

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

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Representing:

DIVISION OF BOND FINANCE

FINANCIAL SERVICES COMMISSION, OFFICE OF  
INSURANCE REGULATION

BOARD OF TRUSTEES, INTERNAL IMPROVEMENT TRUST FUND

STATE BOARD OF ADMINISTRATION

The above agencies came to be heard before  
THE FLORIDA CABINET, Honorable Governor Bush  
presiding, in the Cabinet Meeting Room, LL-03, The  
Capitol, Tallahassee, Florida, on Tuesday, August 1,  
2006, commencing at 9:05 a.m.

Reported by:  
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Representing the Florida Cabinet:

JEB BUSH  
Governor

CHARLES H. BRONSON  
Commissioner of Agriculture

CHARLIE CRIST  
Attorney General

TOM GALLAGHER  
Chief Financial Officer

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

2 (The agenda items commenced at 9:15 a.m.)

3 GOVERNOR BUSH: Division of Bond Finance.

4 CFO GALLAGHER: Motion on the minutes.

5 ATTORNEY GENERAL CRIST: Second.

6 GOVERNOR BUSH: There's a motion and a second.

7 Without objection Item 1 passes. Item 2. Ben, how are  
8 you doing?9 MR. WATKINS: Very good, Governor. Item 2 is a  
10 resolution authorizing the issuance of community  
11 college capital improvement revenue bonds. This is a  
12 new program that was authorized for community colleges.  
13 It's based on a per credit hour fee capital improvement  
14 charge, and it's elective on the part of the community  
15 colleges as to whether they participate or not.

16 CFO GALLAGHER: Motion on 2.

17 COMMISSIONER BRONSON: Second.

18 GOVERNOR BUSH: There's a motion and a second.

19 Without objection the item passes.

20 MR. WATKINS: Item Number 3 is a report of award  
21 on the competitive sale of \$144,580,000 in Florida  
22 Forever revenue bonds. The bonds were awarded to the  
23 low bidder at a true interest cost of approximately  
24 4.38 percent.

25 CFO GALLAGHER: Motion on 3.

1           COMMISSIONER BRONSON:   Second.

2           GOVERNOR BUSH:   There's a motion and a second.  
3   Without objection the item passes.

4           MR. WATKINS:   And Item Number 4 is a report of  
5   award on the competitive sale of \$16.7 million in  
6   capital outlay bonds for education.   The bonds were  
7   awarded to the low bidder at a true interest cost of  
8   4.55 percent.

9           CFO GALLAGHER:   Motion on 4.

10          ATTORNEY GENERAL CRIST:   Second.

11          GOVERNOR BUSH:   There's a motion and a second.  
12   Without objection the item passes.   Interest rates are  
13   going up, uh, Ben?

14          MR. WATKINS:   Yes, sir, marginally.   But we've  
15   been able to effectively manage those, but rates are  
16   headed up.   Thank you, sir.

17          GOVERNOR BUSH:   Thank you, Ben.

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1           GOVERNOR BUSH: Financial Services Commission,  
2           Office of Insurance Regulation. Mr. McCarty, how are  
3           you, sir?

4           MR. McCARTY: Good morning, Governor. How are  
5           you, sir?

6           GOVERNOR BUSH: Doing well.

7           MR. McCARTY: Good morning, members of the  
8           Cabinet.

9           CFO GALLAGHER: Motion on 1.

10          ATTORNEY GENERAL CRIST: Second.

11          GOVERNOR BUSH: There's a motion on the minutes  
12          and a second. Without objection the item passes. Item  
13          2.

14          MR. McCARTY: Adoption of amendments to Rule  
15          690-141.020. These are procedures for withdrawal,  
16          surrender of certificate of authority or for the  
17          discontinuation of writing business in the state of  
18          Florida pursuant to Chapter 624.430 of the Florida  
19          Statutes.

20          The proposed amendment to the rule would put  
21          changes in Florida Law by removing portions of the rule  
22          pertaining to the surrender of a certificate of  
23          authority in references to related moratorium  
24          phase-out.

25          CFO GALLAGHER: Motion on 2.

1           ATTORNEY GENERAL CRIST:   Second.

2           GOVERNOR BUSH:   What does that mean in English?  
3           There's a motion and second, and we'll have discussion  
4           now.

5           MR. McCARTY:   The current law requires the Office  
6           of Insurance Regulation to approve various changes.  
7           Basically the law has been repealed.   The moratorium  
8           phase-out, which was put into effect after Hurricane  
9           Andrew, which was done initially by order of the  
10          Insurance Commissioner, subsequently put into law, they  
11          phased out, which allowed a phase-out of the policies.  
12          That law was expired and as a consequence the rule has  
13          been rendered moot.

14          GOVERNOR BUSH:   Thank you.   That was an excellent  
15          English interpretation.

16          MR. McCARTY:   I'm working on my English.

17          GOVERNOR BUSH:   I know you are.   And I'm  
18          encouraging it.   That was my point.

19          CFO GALLAGHER:   And you may remember, Governor.  
20          After Hurricane Andrew we were notified that about a  
21          million and a half policyholders were going to be  
22          non-renewed.   We didn't have an insurer of last resort.  
23          We didn't have a cat fund to back them up.   We didn't  
24          have anything.   So we did an emergency order that said  
25          they had to renew policies and then went to the

1           Legislature and passed a law that said that.

2                   And they can only drop no more than ten percent of  
3           their policies in any one year, no more than five  
4           percent in any one county. And, of course, after ten  
5           years it was no longer needed. And the Legislature  
6           repealed the law, which was a good thing. And these  
7           are the rules that don't need to be there if there's no  
8           law.

9                   GOVERNOR BUSH: Gotcha. There's a motion and a  
10          second. Without objection the item passes. Item 3.

11                  MR. McCARTY: Item 3, Governor, is the adoption of  
12          amendment to Rule 690-144.002 and 005, approval  
13          procedures for credit for reinsurance. This proposed  
14          amendments to the rule are the new National Association  
15          of Insurance Commissioner forms, which are universally  
16          applied across the country, used by reinsurance  
17          companies to submit their final financial statements to  
18          the Office of Insurance Regulation.

19                  Also there are additional amendments that reflect  
20          the changes to the structure within our organization.

21                  CFO GALLAGHER: Motion on 3.

22                  ATTORNEY GENERAL CRIST: Second.

23                  GOVERNOR BUSH: There's a motion and a second.  
24          Without objection the item passes.

25                  MR. McCARTY: Item Number 4 is the adoption of



1 amendment of Rule 690-170.013, filing procedures for  
2 property and casualty insurance rates and rules. This  
3 rule allows insurers to use their own internal data for  
4 rate development when it comes to terrorism rates, as  
5 opposed to using industry standards that are  
6 established by rating organizations.

7 CFO GALLAGHER: Question.

8 MR. McCARTY: Yes.

9 CFO GALLAGHER: How does this affect workers'  
10 comp?

11 MR. McCARTY: Well, the workers' comp rates are  
12 unique in that they are State -- actually, they're  
13 State-approved rates. You have a uniform rate,  
14 different rating classifications, but you have one  
15 rate. This differs from regular property insurance,  
16 where everyone files for their own individual rates  
17 based upon their own projected future losses and  
18 expenses.

19 What this rule did was establish the standards by  
20 which we address the cost of the terrorism provision  
21 within workers' compensation. This was challenged,  
22 this rule previously was brought before it. We lost  
23 the rule initially and won on appeal. So we're  
24 bringing this rule back for adoption.

25 CFO GALLAGHER: So this rule basically carries out

1 what you've been doing in regards to comp.

2 MR. McCARTY: Right. As a matter of fact, as a  
3 result of this there will be a number of -- as a result  
4 of this and actions taken by the office, there will be  
5 several million dollars in premiums returned to  
6 policyholders.

7 CFO GALLAGHER: That's what I was checking on.

8 COMMISSIONER BRONSON: Motion on Item 4.

9 ATTORNEY GENERAL CRIST: Second.

10 GOVERNOR BUSH: There's a motion and a second.  
11 Without objection Item 4 passes.

12 MR. McCARTY: The next agenda item, Governor, is  
13 the request for approval to publish the notice for  
14 rulemaking. The proposed rulemaking activates the  
15 Property and Casualty Joint Underwriting Association,  
16 which is established pursuant to Florida Chapter  
17 627.351.

18 This, again, does not activate the JUA but merely  
19 puts us in a rulemaking posture. We'll be taking  
20 evidence over the course of the next several weeks, and  
21 then we would bring this issue back to the Financial  
22 Services Commission for final action regardless of  
23 whether we're going to activate the JUA.

24 GOVERNOR BUSH: How long will that take, Kevin?

25 MR. McCARTY: Well, the rule adoption process

1 generally takes approximately 90 days. We anticipate  
2 that we could, if necessary, advance that schedule  
3 based upon provisions of the Florida Law, Florida  
4 Administrative Procedures Act, a finding or  
5 determination that the health, welfare, safety of the  
6 State of Florida is in jeopardy.

7 I think he could probably conclude that as a  
8 result of the numerous e-mails and phone calls that  
9 we've received collectively in terms of what's been  
10 going on.

11 We have met with business associations in South  
12 Florida, the Beacon Council, the Enterprise Florida,  
13 with our Office of Insurance Regulation. And there is  
14 deep concern, not only about the future economic  
15 development of Florida but maintaining the businesses  
16 that are currently in Florida and the jeopardy of  
17 losing those businesses to other states because of the  
18 cost of insurance.

19 But it's not just a matter of cost. We have  
20 recently completed a survey, the survey which results  
21 we've presented to you, where 13 percent of the  
22 respondents said they couldn't find insurance at any  
23 price. So this is a crisis that is deepening in  
24 Florida and would certainly potentially jeopardize the  
25 future economic development of our state.

1 CFO GALLAGHER: I would suggest, Kevin, that you  
2 prepare an emergency rule for the next Cabinet meeting  
3 so that we'll have time to discuss it over the next two  
4 weeks and see if it's justified at that point by the  
5 surveys that are being done. I'm pretty sure it will  
6 be. And that way we can move forward from there.

7 MR. McCARTY: Certainly we would also like the  
8 opportunity to look at some other opportunities as well  
9 in addition to emergency rule drafting.

10 CFO GALLAGHER: We need to get a board?

11 MR. McCARTY: Yeah. There are a number of things  
12 that need to be done. The board appointments that are  
13 required under the Florida Statute are required to be  
14 made by you, the CFO. And it is prescribed by statute,  
15 the formula for making those appointments. They serve  
16 a two-year term. But that is the essential part,  
17 obviously, for us to proceed. If we do activate that,  
18 they are the governing body responsible for proffering  
19 the plan of operation.

20 The rule lays out a lot of the things that would  
21 ordinarily be established in the plan of operation, and  
22 we'll be presenting the plan -- according to the rule,  
23 we'll be presenting the plan of operation to you for  
24 your adoption.

25 CFO GALLAGHER: It looks like the rule that I saw

1           here as a -- I guess somebody put a rule up here, looks  
2           like it's a draft rule.

3           MR. McCARTY: Right. This would be the rule that  
4           we would take to the Florida Administrative Weekly  
5           tomorrow, announce it in the normal course of business  
6           in accordance with the act. We'll hold a public  
7           hearing. I mean, if we were to push on a date of  
8           activation, if we had to do something, I think the most  
9           immediate date would be September 1st, on or about.

10          GOVERNOR BUSH: But you need to get our approval.

11          MR. McCARTY: Yes.

12          GOVERNOR BUSH: So it would be the first meeting  
13          in September; is that what you're saying?

14          MR. McCARTY: Yes, sir. That is if we decide and  
15          opt to do this as a direct writer. By that I mean  
16          setting up an insurance company or a servicing carrier.  
17          One of the things I'd like to explore doing -- and it's  
18          allowed under the way we've currently drafted this --  
19          is look at potentially doing quota share agreements,  
20          where we -- as a result of our meeting with the Lloyd's  
21          syndicate, the real problem is the availability of  
22          global reinsurance. And the contraction of that  
23          marketplace is affecting our primary marketplace in  
24          Florida, and elsewhere in the country, but it's most  
25          dramatically here in Florida.

1           If the issue is reinsurance, I think what we'd  
2           like to do is see if we can bring some mechanism of  
3           bringing reinsurance in the marketplace. Therefore,  
4           you're able to maintain the regular delivery system of  
5           the private service marketplace and not supplant this.

6           The goal of doing this is to do the least  
7           intrusive in the private sector marketplace and provide  
8           a bridge for us until the marketplace brings back to  
9           some semblance of normalcy or back to normal.

10          CFO GALLAGHER: Have you surveyed to see if  
11          companies would be amenable to continue writing if they  
12          had a quota share?

13          MR. McCARTY: I've had discussions with a number  
14          of companies. The companies said they think it's  
15          doable. With this, we'll need some time for us to  
16          flesh out the details to see in fact if we've been able  
17          to make this a part of our operation.

18          It may be something that could be done, but it may  
19          not be able to be done in the time frame in which you  
20          want to do it. That's way, the way it's drafted, it  
21          could be done either on a direct basis or an indirect  
22          basis. So we can do it either as a reinsurer or as a  
23          direct writer.

24          GOVERNOR BUSH: But the objective ought to be that  
25          the first meeting in September, after having these

1 ideas be thoroughly vetted, where you're -- at least I  
2 volunteer to talk to the commercial insurance companies  
3 as well, to determine the best possible way that we --  
4 either way we can have rules ready if there is a  
5 consensus that there's emergency, which I believe that  
6 easily could be proven out. Then we could have  
7 something operational shortly after the first meeting  
8 in September.

9 MR. McCARTY: Well, that would not -- that would  
10 not be my ideal date, but it's something, if you wanted  
11 to activate it --

12 GOVERNOR BUSH: Your ideal date is August?

13 MR. McCARTY: No. I'm saying, in order for us to  
14 flesh it out, I would like more time if that were  
15 available. But I'm guessing from my previous  
16 conversations with you that --

17 CFO GALLAGHER: Here's the problem. August 15th  
18 is when -- we already have a lot of people that don't  
19 have any coverage. And as we get into August 15th is  
20 when the waters are warm in the Gulf and bad things  
21 happen from little storms that start, and people need  
22 insurance.

23 And we're going to lose businesses that are going  
24 to move out of Florida if they can't get it. And I  
25 think time is of the essence on this. And I think

1           there's three ways we can go. One is the quota share,  
2           which I think would be fastest and best for us. The  
3           only problem with that is we could end up with a  
4           whole -- you know, having quota share reinsurance on  
5           every piece of property.

6           MR. McCARTY: It doesn't necessarily mean, though,  
7           that people who aren't getting the insurance will get  
8           the insurance. That's my concern about doing the quota  
9           share. Just by expanding -- the expectation is just by  
10          expanding the capacity in the capital market by  
11          creating this additional reinsurance, whether it's  
12          quota share or catastrophe, you don't necessarily --  
13          the individual people that we've met in Polk County and  
14          Miami and Key West that don't have the coverage will  
15          not necessarily get it through that quota share.

16          That's why it might be necessary to bifurcate the  
17          product and have a short-term direct product to  
18          immediately deal with the problem and then look over  
19          the course of the next 18 months and gravitating this  
20          more towards the reinsurance mechanism for stability in  
21          the marketplace.

22          CFO GALLAGHER: I agree with that. That was sort  
23          of where I was going. My first problem with the quota  
24          share is, one, getting people interested. And the  
25          other one is the other side where everybody would quota



1 share everything, and all of a sudden we would  
2 basically be writing every piece of commercial property  
3 in Florida. So we don't want that to happen by any  
4 means.

5 GOVERNOR BUSH: But we also don't want a  
6 Citizens-like commercial insurance company writing all  
7 the policies either.

8 CFO GALLAGHER: Exactly.

9 GOVERNOR BUSH: I think we've learned some lessons  
10 and we might as well --

11 CFO GALLAGHER: What we would probably do -- and I  
12 haven't discussed this with you, Kevin -- is the  
13 alternative that we would do with the quota share would  
14 be probably to be a direct writer but through servicing  
15 carriers; in other words, not do it totally direct but  
16 use the existing commercial market out there and the  
17 existing agents to process the business as opposed to  
18 doing what Citizens does direct.

19 MR. McCARTY: Yes. And the statute contemplates  
20 that, yes, sir.

21 GOVERNOR BUSH: So, as it relates to any of these  
22 options, all of which are on the table, all of them, in  
23 terms of timing, can be accomplished, in terms of the  
24 rulemaking part of this, by the first --

25 MR. McCARTY: We would have to do that through

1 emergency rulemaking, sir. Ordinary rulemaking takes  
2 forever.

3 GOVERNOR BUSH: Yeah, I know. And that's why I'm  
4 bringing it up again.

5 CFO GALLAGHER: Kevin, you were around during  
6 Hurricane Andrew. We got those rules done pretty  
7 doggone quick.

8 MR. McCARTY: Yeah. Again, we relied on the  
9 provision of -- yes, sir.

10 GOVERNOR BUSH: Well, we could probably do the  
11 rules when there's a hurricane coming and we could  
12 declare it a disaster, but there won't be any insurance  
13 so -- we could do it really fast then, but it won't  
14 matter.

15 MR. McCARTY: I think the concern -- and I think  
16 this is a concern probably shared by members of the  
17 industry, and I think, as you probably expressed today,  
18 Governor, and have in the past, is whatever solution we  
19 craft, you know, we want to make sure that it does as  
20 little violence to the marketplace that's willing to  
21 write at this time as possible and not supplanting that  
22 market, but actually going very strategically in those  
23 areas where it's necessary.

24 And the faster we do this, we run the risk, of  
25 course, of doing some dislocation in that marketplace.

1 And that's going to be kind of a --

2 GOVERNOR BUSH: We're counting on your incredible  
3 expertise --

4 MR. McCARTY: Yeah. I appreciate that, sir.

5 GOVERNOR BUSH: -- to avoid the laws of  
6 unintended consequences. I realize the faster this is  
7 it creates the potential for something that two years  
8 from now they may say, why did we do it. That's just  
9 the law of -- that's public policy 101.

10 But we've had enough experience now to hopefully  
11 avoid those pitfalls. The other thing that I am more  
12 than willing to do is to help convene, you know, use  
13 the power of convening to get some of these insurance  
14 companies that are in the commercial side to come and  
15 to listen to them and to encourage them to not lose  
16 confidence in the state and not lose confidence in  
17 their customers.

18 I mean, this is a serious problem, but we don't  
19 have to just exclusively focus on rulemaking. We can  
20 do other things as well. And we ought to in the next  
21 couple of weeks.

22 CFO GALLAGHER: I think most of the companies  
23 probably have pretty good confidence in everything  
24 except the weather. That's what's --

25 GOVERNOR BUSH: Yeah. But they have long-standing

1 customers that they'll abandon at the drop of a hat  
2 because of this reinsurance problem.

3 CFO GALLAGHER: Right. And some of them fiscally  
4 cannot write the business because of the lack of  
5 reinsurance. They don't have the capital to pay a  
6 catastrophic hit. So without the reinsurance, they  
7 don't have a choice but to drop them. I mean, they  
8 wouldn't let them write it.

9 MR. McCARTY: I mean, we would not allow a company  
10 who did not have adequate reinsurance or some way of  
11 paying claims to operate in a hazardous financial  
12 condition during hurricane --

13 GOVERNOR BUSH: These commercial writers, are they  
14 different than the residential writers that have  
15 created these Florida captives that creates the  
16 unintended consequence again of concentrating our risk?

17 MR. McCARTY: The commercial market is very  
18 different than the residential market.

19 GOVERNOR BUSH: So it's diffused out.

20 MR. McCARTY: It's much more diverse. It's much  
21 more spread out, and it's much more in national  
22 companies. They don't have insurance company --  
23 Commercial Company of Florida, as we've seen with the  
24 large national writers for homeowners insurance, where  
25 on a homeowner basis nationally it's much more

1 concentrated in five or six companies. In Florida it's  
2 more diffuse than that. But we still have the large  
3 companies who set up Florida pup companies, which we  
4 know, Governor, from our conversations with the Lloyd's  
5 syndicate, makes it more difficult to place that  
6 Florida coverage.

7 GOVERNOR BUSH: Commission Bronson and then  
8 General Crist.

9 COMMISSIONER BRONSON: Thank you, Governor.  
10 Kevin, I've been concerned about this. When I start  
11 hearing from agriculture people with properties where  
12 they're either manufacturing another product or  
13 remanufacturing. The domino effect of not getting a  
14 really solid solution to this problem is going to  
15 affect jobs, what those people are going to do with  
16 their property from here on out. It could really  
17 have -- what happens at this level is going to have a  
18 big effect on people all the way down to their  
19 insurance on their homes because people are going to be  
20 wondering how long their business is going to be in  
21 operation and whether their job is still there.

22 And I'm sure banks would be very interested in  
23 that since they're holding mortgages on a lot of those  
24 properties that people are having to pay for that  
25 insurance.

1           So this is really concerning to me as well. When  
2           I start hearing from agriculture people on commercial  
3           property issues, I know it's gotten pretty serious by  
4           then, because a lot of them have done a lot of their  
5           own backup. And they're at the point now, they've been  
6           hurt so bad they can't back their situation up like  
7           they used to. They just don't have the capital  
8           available. They've had to go out and rebuild and do  
9           things themselves.

10           So I'm very concerned that the domino effect of  
11           this could be pretty bad if we don't get a solid  
12           solution.

13           MR. McCARTY: And the breadth of the problem, as  
14           you said, sir, really goes -- it's not just a coastal  
15           problem. We kind of think of this as a coastal  
16           development problem, but this is -- from the results of  
17           our survey, some of the most difficult problems are in  
18           Polk County. I mean, and a lot of this has to do with  
19           building construction and how well the building is  
20           constructed, not so much -- yes, proximity to the coast  
21           is important.

22           But it gives me an opportunity to emphasize, there  
23           are two ways to really fundamentally address the issue  
24           of the capacity problem in Florida, and that is to put  
25           more capital in Florida. And I've got to commend the

1           Legislature for adopting the law they passed last year  
2           because they put a quarter of a billion of Florida  
3           capital, which means a half a billion more capital in  
4           our system, which in the long run is going to go a long  
5           way.

6                   And number two is we have to change how we build  
7           in Florida. We have to address the issue that we  
8           cannot build buildings that blow away, that affordable  
9           housing is more than just bricks and mortar. It's the  
10          ultimate cost of the insurance and the cost of what  
11          happens to that family or that business when it's  
12          destroyed in a storm.

13                   So we really have to emphasize improved building  
14          codes and improved enforcement of building codes. And  
15          I commend the Legislature again for the quarter billion  
16          dollars they put in the homeowners for that  
17          retrofitting program for mitigation. We may need to  
18          look at a mitigation program for our businesses as well  
19          in the future.

20                   GOVERNOR BUSH: Well, you may want to commend the  
21          Legislature for the \$715 million.

22                   MR. McCARTY: Yes. And as long as I'm on it, I'd  
23          like to commend the Legislature for that as well, and  
24          certainly would like to encourage the public to call in  
25          with regard to the building commission and their

1 activities with regard to the Panhandle, because I  
2 think that that Panhandle from Flagler County to  
3 Escambia County and not having the same wind load  
4 standards for the home owners there, you know, we  
5 really need to change the culture in this state about  
6 safe homes for Floridians. It's an integral part to  
7 the culture of our preparedness in our state.

8 GOVERNOR BUSH: General.

9 ATTORNEY GENERAL CRIST: Thank you, Governor. I  
10 just had a few questions, Kevin. You said ordinarily  
11 the time table is about 90 days, in response to the  
12 Governor? In accelerating that, I think the Treasurer  
13 mentioned maybe an emergency rule. What is the  
14 shortest time frame? Is the first part of September  
15 the earliest we could --

16 MR. McCARTY: And just managing expectations, I  
17 know the Governor generally likes to know what the date  
18 it's going to be operational. And I'm trying to, in  
19 meeting with my staff and talking with some industry  
20 people, what is reasonable for us to be able to go  
21 market with this product, either -- probably more  
22 realistically on a direct basis but potentially on an  
23 indirect basis.

24 ATTORNEY GENERAL CRIST: Well, I would encourage  
25 you to accelerate prudently, along with what the



1 Governor had said. I was curious, too. You would have  
2 hearings as part of this process?

3 MR. McCARTY: Yes, sir.

4 ATTORNEY GENERAL CRIST: Do you know how many or  
5 where you would have them?

6 MR. McCARTY: We would have at least one hearing.  
7 We'll have an informal hearing. The law contemplates  
8 that you have -- there's the due process hearing. We  
9 do intend to have a hearing. We will probably have  
10 that hearing in the next couple of weeks. We're  
11 already working with some legislators about some  
12 potential hearing sites, et cetera, to help bring in  
13 the necessary businesses, if it's necessary to make the  
14 case for an emergency rule. We could use that hearing  
15 as that opportunity.

16 ATTORNEY GENERAL CRIST: Great. And then,  
17 Governor, if I could, I was curious about the survey  
18 that you did. Can you elaborate on that a little bit?

19 MR. McCARTY: Sure. There were approximately  
20 1,900 respondents to the survey. And I'd like to  
21 emphasize, to begin with, General, that this is a  
22 voluntary survey. We did encourage the restaurant  
23 association, Enterprise Florida, chambers of commerce,  
24 to encourage their members, but it's not necessarily a  
25 scientifically statistical sample, but it is people

1           that have reached out to our Web site through  
2           cooperation with the business community.

3           We did get 1,900 respondents. We did have -- let  
4           me try to find that. You can see from that that a  
5           majority of the respondents are small businesses. The  
6           majority of it is coastal. The majority of the  
7           respondents were coastal, but we did see that there was  
8           a particular problem in some of the interior counties  
9           as well.

10          The property summary chart shows the data. Some  
11          of them had found coverage. And this is another thing  
12          we need to do in terms of managing expectations. Some  
13          of them found coverage, and we have anecdotal stories  
14          that they found them, but they paid in some cases over  
15          200 percent what they paid previously.

16          And some of the comments, they would show that  
17          they paid well in excess of 200 percent of their  
18          previous premium. Some of these are finding it with  
19          deductibles that are just beyond what they could be  
20          able to pay.

21          And some people are having their premiums go up to  
22          what's about 50 percent of their gross proceeds for the  
23          whole year, which is just not something they could  
24          build into their businesses over time.

25          Thirty-nine percent of the respondents found

1 coverage but at an increased price, and they found  
2 coverage as I just articulated. Seventeen percent  
3 could not find coverage at any price in the counties of  
4 concerns that I showed you on the chart.

5 We have all of the answers to the study available.  
6 We'll be putting those -- we're redacting that  
7 information as to personal identifiable information,  
8 and we'll be putting that on our Web site and we'll be  
9 happy to send those responses to you as well, sir.

10 ATTORNEY GENERAL CRIST: It looks like the  
11 majority on your pie chart probably would concur with  
12 the Governor and want to try to accelerate some kind of  
13 opportunity, because it's either, you know, they found  
14 coverage but it was higher, they found coverage but  
15 there was a higher deductible. I mean, obviously they  
16 need help.

17 MR. McCARTY: Right. And that's the issue we  
18 really have to grapple with, is if they have found  
19 coverage, are we going to be supplanting that coverage  
20 with rates -- with State-provided coverage. And  
21 that's, I think, the concern.

22 It's an available issue for those 13 percent.  
23 It's an affordable issue for the combined marketplace  
24 of a sizable number of our respondents. And this is  
25 also substantiated by talking to individual businesses,

1 people who are calling on the hotline, as well as what  
2 our agent force is telling us as well.

3 GOVERNOR BUSH: Kevin, the bank issue.

4 MR. McCARTY: Yes.

5 GOVERNOR BUSH: I got an e-mail yesterday that I  
6 thought was interesting. It was a small business  
7 person or I guess it was a person that owned real  
8 estate, had e-mailed Senator Lynn, who passed it on to  
9 you, I believe. And in that e-mail she had a  
10 suggestion about how -- what we could do to maybe  
11 convene a meeting with the banks, credit unions, others  
12 that are providing mortgages on these properties, to  
13 make sure that they don't, in this interim period where  
14 we have significant problems here that hopefully will  
15 be resolved with the return of the reinsurance market  
16 and any proposals that we implement, that they don't --  
17 that we either voluntarily -- I assume that would be  
18 the logical thing to do -- ask them not to foreclose on  
19 properties or to create hardship.

20 Maybe they have some suggestions on what could be  
21 done because most of this commercial real estate is  
22 leveraged. And so you could get to a point --  
23 although, I just remind everybody, the premiums on  
24 commercial real estate is going to be still -- it's  
25 less than property taxes, which have also gone up. I

1 mean, we have -- it's not a hundred percent of the net  
2 operating income of properties.

3 Typically -- I mean, it used to be 40 cents per  
4 square foot, something like that. That would be the  
5 average. And so it's now --

6 CFO GALLAGHER: Two dollars.

7 GOVERNOR BUSH: -- two dollars a square foot.  
8 That's a significant increase. It probably won't  
9 create the hardship for every person that's got a  
10 mortgage. But there could be cases where the inability  
11 to get insurance would mean the loan would be  
12 foreclosable. And we need to work with the banks, I  
13 think, to figure out a way to solve that problem.

14 CFO GALLAGHER: Usually what happens is the bank  
15 will force place coverage. In other words, the bank  
16 has an agreement with a major insurer.

17 GOVERNOR BUSH: And they may not be able to get  
18 insurance.

19 MR. McCARTY: And that's a good point. When you  
20 cannot get forced-placed coverage, that's a very  
21 telling sign of how much distress the marketplace is.

22 CFO GALLAGHER: One banker told -- his commercial  
23 property owner said, "Look, I can't get insurance, and  
24 I know you've got the forced-placed thing, and I know  
25 I'm going to get it put on top of everything else, but

1 go ahead and just force place. I cannot find it  
2 anywhere."

3 And the banker said, "We just got a call and our  
4 forced-placed company said, 'We're full, we can't take  
5 anymore,' so there isn't any to get there either."

6 GOVERNOR BUSH: So this is -- again, the point  
7 here is that over these next two weeks, before you come  
8 back, I would hope that we would -- I'm offering our  
9 office to work with all of the impacted parties to try  
10 to help forge some solutions that go beyond just the  
11 narrow focus of what your responsibilities are.

12 MR. McCARTY: Thank you, Governor. If I may be  
13 allowed to make one other point. Oftentimes, you read  
14 sometimes in the trade journals, which most working  
15 people don't have to read, but I do. And a lot of what  
16 they're saying, that what we're doing in Florida is  
17 contrived. I just want to emphasize that a number of  
18 what we call the excess and surplus, the surplus lines  
19 market -- these are unregulated, their rates are not  
20 regulated -- are leaving the Florida marketplace or  
21 have reached capacity.

22 And you met with some of those surplus lines  
23 companies recently on your trade mission in England.  
24 And they just told you, there is no more capacity at  
25 any price. So I just want to say --

1           GOVERNOR BUSH: It was tough. I admit it. Even  
2 the hopeful, optimistic Jeb walked out of there  
3 saying -- you saw me. I was trying.

4           MR. McCARTY: Yeah.

5           GOVERNOR BUSH: They weren't taking.

6           MR. McCARTY: And that's a similar response we had  
7 when we met with the Bermuda companies. They think  
8 Florida is doing all the right things and putting all  
9 the things in the right direction, but it's an exposure  
10 problem, and it's also an issue of dealing with  
11 additional capacity. And that's just not a matter of  
12 steep rate increases. We've seen those rate increases,  
13 and that has not stimulated the response in the  
14 marketplace that we had anticipated.

15           CFO GALLAGHER: After the storms of '04 and '05  
16 and the 15 months of 30-some billion dollars in losses,  
17 it was pretty evident that we were going to see this  
18 kind of a crisis and crunch come. And I've been sort  
19 of talking about it for a while. You never know how  
20 bad it's really going to get, and you're always hopeful  
21 it won't happen, but it has.

22           And the commercial side is one that we didn't  
23 really have the major problems after Hurricane Andrew  
24 that we've had here. So this has been a much tougher  
25 crisis than we had back then.

1           I guess, Kevin, let's talk about timing here so we  
2 all understand where we really are here.

3           MR. McCARTY: The timing?

4           CFO GALLAGHER: Right.

5           MR. McCARTY: Well, I'm coming back in two weeks,  
6 when I guess I'll give an update as to where we are.  
7 We have scheduled a public hearing by then. We're  
8 going through the normal publication process that we do  
9 in the normal rule development. We will move that to,  
10 based on the evidence at our hearing, to an emergency  
11 rule process, in response to the comments I've received  
12 today. We will meet with industry, banking, financial  
13 institutions, et cetera, during that period of time to  
14 report back to you their sense of what might be able to  
15 be done as part of the solution to the problem.

16           We will -- I would assume in that time frame, sir,  
17 that you would have made your appointments pursuant to  
18 Florida Statute and the 13 members of the board. We  
19 will hopefully convene a number of those as an advisory  
20 capacity in anticipation of the activation of it. And  
21 I was hoping the activation date would be in September  
22 so that we -- I think that's more reasonable in terms  
23 of getting it done.

24           CFO GALLAGHER: And the rules are going to allow a  
25 reinsurance mechanism and a direct write mechanism.



1           MR. McCARTY: That is correct. The rule, the way  
2 it's currently drafted, does that, sir, yes.

3           CFO GALLAGHER: The way I read it, I didn't see it  
4 both ways. But if you say it is, I believe you. And  
5 you're also going to have a plan of operation.

6           MR. McCARTY: Yes, sir.

7           CFO GALLAGHER: Which will include both also, I  
8 gather.

9           MR. McCARTY: Well, on the plan of operation, we  
10 have drafted, we've pretty much concluded that draft.  
11 We would like also to perhaps borrow some resources  
12 from your office, in particular Mr. Sumner, who was  
13 involved in the previous activation back in the  
14 eighties. He's very familiar with this subject and  
15 would be very helpful in doing some of the work with  
16 us.

17          CFO GALLAGHER: We'll get him up to you.

18          MR. McCARTY: And we'll have something prepared  
19 for your board to look over and then -- the way we  
20 contemplate this, Treasurer, is using your board as an  
21 advisory council in this process, because there will be  
22 a blend of consumer -- presumably, there are spots for  
23 consumer representatives and there are specific  
24 provisions for four trade associations and two  
25 statewide agents association members, and then the rest

1 of them you appoint at will.

2 CFO GALLAGHER: One of the problems with the  
3 statute is some of the organizations that they're  
4 supposed to come from don't exist anymore.

5 MR. McCARTY: That is correct.

6 CFO GALLAGHER: We'll figure out something on that  
7 and get those people appointed anyway.

8 MR. McCARTY: Some of them have successor  
9 organizations that have absorbed them, but I'm sure  
10 that we can come to an agreement with the industry of a  
11 representative group.

12 CFO GALLAGHER: We'll get that done in the next  
13 week or so. We'll get a meeting set.

14 GOVERNOR BUSH: We can always clean it up in a  
15 special session.

16 CFO GALLAGHER: Well, that will be the next item  
17 we'll talk about.

18 GOVERNOR BUSH: Is there a --

19 CFO GALLAGHER: I'll move that Kevin carries  
20 forward in his recommendation on 5.

21 ATTORNEY GENERAL CRIST: Second.

22 GOVERNOR BUSH: There's a motion and a second on  
23 Good Cause Item Number 5. Without objection the item  
24 passes. Thank you, Kevin.

25 MR. McCARTY: We have Item 6.

1 GOVERNOR BUSH: Yes.

2 MR. McCARTY: Agenda Item Number 6, this good  
3 cause item was presented by Treasurer Gallagher, to ask  
4 to establish a working group to investigate the  
5 prospect of lowering the retention level of the Florida  
6 Cat Fund. As you know, the Cat Fund retention level at  
7 this point is 5.2 billion. That's an aggregate level  
8 to be reached before you kick into the Cat Fund.

9 The Cat Fund has been the cornerstone of the  
10 recovery of the Florida marketplace after Hurricane  
11 Andrew, provides relatively inexpensive reinsurance in  
12 a marketplace where reinsurance is, unfortunately, in  
13 much greater demand than there is supply.

14 And the Treasurer is suggesting that we -- to  
15 appoint a working group to look at lowering the  
16 retention level to make insurance more available and  
17 affordable.

18 COMMISSIONER BRONSON: Motion on Item 6.

19 CFO GALLAGHER: If I may, before we -- and I'm for  
20 it, but I just want to let everybody --

21 GOVERNOR BUSH: You are?

22 CFO GALLAGHER: I just want to let people know a  
23 couple of things. The Cat Fund that we have today  
24 saves a home owner living in Dade County in a \$150,000  
25 house as much as \$3,100 annually right now that they're

1 not paying, and for a home owner in Hillsborough or  
2 Escambia it's saving them \$500 a year.

3 And the reason for that is right now insurance  
4 companies are paying 70 cents for every dollar's worth  
5 of reinsurance in the worldwide market. That's --

6 GOVERNOR BUSH: Ridiculous.

7 CFO GALLAGHER: -- 50 cents for the reinsurance,  
8 and then what they do is they get a reinstatement, and  
9 it's 20 cents for that, and they pay both of those up  
10 front. So that gives them a guaranteed reinstatement.  
11 So when you figure that, because they are buying -- are  
12 able to buy that through the Cat Fund at about  
13 somewhere around 10 cents, a little less actually, that  
14 is a huge savings for a home owner in Dade County right  
15 now.

16 So I think what's happened is we're getting to the  
17 breaking point on homeowner's insurance as far as cost  
18 goes. So if we can get these companies to buy this  
19 reinsurance -- now, we started the Cat Fund at a \$3  
20 billion level up to 11, and then it had an automatic  
21 increase in it in the statutes.

22 And each year I've tried to get the Legislature to  
23 bring it back down to 3 billion. One year I got them  
24 to bring it back down to four and a half. I think one  
25 year we got it down to four. This year I wasn't able

1 to get it down at all, although I did argue for it to  
2 come down.

3 And what's happened is, of course, it goes  
4 automatically up. And now it's at that 5.2. I  
5 analyzed what would happen if we moved it down to 3  
6 billion. What happens is it would reduce cost for  
7 Florida policyholders by about 1.4 billion. That means  
8 that a home owner in Miami -- and I don't know where  
9 they find this \$150,000 house, but God bless them if  
10 they have one. They'd save an additional \$527 a year.  
11 That's what the reinsurance would cost less by buying  
12 it through the Cat Fund.

13 GOVERNOR BUSH: If you could get. I don't know if  
14 we would have reinsurance if we didn't have a Cat Fund.

15 CFO GALLAGHER: That's part of it. But what is  
16 available, in other words, that's one of the reasons  
17 that the private sector has dropped out of writing  
18 business and Citizens is picking up 60,000 policies a  
19 month, because there's no reinsurance for the private  
20 marketplace.

21 This would put them in a position to buy the  
22 reinsurance, a billion four worth, and would save --  
23 which could easily get passed on to the policy, or  
24 would stop an increase that would come because of the  
25 cost of reinsurance.

1           So the sooner that we can get this done, the  
2           sooner we can, I think, stabilize the market. And so  
3           what we're asking for here is, I guess, to have a  
4           committee to look at it and make a recommendation and  
5           have some kind of consensus so you could call them in,  
6           because it does take the Legislature to do this.

7           GOVERNOR BUSH: Absolutely. How do you envision  
8           the working group working?

9           CFO GALLAGHER: Well, I would think that you would  
10          get the President of the Senate to have a couple of his  
11          key people and the Speaker of the House and have  
12          someone from your office and OIR and basically have a  
13          presentation to them of exactly how this works and see  
14          if they can get consensus, primarily the House and  
15          Senate and your office, to make sure that they see it  
16          the way at least I see it. And if they do, then they  
17          could, in a quick one-day session, make a change.

18          GOVERNOR BUSH: General?

19          ATTORNEY GENERAL CRIST: I think, Governor, you've  
20          appointed a committee to look at this issue. And I  
21          think the Lieutenant Governor heads it up. I mean, if  
22          it includes, as the Treasurer says, members of the  
23          Legislature as well, then maybe that's already  
24          tailor-made to --

25          GOVERNOR BUSH: If we could get -- Kevin, do you

1 remember what -- the date of the first meeting is  
2 August 9th?

3 MR. McCARTY: 8th.

4 GOVERNOR BUSH: We could make this the first item  
5 on that agenda, because it's probably the number one  
6 most significant recommendation that has come forth  
7 right now.

8 MR. McCARTY: If I can amplify on that, we also  
9 want to look at not only lowering the retention but  
10 perhaps -- when you lower the retention, you lower the  
11 top, too. You might want to leave the top there and  
12 then lower the retention so you're really expanding the  
13 capacity, not just at the lower level.

14 CFO GALLAGHER: Exactly.

15 GOVERNOR BUSH: I think it would it be helpful  
16 also to -- I mean, there are other ideas out there that  
17 are sincere efforts to offer up solutions. In the  
18 Legislature this last session, the Democratic  
19 leadership in the House came up with a proposal, and  
20 others have done the same. At least they're thinking  
21 about it.

22 It might be good to kind of get a group to look at  
23 this from the perspective of the benefits and costs. I  
24 mean, we can take the ideas we have that are being  
25 proposed. And if you went back in time two years and

1           you could see what the consequences of these ideas are,  
2           it's kind of a unique time, since we don't have to go  
3           back to Hurricane Andrew. We can go back literally for  
4           the last 24 months and say, if we had this in place,  
5           what would have been the impact on rates, on the  
6           treasury and on other things.

7           And so -- because there are other ideas about  
8           retention. We could share part of the costs. We  
9           could -- the Democrats are proposing, I guess, a  
10          lower -- not lowering the retention of the Cat Fund,  
11          but they want to take the first part of the risk and --

12          CFO GALLAGHER: I think the insurance industry  
13          likes the idea of getting rid of as much of the risk as  
14          they can. I think it's dangerous for us to take the  
15          first part of the risk.

16          GOVERNOR BUSH: I agree. I'm just saying that I  
17          could ask the Lieutenant Governor to look at this, too,  
18          because I don't want to -- I have some held beliefs  
19          about the role of government in all these things. But  
20          I'm more than happy to look at any idea.

21          I don't think that this is the time to be  
22          prejudging ideas. This is complicated stuff, and we  
23          need to have people that are objective looking at each  
24          one of these suggestions and have a hardy debate about  
25          it. But it has to be quick, though, Kevin.



1           MR. McCARTY: I understand that.

2           CFO GALLAGHER: Here is one of the problems that  
3 exists with this, just so we know it. Most companies  
4 that could get the reinsurance they needed are going to  
5 have to -- the sooner the better for this to happen  
6 because they'll have to renegotiate those treaties.

7           Secondly, those companies that don't have the  
8 reinsurance, they're being forced to non-renew  
9 policies, and all those policies are coming into  
10 Citizens.

11           One of the things that I hope that we're looking  
12 into, Kevin, is that those companies that are being  
13 looked at by you all in regards to not having the  
14 capacity for the business that they have because of the  
15 reinsurance issue be able to use the part of the law  
16 that allows a quota share with Citizens, so that they  
17 could get the reinsurance from Citizens as opposed to  
18 the entire policy going to Citizens.

19           And I did have a discussion with Chairman Douglas  
20 about that. And he -- I think they weren't real  
21 interested in the beginning, but he said he would be  
22 willing to do that. Everybody wins by doing that. The  
23 policies don't get into Citizens. The companies keep  
24 it. It's a one-time thing, hoping the reinsurance  
25 comes back. And sort of it's an everybody wins thing.

1           MR. McCARTY: Citizens inherited that when they  
2           took over the old Windstorm Underwriting Association,  
3           which was the wind-only policy, which you aggregate the  
4           highest risk in the highest risk counties. It makes it  
5           impossible to ever distribute that back out.

6           Again, as the Governor said, we will learn from --  
7           just as we've learned from the hurricane seasons on how  
8           to better prepare our state, we're going to learn from  
9           the various experiences in our state and elsewhere to  
10          try not to do -- to do a best practices and take  
11          advantage of the marketplace as best we can, providing  
12          a cushion during that time.

13          But the Cat Fund is very critical to the recovery,  
14          not only after Hurricane Andrew but the stability that  
15          we have today in the marketplace is due in large part  
16          to what the Cat Fund has done. And one of the things  
17          also we could explore is using the Cat Fund  
18          potentially, if reinsurance is the problem, and it's  
19          been a very successful model, whereas Citizens has,  
20          although been an asset to our state, has not been as  
21          effective of the Cat Fund, that perhaps we'll look at  
22          the Cat Fund as a way of providing reinsurance for the  
23          business community.

24          If the problem is that, then perhaps we should  
25          look at the success of that. And that's a potential,

1 too, as opposed to setting up the PCJUA. We're only  
2 saying to set up the PCJUA because that's available in  
3 the law now.

4 GOVERNOR BUSH: The law allows us to do it.

5 CFO GALLAGHER: Here is what we could do, and I  
6 was going to talk about that, but the problem with  
7 having the Cat Fund change or have another account at  
8 the Cat Fund, which I would be all for, is that that  
9 again requires the Legislature to do that. And we can  
10 do this without that, so we want to pursue this. And  
11 at this committee meeting that should be brought up as  
12 an alternative also and put in -- as far as I'm  
13 concerned, put that in the legislation because that  
14 would be the most efficient way to do it, with some  
15 legislative approval.

16 MR. McCARTY: So in understanding where we are now  
17 with regard to Item Number 6, are we making a group  
18 making a recommendation to Governor Jennings'  
19 Commission or are we going to --

20 GOVERNOR BUSH: I would suggest we do this.  
21 Present, which you're intending to do the first  
22 meeting, this concept and have a discussion about it.  
23 If we need to add people to the technical advisory  
24 group, we've tried to not have insurance folks on the  
25 committee but have them be there to provide advice, all

1 the different stakeholders in this market.

2 If we need to add people to provide some expertise  
3 or if they need to come and share their views on this,  
4 let's have this be a thoroughly -- both ideas, both  
5 the --

6 CFO GALLAGHER: Commercial and the --

7 GOVERNOR BUSH: The commercial and then the  
8 suggestion that you've been advocating as it relates to  
9 Citizens, have those be the first topics of discussion,  
10 because again there's some -- if we have enough  
11 consensus that these ideas will have a positive impact,  
12 I think we need to go convince -- get a consensus as  
13 best we can. You never can get ironclad consensus in  
14 the Legislature, but pursue these ideas. I know  
15 there's a willingness to look at them, and call a  
16 special session and add to the stuff we've already  
17 done.

18 COMMISSIONER BRONSON: If I could ask one  
19 question. Kevin, was there any indication from any of  
20 the companies, whether it's homeowners or commercial,  
21 if the building codes -- I know the builders and all  
22 kind of get antsy about this. But the last time we did  
23 this it actually worked because we had less damage on  
24 those buildings that went up with the better tie-downs  
25 and all on the structure.

1           Have they indicated any willingness to ease up a  
2           little bit if we had -- our building codes were up to,  
3           say, 150-mile-an-hour or a little better capabilities  
4           for wind? Would they kind of work with us better on  
5           that?

6           MR. McCARTY: Oh, absolutely. And I think the  
7           underwriting, change in underwriting supports the  
8           empirical evidence. The evidence we had from hurricane  
9           season 2004 and 2005 is overwhelming that better  
10          buildings not only mean that we reduce the loss, but  
11          it's an integral part of our state of Florida, to keep  
12          people in their homes, hardening our homes, as the  
13          Lieutenant Governor refers to it as, so that it's part  
14          of our strategic plan.

15          And I think you're absolutely right, that we have  
16          a minimum statewide building code. And what we need to  
17          understand, as Secretary Cohen says, it's not just the  
18          cost of building the home.

19          Ask the person who has been dislocated after  
20          Katrina, who is now living in Tulsa, if they would have  
21          spent another 10- or \$15,000 over a 30-year period to  
22          be home today instead of dislocated. I think this is a  
23          critical, important issue, that if we're ever going to  
24          be able to really have affordable insurance, we have to  
25          build buildings that resist the wind load that we are

1           expecting to have in Florida on a periodic basis.

2           GOVERNOR BUSH: Kevin, part of this is perception,  
3 part of it's reality. The reality is that the  
4 exemption that the building commission did is a tiny  
5 fraction of the overall population of the state. But  
6 it is -- if you got hit one mile or half a mile on the  
7 wrong side of that line, it wouldn't really matter to  
8 you. It could create a problem. I think what they did  
9 needs to be reviewed.

10           But the perception is equally bad. When Kevin and  
11 I were visiting with these Lloyd's folks, this guy  
12 pulls out this article from the Pensacola News Journal  
13 about the decision made by the building commission.  
14 And here is a guy that's 10,000 miles, wherever, how  
15 many miles away it is.

16           And I'm trying to explain, well, this is a  
17 fraction of our state. I'm doing my best to defend the  
18 honor of the state of Florida. And he says, "And you  
19 guys have done great work, but you need to strengthen  
20 your building code."

21           CFO GALLAGHER: Here is the concern I have in  
22 this. When you have an area like that that doesn't  
23 follow a strong building code, the residents will pay  
24 dearly down the road. And I can just tell you the  
25 scenario that will happen three years from now, and

1           this is just proven in the past.

2           The private market will pull back completely from  
3           those areas that don't have a strong building code and  
4           from those houses that don't meet the code. Citizens  
5           will be required and be the only one to write it. And  
6           then the Legislature, not wanting to be assessed to pay  
7           the claims in that area, are going to require the rates  
8           to be two or three times higher than they are already.

9           So all of a sudden now the residents of these  
10          areas are going to get a huge burden put on them  
11          because they didn't have that 5- or \$10,000 down on the  
12          house.

13          MR. McCARTY: But I think the larger issue that  
14          Commissioner Bronson is raising is overall,  
15          notwithstanding the issue of the Panhandle, which  
16          incidentally they've improved it from where it was.

17          GOVERNOR BUSH: Let the record show they have  
18          improved it.

19          MR. McCARTY: It's just not -- it's not uniform  
20          with regard to the wind load debris of the rest of the  
21          state. I didn't use English, but I'm working on it.

22          The issue you raise, I think, is a larger issue  
23          and it's a more comprehensive issue, is that we have a  
24          statewide minimum code now for the state, depending on  
25          where you are in the state and your susceptibility to

1 wind damage. But I think your issue is very important,  
2 that we have to increase that over time as well,  
3 because as we do that, we will make homes more  
4 resistant to wind.

5 And we have had the technology for 50, 70 years.  
6 We have lots of new technology coming into the  
7 marketplace every day. Leslie Chapman-Henderson has  
8 made me a disciple of mitigation, that we can do better  
9 in terms of building our future housing stock and our  
10 businesses because we're learning now, we can have our  
11 homes there, but if there are no businesses for people  
12 to work, then the fact that we hardened our homes and  
13 not hardened our businesses, we have to do both to have  
14 the economic development that we've become used to in  
15 the state of Florida.

16 GOVERNOR BUSH: Thank you, Kevin.

17 MR. McCARTY: Thank you, sir.

18 GOVERNOR BUSH: It was in good English, that last  
19 part. Just as a -- because this is the ultimate  
20 solution, is hardening Florida, if you will, not our  
21 hearts but our homes. And perhaps, Treasurer, it might  
22 make sense to get Lisa Miller to come and give us a  
23 briefing on the next Cabinet meeting about the \$250  
24 million plan because I think it's really -- I've  
25 believed for a long time that this is the number one



1           thing that we could do. And it shouldn't be a one-time  
2           deal. It ought to be an ongoing, recurring effort.

3           There should be some description, just to set the  
4           stage, of how many homes -- you know, we think about  
5           Florida being new and everything being built in the  
6           last two years, given the growth of the state. But in  
7           reality the percentage of homes that have been built  
8           since the new code was passed is minimal.

9           MR. McCARTY: About 15 percent.

10          GOVERNOR BUSH: So maybe some description of the  
11          estimation that we have of what the quality of housing  
12          is and then -- I mean, I'd like to see a longer-term  
13          proposal that we might be able to embrace as part of  
14          this as well that could go back to the Legislature to  
15          set some aspirational goals about how to help  
16          Floridians harden their homes and maybe their  
17          businesses as well.

18          MR. McCARTY: And as you know, Lieutenant Governor  
19          Jennings recently went to Washington to meet with  
20          officials from HUD to discuss using our money, which  
21          really was unique for them, because most of the time  
22          they're looking at evacuees and other things that --  
23          Florida has already taken care of those issues. We're  
24          really looking at the next generation of solutions,  
25          which is using HUD money to harden homes for low income

1           folks.

2           GOVERNOR BUSH: That's an interesting -- I don't  
3 know if my fellow Cabinet members know what we're  
4 doing. This is the CDBG money, the next tranche that's  
5 available for Texas, Mississippi, Alabama and Florida.  
6 And how much money are they going to --

7           MR. McCARTY: Just shy of a billion.

8           GOVERNOR BUSH: Just shy of a billion. We want  
9 to -- our proposal is to have every dollar of what we  
10 get go to enhance our mitigation program, which would  
11 be pretty historic.

12          CFO GALLAGHER: That originally was set to go to  
13 local governments, wasn't it, or was it going to go to  
14 the State?

15          GOVERNOR BUSH: It can go any way we propose it.

16          MR. McCARTY: Right. It's pretty discretionary.

17          GOVERNOR BUSH: Normally CDBG money, not emergency  
18 CDBG money, but normally the Community Development  
19 Block Grant money does go through the State to local  
20 governments.

21          CFO GALLAGHER: Just not to get ahead of myself  
22 here, but in order to get this mitigation program up  
23 and running, we will be starting with some partnerships  
24 with local governments who already have some money that  
25 they've either gotten from the federal government

1 through the State or appropriated themselves for  
2 similar programs.

3 So we're going to get up and running on that part  
4 to really get it moving and enable ourselves to get the  
5 inspections going and everything else. And on the 15th  
6 we'll let you know exactly where that is and how we're  
7 moving, and we'll be ready to go.

8 MR. McCARTY: Just one other observation, back to  
9 the issue of agenda Item Number 6, which is discussion  
10 about the expansion of the Florida Cat Fund, lowering  
11 the retention. I did want to point out that the  
12 Florida Legislature, in its recent bill that we talked  
13 about, also did provide some expansion of the Cat Fund  
14 for our small cap companies that were struggling to  
15 have capital this year, which was an integral part of  
16 the recapitalization program, as we talked about  
17 before.

18 CFO GALLAGHER: And for what it's worth, they pay  
19 and willingly paid 50 cents straight online, which  
20 meant they paid \$10 million to get \$20 million worth of  
21 coverage into the Cat Fund, as unbelievable as that is.  
22 And they were thrilled to do it because it protected  
23 their capital base.

24 MR. McCARTY: So my direction, just for my  
25 personal clarification, is to make this part of the

1 presentation, in cooperation with Jack Nicholson and  
2 the CFO's office at the first meeting?

3 GOVERNOR BUSH: Yeah, and whoever else you think  
4 would be good to participate as an advisor to work  
5 out -- I mean, this is going to be a day-long meeting,  
6 isn't it, I mean, the sleeves rolled up?

7 CFO GALLAGHER: When is this meeting?

8 MR. McCARTY: August 8th. And I'd certainly offer  
9 our State economist, who has extensive experience in  
10 cap markets, cap bond markets, et cetera.

11 GOVERNOR BUSH: Can he speak English?

12 MR. McCARTY: Actually, I'm training him, so that  
13 should give you an idea.

14 GOVERNOR BUSH: Oh, it will be a great meeting.  
15 Before you leave, this is not on the agenda, but we  
16 had -- the last time we visited you mentioned the Keys.

17 MR. McCARTY: Yes.

18 GOVERNOR BUSH: The situation there. We've had --  
19 I'm curious to know what the status is.

20 MR. McCARTY: We had -- as a matter of fact, we  
21 had a representative. Heather Carruthers was a  
22 representative for Fair Insurance Rates for Monroe,  
23 spoke before the Cabinet several weeks ago. That was  
24 about the pilot program that we have established by the  
25 Florida Legislature which allows for a separate rating,

1 territory rating class for Citizens.

2 As a matter of fact, as we speak, there is a  
3 hearing today in Key West, Monroe County, on the rate  
4 filing that has been made, the actuarial filing that  
5 has been made from Citizens. We are taking testimony.

6 We're changing the framework, Governor, a little  
7 bit on this one, and we're going to try to do this in  
8 the future to make this process more transparent and  
9 hopefully provide some educational benefit of what  
10 exactly goes into a rate review process. And we will  
11 also attempt to do that in English. It's very  
12 difficult with regard to the intricacies and  
13 complexities of actuarial science, but hopefully --

14 GOVERNOR BUSH: Excuse me. But you're right on  
15 target to do this and to be transparent about it  
16 because it's hard for a lot of us to understand -- let  
17 me put it this way. I'm kind of a -- I'm Mr. Anecdote,  
18 you know. I'm not a scientist. So I just get -- I get  
19 tons of e-mail. So I'm a listening post for people's  
20 frustrations, and they normally don't write me when  
21 things are going well. It's just kind of part of this.

22 CFO GALLAGHER: You'd think the place was sinking  
23 if you just read your e-mail.

24 GOVERNOR BUSH: Exactly. But the interesting  
25 thing is that people in Central Florida think that the

1 coast properties aren't being charged enough, and the  
2 folks on the coast think that they're paying too much,  
3 and the guys in the center, even though -- because they  
4 had three storms. There's not a lot of transparent  
5 discussion about this. And it's really hard to  
6 understand how these rates are created.

7 But put aside that. The thing that kind of is  
8 completely inexplicable to me is why the Keys would  
9 have what percent higher than Dade County?

10 MR. McCARTY: I think it's 250, 300 percent.  
11 Well, that's --

12 GOVERNOR BUSH: Who is the gnome that came up with  
13 that plan?

14 MR. McCARTY: It's called your computer models.

15 GOVERNOR BUSH: Yeah, but somebody has got to put  
16 the input into those models. You can't blame the  
17 computer.

18 MR. McCARTY: Yes, sir. And you've changed that  
19 by making them go through a rule adoption process, to  
20 bring transparency to that process. And I commend you  
21 for doing that because I think it's very important,  
22 because you have an organization which does do great  
23 work and they come out with these answers which are  
24 probably, in terms of science, the best derived answers  
25 we can come up with. But we need to do a better job

1 explaining to the people of Florida who are paying  
2 these premiums --

3 GOVERNOR BUSH: And maybe us. I mean, I could  
4 help explain it if I could understand it but --

5 MR. McCARTY: Well, the issues that are being  
6 presented in Key West, I think, are much easier than  
7 the general actuarial questions we get on your usual  
8 run-of-the-mill filing.

9 I think that the citizens, particularly in Key  
10 West, have been sensitized to this because of the  
11 significance of the rate increase, and therefore  
12 they've been very active. They have a very active  
13 grassroots organization there. We think that this will  
14 be a very beneficial process in terms of educating the  
15 office in terms of the issues as well as the public  
16 that's down there.

17 And we're hoping that it gets very -- we've worked  
18 very hard with the local community to get as much broad  
19 news coverage a possible. And we expect this to be a  
20 good model for our rate review processes in the future.  
21 We will be working with the Florida News Channel to  
22 televise these in the future.

23 GOVERNOR BUSH: Are they going to televise the Key  
24 West one?

25 MR. McCARTY: They were attempting to do so. I'm

1 not sure. I'll have to confirm that.

2 GOVERNOR BUSH: That's great. Good work.

3 MR. McCARTY: Thank you, sir. Appreciate it.

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1 GOVERNOR BUSH: Board of Trustees.

2 CFO GALLAGHER: Motion on the minutes of April  
3 21st, May 2nd and May 16th.

4 ATTORNEY GENERAL CRIST: Second.

5 MS. ARMSTRONG: Good morning. How are you?  
6 Secretary Castille is in Miami.

7 GOVERNOR BUSH: Hang on a second. There's a  
8 motion and a second on Item 1. The motion passes  
9 without objection. Yes, Eva, how are you doing?  
10 Congratulations.

11 CFO GALLAGHER: Great day, great day.

12 MS. ARMSTRONG: Thank you. Absolutely. And we  
13 have a two-minute video for you, please.

14 GOVERNOR BUSH: Do you want to say where Secretary  
15 Castille is?

16 MS. ARMSTRONG: Yes, sir. She's in Miami this  
17 week with her mom. She'll be back at the very next  
18 meeting.

19 GOVERNOR BUSH: We're praying for her momma.

20 MS. ARMSTRONG: Yes, sir.

21 (Video played)

22 MS. ARMSTRONG: Well, not bad for \$350 million,  
23 uh? That is the two-minute opening to a National  
24 Public TV special that has been officially sponsored  
25 now by the local public television station in Fort

1 Myers that Kitson & Partners is putting together. It  
2 will be a -- I think it's 90 minutes.

3 They're going to start at the beginning when the  
4 family started assembling the land, all the way through  
5 the history of the ranch, the family, the ranch hands  
6 on the ranch, the last year we all went through.

7 So I wanted to share it with you because I think  
8 it gives you folks a sense of what we have collectively  
9 done for the citizens of this state and future  
10 residents and visitors. So yesterday and today, I  
11 mean, it's just great.

12 CFO GALLAGHER: When is it going to be aired?

13 MS. ARMSTRONG: They're still putting it together.  
14 You're just seeing a piece of the video that they've  
15 been shooting out there. That's just the introductory  
16 piece, but it gives you a sense for the class of the  
17 production that they're doing. So I just wanted to  
18 share it with you.

19 GOVERNOR BUSH: Kudos to the Florida Legislature  
20 for paying all cash.

21 MS. ARMSTRONG: Absolutely, absolutely. So,  
22 anyway, great day yesterday. So on with Item Number 2,  
23 which is the Fish and Wildlife Conservation Commission  
24 Triple N Ranch Wildlife Management Area Additions and  
25 Inholdings Project.

1           This is consideration of a purchase agreement to  
2           acquire 902 acres within the FWC Commission's Triple N  
3           Ranch Wildlife Management Area Additions and Inholdings  
4           Project. It is multiple pages. At the cost of \$8.1  
5           million, 90 percent of value. They bought the land in  
6           1994, and we're paying 9,000 -- roughly \$9,000 an acre  
7           for it.

8           CFO GALLAGHER: Which looks like we're paying the  
9           same price they paid in '94?

10          MS. ARMSTRONG: No. We're paying more. But we  
11          got a good price on it. Fish and Wildlife Conservation  
12          Commission negotiated that price.

13          CFO GALLAGHER: What are we paying an acre?

14          MS. ARMSTRONG: Nine thousand dollars an acre.

15          CFO GALLAGHER: Oh, I see. '94, gotcha. Motion  
16          on 2.

17          ATTORNEY GENERAL CRIST: Second.

18          GOVERNOR BUSH: There's a motion and a second.  
19          Without objection, the item passes.

20          MS. ARMSTRONG: Item 3 is a series of -- it's two  
21          exchanges with M.C. Davis. It was in the Point  
22          Washington State Forest and with a parcel in Leon  
23          County. We're asking you to do four things in this  
24          item. One is a determination that nine parcels of  
25          State-owned lands containing approximately 58.83 acres

1 in the Point Washington State Forest are no longer  
2 needed for conservation purposes and no longer needed  
3 to preserve the furtherance of P-2000.

4 Two, a determination that the nine parcels are  
5 surplus. Three, an exchange agreement under which the  
6 Board of Trustees would convey eight of the nine  
7 parcels to M.C. Davis and Stella Davis in exchange for  
8 a 70-acre parcel located within the forest optimum  
9 boundary and one parcel to S.R.W. Properties, LLC, in  
10 exchange for a 2.69-acre parcel located in Leon County  
11 behind the governor's mansion, and a determination that  
12 the exchange will result in a net positive conservation  
13 benefit to the State. I wanted to give you just a  
14 little bit of history. Yes, sir.

15 CFO GALLAGHER: Before we go through some history,  
16 do you know what the planned use is for the property  
17 behind the mansion?

18 MS. ARMSTRONG: Yes, sir. We're going to lease it  
19 to DMS for security reasons. FDLE --

20 CFO GALLAGHER: I know that part. So is it just  
21 going to be vacant? Are they going to put a building  
22 on it?

23 MS. ARMSTRONG: I don't think it's gone farther  
24 than that yet. I have somebody here from DMS, Rebecca  
25 McCartney, who might be able to address it further.

1 MS. McCARTNEY: Actually, Eva is right. We're  
2 just going to leave the land as is for now for security  
3 purposes.

4 CFO GALLAGHER: So the idea is just to leave it  
5 open?

6 MS. McCARTNEY: Yes, sir.

7 CFO GALLAGHER: Okay.

8 MS. ARMSTRONG: Maybe it will help even more.  
9 When we started negotiations with Mr. Hatcher either in  
10 2001 or 2002, the old wooden homes, pretty much shacks,  
11 were being used by vagrants.

12 CFO GALLAGHER: Aren't they all torn down now?

13 GOVERNOR BUSH: Yeah.

14 MS. ARMSTRONG: I think some drug activities were  
15 going on back there. It's immediately behind the  
16 governor's mansion, and FDLE was very concerned at the  
17 time about security for the mansion.

18 And since then Mr. Hatcher had cleaned it up. We  
19 were having difficulty negotiating. There's a long  
20 history of the negotiations, but --

21 GOVERNOR BUSH: Did you bring -- Mrs. Collins came  
22 in to close the deal, is that --

23 MS. ARMSTRONG: No, sir. But we heard from her.  
24 She was very excited when we did.

25 GOVERNOR BUSH: Good.

1 MS. ARMSTRONG: Would a map help? Are you okay  
2 with this, or do you want me to go into the history?

3 CFO GALLAGHER: I move the item.

4 ATTORNEY GENERAL CRIST: Second.

5 COMMISSIONER BRONSON: One question, though, Eva.

6 MS. ARMSTRONG: Yes, sir.

7 COMMISSIONER BRONSON: There is going to be a  
8 house left inside the property at the forest, right?

9 MS. ARMSTRONG: Yes, sir. Mr. Davis'.

10 COMMISSIONER BRONSON: Is that part of a life  
11 estate or anything?

12 MS. ARMSTRONG: It is not a life estate. Did we  
13 try to get -- no, it is not a life estate. He's just  
14 going to -- we cut out around his house, and he  
15 retained an easement to get in and out. He wanted to  
16 maintain that residence within the 70 acres, so it was  
17 cut out. And the value of the easement is deducted  
18 from the price that we're paying. So it's not part of  
19 the 70 we get. It was cut out.

20 And I do want to point out, Commissioner Bronson,  
21 that when we started down this path on this exchange,  
22 it was an effort to try to acquire the inholdings for  
23 the forest that you manage, because we were having so  
24 much trouble negotiating acquisitions of those  
25 inholdings because they were holding out for a high

1           dollar amount.

2                   And we really wanted to go after your number one  
3 parcel in there, which we weren't able to acquire but  
4 he now is willing to sell. So we've turned it back  
5 over to your inholdings staff. They're negotiating to  
6 sell it for cash. So we're continuing to do additional  
7 exchanges with -- for the remaining parcels because  
8 they have more value for us as exchanges. So it's  
9 turned out to be an effective tool for us that we had  
10 not tried for.

11           GOVERNOR BUSH: And we got a price that was lower  
12 than --

13           MS. ARMSTRONG: Yeah, it's value for value for us,  
14 right.

15           GOVERNOR BUSH: Value for value but also lower  
16 than what Mr. Davis purchased the --

17           MS. ARMSTRONG: Oh, on the exchange? Right, yeah,  
18 \$200,000 less, right, than what he paid, right.

19           GOVERNOR BUSH: I guess he couldn't get his  
20 zoning. There's a motion and a second. Any other  
21 discussion? Without objection, the item passes.

22           MS. ARMSTRONG: Item 4 is the Destin Beach,  
23 Incorporated, marina lease. And we've had a request  
24 from both the applicant and the county about -- well,  
25 now it's been about 30 minutes. We've had a request

1           instead from them to do a deferral to November 14th  
2           from the parties.

3           CFO GALLAGHER: Motion to defer to November 14.

4           ATTORNEY GENERAL CRIST: Second.

5           GOVERNOR BUSH: There's a motion to defer until  
6           November 14th and a second. Without objection the item  
7           passes.

8           MS. ARMSTRONG: And then on Item 5, William  
9           Beardall, Tosohatchee State Reserve. We have some  
10          speakers on this. But what I thought I'd do is kind of  
11          walk you through the staff recommendation, what you're  
12          being asked to do first. This is a consideration of a  
13          50-year multi-agency management lease for the William  
14          Beardall Tosohatchee State Reserve and designation of  
15          the Florida Fish and Wildlife Conservation Commission  
16          as lead manager on the lease.

17          The Division of Recreation and Parks and DEP have  
18          been discussing this recommendation for some time, like  
19          multiple years, mainly because for the Department, it's  
20          an efficiency issue. Right now you have two sets of  
21          biologists. You have two sets of law enforcement, two  
22          sets of managers on the site, because while the  
23          Division of Parks Manages it for parks, you have Fish  
24          and Wildlife managing it for hunting. And so in their  
25          minds it makes more sense at this site to step back and



1 let it be managed for hunting.

2 This is in the best interest of both the land  
3 that's being managed and the uses for which it's  
4 managed. The visitors won't be able to tell the  
5 difference. Fish and Wildlife has made a commitment.  
6 They will continue to manage it under the current  
7 existing management plan that is in place until the  
8 year 2013. You will see no increase in the current  
9 hunting days, which are capped at 46. And there will  
10 be no decrease in the visitor recreation days. They  
11 are set at per the management agreement.

12 Any substantive changes before 2013, if they were  
13 to occur, would have to first go to ARC for discussion  
14 and recommendation to this board and then would have to  
15 come to the Board of Trustees for approval.

16 After 2013, if there were to be any changes to the  
17 management plan, it would have to be done in accordance  
18 with Chapter 259 and they would have to -- which  
19 requires public input, meaning public hearings, and  
20 then have to go before the Acquisition and Restoration  
21 Council and again come before the Board of Trustees.

22 I do have with us today Mr. Vick Heller, who is  
23 the assistant executive director of the Fish and  
24 Wildlife Conservation Commission. And he's here to  
25 tell you exactly what the commitment is from the Fish

1 and Wildlife Conservation Commission. They had a  
2 discussion at their commission meeting about  
3 Tosohatchee. So he can represent to you exactly what  
4 their position is. And I think you ought to hear from  
5 him. So I thought with that, unless you have a  
6 question of me?

7 GOVERNOR BUSH: The Legislature passed a law that  
8 required no net loss of hunting lands on public  
9 property or something like that. This doesn't change  
10 that, right?

11 MS. ARMSTRONG: This does not change that. It is  
12 not affected by that.

13 GOVERNOR BUSH: All right. Would you like to hear  
14 from --

15 MS. ARMSTRONG: Do you want to hear from  
16 Mr. Heller? And then we have the speakers.

17 GOVERNOR BUSH: Mr. Heller, come on up. We have  
18 speakers?

19 MS. ARMSTRONG: We do have speakers. But I  
20 thought, let you hear from Mr. Heller because that's  
21 the official position of the Commission.

22 GOVERNOR BUSH: Whatever. We're happy to have  
23 you.

24 MR. HELLER: Thank you, Mr. Governor, Cabinet  
25 members. I just want to reiterate what Eva has already

1       said. Our Commission is on record in an official  
2       Commission meeting as supporting the existing balance  
3       of recreational uses on Tosohatchee. They've agreed to  
4       come back to the Board of Trustees in the future if we  
5       ever propose any change in the balance of recreational  
6       uses, hunting days on the area and things such as that.

7               The agency is excited and ready to go. On the  
8       area -- we've had staff on the area for almost 20 years  
9       working hand in hand with the DEP staff. And should  
10      you decide to approve this agenda item, we are willing  
11      and ready to engage in a seamless transition and  
12      continue to provide a suite of recreational services to  
13      the public.

14             GOVERNOR BUSH: Very good. Questions?  
15      Commissioner.

16             COMMISSIONER BRONSON: Governor, this is more of a  
17      compliment than a question to the Commission. Let me  
18      thank your chairman and the executive director. I  
19      understand in their last series of meetings -- and this  
20      will pertain to this property as well -- that you are  
21      putting an aggressive effort in to addressing the  
22      non-native species of both animals and plants. And I  
23      think that's a great step in the right direction to  
24      help protect these State lands.

25             And I'd like to commend the Commission for taking

1           that on. And I'll do everything I can to help them  
2           from our side, from the Agriculture side, on those  
3           lands where we both have joint management issues.

4           MR. HELLER: May I?

5           GOVERNOR BUSH: Yeah, sure.

6           MR. HELLER: Thank you, Commissioner Bronson.  
7           You've provided some excellent leadership in control of  
8           exotics in the area, in concert with our Commissioner  
9           Huffman leading the way, and I will carry on your  
10          compliments and your remarks to our Commission and  
11          Director Haddad.

12          GOVERNOR BUSH: Thank you. Eva, who else is  
13          speaking?

14          MS. ARMSTRONG: We don't have -- we have about  
15          five, I guess. Let's start with Marianne Gengenbach,  
16          and then Mark McNichols, if you're here, both of you  
17          come on up so we can move them quickly, please. And  
18          then Mr. Douglas Sphar, please.

19          GOVERNOR BUSH: Welcome.

20          MS. GENGENBACH: Good morning, Governor, members.  
21          The Nature Conservancy --

22          GOVERNOR BUSH: Can you say who you are for the  
23          record?

24          MS. GENGENBACH: I am so sorry. Marianne  
25          Gengenbach with the Nature Conservancy. Our

1 organization had initially received some concerned  
2 calls from our membership because there's a long and  
3 complicated history involved with this tract of land.

4 However, we've worked very closely with the  
5 Commission, and we believe in their commitment to  
6 continue the balanced recreational use that you see  
7 here. In fact, I think that a lot of folks from both  
8 the passive recreational community and the hunting  
9 community spoke eloquently at the Fish and Wildlife  
10 Conservation Commission meeting to state that they felt  
11 that this was really a great model for how to balance  
12 recreational uses.

13 The concerns of our members had to do with the  
14 potential increase in hunting on the land. We feel  
15 that the additional caveats that were put in the  
16 Cabinet item that require this thing to come back to  
17 the Governor and Cabinet if there were to be any change  
18 and the fact that these conditions will also be  
19 contained in the lease are things that give a great  
20 level of comfort to the folks who have been concerned  
21 about this.

22 And we would like to commend the Commission on  
23 doing some great work with the Division of Rec and  
24 Parks and the OF, and we support this transfer. Thank  
25 you.

1 GOVERNOR BUSH: Thank you. Good morning.

2 MR. McNICHOLS: Good morning. My name is Mark  
3 McNichols. I'm with United Hunters of Florida.

4 GOVERNOR BUSH: I'm sorry. United --

5 MR. McNICHOLS: Hunters of Florida. And actually  
6 I'm glad to see everybody working together here on this  
7 issue. The FWC does a great job with land they already  
8 have, the land that they have or are getting. And just  
9 there was a lot of issues going on, and I was concerned  
10 that hunters weren't getting the right view of what we  
11 actually are doing out there and that we are a  
12 management tool, not just out there to hunt. We hunt  
13 not as much time during the year as everybody else gets  
14 to use the land.

15 But we do get to see this land and help keep it,  
16 the animals in control and stuff. So I just want to  
17 leave you at that and just say I'm glad the FWC has  
18 taken over and that we're doing a good job and y'all  
19 are doing a great job, too. And thank you for that  
20 Babcock Ranch. That was real good work. Thank you  
21 very much.

22 GOVERNOR BUSH: Thank you, sir. Thanks for coming  
23 up.

24 MR. SPHAR: Good morning, Governor and Cabinet  
25 officers. I'm Douglas Sphar, a volunteer from Cocoa,

1           representing the Sierra Club Turtle Coast Group. And I  
2           also have a long-standing personal relationship with  
3           Tosohatchee State Reserve. I have developed and  
4           maintained hiking trails there since 1979.

5           The public process being followed for this agenda  
6           item should be evaluated for adequacy and compliance  
7           with State statute. There was no advanced publicity  
8           that DEP was planning to divest the State reserve  
9           units. Citizens heard rumors that a Tosohatchee swap  
10          was on the agenda of the April 20, 21st meeting of the  
11          ARC. And this agenda was not released to the public  
12          until a week before the meeting.

13          At this meeting ARC considered the Tosohatchee  
14          transfer as information only. And according to the  
15          minutes, the ARC director stated the management of  
16          Tosohatchee had already been transferred completely to  
17          the FWC. This is before the public was apprised of any  
18          opportunity to participate in the process.

19          DEP is planning a different public process for the  
20          remaining two reserve units, Cedar Keys Club and Rock  
21          Springs Run. DEP said they will hold public meetings,  
22          then refer the matter to the ARC. Tosohatchee should  
23          have been given such opportunities for meaningful  
24          comment and evaluation. It is at least as valuable for  
25          its ecology and recreational possibilities as the other

1 two reserves.

2 FWC stated they plan to manage the property until  
3 2013 according to the existing management plan, which  
4 contains numerous references to DRP, DRP's policies,  
5 goals and long-term intent. Is having the FWC manage  
6 DRP's plan consistent with Statute 253.034, Section 5,  
7 which states, Each manager of conservation land shall  
8 also update a land management plan whenever the manager  
9 proposes to add new facilities or make substantive land  
10 use management changes that were not addressed in the  
11 approved plan?

12 The current plan states that DRP shall be the land  
13 manager. Changing that to an agency outside the DEP  
14 certainly seems substantive.

15 I reviewed the plan. And updating it is not as  
16 easy as crossing out all the instances of DRP and  
17 writing in FWC. The context and intent of each mention  
18 of DRP must be evaluated so that the proper meaning is  
19 conveyed and there's no confusion or conflict.

20 The Sierra Club asked the Trustees to focus on the  
21 question, what agency is the most appropriate manager  
22 for Tosohatchee, considering State law and agency  
23 emphasis. The most appropriate agency to manage  
24 Tosohatchee is a larger issue than whether to approve a  
25 lease deal worked out before HB-265 exempted lands in



1 the State Park system.

2 The issue of the most appropriate agency to manage  
3 Tosohatchee must consider whether the proposed transfer  
4 best serves the public interest. I thank you.

5 GOVERNOR BUSH: Thank you, sir. Thanks for being  
6 here.

7 MR. FUSARO: Ben Fusaro, volunteer with the Sierra  
8 Club, chair of Protecting Native Wildlife Habitat  
9 Committee. This response is a follow-up to Doug's  
10 comments. I do want to thank the Governor's Cabinet  
11 and aides for spending the time and effort to protect  
12 the relatively small jewel of old Florida, the  
13 Tosohatchee State Reserve, small relative to the  
14 Babcock, the wonderful Babcock Ranch purchase.

15 You have provided the insurance. Fish and  
16 Wildlife must adhere to the current excellent  
17 Recreation and Parks management plan for Tosohatchee.  
18 As we heard earlier, reinsurance is sometimes  
19 necessary.

20 We respectfully request that in this transfer, the  
21 Governor's Cabinet instruct Fish and Wildlife to stick  
22 to the spirit as well as the letter of the current  
23 management plan. Thank you.

24 GOVERNOR BUSH: Thank you very much.

25 MR. WIMMER: Good morning. My name is Kent

1           Wimmer. I'm the liaison for the Florida National  
2           Scenic Trail with the Florida Trail Association. The  
3           volunteers of the Florida Trail Association have  
4           maintained a piece of hiking trail, a piece of the  
5           Florida trail in Tosohatchee for over 25 years. This  
6           about eight-mile-long segment of the Florida National  
7           Scenic Trail is a very important piece in our -- as we  
8           go through east Central Florida.

9           The Florida Trail Association has worked with the  
10          commission concerning this proposed transfer. We're  
11          pleased to report that the Commission has committed to  
12          take the necessary steps to maintain the high quality  
13          hiking and backpacking experience in Tosohatchee.

14          We're also pleased that the Board of Trustees have  
15          taken the steps to include the provisions within the  
16          lease agreement to maintain the existing uses and the  
17          management practices that will occur in the future.

18          The Florida Trail Association supports this  
19          transfer, and we appreciate the opportunity to be a  
20          partner with both the Division of Recreation and Parks  
21          for these past 25 years and in the future the Florida  
22          Fish and Wildlife Conservation Commission. Thank you  
23          very much.

24                 GOVERNOR BUSH: Thanks for being here.

25                 MS. WRAITHMELL: Good morning, gentlemen. I'm

1 Julie Wraithmell with Audubon of Florida. I'll be  
2 brief. You know that Tosohatchee is a beautiful place.  
3 It's of utmost importance to folks in east Orange  
4 County, escaping the urban core to enjoy our wildlands,  
5 and it's home to resident birds that set many an  
6 Audubon member's heart aflutter, things like  
7 brown-headed nuthatches and Bachman's sparrows and  
8 hairy woodpeckers. I'm sure you get excited at those  
9 words, too.

10 But unfortunately you can imagine that hearts were  
11 set aflutter for a different reason when that local  
12 community received word that that property was going to  
13 be transferred and the decision had already been made.

14 At our members' behest, we looked into the  
15 circumstances of the decision. And while we support  
16 both agencies, the Florida Park Service and the FWC,  
17 the concern of our members was that the decision was  
18 made suddenly or at least appeared to have been so.  
19 And the result was not made locally, inclusively or  
20 transparently.

21 When the agencies realized the concern they  
22 created, the FWC and the Park Service spent a great  
23 deal of time working with the local community to make  
24 their goals and in fact their agencies' very missions  
25 better understood by those members of the public.

1           When the issue was before ARC, I testified that  
2           Audubon did not object to the transfer but rather to  
3           the way that the decision was made, with a lack of  
4           transparency, provoking unfortunate suspicion in the  
5           local community.

6           I think FPS has recognized the missteps that  
7           resulted in this perception, and FWC is seeking to  
8           remedy it as they build relationships with their soon  
9           to be new constituents in east Orange County.

10          So we are pleased with FWC's growing commitment to  
11          serving their wildlife viewing constituents, including  
12          Audubon members, and are comfortable with the transfer,  
13          with the assurances of both agencies that future  
14          decisions of transfers of this magnitude will involve  
15          stakeholders on a local level. Thank you.

16          GOVERNOR BUSH: I agree with that.

17          CFO GALLAGHER: Motion on 5.

18          GOVERNOR BUSH: Any other speakers?

19          MS. ARMSTRONG: Let me just inquire. Is Annette  
20          Huggins here?

21          MS. HUGGINS: I'm going to decline to speak.

22          MS. ARMSTRONG: Okay. That's it. No more  
23          speakers.

24          ATTORNEY GENERAL CRIST: Second.

25          GOVERNOR BUSH: There's a motion and a second.

1           Eva, just for the record, I think that the comments  
2           made by the people about the process is probably pretty  
3           good because, again, back to the anecdotal man, I got  
4           quite a few e-mails in response to that. And not that  
5           I'm complaining. It's my job to receive the concerns  
6           of people.

7                     But it really made no sense. I mean, the  
8           consensus was there, with a little bit of work. And it  
9           probably required more work afterwards to clean up  
10          from --

11                    MS. ARMSTRONG: Right.

12                    GOVERNOR BUSH: Just good lessons hopefully  
13          learned.

14                    MS. ARMSTRONG: Yes, sir.

15                    GOVERNOR BUSH: Right?

16                    MS. ARMSTRONG: Yes, sir.

17                    GOVERNOR BUSH: Well, you're just taking it  
18          because you didn't have anything to do with it?

19                    MS. ARMSTRONG: No, sir. I just wanted to correct  
20          the record.

21                    GOVERNOR BUSH: You sound like my son. Yes, sir,  
22          yes, sir. You know, if I just keep saying, yes, sir,  
23          he'll finally stop.

24                    MS. ARMSTRONG: I wanted to make it clear I was  
25          hearing you. And because point well taken, but also to

1           be clear, in the ARC meeting, for Mr. Sphar, there was  
2           no indication that employees had been transferred or  
3           the action already taken. So I think for him and for  
4           the people in the room and on the record, that had not  
5           occurred.

6           The discussion and the decision within Parks, I  
7           think in their minds, had already been made. But we  
8           clearly needed to do more of that public outreach and  
9           public hearing. That was clearly where the error was  
10          made.

11          GOVERNOR BUSH: Okay. Yes, ma'am. There's a  
12          motion and a second. Any other discussion? Without  
13          objection, the motion passes.

14          MS. ARMSTRONG: And that concludes our agenda for  
15          today.

16          GOVERNOR BUSH: Thank you, Eva. Congratulations  
17          again on your hard work for Babcock.

18          MS. ARMSTRONG: Thank you, sir. And to all of  
19          you, thank you.

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1 GOVERNOR BUSH: State Board of Administration.

2 CFO GALLAGHER: Motion on the minutes.

3 ATTORNEY GENERAL CRIST: Second.

4 GOVERNOR BUSH: There's a motion and a second.

5 Without objection the item passes. Item 2. Good  
6 morning, Coleman.

7 MR. STIPANOVICH: Good morning, Governor and  
8 members. Item 2 is --

9 GOVERNOR BUSH: Speak up, Coleman. We have a  
10 little bit of noise in the house.

11 MR. STIPANOVICH: Item 2 is a request to approve a  
12 permanent rulemaking. Going back in May there were  
13 emergency rules that you all approved, and then on June  
14 15th you approved filing of rules for notice on this  
15 same rule. And today we're asking for approval for  
16 filing of adoption of Rules 19-8.010, Reimbursement  
17 Contract, and Rule 19-8.013, Revenue Bonds.

18 ATTORNEY GENERAL CRIST: Motion.

19 CFO GALLAGHER: Second.

20 GOVERNOR BUSH: There's a motion and a second. If  
21 you don't mind, could you give us a little update on  
22 the limited apportionment companies, how they've  
23 responded to the appropriation of money.

24 MR. STIPANOVICH: Sure. As you all know, members,  
25 the Florida Hurricane Catastrophe Fund was dealt two

1 legislative mandates, one being the limited  
2 apportionment companies, the small companies that  
3 Commissioner McCarty made reference to. In working  
4 with OIR -- there were 48 eligible companies that  
5 qualified. Of the 48 that qualified, 32 companies  
6 selected the additional coverage.

7 The additional coverage amounted to roughly \$269  
8 million. And so -- which actually provides an  
9 additional \$539 million, over a half a billion dollars  
10 in additional coverage for the program.

11 CFO GALLAGHER: That was the premium number.

12 MR. STIPANOVICH: That's the premiums, yeah.

13 GOVERNOR BUSH: So it's 32 percent, more or less,  
14 of the entire market, the limited apportionment  
15 companies. This kept them in the game.

16 CFO GALLAGHER: And it kept from dumping all the  
17 policies they had back into Citizens, where most of  
18 them came out of.

19 GOVERNOR BUSH: Where if they weren't in the game,  
20 that's what would happen.

21 MR. STIPANOVICH: And they can select up to \$10  
22 million of additional coverage, and they paid 50  
23 percent rate online premium.

24 CFO GALLAGHER: They could only get 10 or they  
25 paid 10?



1 MR. STIPANOVICH: Treasurer, only 10. You made  
2 reference to 20.

3 CFO GALLAGHER: I was wrong. Paid 5, capped 10.

4 MR. STIPANOVICH: Ten is capped.

5 GOVERNOR BUSH: So they put up five. They got  
6 ten.

7 MR. STIPANOVICH: That's correct.

8 GOVERNOR BUSH: Are we calling this an equity loan  
9 or something?

10 CFO GALLAGHER: No. It's a rate online.

11 MR. STIPANOVICH: Where they're just buying more  
12 insurance coverage. They still have the first layer of  
13 insurance coverage they have. And then in addition to  
14 that, the companies that qualify, these limited  
15 apportionment companies, which are companies that have  
16 a surplus of 20 billion -- 20 million or less and are  
17 writing at least 25 percent of their policies that they  
18 write around the country has to be in Florida, that  
19 kind of generally qualifies them. And then based on  
20 that, they can buy additional reinsurance from the Cat  
21 Fund, up to \$10 billion, or \$10 million.

22 CFO GALLAGHER: What this is is catastrophic  
23 coverage that they must have in order to continue  
24 writing these policies. If they didn't have it --  
25 well, some of them could go without it, but if they did

1 and they had a storm, they'd lose all their capital and  
2 they'd be out of business. So this protects them from  
3 being insolvent.

4 MR. STIPANOVICH: And I think the motivation was  
5 they weren't getting it anywhere else.

6 CFO GALLAGHER: There was none available.

7 GOVERNOR BUSH: So this was the full amount that  
8 was allocated was taken up? I mean pretty close to it.

9 MR. STIPANOVICH: Well, it's not so much what was  
10 allocated. That will be the other program I'll  
11 mention, the Incentive Capital Buildup Program. It  
12 would really be qualified, to whoever qualified would  
13 get the coverage as long as they paid the premium. So  
14 of the 48 that were eligible, 32, which is a lot, by  
15 the way, 32 --

16 GOVERNOR BUSH: So the 16 that didn't, the third  
17 that didn't had access to --

18 CFO GALLAGHER: Either that or their own capital.

19 MR. STIPANOVICH: And they're a national program  
20 already and don't want the additional coverage or  
21 whatever other reasons.

22 GOVERNOR BUSH: All right.

23 MR. STIPANOVICH: The other mandate, Governor, was  
24 the Incentive Capital, the Insurance Capital Buildup  
25 Incentive Program. And that's the references made a

1 while ago, that infusion of an additional \$500 million  
2 of capital into the insurance marketplace for  
3 additional homeowner insurance coverage.

4 The Cat Fund was appropriated, through the  
5 Legislature, \$250 million. And so we're in the process  
6 of approving those loans. We just approved and  
7 executed our first loan yesterday. There are ten  
8 companies that have applied for the loan. There's a  
9 pool of 250 million. The max that any company can get  
10 is 25 million.

11 Ten companies have applied. One was approved  
12 yesterday. We expect another several to be approved in  
13 late August or September, and then the balance is being  
14 asked to be approved sometime between November and  
15 January. So they're kind of designating when they  
16 would like the money, versus the process is in place  
17 and us having the ability to implement it. We've got  
18 the implementation in place. We're just doing the  
19 reviews, working with OIR, approving the loans. And so  
20 we're up and running and beginning to make some loans.

21 GOVERNOR BUSH: So why would someone delay, why  
22 would someone want to have their loan be closed in  
23 January rather than now?

24 MR. STIPANOVICH: They may not have administrative  
25 capability to write additional new policies, don't have

1 the infrastructure in place. That could be one reason.

2 CFO GALLAGHER: You can't get a new company  
3 started this season anyway. It takes --

4 MR. STIPANOVICH: Plus they have to do the 250  
5 million matching, Governor, the 250 million matching.  
6 So they have to raise capital. They may not have  
7 raised the capital yet that they need.

8 GOVERNOR BUSH: So these are -- what kind of --

9 CFO GALLAGHER: These are brand new insurance  
10 companies.

11 GOVERNOR BUSH: This is just unallocated capital  
12 seeking --

13 MR. STIPANOVICH: This is a half a billion dollars  
14 of new capital in the insurance market to cover  
15 homeowners.

16 CFO GALLAGHER: We always talk about we need more  
17 companies. This is the incentive to get the companies.  
18 It allows these companies to all be \$50 million  
19 companies. I think one of them may be smaller than  
20 that, because we only use 225 million of it  
21 potentially?

22 MR. STIPANOVICH: Right. Right now there are ten  
23 that applied. Right now there's ten that applied,  
24 which takes up 225.5 million of the 250 that's been  
25 appropriated. So if they all qualify -- and, again,

1           that remains to be seen --

2           GOVERNOR BUSH:  The problem with -- these are all  
3           ideas that are working and part of the effort over the  
4           last six months.  The one problem that we've not been  
5           able to get around is the concentration of risk that's  
6           occurred, that people have -- that's why we need this  
7           national catastrophic fund, because we've got to find a  
8           way to share our risk with others as well.  If not,  
9           we're constantly going to be paying more.

10          CFO GALLAGHER:  There's another thing that I think  
11          we should try as an alternative, because we've been  
12          working on having a national catastrophic fund since  
13          1993, basically, after Hurricane Andrew.

14          One of the things that I think would make some  
15          sense is that we should go to FEMA first to get on  
16          their side and maybe the administration and see if  
17          Congress would set up a loan program.  In other words,  
18          in lieu of a cat fund, have a loan program which would  
19          be principal repayment only, in lieu of them writing  
20          checks and never getting anything back.

21          And so they could back up our cat fund with  
22          capital that wouldn't cost us interest, as an  
23          alternative to -- if we can't get a cat fund done, and  
24          we haven't done very well at it, I think it would be in  
25          the federal government's interest as well as ours to

1           have dollars available to back up our cat fund that  
2           would be repaid without interest. That might be an  
3           alternative to what we're not able to get in the cat  
4           fund.

5           GOVERNOR BUSH: Well, the unintended consequence  
6           of this, again, for FEMA is that public entities are  
7           going to go bare, basically, because they can't get  
8           insurance, and they're going to hope for a designation.

9           CFO GALLAGHER: And they'll be giving money and  
10          never get it paid back.

11          GOVERNOR BUSH: So if your storm is declared, you  
12          get your money back, and it creates a disincentive for  
13          insurance.

14          CFO GALLAGHER: Exactly. That's why that might be  
15          an alternative.

16          GOVERNOR BUSH: Coleman, have you got something  
17          else?

18          MR. STIPANOVICH: Yes, sir. One final comment.  
19          I'd like to just update the board on recent Florida  
20          Commission on Hurricane Loss Projection Methodology  
21          action regarding the rulemaking. They met in a  
22          workshop on July 27th, and they voted to adopt its  
23          process through rulemaking and proceed.

24          GOVERNOR BUSH: We're grateful.

25          MR. STIPANOVICH: Right. And it was -- it wasn't

1 a full -- it was a quorum. It wasn't a full  
2 attendance, but it was unanimous. And there was a lot  
3 of discussion, pros and cons. And Dr. Nicholson  
4 seconded the motion and had the adopted rule, I mean  
5 had the draft rule. So we're working now.

6 The time line will be that on August 17 and 18  
7 they will be meeting to look at the standards and  
8 guidelines for the draft rule that's been proposed.  
9 And so they're getting input from OIR and other places.  
10 And then along the way, of course, there will be plenty  
11 of opportunities for objections and challenges and that  
12 kind of thing.

13 GOVERNOR BUSH: They'll actually get to meet the  
14 public for the first time. It will be an interesting  
15 experience.

16 MR. STIPANOVICH: And then there will be a rule  
17 hearing scheduled for September 26.

18 GOVERNOR BUSH: I appreciate your leadership in  
19 that, Coleman. There's a motion and a second. Any  
20 other discussion? Without objection, the item passes.

21 MR. STIPANOVICH: Thank you, members.

22 GOVERNOR BUSH: Thank you very much.

23 (The proceeding was concluded at 10:50 a.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA )  
COUNTY OF LEON )

I, Jo Langston, Registered Professional Reporter,  
do hereby certify that the foregoing pages 3 through 87,  
both inclusive, comprise a true and correct transcript of  
the proceeding; that said proceeding was taken by me  
stenographically and transcribed by me as it now appears;  
that I am not a relative or employee or attorney or counsel  
of the parties, or a relative or employee of such attorney  
or counsel, nor am I interested in this proceeding or its  
outcome.

IN WITNESS WHEREOF, I have hereunto set my hand  
this 8th day of August, 2006.

\_\_\_\_\_

JO LANGSTON  
Registered Professional Reporter



