRATION, DEBT AFFORDABILITY REPORT PRESENTATION

BOARD OF ADMINISTRATION, DIVISION OF BOND FINANCE

BOARD OF TRUSTEES, INTERNAL IMPROVEMENT TRUST FUND

DEPARTMENT OF VETERANS' AFFAIRS

The above agencies came to be heard before THE FLORIDA CABINET, Honorable Governor Scott presiding, in the Cabinet Meeting Room, LL-03, The Capitol, Tallahassee, Florida, on December 6, 2011, commencing at 9:37 a.m.

Reported by:
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P R O C E E D I N G S

(Agenda items commenced at 9:37 a.m.)

GOVERNOR SCOTT: So with -- the next Cabinet meeting is Tuesday, January 18th, four days after Kristina wins, at 9:00 a.m.

The next Clemency meeting has been changed to Friday, December 16th, 2011, at 9:00 a.m.

So the first item today is the 2012 Cabinet meeting schedule. All offices have reviewed this schedule. Is there a motion to approve the proposed 2012 Cabinet and Clemency meeting schedules?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. The 2012 Cabinet and Clemency meeting schedule is approved without objection.

GOVERNOR SCOTT: Next I would like to invite Carlos Lacasa with Citizens Property Insurance to the podium to present the report of the Board. And Carlos is the chairman. Good morning.

MR. LACASA: Good morning, Governor, and members of the Financial Services Commission. It's a pleasure to see my fellow colleagues from the Florida House, CFO Atwater, it's good to see you again. Adam, it's good to see you again. Commissioner.

You know, before I get started I just want to comment that Ms. Janolo, just like the Florida Everglades, is proof that true beauty is never superficial, it's also something deep and inside.

Well, Governor, in the last Cabinet meeting you tasked the Board of Citizens to come to the Cabinet with recommendations on how we can reduce the size, the policy count of the company. We all recognize the rapid rate of growth that Citizens has seen in the last few years, and I'm not -- and during our Board meeting on November 14th, we came up with 31 recommendations for coverage changes that we will present to you today, along with about 15 other ideas that will require much more time than we've had since then to develop and refine. I'm pleased to provide to you that report today on the specific goals and action items we've identified.

In the broadest terms, our mission is to support Florida's economy by contributing to the strength and vitality of our housing industry with a residual property insurance product that does not impair the ability of private carriers to do business in our state, but at the same time we have to build and maintain adequate claims-paying reserves to minimize assessments and hasten post-economic recov -- post-catastrophe recovery.

Predictably the dynamic between these two competing interests has always been polarizing and has been complicated by a variety of factors that involve broader macroeconomic and political issues, the most notable of which is affordability.

Now, we serve at the pleasure of our appointing officers: The Governor, the CFO, the Speaker of the House, and the Cabinet --

and the President of the Florida Senate. In that sense we are there to execute policy imperatives that our presiding officers send us and the legislature. To that extent we don't delve in policy, we delve in execution and implementation.

But we're grateful -- I speak on behalf of the Board and say that we're grateful for the opportunity to be at the table in finding these solutions, because historically these solutions have always come from the legislature and been handed down to us.

The report you have before you contains the Board's action plan to implement changes that do not require legislation. This was the specific challenge in the last Cabinet meeting.

But I will say that we would -- notwithstanding that, these solutions are only going to cut an inch out of the problem. The problem will require significant statutory changes which we'll get into later in the report.

We begin with a pro forma estimate of what Citizens might look like if the only properties covered, we covered were those for which the private market has no appetite. I will also share with you the coverage changes that the Board has directed staff to expedite to ensure that Citizens is providing only the necessary coverages required under Florida law.

Next we intend to pursue risk transference, depopulation, additional inspection activities, and agent-related reforms to ensure we're doing everything in our power to reduce our policy count. Finally I'll review those top five statutory changes that we believe are essential to have a true impact in this effort.

As you'll see from slide 1, we did a -- we modeled what Citizens might look like if the private market was a healthy one. Essentially we would have coastal properties, older homes, older mobile homes, a portion of policies in sinkhole-prone areas, and older condominium associations. Our total policy count today is about 1.5 million policies with total exposure of a half a trillion dollars.

In a perfect market --

GOVERNOR SCOTT: Say that number again.

How much --

MR. LACASA: Half a trillion dollars, sir. In a perfect market we would have 600 -- we estimate based on our assumptions -- about 665,000 less policies than we have today with the remaining 794,000 policies in Citizens, again in these five categories with a total exposure of $313 billion.

The assumptions that we made were that 15 percent of the coastal personal residential multiperil policies would return to the private market, that Citizens would keep mobile homes that are more than 10 years old, that 60 percent of sinkhole-prone policies would return to the private market assuming that the changes that were made in Senate Bill 408 are successful, and with respect to older condominiums that 50 percent of the commercial lines account --

GOVERNOR SCOTT: Hey, Carlos, can you --

MR. LACASA: -- would return to the private market.

GOVERNOR SCOTT: -- go back to the prior slide for a second? Just to put that in perspective it's -- and you might know -- not know the exact number, but -- so it's over $500 billion worth of exposure, and how much cash is on hand?

MR. LACASA: Approximately $5 and a half billion in reserves; and liquidity, 12 to $13 billion.

GOVERNOR SCOTT: That's assuming that we can borrow money.

MR. LACASA: The liquidity is borrowed money.

GOVERNOR SCOTT: That's assuming we can borrow money at the time that a catastrophe -- a disaster happens.

MR. LACASA: The company always is concerned about the ability to borrow on a post-cat basis so we do pre-event liquidity bonds and that gives us the liquidity we have today.

GOVERNOR SCOTT: So a total of about $11 billion.

MR. LACASA: Thereabouts.

GOVERNOR SCOTT: And over $500 billion worth of risk.

MR. LACASA: Of risk. But the likelihood of all $500 million -- billion dollars coming due after a cat event is almost zero. The true measure of our risk is a probable maximum loss, and you can take 25, 50, a hundred years to model. Those are the true assumptions we have to work with. I've often wondered if there's a correlation between total exposure and the probable maximum loss, but to model that is probably a very complex exercise.

GOVERNOR SCOTT: Okay.

MR. LACASA: So if we could go to slide 2. Slides 2 and 3 contain the proposals for reduc -- reducing existing coverages that we have put for approval to the Board on December 13th and 14th. These coverage reductions will reduce our total exposure. But again without statutory changes, this is -- this is a very insignificant -- it's going to have a very insignificant impact on our exposure.

Let me highlight the five that we think will be the most prominent of them. Reducing coverage B from 10 percent -- of coverage A to two percent of coverage A. Coverage B is for other structures such as detached garages, cabanas, pool houses, gazebos, and other nonprimary structures.

Reducing coverage C from its standard coverage of 50 percent of coverage A to 25 percent of coverage A. Coverage C is for personal contents.

The elimination of builder's risk policies. As the insurer of last resort, Citizens should not be called upon to insure contractors doing construction. We have about 500 of those in the personal lines account, another 350 in the commercial account.

We could reduce the coverage A personal residential limit in the coastal account from 2 million to $1 million. The total number of homes over one million in the coastal account affected is 7600 policies. The coverage change would by far have the greatest impact on exposure reduction from the proposed initiatives.

And while this last one is not related to cat exposure, the reduction of personal liability coverage from 300,000 to $100,000 will result in, from an exposure perspective, a significant amount of reduction. But again exposure is not the real measure, probable maximum loss is the real measure.

Slide 4 reflects additional coverage reductions, as I said earlier, in the commercial lines policies. While it has not yet been quantified, the most significant initiative is to implement a coverage limit on commercial residential properties. This means that the condo associations and apartment complexes would be ineligible for coverage from Citizens if the total value of association property exceeds an established amount. We're evaluating the marketplace to determine the level at which the private market could absorb these policies.

Consistent with the recommendations for personal lines, as I said before, the second major recommendation in this area is to develop an action plan for the discontinuation of builder's risk. Again 350 commercial risk policies in force. I confess that those numbers mean nothing when you think about 1.5 million policies almost and which is why I say the statutory changes are so essential.

If we could go to slide 5. In addition to the significant coverage changes proposed and underway, the Citizens Board has identified additional items for further consideration with the goal of transferring risk, reducing exposure, and reducing transactional costs. The transfer of risk to the private markets can reduce assessments for Floridians significantly.

For 2011 we transferred 575 million of risk to the private markets with the purchase of reinsurance. We recognize the importance of being a consistent purchaser of reinsurance from the private markets in order to maintain stability and -- the stability of the reinsurance capacity.

In our proposed budget for 2012 the Board projects an increase of risk transfer to the private markets to $1 billion. To be honest with you I'd like to buy as much as I can get. But this is a good starting point.

In addition the Board has directed staff to evaluate additional opportunities to include capital markets in our risk transfer programs. This is where we would explore for the first time what has come to be known as cat bonds, catastrophe bonds.

To enhance our efforts to depopulate business from Citizens, we're creating a more robust depopulation process, and very importantly we're exploring privatization options for Citizens business. I would like to announce that -- here today that I'm going to reconvene the depopulation committee of Citizens which has been inactive for a couple of years now, and charge that depopulation committee to look for ways to enhance and improve the way we do depop.

One of the things I'm looking forward to doing is inviting key leaders from the domestic carriers to participate as advisers to the depop committee, and in that interaction come up with better ways to do these kinds of transactions.

Next we have to talk about agents. For the first -- to enhance -- I'm sorry. For the first nine months of this year Citizens paid $200 million in agent commissions. This is a significant portion of our operating expenses. Agent commissions will be reviewed by the Board in the next few months to determine if commissions need to be reduced or replaced by a flat fee.

I have tremendous respect for the agents and I look forward to working closely with them, their association, their representatives to come to terms on what the appropriate commission rate should be for this kind of work. What we don't want to do is have misaligned incentives where Citizens grows as a result of our commission structure.

GOVERNOR SCOTT: So is there an existing incentive to sell Citizens?

MR. LACASA: Aye?

GOVERNOR SCOTT: Is there an existing incentive for agents to sell Citizens?

MR. LACASA: In my opinion there is. In my personal opinion there is. There are carriers who don't underwrite the catastrophe side of the policy. They'll underwrite the cars, they'll underwrite the boats, but they'll transfer the risk of the property to us and yet they collect a commission.

With that kind of a business model, I can move my capital into other markets where it's much better deployed, and still make 10 percent, nine percent here in Florida on cat. That makes no sense.

GOVERNOR SCOTT: So do we -- so we continue to take on new buildings, new construction?

MR. LACASA: We're looking at ways to -- I wish I had a glass of water. The problem with that, Governor, is that there may not be any other alternatives, there may not be any other companies offering those kinds of coverage.

We have an A rate structure for certain properties and those rates approach actuarial soundness a lot more closely than rates that are currently constrained under the 10-percent glide path. But until there's a robust market as long as we're the residual carrier, the carrier of last resort, what choice is there?

GOVERNOR SCOTT: So -- so what we're saying is we are in -- we are deciding that we want people to build in the areas where there is significant risk.

MR. LACASA: It would seem that our growth management practices have been just that, Governor.

GOVERNOR SCOTT: Well, why would we do that? Why is that -- why is that a policy of the state that we want people to build new homes in places where there's substantial risk that they can't get insurance?

MR. LACASA: Governor, I've been in politics a long time, and the answer to that question I think is a political one. I think that -- that you have a constant tug between the conservation of coastal lands, the construction -- the proper construction of property given our climate and our environmental conditions here in Florida.

And at the end of the day the legislature decides and local communities decide what their growth management practices are going to be. The legislature has created a residual market for us to insure and demanded that we provide that coverage.

GOVERNOR SCOTT: So right now Citizens is obligated to cover new construction in places where there's no market.

MR. LACASA: We have some leverage to refuse coverage, and my staff is here to get into that in more detail with more technical details. But my understanding is that we have to cover these properties. And to the extent we don't cover them, chances are that there will be a reaction.

GOVERNOR SCOTT: The -- and are they at rates that -- so on new construction, are they at rates that the private market should do it?

MR. LACASA: We are constrained to charge the rates that the Office of Insurance Regulation allows us --

GOVERNOR SCOTT: For new con --

MR. LACASA: -- to charge.

GOVERNOR SCOTT: Okay. So for new construction we are -- we're underpricing our product.

MR. LACASA: In my opinion our product is underpriced. We're under a glide path, we can only raise our rates --

GOVERNOR SCOTT: That's for new construction? Is that the way it works? Why would we do that? What would be -- I mean, what's the logic of doing that?

MR. LACASA: You're asking for a policy opinion on my part. I'll be happy to give one: I think it's politics.

GOVERNOR SCOTT: All right. Thank you.

MR. LACASA: Certainly, sir. Slide 6,

we're currently reviewing additional items that will transfer risk, reduce exposure, and reduce transactional costs. We're looking at what resources would be necessary to conduct evaluation of Citizens, as was requested previously, to position in a way to maximize opportunities to transition some of our business back to the private -- to private investors.

Citizens staff will explore potential methods of evaluating wind mitigation credits as well as perform a cost-benefit analysis of what the results of that wind mitigation study would be. The wind mitigation credits issue is a huge one for us. If we have -- we have $3 billion approximately in direct premium today but we're leaving one billion of potential revenue on the table as a result of wind mitigation credits.

In 2009 we implemented an inspection program to make sure that the credits that were being applied for and granted under the statute were worthy, were meritorious. And we have found since 2009, since we've gone back and inspected those properties, that many applications had to be turned down and new premium was captured.

The return investment of this program so far has been about 300 percent. We're looking forward to a very successful reinspection program.

We're also going to implement an inspection program on new policies to verify that what's being covered is actually sound and that we're actually insuring to value. These measures are expensive, they are -- involve great logistics, thousands of inspectors, a lot of data processing, but it's essential to a proper underwriting process. In other words, we're getting better at what we do everyday.

And there may be an opportunity to expand A rates to other risks. Staff is exploring the possibility of taking this action. It could serve to more timely charge -- it could serve to more timely charge actuarially sound rates and reduce the competitive nature of Citizens products not currently A rated.

The final slide is what we believe are the top five statutory changes that would contribute to us being less competitive with the private market and help us to reduce our total policy count. The first three are rate related: Increase the current statutory glide path on rates to a number greater than 10 percent, require that Citizens rates be noncompetitive, allow Citizens to pass through the cost of risk transfer outside of the glide path. That alone would contribute greatly to our ability to get back to actuarially sound rates.

Revise the statutory eligibility requirements such as the 15-percent requirement. If you can't find a policy that's 15 percent or less from our rates, then you can come to Citizens and remain permanently eligible for Citizens coverage.

And then remove statutory barriers to depopulation such as the opt-out provision consumer choice. These are all very, very controversial measures. Every one of them has someone on the receiving end. Citizens is here to serve and to do the right thing for Florida's market. These are measures that we're going to take up, we're willing and ready to take the heat for them, and we're ready and willing to take -- to work closely with you and the Florida Legislature to make this balance correct, the balance between the private market and the residual market.

GOVERNOR SCOTT: You know what doesn't make sense -- I mean, maybe I just don't understand the rationale for it. But when we have the number of homes we have in foreclosure in the state, why would we be worried about covering new construction?

MR. LACASA: Governor, I think new construction, just like the sale and resale of housing in general, is a huge contributor to our economy. You know, we want to create jobs, you're determined to create jobs in the state, and I applaud you for that. If you don't have a robust housing market, there are very few other industries in the state that have the impact on jobs that housing does.

GOVERNOR SCOTT: What percentage of policyholders realize what the assessment is going to be on their policy?

MR. LACASA: I don't know. But I do know that measures have been taken to make sure that they understand the risk of assessment on their policies when they -- when they -- they sign up. In fact, I think we have new language -- Christina, if you could come up and explain it -- we have new language that will be going out with -- that requires the signature of the policyholder acknowledging that risk.

GOVERNOR SCOTT: Good morning.

MR. LACASA: If you want to go ahead and read the language.

MS. ASHBURN: Sure. Governor and members of the Financial Services Commission, I'm Christine Ashburn, the Director of Legislative and External Affairs at Citizens.

Senate Bill 408 requires that Citizens beginning January 1st of 2012 require that all new applicants sign a single page acknowledgement, it's a separate signature page, as part of the application process acknowledging, based on the statutory requirement, they understand -- excuse me -- that they are subject to assessments both statutory and otherwise that could be added at a later time. And that will begin in -- January 1 for all new applicants and all renewal policies will receive a copy of this acknowledgement.

We were asked by the CFO when we were here in June to explore options to include assessment scenarios, and we have to comply -- in order to comply with the law, I needed to have this filed and approved as part of the application by the office, and so we've gotten this filed without those scenarios but we intend to file again here shortly a revised version of this document that will include those true-life scenarios that show what assessments would look like if you choose the Citizens policy and what assessments would look like if you chose to go elsewhere.

GOVERNOR SCOTT: And when will that be filed?

MS. ASHBURN: My understanding is we're trying -- we're finalizing the assessment scenarios to show real storm scenarios similar to what we showed you when Scott Wallace was here last month, and we are hoping to make that filing at the beginning of the first quarter, so in January, very soon. We're just finalizing and making sure all of our math is correct and programming the system.

GOVERNOR SCOTT: And are you going to -- are you going to -- can you do a survey to find out how many people really understand it? I mean, I think it makes sense what you're doing, but I'm more concerned that people actually understand what they're signing, not somebody just puts something in front of them and says sign this.

MS. ASHBURN: I understand your concern, and I absolutely do believe that we could do a survey of our policyholders to find out what level of understanding they truly have about the assessment potential. I think there are a variety of campaigns that we can embark on for public information, PSAs, editorial board visits. I think there's a variety of resources that we can access through the media and others to ensure that our policyholders are getting the message.

I think one other thing we probably should look at doing is creating a pamphlet that our agents can download and print for their consumers when they're making those choices at the point of application as opposed to when they're signing the actual application when they're looking at quotes if there are separate quotes for different carriers.

GOVERNOR SCOTT: So you can make sense -- as an example, like when we last -- when we had this presentation before, we were talking about what the assessment would be. So should somebody be buying a policy if they don't have the cash to pay the assessment?

MR. LACASA: Let me take that one. Governor, I don't mean to make light -- I apologize, I don't mean to make light of your question.

As our CEO likes to say, Florida is a thumb in the ocean, 1800 miles or so of coastline, we are 16 percent of the residual market nationally, we are unique because of our geography.

The best way so far that policymakers in Florida have come up with to finance reconstruction after a cat event is through the residual market process, especially when private capital is not interested, has no appetite for this kind of coverage.

The idea of assessing after an event actually balances, from a cash-flow perspective, a person's ability to pay for insurance. If you charge an actuarially sound rate routinely before an event -- and say the event doesn't happen for 20 years -- how much have you taken out of the economy in very high premium?

The structure we have today allows for a post-event capitalization if you will of that risk. You pay a little bit up front in a rate, and if you're hit with a storm -- hopefully you aren't -- but if you're hit, you pay on the assessment, that's the higher rate. It's a balance that's been struck.

If the mark -- if the model -- so far the model has worked, it spreads the risk out. Is it controversial; absolutely it's controversial. Because a person who is not insured by Citizens is in a way subsidizing that rate. Absolutely. This has been the fire ever since Citizens and the JUA before it were created.

We can always explore new ways to capitalize this risk. I'm looking forward to working with those states, for example, to do it. Is it a long shot? Probably. But we're thinking out of the box. This Board is committed to thinking outside the box.

In fact, if you look back, never have we had such a talented Board, so much diverse talent on this Board. So I'm very, very confident. I've only been chair for two months and already you're seeing before you that kind of initiative.

GOVERNOR SCOTT: My concern is that -- I mean, I'd make the same argument for life insurance, even better for life insurance because I didn't have to worry about it until I pass away, right? So -- I'd make the same argument for all other's insurance and we wouldn't do it there, so -- as far as the assessment. But my concern is that people don't have the money. They really don't understand the assessment.

So what I'd ask is if you'd come back -- if your team will come back and tell us how we're going to make sure that people understand the assessment. Because I think that -- I think more people understand the assessment, that they don't have the money, they wouldn't do this. So they would make a better economic decision. So, but maybe I'm wrong.

But I would like to understand if our goal is to make sure -- which I think it should be -- that people understand the assessment, I'd like to have a measurement to know whether they do or not.

MR. LACASA: Absolutely. We'll --

GOVERNOR SCOTT: Because I don't think signing -- I think it's positive that we're -- they're signing a form, but -- I mean, we've all bought houses and there's all these forms that they tell us to sign, they say it doesn't matter. So that's my concern.

MR. LACASA: I love surveying. We're going to conduct a survey now of domestic carriers to find out what they regard as the impediments to depopulation and we'll start from there so...

GOVERNOR SCOTT: And, Carlos, what's the process that you're going to go through, that your team is going to go through to try to get legislation to reduce the exposure to Citizens?

MR. LACASA: That's a great question, Governor. Thank you. Let me take you back a little bit to 2006-2007 to show you what kind of a contribution Citizens can make.

In 2006 you had the beginnings of a perfect storm in the Florida real estate market: The housing costs were soaring; the taxes associated with those valuations were soaring; and on the heels of the '04-'05 hurricane season with eight storms, actuarial indications for cat insurance soared. A perfect storm in the real estate market. It's a miracle the bubble didn't burst sooner than 2008.

At that time many of us within the Citizens staff and the Board felt that we should contribute some ideas to the legislature to figure out how we can make insurance at least more -- at least the insurance more affordable to help mitigate against a housing collapse. And our recommendations were taken by the legislature.

They went much, much further in 2007 than we expected them to go. We did not recommend a rate freeze, we did not recommend the kind of impediments to depopulation that you see today before you. We recommended simple measures that would help Citizens recover surplus quickly, build up surplus quickly. We were down to very little surplus at that time, and to make insurance more affordable to mitigate against these other forces that were working against the housing industry.

It worked. At that time Citizens expanded, and I believe Citizens -- like the federal reserve -- as we talked about yesterday in our meeting -- the federal reserve enters the market or exits the market depending on economic conditions, we should enter and exit the market depending on the condition of the private insurance market.

I look forward to having our Board's expertise and our staff's expertise contribute to the legislative process. We will propose to the legislature, we'll find a sponsor in the House, we'll find a sponsor in the Senate, we'll propose to them specific measures such as the ones you're seeing here. We'll even give them the language. And we'll push it, hopefully with your help.

GOVERNOR SCOTT: Well, you know, my concern is $500-billion worth of coverage, you know, I hope we don't have hurricanes. We live in a state that does. $11-million worth of coverage, that's a heck of a lot of risk.

MR. LACASA: Yes, it is, sir.

GOVERNOR SCOTT: And as we went through last time, I don't think most Floridians are sitting on a lot of cash to pay assessments. So if they can't pay the assessment, Citizens cancels their policy, and then their mortgage goes into default.

MR. LACASA: That's right, that's exactly right.

GOVERNOR SCOTT: That's not a very -- it doesn't seem like the responsible way to finance insurance, so we've got to fix this. Because -- you know, if we have a hurricane, there's going to be a lot of families -- and like everything else, it hurts the poorest family the most. So --

MR. LACASA: I couldn't agree with you more, sir.

GOVERNOR SCOTT: But I'm very appreciative of your focus on this, I'm very appreciative of all the ideas you've come up with. I would hope that the Office of Insurance Regulation will take all the things you've filed, my hope is that they would get back before Christmas so we can get this -- get these changes made so we can start having the biggest impact we can to reduce our exposure.

MR. LACASA: Thank you, sir.

GOVERNOR SCOTT: You guys have anything else you'd like to add? All right. Thank you very much.

And, Carlos, let me just take -- Carlos, let me just -- you know, this is a -- I don't get -- I don't think you get paid a lot doing this job, do you? So I just want to make sure -- I just want to thank you -- and I think every one of us would say the same thing -- to go through and try to make the changes to put our state in the right position, it takes a lot of individuals like you that are willing to show up, willing to make tough choices, willing to go put your time and effort into this, and I'm -- and all of us I think are very appreciative of what you're doing.

MR. LACASA: Thank you, Governor, it's a privilege to serve.

GOVERNOR SCOTT: Thank you.

GOVERNOR SCOTT: Okay. Next is the Department of Revenue agenda presented by Lisa Vickers.

MS. VICKERS: Good morning.

GOVERNOR SCOTT: Good morning.

MS. VICKERS: We have a very short agenda this morning. Item 1, respectfully request approval of the minutes from the August 16th and September 20th meetings.

GOVERNOR SCOTT: Is there a motion to approve?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded, Item 1 is approved without objection.

MS. VICKERS: Item 2, we respectfully request adoption and approval to file and certify with the Secretary of State several rule amendments to the following chapters:

To Chapter 12C-3, amendments to extend the provisions of the estate tax filing requirement. This is a statutory change that extends the requirement to not file a return to December 31st, 2012.

Next, statutory changes to calculate communications services tax. This changes the rounding requirements that apply to communications services tax, and are amendments 12A-19.

Amendments to 12B-5 related to the fuel tax licensing requirements. This clarifies provisions regarding refund procedures.

Amendments to Chapter 12-29. These will incorporate statutory changes to Florida Tax -- Florida Tax Credit Scholarship Program which eliminates certain credit limitations and allows for the extension and carryforward increase from three to five years for those credits.

And amendments to Chapter 12-22 to clarify the confidentiality requirements related to the RISE Program.

And finally, our annual update to numerous tax returns and forms to remove obsolete provisions and to clarify provisions. We request approval of these amendments.

GOVERNOR SCOTT: Is there a motion to approve Item 2?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded, Item 2 is approved without objection.

MS. VICKERS: Thank you.

GOVERNOR SCOTT: Thank you very much, Lisa.

GOVERNOR SCOTT: Next is the Office of Insurance Regulation agenda presented by Kevin McCarty. Good morning, Kevin.

MR. McCARTY: Good morning, Governor, members of the Commission. I have three rules for your consideration today. The first rule is request for publication of repeal of the arbitration rule. The legislature had authorized the office to establish arbitration rules but they have subsequently eliminated that authority. This simply removes those from the code.

GOVERNOR SCOTT: Is there a motion to approve Item 1?

CFO ATWATER: So move.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded, show Item 1 approved without objection.

MR. McCARTY: The next agenda item is request for approval of publication of amendments to our auto manufacturing warranty rules. The legislature enacted a streamlined process to eliminate some of the requirements for issuing a certificate, which means large automobile companies who own their own warranty companies would have a streamlined process for having a license in Florida. This incorporates those changes in our process.

GOVERNOR SCOTT: Okay. Is there a motion to approve Item 2?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded, Item 2 is approved without objection.

MR. McCARTY: And the last item is a request for final adoption as to proposed changes to our uniform mitigation verification inspection form. And just by way of contents, the legislature enacted provisions for providing consumers with discounts and credits if they provided certain mitigations to their homes: Reinforce their roofs, put in new windows, put in shutters.

And an unfortunate consequence of that was a proliferation of fraud and abuse. And we had tens of thousands of fraudulent claims that were put in for mitigations and discounts. And in the process, the legislature changed that, modified it, made some technical corrections. In the process of four public hearings, we took testimony in the ways that we can button down so that we ensure the dual public purpose: One is to ensure consumers are getting the benefit of their credits by making sure that insurance companies are getting the proper premium for their policyholders.

ATTORNEY GENERAL BONDI: And, Governor, this also adds criminal penalties to protect the consumers which is very important.

MR. McCARTY: Yes. And the form was revised to incorporate the new penalties for fraud and abuse.

GOVERNOR SCOTT: All right. Is there a motion to approve Item 3?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded, Item 3 is approved without objection. Anything else?

MR. McCARTY: Thank you, Governor.

GOVERNOR SCOTT: Thank you very much. I know you're just as focused as we are in making sure we get Citizens in the right position to where it doesn't cause us significant financial problems --

MR. McCARTY: We look --

GOVERNOR SCOTT: -- so thank you very much.

MR. McCARTY: We look forward to working with the chairman and the members of the Board in looking at ways for us to reduce the exposure to policyholders.

GOVERNOR SCOTT: Okay. Thanks, Kevin.

MR. McCARTY: Thank you.

GOVERNOR SCOTT: Have a good day.

GOVERNOR SCOTT: Okay. The next is a presentation regarding the debt affordability report presented by Ben Watkins. Good morning, Ben.

MR. WATKINS: Good morning, Governor, Cabinet members.

So, good morning. As you all are aware, annually we prepare a debt affordability report. And we -- the report is prepared and delivered to the legislature by December 15th of each year. And we plan to complete that report this week and deliver it to the legislative leadership so the chairs of the respective appropriations committee, as well as the Speaker and the Senate President.

The whole purpose of the debt affordability analysis is to provide a framework for measuring, monitoring, and mana -- and managing the state's debt. It provides the legislature with the information that they need to evaluate the long-term financial impact of borrowing decisions.

So the debt affordability analysis is simply an analytical approach to evaluate our debt position, and it integrates the executive branch function of implementing the borrowing plans which are formulated by the legislature through the appropriations act. So this is the mechanism that institutionally has been used to connect the dots between what this Board does in implementing financings and what the legislature does in terms of deciding what we borrow for and how much we borrow on an annual basis.

Most fundamentally it is a financial model used to calculate future bonding capacity based on two variables: The first is our debt burden, and the debt burden as measured by what are the annual payments required on our outstanding debt; and then the second variable is the revenues that we have available to make those payments with.

So those are the two fundamental inputs into the benchmark debt ratio, which is the measure and the policy guidelines established by the legislature for purposes of managing our debt position with a six-percent target and a seven-percent cap.

And it's a soft limitation in the sense that it can be overridden by the legislature with determinations. If you're going to exceed this six-percent target, the legislature has to make a determination that the borrowing is nevertheless in the best interest of the state. And if the borrowings are going to exceed seven percent that are included in the appropriations act, then there has to be a determination that it's necessary to meet a critical state emergency.

So this is simply an outline of the debt affordability analysis and the process for preparing the analysis, and it involves first calculating the amount of direct debt that the state has outstanding; identifying, calculating, quantifying the amount of indirect debt that we have outstanding; we evaluate how much total debt has increased and how much our annual debt service payments have increased because of increasing debt; we update the projected benchmark debt ratio of annual debt service to revenues available to pay based on the cur -- most current information we have.

And that would be -- in this case it's the revenue forecast determined by the Revenue Estimating Conference, and it's also the expected debt issuance based on the existing borrowing programs that are currently in place and that have normally been used by the legislature to fund infrastructure.

Then we evaluate this projected benchmark debt ratio, the projection against the six-percent target and the seven-percent cap, to calculate how much future bonding capacity may be available within the confines of those policy guidelines.

Also, not part of the presentation today but included in the report are other debt ratios. It's debt as a percentage -- debt per capita, which is debt per person, debt as a percentage of personal income; and then those metrics compared to both national averages as well as our peer group which is the 10 most populist states.

So that's a deeper dive and a little bit in the weeds relative to what we wanted to talk about today, but that kind of information is included in the report.

And then lastly we evaluate the reserve levels and we review the credit ratings because those are also critically important to the financial management of the state.

So this graphic simply illustrates the composition of total direct debt outstanding as of June 30, 2011. And this is direct debt of the state. So this is debt that's payable directly from revenues that are budgeted within the appropriations act, and it shows the investment in the various programmatic areas: Education, transportation, and environmental protection.

So we have $27.7 billion in debt outstanding as of the end of the last fiscal year. About 16 billion or 57 percent is for education infrastructure. So that's school construction K through 12 as well as universities; transportation which is seven billion or about 26 percent of the debt outstanding; followed by environmental protection with three billion or about 10 percent of the debt outstanding.

Then we have also included information on indirect debt. So relevant to the point that was made to Citizens and cat fund, that's the reason this indirect debt is in here.

Contrasting direct debt with indirect

debt. So direct debt is stuff that's on our balance sheet that we issue, we manage, we sell, and we pay directly out of the budget.

But then there's also this other category of debt that's related to the state in some way because we either created an entity or it's a -- or a state agency, but it's not debt that's secured by traditional state revenues, that being state revenues that flow through the state's budget and are appropriated on an annual basis.

GOVERNOR SCOTT: Do you think buyers --

MR. WATKINS: And that's what we mean by indirect debt.

GOVERNOR SCOTT: Do you think -- do you think the buyers believe that we're responsible?

MR. WATKINS: There is a notion that the state would in some circumstances, may in some circumstances come to the aid of these other entities. It's not a full faith and credit obligation, it's more wink and a nod, Governor, and I don't think they're directly relying on it, but rest assured if we -- if there were ever a set of circumstances, God forbid, where one of these entities defaulted, they would show up on the legislature's doorstep asking to be bailed out.

COMMISSIONER PUTNAM: Given that moral hazard, where would municipal debt fall in this category? It's not on the chart but under that same premise --

MR. WATKINS: Right.

COMMISSIONER PUTNAM: -- if a major municipality also defaulted, would there not be that same implicit expectation?

MR. WATKINS: Same moral hazard, same slippery slope. There is a framework in place that it -- at the state level in order to manage local governments in financial distress, and so there are interim measures that can be taken in order to avoid a meltdown.

The local governments are a little bit different than these entities in that they have their own elected boards, they usually have their own tax revenue streams, or their own enterprise operations. And so there's not a -- probably not as great an expectation, but clearly political pressure would be brought to bear if any major city, county, school district in the state were to default on its debt.

COMMISSIONER PUTNAM: Are there entities that would be on a red flag short list that you're monitoring of being in some level of financial distress that's worthy of extra attention?

MR. WATKINS: You know, it's not something that's not part of our core function so all I know is sort of what I hear. The only set of circumstances -- and actually there's a process for the auditor general to -- with a set of criteria that's established statutorily deficits in -- deficit balances, fund balances at the end of the year, things like that, that they create a list of local governments that are in potential financial distress that then gets reviewed, and so there's a process for that.

And I'm not aware of any specific set of circumstances that -- the only time -- and this is going way back and I'm dating myself now, I'm embarrassed -- there was a Financial Oversight Board established for the City of Miami some 12, 15 years ago where the Financial Oversight Board actually is appointed by the

Governor and takes control of the finances of a local government should it, God forbid, deteriorate to such an extent that there's not a political willingness to take the bull by the horns and address the problems that they had.

But that's only happened once and I'm not really aware of any acute issues in Florida away from, for example, the community development districts where a lot of those kinds of entities that are authorized under state law have an issue -- are in financial distress and have an issue with their debt.

But clearly in that context the investors were solely relying on the land in the development to get repaid. And that hasn't spilled over to, you know, a cry for the state needs to provide financial assistance in that context.

COMMISSIONER PUTNAM: Where would a hospital district fall into that?

MR. WATKINS: You know, they come in all different shapes, sizes, and colors and so it's hard to generalize, but it would --

COMMISSIONER PUTNAM: There's some pretty big ones.

MR. WATKINS: There are pretty big ones. And they're generally considered local governments, and they're generally supported by a local property tax dedication. And they have their own revenue-generating capability through providing health care services.

And so that's a pretty discrete component of debt that investors understand -- you know, I'm buying this based on the viability of this business model and this institution. And -- but that doesn't prevent, should they experience financial difficulties, then coming to the legislature and saying, we need help, we need help, we need help.

COMMISSIONER PUTNAM: Thank you.

GOVERNOR SCOTT: Do -- is there any -- does anyone come to you because -- I don't believe anybody at the state level believes we're responsible for taxing, hospital taxing districts, responsible for this indirect debt. Do you get asked?

MR. WATKINS: No, sir.

GOVERNOR SCOTT: Okay.

MR. WATKINS: Well, we've -- one of the things that we try to do -- and I'm jumping ahead of myself -- but was to wall off Citizens and cat fund relative to the state's credit because my interest is in protecting the state's credit, but I have an interest in the state overall, and that worked for a while until the exposure was written to levels that couldn't be ignored, and the contingent liability with respect to access to credit and what that means for the state.

And now the rating agencies have started connecting the dot and say, the state's rating could be affected by the costs associated with catastrophic events and hurricane losses. So that means both the economic impact as well as the assessments that are in place and the contingent liability that's represented by these special-purpose insurance entities that are really in effect off balance sheet financing but represent a potential burden on the citizens and taxpayers within the state.

GOVERNOR SCOTT: And they realize that our general revenue's $23 billion and there's no way we could backstop the cat fund, backstop Citizens, backstop this indirect debt --

MR. WATKINS: Right.

GOVERNOR SCOTT: -- I mean, there would be no money for education, Medicaid, anything.

MR. WATKINS: Right. I think there's a general understanding that that's the case but it still represents uncertainties, and investors hate uncertainty. And it would relative to the magnitude of the liability, relative to the resources we have in the overall state budget, it's a larger and larger component of the state's overall liability profile.

GOVERNOR SCOTT: So if a municipality goes under, defaults on their debt, what impact do you think it would have on the state's credit rating?

MR. WATKINS: I don't think it impacts directly the state's credit rating. It's more a perception in the marketplace and how investors react, and what is the state's responsibility.

And we unlike -- we, like a lot of other states, have a framework in place to hopefully prevent that from happening. And normally defaults are not for what we call general governmental debt but are rather conduit issuers which is simply a corporate borrower cloaked in a muni wrapper that's borrowing for industrial development bonds or some other venture that is --

GOVERNOR SCOTT: A bridge.

MR. WATKINS: A bridge. Well, that one is a little close to home, Governor. So there is -- I don't know if it -- think it directly affects the state's credit rating, but in terms of -- if it's an extensive problem, it affects the perception of investors in the marketplace and the appetite for Florida paper, generally. So not a direct impact but not a good thing.

GOVERNOR SCOTT: But, you know, if the municipalities are struggling right now there's a -- have their credit ratings -- I mean, have their costs of borrowing skyrocketed?

MR. WATKINS: No, sir. Actually in the municipal market the credit conditions have been very good. Lack of supply, low interest rates, and that's -- you know, our primary focus has been on refunding.

So we haven't seen significant credit deterioration at the local level. There is budgetary pressure to be sure, but generally the debt is very well secured. And so the bonds are going to get paid. That doesn't mean that the local governments aren't going to have to suffer pain and make difficult decisions on how to allocate resources. That for sure will be the case.

But in terms of a systemic issue or a massive meltdown, I just don't see it, Governor, and I don't subscribe to that theory.

GOVERNOR SCOTT: Okay.

COMMISSIONER PUTNAM: A quick follow up, Governor. And this is partially for you I guess and partially would be for Kevin. But the -- when you go to the markets on the insurance side, is there a certification that the state's charging actuarially sound rates?

MR. WATKINS: None that I'm aware of. Not on the -- not on the cat fund. I'm much more familiar with cat fund having administered and executed some of their post-event financings, but there's no certification.

Now, there's a statutory requirement that the reinsurance a cat fund provides is done on an actuarially sound basis and I know they do a lot of work to establish their rates. I can't make that same representation with respect to Citizens. I'm not nearly as familiar with that process.

COMMISSIONER PUTNAM: Right.

MR. WATKINS: So this is indirect debt and, you know, I've made the points I wanted to make there relative to it becoming an increasingly important part of the state's overall liability profile and the impact that hurricanes could have and the potential impact on ratings relative to that. So I'm going to --

GOVERNOR SCOTT: Excuse me.

MR. WATKINS: Yes, sir.

GOVERNOR SCOTT: Excuse me. Is there anything else we should do to make sure that bondholders of indirect debt or other debt realize we are not ever intending to be on the hook for any of this?

MR. WATKINS: Governor, I think they're sophisticated enough to understand -- they understand what they're buying, they understand what they're relying on in terms of the security and the pledged revenue, and they get the game. And it is primarily large institutional holders and not so much retail investors.

And the disclosure that I've seen has been very good and I think the understanding is there. So I don't think -- I can't think of anything that I would do to reinforce that notion --

ATTORNEY GENERAL BONDI: You said the disclosure is there, in writing?

MR. WATKINS: Yes, ma'am. So the look at the overall -- you know, how we've invested, or how the proceeds of debt has been used, and how it's been spent, you know, debt because of its very nature, it's important to get a longer term perspective to evaluate how it changes over time.

So this graphic is to illustrate, give a different perspective, a longer term perspective and a look at how debt outstanding at the end of each fiscal year has changed over the last 10 years.

And what we see is that debt has grown by approximately $10 billion over the last 10 years from 18.3 billion in 2001 to 27.7 billion in 2011. And I'm talking about direct debt on this slide. And if you do the math, that's about a billion dollars a year in average annual increase in the amount of debt outstanding.

But the most important point on this slide is that for the first time in a very long time the amount of debt that we have outstanding at the end of 2011 is actually down by $500 million which reverses a very long-term trend of annual increases every year.

So when we're doing the analysis, I see the change and I ask myself, well, why is this. You know, what's caused this change in the trend line and a departure from historic norms. And this next slide illustrates and graphic is intended to illustrate that point.

So this is the history of our annual issuance, new money bond issuance over the last 10 years. And you see that relative to the historical norm, new money issuance is down significantly in 2011. So new money issuance in 2011 was about $900 million, 888 million. That's compared with an average annual issuance over the last 10 years of about $2.1 billion a year. And it's less than a third of the issuance of volume of issuance over the last three years.

And the decrease is simply due to less borrowing under the PECO program and dis -- the discontinuation of borrowing under the Florida Forever Program and Everglades Restoration.

GOVERNOR SCOTT: Is that in real dollars or normalized?

MR. WATKINS: Real. Oh, actual nominal dollars. So I don't go in and adjust and play games with that. It's just dollars or dollars, whether they're in the future or in the past, and so I haven't inflated them in any way. These are just nominal dollars --

GOVERNOR SCOTT: Nominal.

MR. WATKINS: -- in each year.

GOVERNOR SCOTT: So if you take inflation, it would be an even bigger drop.

MR. WATKINS: Yes.

GOVERNOR SCOTT: What's the average duration of our debt?

MR. WATKINS: You know, our -- the biggest program that we have is PECO, and that's over 50 percent of our debt, and that's a 30-year maturity structure. Florida Forever, example is a 20-year maturity structure; and some of the other programs, revenue bond programs, lottery revenue bonds, for example, tend to be 20-year maturity structures as well.

And so it's somewhere between 20 and 30 years on the longest date, but the average life is shorter. Because all this is our level debt structure and serial maturity. So if you take the average loan, it's probably 15 years --

GOVERNOR SCOTT: Fifteen years.

MR. WATKINS: -- something shorter.

So the next look we take is that -- the growth in annual debt service. And this is the amount that we have to spend every year in long-term fixed costs before we turn the lights on. This is a more relevant measure from a budgetary perspective because this is the amount that has to get appropriated on an annual basis. And we'll also take a look at prospectively what it means. Because it doesn't move around much and you can see the basic trend line following the trend lined in the amount of debt that we have outstanding, as you would expect. As the amount of debt that we have outstanding goes up, the annual debt service requirements also mirror that increase.

But in 2011, unlike debt which went down, our annual debt service requirements went up in 2011 by about $100 million from 2.1 billion to 2.3 -- 2.2 billion, and that's because we've got a full year's debt service on the issuance that we did in the prior fiscal year. And --

GOVERNOR SCOTT: What's happened to our average interest rate? Has it -- it's come down, right?

MR. WATKINS: Well, with the refundings. Well, I mean, the market conditions have been great. I mean, from a borrowing perspective, it's been a good time to be borrowing money from a cost standpoint, from an interest rate standpoint. And then we've been doing significant refunding activity over the last two to three years which also helps to lower the average cost of -- or average interest rate on the debt that we do have outstanding.

GOVERNOR SCOTT: Do you know what the average is now? Well, I guess it's --

MR. WATKINS: It's about four and five-

eighths on --
GOVERNOR SCOTT: Four and five-eighths?
MR. WATKINS: -- on everything, about 4.65 percent on the aggregate debt. So if I just take the stream of future debt service requirements over the next and PV it back to the principal amount, that's about what you get as an imputed interest rate.
GOVERNOR SCOTT: And what would be -- if we're able to refinance all of it right now, what would be our -- what would be our interest rate?
MR. WATKINS: Depends on the duration. This is a wild guess, Governor, because I haven't looked at it that way. Because we're prohibited by federal law from doing advance refundings, we can only do it once on an advance basis. It would probably be around four percent would be my guess.
GOVERNOR SCOTT: So about one --
MR. WATKINS: Half a percent, three-quarters of a percent less overall.
GOVERNOR SCOTT: About one-sixth less. If you think about the --
MR. WATKINS: One-sixth, one-seventh,

something like that --

GOVERNOR SCOTT: Okay.

MR. WATKINS: -- proportionally. And that's just a guess. I have no analytics behind that --

GOVERNOR SCOTT: Let me take --

MR. WATKINS: -- at all.

GOVERNOR SCOTT: So let's say it's one-seventh. What's the limitation on being able to refund all that to get it down to four percent?

MR. WATKINS: So you can only do -- well, typically our debts -- there's a 10-year no-call, so a lot of debts would -- you know, unless -- you know, if you're in that non-call period --

GOVERNOR SCOTT: Okay.

MR. WATKINS: -- you can advance refund it, but you can only advance refund one time.

Current refundings, which is anything after the call date, can be called as many times as you want, but then you reestablish that 10-year no-call period again.

And so it's not as -- you know, and when I look at our overall debt, Governor, it makes it -- this is simplistic, there are probably 27 different credits --

GOVERNOR SCOTT: Yeah.

MR. WATKINS: -- behind this, and probably 350 to 400 separate bond issues where we constantly monitor the interest rates on where we could be in the market and then take them as they come.

GOVERNOR SCOTT: Yeah. It's the only way to lock in the rates.

MR. WATKINS: Right.

GOVERNOR SCOTT: Yeah.

MR. WATKINS: And we are -- because of the refinancing activity we've engaged in over the last two or three years, you can see by the complexion of the refundings that we're doing on the agenda when we get to that, we're getting down to the small deals. They are $20-million deals and not $200 million deals.

So that means we're getting to the bottom of the barrel in terms of what's economically feasible for us to refund at current market rates. But that's something that -- you know, that's what we do as our day job, is constantly monitor that, and pick out candidates, and get them ready and execute them.

So the next thing we do in terms of the debt affordability analysis, now I'm moving from historical, looking back, in historical information to looking forward at projected information. And this is actually a combination of the two. And this is one of the -- this is one of the factors that feeds into the benchmark debt ratio, it is revenues available to pay debt service.

It consists of general revenues as well as any revenues that are specifically dedicated to repay debt. So this includes -- the blue bars are a historical look at how those revenues have performed historically, and then the red bars are the Revenue Estimating Conference numbers from the October Revenue Estimating Conference.

And what we see is that there were a significant decline in revenues, not surprisingly, from 2007 to 2009; revenues recovered in 2010 and 2011 growing by 2.3 billion and 1.3 billion, respectively. However, a significant portion of the revenue growth in 2010 was because we added a revenue stream to the base, not because of organic changes in revenue collections and economic recovery.

More importantly, estimates for 2012 and 2013 have been adjusted downward by the last three revenue estimating conferences. And so our projected revenue growth relative to what it was last year is basically flatter and more protracted reflecting a slower economic recovery than had been anticipated a year ago. And the only reason that I mention this is a change in revenues can have a significant impact on the benchmark debt ratio because both things affect it, both debt as well as revenues.

GOVERNOR SCOTT: And was this -- this doesn't take into consideration is the growth in Medicaid. Because Medicaid eats -- goes -- is growing so fast as compared to our general revenue.

MR. WATKINS: Right. And it does not reflect that. That whole budgetary challenge is in no way reflected in this analysis other than indirectly to say, the more you consume in making payments on debt, the less there is available to cover all of the other priorities --

GOVERNOR SCOTT: Right.

MR. WATKINS: -- and needs, and essential services of the state. So that's how it impacts the budgetary management of the state.

The other thing that has to be taken into account when we do these forward-looking projections on the projected benchmark debt ratio is the change in projected debt issuance.

What we have -- this basically is a slide -- what we do when we do the benchmark debt ratio is we look forward for 10 years and estimate what is the estimated borrowing under each of the programs that we traditionally have utilized to finance infrastructure in the state. And that feeds into the calculation, the benchmark debt ratio.

This graphic simply represents the end of -- each of these fiscal years, how much was the aggregate debt that we expected to issue over the next 10 years. And I put this in here because you can see it illustrates the significant decline in what our future expected debt issuance would be that feeds into the calculation of the benchmark debt ratio.

And what it shows that is in 2011, if I look forward for 10 years under all the program, there's -- included in the calculation of the benchmark debt ratio is $5 billion of estimated issuance, and that is lower than at any other time than since we've been doing this exercise.

So on a go-forward basis the numbers are down in terms of expected borrowing, and the decrease is primarily attributable to there's no land acquisition included in this, it was discontinued a couple of years ago, and that's over three to four billion; and then the reduction in PECO issuance because of the PECO estimates are down, and gross receipts tax collections are down.

GOVERNOR SCOTT: And this is tied to the -- not what a legislature would like to do but basically what the availability of debt is, availability of basic interest coverage.

MR. WATKINS: Correct. It is primarily keyed off of the availability of the revenues necessary to repay the debt that it's secured by, and that's the biggest single determinate of -- of those numbers.

GOVERNOR SCOTT: So if the general revenue stops, it doesn't grow like we think it's going to, even if it's growing slower, this number will continue to drop every year.

MR. WATKINS: Correct. Unless they authorize more debt than would indicate can be afforded by the -- this exercise.

GOVERNOR SCOTT: Right.

MR. WATKINS: So more importantly is -- this is a projected annual debt service. So the blue bar represents -- this is our annual payment obligation on the debt that's already been borrowed, is currently outstanding; and the red bar, the incremental red piece on top is the debt service on the projected $5 billion in issuance.

So what we see is that debt service peaks next year at 2.3 billion. And again because of -- and the reason this is important is from a budgetary perspective, it's a long-term fixed cost, from my perspective what has to get paid first before you start doing anything else budgetarily in terms of providing essential services for the citizens. Most notably in this chart is a drop in debt service in 2014 of $265 million which is the final retirement of the P2000 bonds.

GOVERNOR SCOTT: Interest and principal.

MR. WATKINS: That's interest and principal, Governor, both.

Also evident in looking at future debt service is a reflection of the state's policy of using level annual debt service requirements. So it's like a 30-year mortgage or a 15-year mortgage, we have long-term fixed-rate debt with level repayment obligations over the term of the financing.

And so that's why you see this is not fluctuating. And on a recurring basis you are where you are. Some people lose sight of they think that number will change every year, but because of the structure of our debt, our debt service requirements are really a recurring obligation. So once the money is borrowed and spent, it just adds incrementally to the debt service requirements that are there for what's already outstanding; and more importantly that number goes into the future for many, many years.

GOVERNOR SCOTT: So the duration is not changing.

MR. WATKINS: No, sir. But the annual debt service requirements, my point is it's not just for one year, it's 10 to 15 years before you see any appreciable change in what our annual repayment obligation is relative to debt that's already been issued. And it's a conservative approach.

The only exception to that is we've started including P3 obligations for transportation, about a billion-seven got added for two projects: One was a Miami tunnel, one was expanding I-595. When we -- when we evaluated those and deconstructed it, it was a long-term fixed obligation that DOT has to pay out of the state transportation trust fund.

And so we booked that as debt, quote, out of availability payments, and so we put that on the balance sheet as debt because it's a long term -- it's a mandatory payment over 35 years.

GOVERNOR SCOTT: Out of general revenues or trust fund?

MR. WATKINS: Out of state transportation trust fund revenues. So out of -- but remember our revenue side of the equation is GR plus dedicated trust funds. So that would include the STTF, and it would include gross receipts taxes for PECO --

GOVERNOR SCOTT: But not all the transportation --

MR. WATKINS: -- it would include lottery -- not all trust funds. Only trust funds --

GOVERNOR SCOTT: Not all incurred debt --

MR. WATKINS: -- and secured debt.

GOVERNOR SCOTT: -- transportation, right? Does it include all the transportation trust funds?

MR. WATKINS: Yes.

GOVERNOR SCOTT: Oh, it does? Okay.

MR. WATKINS: Yes.

GOVERNOR SCOTT: Okay.

MR. WATKINS: So we're matching up the obligation with the revenue stream. That's the -- that's the purpose of the exercise. But the reason -- the only reason I bring that up is the P3 contracts are deferred debt and are back-loaded, which is very different from our normal policy and our normal debt structure.

GOVERNOR SCOTT: And why are they back-loaded?

MR. WATKINS: I wasn't involved in making those decisions. I only discovered it after the fact and wanted to highlight: (a) it's on the balance sheet; and (b) it's different from the way we would -- it's a deviation from our normal policy.

It's not really reflected in the graphic that I just showed you, that's the only reason I bring it up, because it falls -- the majority of the repayment falls outside the projection period, and it increases from say $20 billion to $170 billion many years down the road. And that's not something we would normally do in managing the state's debt.

So lastly is combining these two variables: Revenues and annual debt service requirements. It's a calculation of the benchmark debt ratio and how that ratio has behaved over time.

So not coincidentally the green horizontal line is the six-percent target, the red horizontal line is the seven-percent cap, the blue line that moves around is a historical calculation of the projected benchmark debt ratio, and then the red line or burgundy line that moves going forward is the projection of the benchmark debt ratio based on the Revenue Estimating Conference numbers and based on the expected issuance of $5 billion of debt over the next 10 years.

And what we see is, just by way of review, a tremendous increase in the benchmark debt ratio in -- well, a decrease in '06 through '09 because of revenue increases; and then a tremendous increase in the benchmark debt ratio because of decreases in revenue resulting from economic weakness.

So you see -- but we've moved outside of our -- outside of the policy guidelines not by virtue of what we did on the debt side but by -- as a reflection of a weaker economy and having less revenues.

And then we see an improvement last year and a slight increase this year reflecting the slight increase in our annual debt service requirements, and the improvement last year resulted from adding revenues to the base. But most importantly we're still at 7.46 percent, which is above the cap at the end of 2011.

And if we look at it on a going-forward basis, the most significant change is a significant improvement in the projected ratio based on a drop in debt service by 265 million in 2014.

The other thing that I would point out is over the longer term, the future improvement is dependent on less projected debt issuance, and more importantly from realizing the expected revenue growth embedded in the estimating conference numbers.

Moving from the debt side to the general fund reserves, this is simply a historical tracking of our general fund reserves. General fund reserves include both unspent general revenue and budget stabilization fund dollars combined. And you can see the tremendous buildup in general fund reserves through the boom years, up to 2006 where they were at an unprecedentedly high level and then reserves were used to mitigate spending cuts through the period of economic weakness and decreasing revenues of 2007 to 2009.

In fiscal year 2011 general fund reserves are a billion dollars or four percent of general revenues. That's the standard metric used in the industry, slightly below the five percent that the rating agencies would consider adequate.

But more importantly, at the end of the current fiscal year with the current spending plan in place and the current expected revenue collections, we expect the general fund reserves to increase to 1.4 billion or 6.2 percent of general fund revenues.

CFO ATWATER: Ben --

MR. WATKINS: Then this is totally --

CFO ATWATER: Just -- and, Ben, that has built in the latest revenue estimate down --

MR. WATKINS: Yes, sir.

CFO ATWATER: -- downward adjustment?

MR. WATKINS: The 600 million in less revenues in the current fiscal year, that's reflected in these numbers. What's not reflected is any deficits and any trust funds that would have to be covered from GR. But in terms of this spending plan, it's been adjusted downward by 600 million.

GOVERNOR SCOTT: But that number should not be significant, should it? No.

MR. WATKINS: I hope not. The next is total reserves available. This combines unexpended trust fund balances that are anticipated to be available with general revenues, with the blue bar representing the general fund revenues and the red portion of each bar chart representing the trust fund balances that are anticipated to be available.

This is something that is unique to Florida in the sense that over 50 percent of our budget is trust funded. And for many years we had to make the case to the legis -- to the rating agencies that trust funds are a source of financial flexibility. And so they have now started including the amount that we calculate as available trust fund balances in our reserve fund balances. And so really our financial flexibility is stronger than would be demonstrated by the standard industry metric because we do have other balances that the legislature has used routinely to redirect resources to higher priority spending needs.

And what we see is that at the end of 2012 is when we combine general fund revenues -- general fund reserves with trust fund reserves. We're looking at $3 billion or 12.7 percent of general revenues which is in the -- considered strong by rating agencies.

Credit ratings. In a review of credit ratings I've simply outlined the factors that the rating agencies use in evaluating the credit worthiness of states. Some are within our control; some are not. The one that most notably not within our control is the economy.

The most significant development over the last year is Standard & Poor's took us off of negative outlook and moved us to stable which is a positive rating development that occurred during the current fiscal year. So I make note of that.

Our ratings are very strong, AAA by S&P and Fitch. Fitch does have a negative outlook, and one notch below that at Aa1 by Moody's with a stable outlook.

GOVERNOR SCOTT: So can we go up?

MR. WATKINS: Only by Moody's. We're one notch below by Moody's. But AAA is the highest credit rating available. And the outlook is simply not a credit rating with an indication of whether you're more likely to be going -- whether you're more likely to go up or down --

GOVERNOR SCOTT: And --

MR. WATKINS: -- prospectively.

GOVERNOR SCOTT: And Fitch is -- what do you think -- what will cause that to get back up?

MR. WATKINS: They're looking at the economy.

GOVERNOR SCOTT: There's more to the economy.

MR. WATKINS: They're looking at the housing economy, employment, and looking at Florida's recovery relative to other states. And also looking budgetarily how we balance, which is an important element of their analysis as well. So I don't expect any change. It's largely reflective of a weak economy, Governor.

GOVERNOR SCOTT: The national economy.

MR. WATKINS: National and state. Focusing specifically on Florida and just outlining it, what I've basically done is taken the credit reports that we've gotten recently, and pulled out their comments identifying strengths and challenges going forward.

Identifying strengths, not surprisingly: conservative budget and financial management, swift response to budgetary pressure from declining revenues, adequate reserves, moderate debt burden with clear guidelines, this analysis, and strong pending funding ratios, and limited OPEB liability.

More importantly from my perspective are the challenges because we can't go up, we can only go down. We could go up by Moody's but I'm always looking at the downside, the risk, Governor, not the reward. Just the nature of the beast. And that is --

GOVERNOR SCOTT: We are going to be the number-one state for job creation. We're on our way.

MR. WATKINS: I -- I -- and that's a story we need to be telling.

GOVERNOR SCOTT: I've got a chart for you I can give you.

MR. WATKINS: Okay. What the rating agency is noting is a lagging pace of economic recovery in some space. They did a special report that came out in October that indicated the state sector overall they have on negative outlook, and they have had on negative outlook. They took it off of negative outlook, put it back on negative outlook, so the whole state sector on negative outlook.

And what they're noting in their special report is in the economic recovery it's uneven. And some states are performing ahead of revenue estimates, and some states performing behind revenue estimates that they built their budget off of, and we're in the latter category. And so they're watching us closely in terms of future economic developments reflected by revenue collections.

Also, ongoing budget pressure from slow revenue growth, reliance on one-time revenues which we traditionally -- we historically have not done in Florida. Restoring and maintaining adequate reserves is another important attribute which we've done well on, but there's continued focus on that.

And also changing dynamic from what has occurred historically, potential budget pressure caused by federal government spending cuts. So that is, you know, something -- a negative outlook that affects all of the states.

So in conclusion state ratings remain vulnerable and rating agencies will be carefully monitoring how our economy recovers and the budget development process.

GOVERNOR SCOTT: How often -- so you met with them -- and you met with them in June, right?

MR. WATKINS: Yeah.

GOVERNOR SCOTT: When do we meet with them again?

MR. WATKINS: We normally go once a year after the budget is completed, but we're in constant communication with them away from formal presentations in terms of current developments in the state. That's something that -- that we've been on the forefront on and we've always done this.

And my attitude is, we're completely transparent and all the information you need, you get. And that's what we do is keep them apprised of all current developments within the state so that there are no surprises.

And so -- and their level of diligence has increased exponentially post credit crisis because of their role in the subprime mortgage crisis. So the care and feeding that constantly -- is occurring constantly away from a formal presentation.

But I would welcome a spokesperson to champion the cause of what we're doing to improve the -- make the climate more business friendly and improving the economy in the state.

GOVERNOR SCOTT: Why don't you -- the CFO and I would do the exact same thing if it would make sense to take another trip -- I know you went up in June -- but take another trip up there in the first part of the year, I mean, because we -- you know, we've generated jobs, I mean, if you look at what we've done, we are doing better than the rest of the economy, unemployment's come down faster I think than any other state so...

ATTORNEY GENERAL BONDI: That's right.

MR. WATKINS: That's a story that needs to be told, Governor.

ATTORNEY GENERAL BONDI: He's telling it.

GOVERNOR SCOTT: So --

CFO ATWATER: Governor --

GOVERNOR SCOTT: -- the more I think about it, we need to take another trip.

CFO ATWATER: -- I would say a couple of things to that. Again, in our visit it was clear how much they respect Ben's openness and thoroughness and consistency over the years.

Secondly, I'd say -- and I can say, I know that you can't -- when I was there, the fact that you took the time to walk them through, even though by conference call on that occasion, each agency, they said gave them great comfort that you were working to create the structural balance that they're looking for, that you're solving real-time issues real time and you're not doing -- and they can see it.

These people are obviously extremely sophisticated. They know when there's a slight of hand. They're looking for that reserve number, and they're looking for structural balance, that there is revenue and expenses that align themselves, and not this dependence upon debt, reliance upon debt, and ignoring the current economic conditions, the challenges that we face.

And so I think it would be valuable to go back on a midyear to show the course, to maybe even lay out your budget for the coming year, and they can see that that discipline is going to continue. They were extraordinarily impressed that the state hit the hardest by some of the economic challenges was being so disciplined -- and I appreciate how you -- the swift response to budget pressures was a real compliment to which you all have accomplished, I mean, this past session was a -- it was a real credit. Now, I think going back would be a good idea, making sure --

GOVERNOR SCOTT: -- (inaudible) go back --

CFO ATWATER: I'd be happy to go back, but I think it was extremely valuable.

MR. WATKINS: Duly noted. The next slide is a new one because of the inevitable comparisons of everything that's going on in Europe, with what's happening here domestically, and then for the state sector specifically. And what it shows is sovereign debt is a percentage of gross domestic product.

This is the conventional industry metric used to measure the amount of -- level of indebtedness of sovereigns. And so we have adopted that metric to show if a metric that's used for sovereigns is applied to the State of Florida, how do we stack up to the European sovereigns and the federal government.

And, you know, as this graphic aptly demonstrates, Florida's debt as a percentage of our gross domestic product is rather small relative to the U.S. federal government as well as the sovereigns. In fact, I would go so far as to say in an entirely different universe from those --

GOVERNOR SCOTT: Right. And we -- we would be at the low end for states also, wouldn't we?

MR. WATKINS: We're -- you know, if you look at the -- if you look at the standard industry metrics, and you look at our 10-state peer group, we're really in the middle, Governor.

GOVERNOR SCOTT: Okay.

MR. WATKINS: And so if you look at all 50 states, then of course we're going to be higher, because we're a growth state in our population. So we're -- as a general matter, we're higher than national averages, but when you look at the 10 largest states, we're generally lower and in the middle of the pack is how I would characterize it.

GOVERNOR SCOTT: Okay.

CFO ATWATER: But, Governor, could I ask a question to that? This is real time against current GDP. And I think if -- again, if you look at Florida getting back on its feet, and historically our ability to move that number, that debt, disciplined debt, as a percentage of GDP on -- in normalized times, I -- I would -- I would hope that if we put that data on a trend line, I think where we would see ourselves -- certainly -- and again, and the trough and the hit that we've taken, and our change in GDP being so significantly further down on the chart versus other states that didn't have the significant drop in GDP that we had, I wouldn't mind just seeing us on a trend line --

MR. WATKINS: Right.

CFO ATWATER: -- against the 50 states or against our peer group.

MR. WATKINS: Right.

CFO ATWATER: I think that would be good for us maybe to see that in a different way.

MR. WATKINS: Well, it's a very recent development in terms of the industry overall. And so I thought it important to put it on a chart and introduce it, and we'll do a deeper dive --

CFO ATWATER: Okay.

MR. WATKINS: -- into looking at that metric historically and how we may measure and how we may stack up because I think that's, as you pointed out, important.

You know, the other thing that I think about when I look at this and look at credit ratings and debt crisis and why they're hugely important from both a financial and an economic standpoint, and the consequences of a potential meltdown.

While I don't believe at all, you know, that muni credits are on the brink of a massive meltdown as some might suggest, the practical and potential consequences of too much credit, leading to credit deterioration and leading to higher borrowing costs.

In fact, S&P put 15 of the 17 EU sovereigns on negative outlook just yesterday. And last week prior to the concerted efforts of the central banks to liquify the system, the -- what we say in the business is the credit spreads blew out for borrowing in Italy, for example, where they had to pay seven percent on 10-year debt in order to access markets; and Germany had a problem with auctioning with borrowing the amount of money they needed.

So there can be severe consequences to not properly managing the amount of debt that you have. And one of the things that is notably different from the way we are positioned and we are postured as a state relative to the sovereigns and the federal government is not this constant need to access the markets to refinance the debt that's --

GOVERNOR SCOTT: You're not borrowing more money --

MR. WATKINS: Sir?

GOVERNOR SCOTT: You're not increasing the amount of debt, that's (1).

MR. WATKINS: Right.

GOVERNOR SCOTT: (2) all but what did you say, $100 million is fixed already?

MR. WATKINS: Fixed.

GOVERNOR SCOTT: So if interest rates go up, you know, you've put us in a position that we're not -- we don't have that risk.

MR. WATKINS: Correct.

GOVERNOR SCOTT: We have risk for new debt but as long as we're not increasing our debt --

MR. WATKINS: Right. We don't have that constant rollover risk --

GOVERNOR SCOTT: Right.

MR. WATKINS: -- of refinancing debt coming due.

GOVERNOR SCOTT: You know, we don't get the benefit of the lower interest rates.

MR. WATKINS: Right.

GOVERNOR SCOTT: And we don't get the risk of the higher interest rates.

MR. WATKINS: That's correct. And that's the great place to be, with no variable rate debt other than a hundred million and no derivatives on the balance sheet. So there are no accidents waiting to happen from that perspective.

So in conclusion, total direct debt of $27.7 billion at the end of 2011, down 500 million from the prior fiscal year; the reduction in debt due to significantly less new money issuance in 2011; indirect debt and obligations related to P3s are a significant factor in the debts -- in the state's overall debt profile; recurring annual debt service on existing obligations of about 2.2 billion; benchmark debt ratio at 7.46 percent, still in excess of the seven-percent policy cap; general fund reserves at a billion are down from 2010 but expected to increase to 1.4 billion; and combined with trust fund balances of strong $3 billion; very strong credit ratings at AAA, AAA, and Aa1, but vulnerable to a lagging economic recovery and budgetary challenges; and the state's debt relative to U.S. federal government debt and sovereign debt is insignificant.

GOVERNOR SCOTT: Thank you very much. Does anybody have anything else? Okay. Thank you -- thanks for the information, Ben.

MR. WATKINS: Sure.

GOVERNOR SCOTT: Now, we'll continue on to the Division of Bond Finance.

MR. WATKINS: So the first item is minutes from the September 20th meeting.

GOVERNOR SCOTT: Is there a motion to approve Item 1?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded, Item 1 is approved without objection.

MR. WATKINS: Item number 2 is a resolution authorizing the competitive sale of a hundred million dollars in full faith and credit bonds for right-of-way acquisition.

GOVERNOR SCOTT: Is there a motion to approve Item 2?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded, Item 2 is approved without objection.

MR. WATKINS: Item number 3 is a report of award on the competitive sale of $164 million of Florida Forever refunding bonds. The refunding bonds were awarded to the low bidder at a true interest cost of 2.34 percent, allowing us to reduce interest rate on outstanding debt from 5.22 percent to 2.34 percent, generating gross debt service savings of 26.8 million, present value savings of 23.9 million or 13.2 percent of the principal amount of the refunded bonds.

GOVERNOR SCOTT: Okay. Is there a motion to approve Item 3?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded, Item 3 is approved without objection.

MR. WATKINS: Item number 4 is a report of award on the competitive sale of $241.8 million in PECO refunding bonds.

The bonds were awarded to the low bidder at a true interest cost of 3.62 percent, allowing us to reduce the interest rate from the current 4.95 percent to 3.62 percent, generating gross debt service savings of 49.7 million, present value savings of 35.6 million or 13 percent of the principal amount of the refunded bonds.

GOVERNOR SCOTT: Is there a motion to approve Item 4?

ATTORNEY GENERAL BONDI: Move.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded, Item 4 is approved without objection.

MR. WATKINS: Item number 5 is a report of award of $16.3 million of University of Florida dormitory refunding bonds. Bonds were awarded to the low bidder at a true interest cost of 3.25 percent, reducing the interest rate on the outstanding bonds from 4.94 percent to 3.25, generating gross debt service savings of 2.1 million, present value savings of 1.7 million, or 10.3 percent of the principal amount of the refunded bonds.

GOVERNOR SCOTT: Is there a motion to approve Item 5?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded, Item 5 is approved without objection.

MR. WATKINS: Item number 6 is a report of award on $27.7 million of Florida State University dormitory refunding bonds. The bonds were awarded to the low bidder at a true interest cost of 3.73 percent, reducing the current interest rate of 4.98 percent, generating gross debt service savings of 3.8 million, present value savings of 2.8 million or 10.1 percent of the principal amount of the refunded bonds.

GOVERNOR SCOTT: Is there a motion to approve Item 6?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded, Item 6 is approved without objection.

MR. WATKINS: And Item number 7 is a report of award on the competitive sale of $164.4 million of PECO refunding bonds. The bonds were awarded to the low bidder at a true interest cost of 3.95 percent, reducing the current interest rate on the outstanding debt of 4.97 percent, generating gross debt service savings of 22.9 million, present value savings of 16.1 million, or 9.4 percent of the principal amount of the refunded bonds.

GOVERNOR SCOTT: Is there a motion to approve Item 7?

ATTORNEY GENERAL BONDI: So move.

GOVERNOR SCOTT: Is there a second?

COMMISSIONER PUTNAM: Second.

GOVERNOR SCOTT: Moved and seconded, Item 7 is approved without objection.

ATTORNEY GENERAL BONDI: And, Ben, thank you. You've been doing a great job of restructuring for us, you've saved us a ton of money. Thank you.

MR. WATKINS: Thank you. And I appreciate that.

So our report calendar year-to-date is refundings, 19 transactions; with a principal amount of $2 billion; generating gross debt service savings of 270 million, or present value savings of $220 million.

But it's really -- you know, I'm just a mouthpiece. There are really people back at my office who do the real work, and this is my job.

CFO ATWATER: Governor, I was just going

to ask the question but he just gave us the answer, as the General was saying, 270 million in debt service savings. And to answer your question earlier, I know they couldn't pull this off every day, but from that 4.6-percent rate that you were thinking maybe the portfolio, that's -- this is about 80 basis points off that --

MR. WATKINS: Right.

CFO ATWATER: -- you know, and I know you can't do that every day but please keep trying. Thank you.

MR. WATKINS: We do it where we can.

CFO ATWATER: Yeah, I know.

MR. WATKINS: We're running hard.

CFO ATWATER: Nicely done.

MR. WATKINS: Leaning forward.

GOVERNOR SCOTT: We're all very appreciative of your hard work and your team's hard work.

MR. WATKINS: Thank you, sir.

GOVERNOR SCOTT: Thank you.

GOVERNOR SCOTT: All right. Next is the Board of Trustees agenda presented by Secretary Herschel Vineyard. Good morning.

SECRETARY VINYARD: Good morning, Governor, Members of the Cabinet. We have three items on today's agenda. The first two are business expansions, both in the panhandle, perhaps the -- is the work of the Governor and members of the Cabinet to try to help the counties impacted in the panhandle by the oil spill, or maybe this is showing a turnaround.

The first item, Harborwalk is a modification of a five-year sovereign submerged land lease to a marina. It's currently a hundred-slip marina. They're proposing to add 10 new slips for an additional 5,000 square feet. They also propose to reconfigure two slips to add a pirate ship for the tourists that may be interested in visiting the Destin area.

GOVERNOR SCOTT: Our pirates.

SECRETARY VINYARD: Yes. The annual lease fee will be $23,300. This is one that we normally would be able to handle due to your delegation to DEP. But a previous Cabinet inserted a special condition requiring any change or modification to the lease would have to come to the Board for approval.

We would also recommend that that lease condition be changed to require only expansions of the lease boundary that we have to come back to you all. And so we recommend approval for this.

GOVERNOR SCOTT: Is there a motion to approve Item 1?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Is there a second?

COMMISSIONER PUTNAM: Second.

GOVERNOR SCOTT: Moved and seconded, show Item 1 approved without objection.

SECRETARY VINYARD: Item number 2 is Wex-Tex Industries which is a marina in Bay County. It's a modification of a 10-year lease to the marina. This will increase the number of slips from 119 to 140, adding 35,000 additional square feet. The annual lease payments will be approximately $15,000, and we recommend approval.

GOVERNOR SCOTT: Is there a motion to approve Item 2?

COMMISSIONER PUTNAM: So moved.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Show Item 2 approved without objection.

SECRETARY VINYARD: Item 3 is the Florida Fish and Wildlife Conservation Commission, Florida Forever additions and inholdings, and we have Nick Wiley, the Executive Director, to handle Item 3.

GOVERNOR SCOTT: Good morning, Nick.

MR. WILEY: Good morning, and thank you, Mr. Secretary, for giving us this opportunity. This is requesting approval for an option agreement to acquire 63.58 acres within the Big Bend Wildlife Management Area which is near Steinhatchee, Florida, in Dixie County. This would be an addition to the management area.

We're also requesting authorization to place restrictions on the conveyance document pursuant to the federal grant requirements.

The total consideration for this acquisition is $722,500. We've worked with our federal partners to actually leverage external funds here through the National Coastal

Wetlands Conservation Grant Program which is bringing 55 percent of the cost of this acquisition which results in our request to the Board of Trustees to approve $325,125 or 45 percent of the acquisition cost.

This would be an addition again to the Big Bend Wildlife Management Area. The points that we'd like you to consider on this is that we believe this is important to the local economy. Steinhatchee is one of those hidden jewels that really relies on tourism focused on fishing, hunting, wildlife viewing, tourism is a real big deal for that community.

We believe this property provides a great nexus for that and a great opportunity to partner with the local community on top of really providing connections with our Wildlife Management Area system, important habitat for fish and wildlife, also habitat for protected coastal areas where our local fisheries are dependent as well.

Also we're looking to really provide a place for some nice recreational opportunities for the public where they can come for wildlife viewing, canoeing, kayaking, fishing, hunting, things like that. That's what we love to do.

There's one improvement on the property, a partially completed single-family residence which we're talking to the local community about possibly partnering with them to develop some type of educational center.

With that I also want to note that DEP and the Fish and Wildlife Commission are requesting and recommending approval for this. And I'm here to answer questions.

And finally I would like to introduce -- we have a couple of guest speakers today from Dixie County: We have Mike Cassidy, the Dixie County Manager; and we also have Tim Alexander who wears two hats, he's the chairman of the school board, also the director of EMS services in the county. So with that, I'll step aside and ask them to come forward. Thank you.

GOVERNOR SCOTT: Thanks, Nick.

MR. CASSIDY: Thank you, Nick. Governor Scott and Honorable Cabinet members, it's a privilege to be before you today, and just appreciate being a part of your business.

If I may for a moment, I'd like to

introduce our group that came with us today, took time out here to support us as well locally:

Assistant county manager, Mr. Frankie Van Aernam; the district commissioner in that district and our board chairman at this time, and also vice-president of the chamber of commerce, Mr. Ronnie Edmonds; chamber of commerce president, Ms. Debbie DeWeese, also pure water wilderness director in the area; our finance officer, Ms. Cindy Dey; clerk of court, Ms. Dana Johnson, and I think that's -- and also Mr. Tim Alexander, which Nick just mentioned.

This piece of property, if I may, it's going to continue a long-lasting and a very beneficial relationship that's been in place for a long time between the state and the County of Dixie County. We don't have a lot to offer as far as capital and fancy places to visit with infrastructure, but we offer some jewels and some unique outdoors activities and some opportunity to see some things that you can't see in many places in this great nation.

And we partnered with FWC, we've already made great strides in our boat ramps, landings, and launch points to get out onto the coast, and the Gulf coast waters, and the freshwaters. We're bordered on three sides by water: The Steinhatchee River, which on one end -- on the northern end; the Suwannee River; and the Gulf of Mexico.

Currently there's the Suwannee River Wilderness Trail that takes you down from the northern part of our state all the way down to the Gulf, and also the Big Bend Saltwater Paddling Trail.

We're in the process of developing a pretty immense trail work within -- for canoe and kayaking in our community, and especially around the area here where this Freeman track is located. It's strategically located near the mouth of the Steinhatchee River and the Gulf of Mexico. And it will benefit both Dixie County and Taylor County.

Jena and the Steinhatchee area unfortunately, and I guess some change of life some good things do come, but the net ban tremendously changed this area. This was an area of self-sufficient and strived tremendously on a small multigeneration of commercial fishermen. That's gone. These families are out and have found livelihoods in other areas.

But now we largely and in the future will depend on folks coming in, taking care of our natural resources, and visiting our area, and then leaving it with us for us to enjoy all the time.

So this -- as you go about the country, and not just Florida, but other parts of the nation, there's places you visit and places you remember quite easily, then there's places that have a profound impact on you.

And just some time ago, FWC called and asked the question, you know, and basically requested us to partner with this and said, we'll come down and meet you. Upon visiting, we took a good large party down that day for the initial visit, and it was astounding. The structure, the improvement that's on the facility now, we hope to use as a continual visiting center with interactive displays and an educational center.

But this -- once you come and visit this place and get that -- especially like a panoramic view of the mouth of the Suwannee River, and you can see the tidal creeks and the marshland, it has an impact.

And as a native of the area, I've had -- I think I can make a fair comparison as any of those that have visited, you can always go and find a home or a place to visit with a balcony along the Gulf, but this one is unique.

And I think the opportunity to have the foresight for you to put this in a place to be enjoyed by the local community, the people of our state, and our country because with the communication, the electronic world we're in today, the word will get out that when you're down along the coast of Florida and traveling those byways and those off-the-beaten path roads, you must stop and have some seafood in Jena-Steinhatchee and visit the Freeman tract. And we greatly appreciate your support of this project.

And with that I'll entertain any questions you may have. And the big thing I'd like to emphasize is our willingness as a county and a community to partnership. We have a good bind with FWC, and we look to be able to work together for the long haul. And we have -- we do a lot with a little, and that's what we want to continue to be able to do.

When we get a piece of property -- when you bring us a piece of property, we work on the management plans for that property, we make affordable management plans, we don't look for long-term or major capital investment because that's what -- we don't need to preserve it. We look to make a difference, make it a usable property, not destroy it, and have it there for the public for the long term, and that's what we'd like to do with this property.

And I would welcome any questions from you at this time.

GOVERNOR SCOTT: Thank you.

MR. CASSIDY: Okay. I'd like to introduce Mr. Tim Alexander for a moment too. Thank you.

GOVERNOR SCOTT: Thank you very much.

MR. ALEXANDER: Governor, Members of the Cabinet, again thank you for giving us the opportunity to stand before you and support a project that we deem very important to our community. You always like to follow a speech not knowing what the guy before you is going to say, so in the fear of being repetitive, I'll just get right to the point.

I believe you may have already seen photos of this property. They say that a photo is worth a thousand words. Well, I'm going to tell you, if you ever step foot on this property and you witness firsthand the natural beauty of this property, I think you might very well find yourself speechless.

I do serve as the emergency services director for our county and I have chaired the school board for the last nine years. And I'm proud to say that last month marked my 11th year on the school board.

I believe the first -- when you first step foot on this property that you will truly understand why Mr. Freeman was so passionate about obtaining this property, about building a structure on this property, and about protecting the natural resources.

Today we stand before you because we do recognize the long-term economic benefit that this property could provide for our county, and we are in much need of it. We also recognize the educational opportunities that would be provided by the saltwater marshes, the tidal creeks, and the flatwoods habitat.

The conservation of property such as this piece, I looked at it and it'll date back to as far as 1832. But I would like to just remind you that in a speech delivered to the National Progressive Party in Chicago August 6th of 1912, Theodore Roosevelt had these words to say: "Our aim is to preserve our natural resources for the public as a whole, for the average man and the average woman who make up the body of American people."

He further stated, "There could be no greater issue than that of conservation in this country." I say today that issue is just as great as it was then and I stand before you and I ask you to help us protect this property so it can be used by our children, our grandchildren, and future residents and visitors of this great state. Again, thank you.

GOVERNOR SCOTT: Thank you very much.

MR. ALEXANDER: And if you decide not to rush down here and have your photo taken with me like you did with --

(Laughter.)

MR. ALEXANDER: -- I fully understand.

GOVERNOR SCOTT: I'll -- I'd love to. I'm sure I'll put it right in the front of my Facebook.

What -- how do you know you're getting a good price? How do you know you're getting a good price?

MR. WILEY: Well, we worked from the appraisal that we had that gave us kind of the starting point, and in recent days we worked closely with the seller and the family and their representatives to actually get us an offer -- a counteroffer that brought us to 85 percent of the approved appraisal.

So we really feel like we've done a lot of due diligence and worked really hard to get there. And a lot of people put a lot of effort into that and it's much appreciated.

GOVERNOR SCOTT: Okay. All right. Any questions?

COMMISSIONER PUTNAM: I just -- I can't believe a group from Dixie County came over here and didn't bring us a little smoked mullet or some scollops to help us with our decision. I mean, it's a big decision to make on an empty stomach.

GOVERNOR SCOTT: It's almost noon.

COMMISSIONER PUTNAM: That's right.

MR. ALEXANDER: You all can do it at our invitation. It seems that would be more money we'd see in Dixie County.

COMMISSIONER PUTNAM: We love being there but --

GOVERNOR SCOTT: That's a good response.

COMMISSIONER PUTNAM: You know, these coastal communities have been through a lot since the net ban, it was a tough transition. And it's taking some time, but it's wonderful to see now that that transition has occurred where the new economic opportunities have evolved, and the natural resource value that they've placed, and the way that it's really become a destination.

I mean, there was a time when -- if you're a recreational boater in some of these communities, you weren't exactly warmly received. But that has come 180 degrees. And they're very warmly received and they've become tremendous destinations for people from around the state and around the southeast to take their families out and have a wonderful family experience and experience the wonders of Florida's natural resources.

So I think this is an important piece of that puzzle in that lower Suwannee area and Steinhatchee community, and I move that we move forward with the purchase.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded, Item 3 is approved without objection. And also I think all of us would tell you the same thing, it's much easier to make a decision up here if somebody from the local community comes and tells us how important it is to them, it's just a lot easier. But you're right, sweets, food would always be helpful.

ATTORNEY GENERAL BONDI: Governor, I stepped out. May the record reflect an affirmative vote for me on Items 1 and 2? Thank you.

GOVERNOR SCOTT: All right. All right. And if you'll wait a minute, we will have the photographer come and we will have our picture taken.

ATTORNEY GENERAL BONDI: I don't see them moving as fast as they did for Ms. Florida.

GOVERNOR SCOTT: Thank you very much. If E.T. -- E.T. is on his way and we'll get a picture taken as soon as he gets here.

GOVERNOR SCOTT: So our last agenda is the Department of Veterans' Affairs presented by Colonel Mike Prendergast.

And, Mike, we might have to take a break if either Ms. Florida comes back or E.T. comes back with a camera for a picture with members of Dixie County.

Okay, Mike.

COL. PRENDERGAST: Boy, after Ms. Florida, a presentation about Steinhatchee, talking about the Everglades, those are pretty hard acts to follow.

GOVERNOR SCOTT: You did come all the way from Tampa, right?

COL. PRENDERGAST: I did, I did. And I brought the warm weather with me.

GOVERNOR SCOTT: Hey, Mike, before you get started, let's go ahead and do this picture.

COL. PRENDERGAST: Okay. Yes, sir.

(Discussion off the record.)

GOVERNOR SCOTT: All right.

COL. PRENDERGAST: Well, good morning, Governor Scott, General Bondi, CFO Atwater, and Commissioner Putnam. I'll take any other pauses that we can, it gets the blood circulating again for us; and with it a little chilly in here this morning, you get your blood circulating back there as well.

Before moving on to our agenda items, I'd like to introduce three members of our team who are with us here today: Christina Porter is our Director of Administration and Budget Liaison Officer at the Florida Department of Veterans' Affairs. Christina works in our principal office in Largo and she's been on our team now for about four-and-a-half years. This will be Christina's last visit to Tallahassee as our Director of Administration because she's accepted a position with my good friend over in Hillsborough County as the incoming Controller of the Hillsborough County Sheriff's Office.

GOVERNOR SCOTT: Oh, congratulations.

COL. PRENDERGAST: After a transition with the incumbent at the sheriff's office, Christina will become the Controller for an agency with a $300 million annual budget and more than 3,000 personnel on the team that she'll be supporting. She'll maintain her residence in Pinellas County which is just a short drive away from our Florida Department of

Veterans' Affairs principal office on Ulmerton Road, and thankfully she'll only be a phone call away if we ever need any support and assistance.

So it's been a great loss to our team, but it's a tremendous opportunity for professional growth and development, and we really do owe her a debt of gratitude for her hard work on behalf of our state's veterans.

GOVERNOR SCOTT: Congratulations.

COL. PRENDERGAST: Alene Tarter, seated to my left here, is our director of the Benefits and Assistance Division. Alene is an Air Force veteran serving more than two decades in uniform and works with our federal VA partners at the VA regional office down in Bay Pines, Governor, where you visited earlier this summer. I'll discuss Alene in greater detail and her team down in Bay Pines in just a few moments.

Finally, Jim Brodie is our Cabinet and Legislative Affairs Director. Jim anchors our efforts here in Tallahassee, and he's been a fixture in the State Capitol for many years. I won't go to how long, but he has lighter hair than I do.

Should there be any technical questions that I can't answer, I've got that great team standing back there as a fire team to rush in and save me from stepping on things that I shouldn't be stepping on.

The Florida Department of Veterans' Affairs has five agenda items for your consideration today. Item 1 consists of the minutes from the August 2nd and October 4th Cabinet meetings, and we respectfully request approval of these minutes.

GOVERNOR SCOTT: Is there a motion to approve Item 1?

ATTORNEY GENERAL BONDI: So move.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded, Item 1 is approved without objection.

COL. PRENDERGAST: Item 2 is an agency overview of our department and includes our performance measures from our annual report. This is the first opportunity for us to deliver our annual report to you and also the first opportunity since I've assumed the duties as the Executive Director to provide an overview briefing to the Cabinet and entertain your questions.

On behalf of Florida's more than 1,650,000 veterans that we have across our state, their family members, and their survivors, we sincerely appreciate this opportunity to talk briefly about our agency.

The mission of the agency is elegant in its simplicity, but it's very powerful and it serves a most important constituency.

In the best of terms I'd like to quote one of America's most distinguished statesmen, "The willingness with which our young people are likely to serve in any war, no matter how justified, shall be directly proportional to how they perceive veterans of early wars were treated and appreciated by their nation." And, of course, that's our first commander in chief, General George Washington.

In sum, the Florida Department of Veterans' Affairs, like our counterparts across the nation, it exists each and every day to ensure that America remains the land of the free.

We have two statutory responsibilities at the Florida Department of Veterans' Affairs. The first statutory responsibility is to provide information and assistance to our veterans, their family members, and their survivors. And we accomplish this mission with the grace and heavy-handedness sometimes when we're dealing with our federal counterparts by Alene Tarter and her team at the Benefits and Assistance Division.

Last year through a lot of combined efforts on members of the Cabinet, members of the Legislature, and most certainly the members of the Florida Department of Veterans' Affairs, we helped bring in almost $12.9 billion into the state's economy in veterans' benefits and assistance; education and training opportunities; and, of course, retiree pay that comes in to the tune of over $5 billion annually.

The second statutory responsibility is to provide quality long-term health care services to our veterans. And we accomplished this task through our homes division that's headquartered down in Largo. And I'll elaborate on both of these vital elements of our team in a couple of slides.

I know you all are very familiar with this and we do discuss this quite frequently. As the state with the largest veterans population in the nation that ranks number three when you add up all the veterans across the country, we have a diverse group of veterans that we serve, and I would like to highlight just a couple of the key facts that we have at our disposal.

We have the largest number of World War II veterans in the nation with over 164,000 of them here in our state; we have the third largest population of disabled veterans in the country with 259,000; we have 546,000 veterans in Florida enrolled in the VA health care system.

The key point that I want you to take away from that is that one out of every three veterans that you encounter on the streets as you're traveling across the state doing state business is a veteran that is enrolled in the VA health care at one of our major medical centers or one of our outpatient clinics, and they depend heavily upon that access.

Those dollars would otherwise perhaps fall directly back on the laps of the taxpayers to help, support, and assist those, but through federal programs we're able to make sure that we avail those service to our veterans and their family members.

GOVERNOR SCOTT: One out of every three?

COL. PRENDERGAST: One out of every three, yes, Governor. We have 140,000 women veterans in the State of Florida, which accounts for about 12 percent of our veterans population.

And I placed up beside you a piece of paper that looks something like this, minus the little yellow tabs and everything. And I'd like to suggest that you have that as a reference with you as you travel.

It's a presumptive list of agent orange exposure related diseases that our veterans may actually manifest symptoms and illnesses associated with that. And veterans who do manifest these and have the qualifying military service are actually entitled to be labeled as -- they're manifesting presumptive conditions directly attributed to their service in Vietnam and their exposure to agent orange and other herbicides.

Those diseases include some of the most common ones we see among our elderly population in the State of Florida from chronic B-cell leukemia, to type 2 diabetes, to ischemic heart disease, to Parkinson's disease, and prostate cancer.

If a veteran is manifesting those symptoms, which we know that we have over 400,000 veterans in our state, but only a couple hundred thousand are registered into the program for treatment as a disabled veteran, we're missing some opportunities to get our veterans from the Vietnam era enrolled.

And we all -- those of us that are old enough in the room to remember back to the way our Vietnam era veterans were treated by their fellow Americans when they returned from combat in a distant land, they're somewhat reluctant from time to time to go and avail themselves of these services. That's unfortunate.

And it takes advocacy on all of our parts as leaders in state government to ensure that we advocate on behalf of those veterans and we encourage them as strongly as possible and their family members to go out and seek treatment and seek enrollment in the VA programs.

This program, not only does it apply to veterans but it applies to their family members and most certainly the children born of Vietnam era veterans who might be manifesting some of those similar illnesses and diseases that are directly attributed back to exposure to agent orange.

I'll talk a little bit more about Nehmer claims in a moment which is the class action suit that pertains to the settlement of the agent orange lawsuit that was filed on behalf of all the Vietnam era veterans years ago.

How we serve in Florida is directly tied back to our statutory responsibilities. Our Benefits and Assistance Division colocated with the VA regional office on the campus of Bay Pines is collocated with the largest service center for compensation claims in the United States.

Let me say that again because it's very important: It is collocated with the nation's largest service center for compensation claims in the United States of America. While we're the third ranked when it comes to veterans population, we serve for compensation purposes more veterans out of that office than any other office across the country.

Our homes program is collocated at the agency's principal office in Largo, and our legislative advocacy team operates out of our State Capitol office right here in the Capitol on the 21st floor.

We support our state's veterans, all 1,650,000 of them, their family members, and their survivors through six skilled nursing homes -- you can see their locations on the map. I'll help you because it doesn't always say exactly where they're at here: Panama City, St. Augustine, Daytona Beach, Land O' Lakes, Port Charlotte, and Pembroke Pines; one assisted living facility over in Lake City which is collocated with the VA medical center just down the street from their campus; 22 field offices collocated on federal VA facilities staffed with our able-bodied FDVA claims examiners; and three division headquarters: Benefits and Assistance at Bay Pines, the homes program in Largo, and the administrative division in Largo as well.

The Benefits and Assistance Division consists of three bureaus: The Claims Services Bureau, the Field Services Bureau, and the Bureau of State Approving Agency for Veterans Training and Education Programs. Combined together, these folks here do a lion's share of the work for touching the hearts and the lives of well over a million veterans on an annual basis.

And they do a lot of field work as well, they don't just do their work from their offices. They go out and do constituent contact and veteran contact all across the state, seven days a week. And they are well, well received by the constituents whenever they go out of their way to go out there and just answer questions. And it might not be the direct veteran that gets the question and comes forward and talks to our folks, but it could be a friend or a neighbor or a family member.

And what we do in addition to just giving them phone numbers and contact information, is we make sure that those who can't access our

2012 benefits guide online, but if they don't have access to a computer, they can walk away with one of these in their pocket or in their purse, and they've got that ready tool of just 24 pages of concise but very powerful information at their disposal.

In addition to our Benefits and Assistance Division, our partnership that's very close with our 67-county veterans services offices spread throughout the state. A key function that we have when it comes to supporting these great county reps out there is that we certify and train them on an annual basis and maintain their compliance with federal regulations and requirements as mandated by U.S. statutes and VA policies.

I won't talk any further about our homes program except I'd like to point out that we've got the Robert Jenkins Domiciliary that was opened in 1990, which is our oldest facility in our inventory. And then our newest facility in our inventory that was opened just in 2010, and Governor Scott was there just right around the same time as we celebrated our one-year anniversary. It just opened in 2010, it's a

LEED-certified green facility, and we are ramping up the number of residents that we have occupying that facility on a daily basis.

As some of you will recall from your prior visit perhaps to the homes, you'll recall that all of our homes are named in honor of deceased Medal of Honor winners who served our nation during times of war and who died on the fields of battle and they claim Florida as their home of record whenever they deceased.

This is just a brief snapshot of the funding sources that support the state's veterans homes. Of significant note -- and this is the footstop message for you today, Governor Scott and members of the Cabinet -- the Department receives no GR appropriations to operate these homes.

What I have here on a couple of easels in front of you, and I also have as a three-dimensional training aid is something that I'm very honored to have on the back of two of my vehicles. These are the license plates that directly support our veterans from all branches of service, from purple heart recipients, to U.S. paratroopers, to Iraqi Freedom, Enduring Freedom veterans. The extra money that is paid for these license plates goes directly into our state veterans homes trust fund.

Last year the voluntary contributions of some folks adding a dollar to their license plate renewal for the purchase of license plates contributed over $2 million into our trust fund to support state veterans nursing homes. And it's a tangible piece of evidence to support our veterans, but it also sends a pretty powerful message to those folks out there that don't have these, hey, go out and get one and support your state veterans. It's a great way to support the troops.

GOVERNOR SCOTT: How is the U.S. Navy selling?

COL. PRENDERGAST: Say again, sir?

GOVERNOR SCOTT: How is U.S. Navy one selling? Is it outselling the Army?

COL. PRENDERGAST: Well, it does pretty good, but to be honest, the truth in lending is the U.S. Marine Corps outsells all of them. They really do. And it is -- it is -- it is a phenomenal effort that the Marines put out there for the smallest branch of service to have such a following with their tags.

I'm proud of what they do though, and I'm proud of everybody who does take the time to purchase one of these tags and support our veterans homes.

For this year in just five months we have raised $883,000 through these license plates sales for our veterans homes program.

So this important source of funding over the past five years has averaged over $1.8 million, and all of that money goes back into helping us be a zero drain on GR appropriations to run our state's homes. Not every state has that ability to claim that, and we're very proud of that fact, that we run our homes through our trust fund and through federal VA *per diem*, and other sources of federal funding.

While each division in our agency has its own set of performance measures, the following three slides will discuss the respective division's measures and highlight the fact that each division has met or exceeded its stated performance standards for the past year.

On the benefits and assistance performance measures -- while you're kind of looking at the numbers there, I'd like to point out again the heavy lifting performed by Alene Tarter, her two titanium knees, and the Benefits and Assistance Division over the past two fiscal years. They've labored intensively to expedite processing of the Nehmer claims that pertain to our Vietnam era veterans who were exposed to agent orange and other herbicides which is directly related back to that class-action lawsuit.

They have helped our veterans and their family members receive retroactive payments going back to 1985 from when veterans or their family members first filed claims for exposure to agent orange and other herbicides.

There are three specific examples that I'd like to -- proudly highlight to all members of the Cabinet today of the hard work that her team does on a daily basis for our veterans and their family members.

Guy Critelli, a V -- a veterans claims examiner at our Bay Pines VA regional office who I believe you met, Governor Scott, when you were there earlier this summer, assisted one of our Vietnam veterans in obtaining a retroactive payment of $410,000.

Rosa Stewart, our claims examiner in Lake City, assisted a Vietnam veteran in obtaining a retroactive payment in excess of $473,000 last month.

And finally David Hill, our claims examiner supervisor in Gainesville, he assisted a Vietnam era veteran in obtaining a retroactive payment in excess of $473,000. That was just last month.

Now, there were many others that we would like to highlight to you. Suffice it to say, the list is very long and it's all attributed right back to Benefits and Assistance Division's hard work under Arlene Tarter's leadership on a daily basis there.

The part that doesn't get probably discussed at the level it needs to is in addition to the increased workload brought about by these claims and the settlements that VA is finally acknowledging, veterans coming back home to Florida after multiple combat tours in Iraq and Afghanistan are sustaining the multiple injuries.

Some of them are polytrauma injuries that are being treated at the James Haley VA Medical Center in Tampa, and others are reporting very serious manifest medical and physical challenges that are due to the rigors of combat after chronic deployments, sometimes in the cases of six or eight or more times back into the theater of operations.

This is unlike any previous period in our nation's history when it comes to the rigors of combat being exposed to -- for our -- or really a generation plus of American veterans. Consequently the demand for our support and assistance at Benefits and Assistance has increased and will likely continue to escalate as the drawdown in Iraq comes to a conclusion at the end of this month, and the future drawdown of operations in Afghanistan begins in earnest in the upcoming year to two years.

At present the backlog at the VA regional office is in excess of 48,000 claims pending. However, it's important to note with a sense of urgency the absolute necessity for veterans to initiate the claims process without delay. The clock does not start until the veteran claim is date stamped by a machine at the VA regional office.

For example, a veteran with 28 documented service-connected disabilities who files a claim this month, if all claims are granted, will be retroactively compensated all the way back to the first day of January 2012, regardless of the date that the U.S. Department of Veterans' Affairs takes action on the claim, even if it's five to 25 years later, that veteran will be retroactively compensated for that.

A veteran with eight or more disabilities will wait at present time on average 265 days for their benefits to be determined. And then if they have a subsequent claim that they want to appeal in the process, it may take from two to five years to settle that claim.

Alene does this with less than a hundred people on a daily basis for our state's 1,650,000 veterans. And we owe a great deal of thanks to her for her tireless efforts seven days a week to make that happen on behalf of our state's veterans.

GOVERNOR SCOTT: Thank you very much.

COL. PRENDERGAST: Today we have 807 residents in our homes which is an occupancy rate at 93 percent. And this again to point out, this self-sustained program receives no general revenue appropriations to sustain its operations. It's a well-run program, our director of the homes program has culminated a 40-plus-year career in service to our veterans across the nation, and we currently have our director of our homes program process to replace her out on the street, and we look forward to announcing a replacement for her in the upcoming weeks.

Finally, suffice it to say that we are a lean, flat organization with low overhead, and we deliver a superior return on investment to the taxpayers of our state. We also deliver first-class support to our veterans, their family members, and their survivors.

While the numbers on chart 17 speak for themselves, I'd like to point out that every dollar we assist our veterans in receiving from the U.S. Department of Veterans' Affairs is a dollar that the state may not have to spend in support of another state program.

Governor Scott, General Bondi, CFO Atwater, Commissioner Putnam, subject to your questions, this concludes my overview briefing of the FDVA which also includes our annual report for the period ending June 30th, 2011. We respectfully request approval of Item 2.

GOVERNOR SCOTT: Ask you one question, Mike. What -- how do you work with unemployment with DEO?

COL. PRENDERGAST: Governor Scott, we participate in the DEO task force on unemployment for veterans. We've also been a part of the group that's working with Senator Gaetz's team that's out working alongside of Chris Hart, Cynthia Lorenzo, Doug Darling, and the chamber of commerce, and other folks across there.

General Titshaw's folks do the real heavy lifting in that because they're really deeply diving into the issue of our national guardsmen here in the state which really are our first responders during a natural or manmade disaster. And we're working very closely to make sure that the communications flow is going and we're taking the time to make sure that we place every one of those 2,000 unemployed national guardsmen.

GOVERNOR SCOTT: Okay. Thank you. Are there any questions?

ATTORNEY GENERAL BONDI: When we have a business tell us that they want to hire veterans, who should they contact?

COL. PRENDERGAST: Cynthia Lorenzo has a great Web site link up there that -- it's actually -- we reference it here. I think it's on page 16 in our -- no, page 14, Employ Florida Vets.

ATTORNEY GENERAL BONDI: Right.

COL. PRENDERGAST: This Web site here through Cynthia Lorenzo's folks can take any veteran of any military occupational specialty skill, plug in their information, put a range of locations that they're willing to hunt for a job from 25 miles to a hundred miles to looking statewide, and it will print -- if there are jobs out there, it will provide a printed report of the agency, the type of job by title, and perhaps also provide some salary information, but it'll most certainly provide the human resources linkages back into that agency, whether it's a private sector enterprise, or a public sector agency that's actually looking to hire a veteran.

ATTORNEY GENERAL BONDI: It's been great to hear private businesses say that they want to hire our veterans.

COL. PRENDERGAST: They absolutely are. And, in fact, I'm meeting with the Lieutenant Governor this afternoon to talk with Cynthia Lorenzo on a couple of other initiatives about doing that.

The most important thing is, is just the folks that are out there advocating on behalf of our veterans knowing who to push that back into. And between Cynthia Lorenzo and Chris Hart and the workforce boards across the state, they're doing a really great job of communicating with those veterans that are out there. And the work -- the private sector employers who have the potential jobs to put our veterans into.

ATTORNEY GENERAL BONDI: Thank you.

GOVERNOR SCOTT: All right. No

questions? Is there a motion to approve Item 2?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Item 2 is approved without objection.

COL. PRENDERGAST: Item 3 is the quarterly report for the period of July 1 through September 30th, 2011. The Department has met the established standards in the report, but I'd like to draw your attention to page 2 under the heading of the Division of Veterans' Benefits and Assistance.

The first paragraph of that report speaks back to the backlog of claims filed having increased from 32,000 last year to 47,000 currently. As you'll recall from my remarks in the previous item, the backlog is now in excess of 48,000.

This is again -- once again due to the Nehmer claims that were settled in the class action lawsuit, and they're just working their way through the backlog of the claims at all of the VA regional offices across the country.

Other claims were largely put on hold in order to focus on the Nehmer claim, and as a result, the backlog has increased.

But that's okay. They are in the system, their claim has been date stamped, and it's in the works. And if it takes a little bit longer, that's okay, the veteran will ultimately be retroactively awarded based upon the disability determination and the compensation determination that the VA ultimately provides to them.

Also on page 2 of the quarterly report there's information relating to some changes in the state-approving agencies. If you have any questions about the state-approving agency, I'd like to pull Alene up here to elaborate on that because she's far more adroit at answering those deeper questions on the state-approving agencies.

GOVERNOR SCOTT: We're fine.

COL. PRENDERGAST: If there are no questions, we respectfully request approval of Item 3.

GOVERNOR SCOTT: Is there a motion to approve Item 3?

CFO ATWATER: So move.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded, Item 3 is approved without objection.

COL. PRENDERGAST: Item 4 contains our 2012 legislative policy proposals and our budget request for fiscal year 2012-2013. We have two policy proposals and five legislative budget requests. I'll touch on the two policy items and ask Christina Porter to walk us through the budget requests.

Our first policy proposal relates to establishing August 7th as Purple Heart Day in Florida. This was brought to us by the Department of Florida's Military Order of the Purple Heart. And our state would join several other states which have established this recognition. There's no fiscal impact on the part of the state.

Our second policy proposal relates to early course registration for collegiate veterans. There are approximately 60,000 veterans attending Florida colleges and universities under the Post 9/11 GI Bill. This proposal would require a state college or university which already has an existing early registration policy for other categories of students, such as athletes, to include veterans in that policy. Private institutions would be encouraged to follow suit. Are there any questions?

GOVERNOR SCOTT: No.

COL. PRENDERGAST: Seeing none, I'd like to ask Christina to step up and talk to you about our budget proposal.

MS. PORTER: Good morning, Governor and fellow Cabinet members. The Department has six legislative budget requests to present to you today. Our first priority pertains to the veterans homes program. The funding for this issue is from the Operations and Maintenance Trust Fund. The request is to add approximately $4 million to the salaries and benefits category. This request is a fund shift from the contracted services category; therefore, this will not increase our overall budget for the Department.

The additional rate in appropriation will be used to recruit and retain qualified medical staff, pay a shift differential to evening and night shift nursing staff, and pay a salary additive for registered nurses working as the supervising nurse for an assigned tour of duty in the seven state veterans homes.

Our second priority pertains to the Division of Benefits and Assistance. The funding for this issue would be general revenue. This issue requests six veterans claims examiners. The VCEs will provide outreach services to the five new VA clinics, and the VA medical center in Orlando as well as throughout the state.

Also it provides outreach services as needed. The new facilities are located in Orlando, Jacksonville, and Tallahassee outpatient clinics, and Lee County and Palatka community-based outpatient clinics.

Our third priority pertains to executive direction and support services. Funding for this issue is requested through the Operations and Maintenance Trust Fund. This issue requests nonrecurring funds from within the contracted services category to pay for the replacement of the ULTRACare for Windows software, which is our clinical and financial software used within the homes program. The software is nearing the end of its useful life. This issue represents a second-year funding for the software upgrade.

Our fourth priority pertains to the veterans homes program. Funding for this issue would be through the Operations and Maintenance and State Homes for Veterans Trust Funds. This issue requests nonrecurring budget appropriation for the purchase of equipment that has exceeded its useful life. The age of our state veterans homes ranges from newly opened to 21 years old.

Examples of items to be purchased would include roto chairs, Hi-Lo beds, patient lifts, and commercial-sized appliances.

Our fifth priority pertains to the Division of Benefits and Assistance. The Bureau for State Approving for Veterans Training receives full reimbursement for all expenditures through a contract with the U.S. Department of Veterans' Affairs. This issue requests additional appropriation equal to the full amount of the contract which is approximately $860,000. To align our Department's operating budget with this contract we would request an additional $233,000.

Finally our last request pertains to fixed capital outlay. This request is funded from the State Homes for Veterans and Operations and Maintenance Trust Funds. This issue requests funds for maintenance, repair, and replacement of fixed capital items at all of our nursing homes and the domiciliary.

Examples of these items would be replacement of chillers, water heaters or boiler pumps, repaving driveways and parking areas. Are there any questions I can answer in relation to the budget items?

GOVERNOR SCOTT: Okay. No. Thank you very much. Is there a motion on Item 4?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Florida law requires the Governor to independently submit budget proposals, accordingly I am abstaining from the vote on this item. Therefore, the record should reflect that this item is approved with one abstention.

COL. PRENDERGAST: Item 5 is a report on the independent study conducted on our state veterans homes operations and business model. This report is offered for information purposes only. And I'll ask Christina to step back up to the podium and present the study's results and recommendations.

MS. PORTER: As you may recall from the Cabinet meeting on February 22nd, the FDA requested, and the Governor and Cabinet authorized, the Department to proceed with a study to determine the most appropriate business model for the future of our state veterans homes program.

Evergreen Solutions completed the study and has provided the Department with a final report of which I will summarize for you today.

The homes business case analysis explored three business models: Maintaining the current state agency structure with certain improvements, transitioning to a public corporation within state government utilizing business practices more conducive to the operation of 24/7 nursing facilities, and privatization of the entire homes program, or contracting with a management company for operating the homes while maintaining state oversight.

The study concluded that no single option will address all of the identified needs and requirements without costs or risk. The study defined the following limiting factors for the operations of a health care entity within our current state agency structure. A need for replacement of the financial and clinical software system, a need for the human resources system or an adequate rate -- excuse me -- a need for changes in the human resource system or an adequate rate allocation to provide flexibility and staffing and more competitive salaries in today's market, and a need for an option that ensured the viability of the state veterans homes.

The study determined that forming and operating a public corporation would provide greater operational flexibility but implementation costs would be significant and legislation would be required at a minimum to redefine the program as a body politic.

Implementation costs include the loss of federal *per diem*, Medicare and Medicaid funding until new applications, licensing, and successful surveys were obtained from the Centers for Medicaid and Medicare Services and the U.S. Department of Veterans' Affairs. The loss of one month of revenue for the seven homes equate to approximately 5.2 million.

The outsourcing option involves contracting out the entire homes program to a third party that would be responsible for operating the veterans homes on behalf of the state. In order to maintain the *per diem* funding, the U.S. Department of Veterans' Affairs requires the Department to maintain a state FTE at each veterans home to ensure that the third party meets all contractual obligations.

The state FTE would be an equivalent to a nursing home or assisted living administrator. The estimated cost to preserve this presence in state veterans homes is approximately 675,000.

In addition, a management fee would be paid to a third party for operating the homes. And finally the state would be -- would remain responsible for all capital improvements for the facilities.

The report concludes that it is likely the homes program would operate at a deficit, and potentially stands to overpay for a lower quality of care due to the limitations placed on providing services to veterans coupled with the need to reduce expenses to generate a profit for the management company.

We have used outsourced services within the homes program in the past and for several years ran two parallel business models. Our two older homes were staffed with state FTE, and the three newer homes were staffed with outsourced employees. We contracted for certified nursing assistants and food service operations at three of the homes.

AHCA surveys documented a higher quality of care in those homes where state FTE were responsible for resident care; furthermore, resident satisfaction surveys reflected the same positive outcomes when compared to homes where a contract solution was in place.

Finally, food service delivery was significantly better and delivered at a reduced cost in the noncontracted homes.

In the end we selected the best elements of both business models moving forward to ensure that we provide the best quality of care and living environment for our state's veterans. We have maintained outsourcing where it proves to be the most cost-effective vehicle for the service requirement for our resident veterans. Examples of outsourced services that we currently used are therapy, including physical, speech, and occupational; as well as housekeeping and laundry.

Complete privatization of the homes program would require legislation to transfer ownership from the state to the private sector. The state would no longer receive federal *per diem* funding and would be required to pay the U.S. Department of Veterans' Affairs at least 65 percent of the value of the facility up to the total amount of federal funds received for the original construction and renovation costs.

For example, our Daytona Beach facility, which is our oldest facility, would require reimbursement of 5.8 million plus recent renovation grants of approximately 4 million. The potential reimbursement cost of the U.S. Department of Veterans' Affairs for the seven state veterans homes is approximately $69.3 million, plus the reduction of federal *per diem* payments makes privatization an impractical option.

The final recommendation of the business case analysis is that the veterans homes program take measures to improve current agency operations, utilizing the existing state agency structure. The recommended improvements will incur the lowest cost while achieving maximum benefit to the state veterans homes, and ultimately continue to provide the highest quality of care to our resident veterans.

In addition, this option provides for decreasing the high rate of staff turnover by improving pay, allowing flexibility of work schedules, and offering other incentives to attract and retain the best long-term care clinical staff. This option provides for updating the financial and clinical software that leads to improved care and the ability for the homes to be financially self-sustaining.

Two of the recommended improvements to the current structure are included in our Department's legislative request for the upcoming fiscal year, and that was the addition of rate, salary and benefit appropriation, as well as the replacement of the software system.

FDVA's management team will continue to explore the recommendations and consider the options included in the Evergreen study and -- that will result in the most benefit to our homes program. We will strive to implement the recommendations that increase the efficiency and effectiveness to ensure FDVA's ability to meet our primary mission of the homes program which is veterans advocacy.

At this time we do not propose any legislation for altering the operation of the homes program. Thank you for the opportunity to present these findings to you today. We'll be available at your convenience as well as the Evergreen Solutions management team if you have any questions regarding the study.

GOVERNOR SCOTT: Thanks a lot, and good luck with your new job.

MS. PORTER: Thank you so much.

GOVERNOR SCOTT: Any questions? Okay. Thank you.

COL. PRENDERGAST: Governor Scott, members of the Cabinet, this concludes our presentations today with the fifth and final item.

If we don't have an opportunity to see you in the days and weeks ahead, thanks for your service as always, it truly makes a difference on behalf of our state's veterans and their family members, and we look forward to seeing you out there at one of our homes in the not-too-distant future.

GOVERNOR SCOTT: Well, thank you very much for -- and I hope you tell all -- everybody working in Veteran's Affairs, we're very appreciable of what you're doing. It was impressive when I was down there and I enjoyed visiting that home.

So have a nice holiday season, and thanks a lot for all your hard work.

COL. PRENDERGAST: Thank you.

Merry Christmas.

ATTORNEY GENERAL BONDI: Thank you very much.

GOVERNOR SCOTT: Okay. The SBA quarterly meeting will begin at 1:00 p.m. I hope it will be warmer then. This concludes the Cabinet meeting. We are adjourned.

(Cabinet meeting concluded at 12:15 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA:
COUNTY OF LEON:

I, CAROLYN L. RANKINE, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 1 through 155 are a true and correct record of the aforesaid proceedings.

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

DATED THIS _______ day of January, 2012.

____
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