

THE CABINET  
STATE OF FLORIDA

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Representing:  
STATE BOARD OF ADMINISTRATION

The above agency came to be heard before  
THE FLORIDA CABINET, Honorable Governor Crist presiding,  
in the Cabinet Meeting Room, LL-03, The Capitol,  
Tallahassee, Florida, on Tuesday, July 17, 2007,  
commencing at approximately 9:02 a.m.

Reported by:

MARY ALLEN NEEL  
Registered Professional Reporter  
Registered Florida Reporter  
Notary Public

ACCURATE STENOGRAPHY REPORTERS, INC.  
2894 REMINGTON GREEN LANE  
TALLAHASSEE, FLORIDA 32308  
(850)878-2221

APPEARANCES:

Representing the Florida Cabinet:

CHARLIE CRIST  
Governor

BILL McCOLLUM  
Attorney General

ALEX SINK  
Chief Financial Officer

\* \* \*

## I N D E X

### STATE BOARD OF ADMINISTRATION (Presented by COLEMAN STIPANOVICH)

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## 1 PROCEEDINGS

2 (The agenda items commenced at 9:04 a.m.)

3 GOVERNOR CRIST: Our next Cabinet meeting will  
4 be Tuesday, July 31st. And now, Coleman. Forgive  
5 me.

6 MR. STIPANOVICH: Governor, thank you. Thank  
7 you for calling this meeting on behalf of the Board  
8 to consider the expansion of the Florida Hurricane  
9 Catastrophe Fund pre-event program that was  
10 established one year ago this month.

11 Over the past several months, the Cat Fund  
12 staff and the financial advisor and the Division of  
13 Bond Finance have been studying various options to  
14 increase the program's liquidity needs under  
15 various catastrophic scenarios. You have a report  
16 that's in your materials today that analyzes the  
17 Cat Fund's liquidity in light of the magnitude and  
18 timing of these potential obligations, and the  
19 purpose of that report is to provide an analysis  
20 and recommendation for the most efficient financing  
21 that will expand the pre-event liquidity program in  
22 a cost-effective manner.

23 John Forney, the financial advisor to the Cat  
24 Fund, will give a short presentation on the report.  
25 And John worked closely with the -- Dr. Nicholson

1 and Ben Watkins of the Division of Bond Finance,  
2 and they're also present today.

3 John.

4 MR. FORNEY: Thank you, Coleman.

5 Governor Crist, CFO Sink, Attorney General  
6 McCollum, good morning.

7 GOVERNOR CRIST: Good morning.

8 MR. FORNEY: It is my pleasure and privilege  
9 to be here before you today. For the record, my  
10 name is John Forney. I work for Raymond James &  
11 Associates, and we are the financial advisor to the  
12 Florida Hurricane Catastrophe Fund.

13 Each year we help the Cat Fund analyze its  
14 financial position relative to and in light of its  
15 potential reimbursement obligations from two  
16 different perspectives.

17 The first perspective is the total claims  
18 paying capacity of the Fund, and this is the  
19 subject of a statutorily required report that we  
20 help the Cat Fund produce semiannually. The last  
21 such report dated May 15, 2007, estimated the total  
22 multi-year claims paying capacity of the Fund to be  
23 approximately \$57 billion.

24 The second perspective, and the one that is  
25 the subject of our meeting today, is the liquidity

1 perspective. By liquidity we mean not the ultimate  
2 claims paying capacity of the Fund, but rather an  
3 evaluation of the cash resources that are available  
4 to the Fund to pay claims during those critical  
5 first few weeks and months after an event. Last  
6 year, with its funds depleted as a result of over  
7 \$8 billion of payouts from the storms that took  
8 place in 2004 and 2005, the Cat Fund decided to  
9 bolster its liquidity position by doing  
10 \$2.8 billion of pre-event variable rate liquidity  
11 notes. The proceeds of these notes were set aside  
12 and invested by the SBA in high grade short-term  
13 securities pending their need to pay claims.

14 This year the liquidity situation is this:  
15 The Cat Fund still has on hand all \$2.8 billion of  
16 those notes, since there were no storms last year  
17 that triggered payouts from the Fund. In addition,  
18 the Cat Fund has on hand approximately \$1 billion  
19 of accumulated reimbursement premiums collected for  
20 the last contract year. Finally, over the  
21 remainder of this year, the Cat Fund will collect  
22 an additional approximately \$1.4 billion of  
23 reimbursement obligations -- excuse me,  
24 reimbursement premiums for this contract year. All  
25 told then, the Cat Fund either has on hand or will

1 have access to approximately \$5.2 billion of  
2 liquidity resources that it could use to pay claims  
3 during the weeks after an event prior to having to  
4 access the markets to secure additional resources.

5 Now, I think we'll all agree that \$5.2 billion  
6 is a significantly strong liquidity position.  
7 However, this year the Cat Fund's maximum  
8 obligations could be as high as \$28 billion.  
9 Therefore, in order to bolster its already strong  
10 liquidity position and provide further protection  
11 against the uncertainties of the market in the  
12 weeks following a hurricane event, we believe that  
13 it's prudent for the SBA to consider a liquidity  
14 augmentation program.

15 There are several such options available to  
16 the Cat Fund to implement such a program. Those  
17 are described in some detail in the report that was  
18 a part of your agenda packet. I won't repeat that  
19 analysis here. I'll just say that if implemented,  
20 we believe that the program should consist of one  
21 product rather than multiple products, and that it  
22 should be the product that will enable the Cat Fund  
23 to maximize its claims paying capacity in a  
24 cost-effective and timely manner.

25 Based on all the analysis that we've done, we

1 believe that the product that fits those parameters  
2 is known as floating rate notes. And so our  
3 recommendation will be that if implemented, the  
4 liquidity program should consist of the maximum  
5 amount of floating rate notes that could be issued  
6 by the Cat Fund in a cost-effective and timely  
7 manner.

8 We stand ready to help the Cat Fund implement  
9 the liquidity program if it is approved today. At  
10 this point, I'll conclude my remarks, and I'm happy  
11 to answer any questions that you may have.

12 CFO SINK: I just have one.

13 GOVERNOR CRIST: CFO Sink.

14 CFO SINK: Yes. I just have one. When would  
15 we -- if we approve this today, when would we have  
16 the money in the bank, so to speak?

17 MR. FORNEY: I think conservatively, you would  
18 have the money by September 1st, and it would be  
19 our goal to actually move more quickly than that  
20 and try to do it more quickly. But to give a  
21 conservative estimate, I think September 1st is  
22 something that is very realistic and very doable.

23 CFO SINK: Thank you, John.

24 GOVERNOR CRIST: General.

25 ATTORNEY GENERAL McCOLLUM: If I might, John,



1 none of this will shift the risk in any way, but  
2 what I gather we're doing is to provide in the  
3 backdrop of a short-term period after a storm or a  
4 series of storms where we'll have the cash to pay  
5 the obligations that the Cat Fund has while we  
6 might not be able to have it otherwise, because  
7 there's some time involved in going out and seeking  
8 additional resources.

9 Can you explain for everybody the process that  
10 you go through if you have a need for greater  
11 resources to pay these claims in terms of  
12 additional borrowing? What do we do? What do we  
13 do if it's a \$15 billion obligation after storms?

14 MR. FORNEY: Yes, sir. I'll be happy to  
15 address that. You are correct. This program would  
16 not shift the risk. It does simply provide the Cat  
17 Fund additional liquidity to pay claims.

18 And the actuarial models that try to estimate  
19 the payout pattern for the Cat Fund after an event  
20 vary widely, but they do suggest that the Cat Fund  
21 will have to come up with a significant amount of  
22 money in a relatively short period of time. That's  
23 why we think it's prudent to have additional funds  
24 on hand to get you through that period, because the  
25 ultimate source for the Cat Fund if it was a

1     \$15 billion or a \$20 billion event that it had to  
2 deal with is to do post-event bonding on a  
3 tax-exempt basis secured by emergency assessments  
4 on a long-term basis.

5     The Cat Fund did its first such transaction in  
6 that regard last year, so the Cat Fund knows it has  
7 market access at relatively cost-effective rates.  
8 The Cat Fund is a highly rated entity. But there  
9 is some uncertainty as to how the markets would  
10 react after a storm of that magnitude, which would  
11 be unprecedented.

12     And so what you're essentially doing with this  
13 liquidity program is two things. One, you're  
14 buying yourself time so that during those critical  
15 first weeks and months, the Cat Fund and the State  
16 can go about the business that they're there for of  
17 paying claims and helping people get their lives  
18 back in order rather than scrambling to get into  
19 the financial markets to do an exceptionally large  
20 transaction.

21     We will, however, be preparing in the event of  
22 a very large transaction to do that as  
23 expeditiously as possible. And it would be on a  
24 case-by-case basis an evaluation of the storm, the  
25 amount of payouts, and the timing of payouts as to

1       how quickly we would move to try to do that. Of  
2       course, we try to do it in the most cost-effective  
3       manner possible to minimize the assessment burden,  
4       but it may be in fact that the markets would have  
5       been to be accessed relatively quickly after an  
6       event. That's why this kind of liquidity program  
7       makes sense, because time is money, to use a  
8       cliché, and it would be valuable to the Cat Fund to  
9       have additional time after an event.

10       ATTORNEY GENERAL McCOLLUM: Thank you very  
11       much for explaining that. I thought it was  
12       important for the record. Thank you, Governor. I  
13       support this. I think it's a very important thing  
14       for us to do. I think we need the liquidity, and I  
15       think that it was well explained to us.

16       GOVERNOR CRIST: That almost sounds like a  
17       motion.

18       ATTORNEY GENERAL McCOLLUM: It is a motion. I  
19       move we approve the recommendation, Item 1.

20       CFO SINK: I second it.

21       GOVERNOR CRIST: Moved and seconded. I just  
22       had a question. I support it too. But in terms of  
23       getting the additional dollars, how do you go about  
24       that? What is it, a competitive bid to access the  
25       loans? Is that not a question for you, John?

1 MR. FORNEY: I was going to --

2 GOVERNOR CRIST: Defer?

3 MR. FORNEY: I was going to ask Ben Watkins  
4 from the Division of Bond Finance to address those  
5 procurement issues since you asked about that  
6 question.

7 GOVERNOR CRIST: Sure.

8 MR. WATKINS: Good morning, Governor.

9 GOVERNOR CRIST: Good morning, Ben.

10 MR. WATKINS: One of the things we did a year  
11 ago in connection with evaluating the alternatives  
12 to implement a liquidity program was to do a  
13 procurement process in accordance with the SBA's  
14 policies. So there was an invitation to negotiate,  
15 which is another word for an RFP, to solicit  
16 qualifications of firms in order to implement the  
17 financing. So that's what was done, and a rank  
18 list and order of firms was provided at that time  
19 by a team of professionals at the State Board of  
20 Administration.

21 So the procurement process was in compliance  
22 with the SBA policies and in compliance with the  
23 same policies and procedures we use at the Division  
24 of Bond Finance for engaging professionals to  
25 execute transactions.

1           GOVERNOR CRIST: Okay. That's great. I  
2 assume that means that somebody has already been  
3 selected?

4           MR. WATKINS: Well, we will be briefing your  
5 offices on that and soliciting input from you all  
6 and bring you a recommendation as to the  
7 composition of the underwriting syndicate.

8           GOVERNOR CRIST: Okay. So there is  
9 competition?

10          MR. WATKINS: Yes, sir.

11          GOVERNOR CRIST: And we'll have the  
12 opportunity to review who's the most efficient?

13          MR. WATKINS: Yes, sir.

14          GOVERNOR CRIST: Okay. Good.

15          MR. WATKINS: And the next step in the process  
16 is for us to prepare the legal documents and bring  
17 those back to you at the meeting on July 31st for  
18 formal approval and authorization of the financing.

19          GOVERNOR CRIST: At our next meeting. Okay.  
20 Great.

21          CFO SINK: And just --

22          GOVERNOR CRIST: CFO Sink.

23          CFO SINK: Thank you, Governor. Just to  
24 follow up on that, so when these multiple providers  
25 call our offices to get appointments to lobby us

1 for participation, we should be referring them to  
2 the procurement team; is that correct?

3 MR. WATKINS: Yes, ma'am, that would be  
4 appropriate.

5 CFO SINK: Thank you.

6 GOVERNOR CRIST: Excellent. Any other  
7 questions?

8 ATTORNEY GENERAL McCOLLUM: None.

9 GOVERNOR CRIST: Well, we have a motion and a  
10 second. Unless there's any objection, show it  
11 approved unanimously.

12 And I think, General, you have a resolution  
13 you would like to present.

14 ATTORNEY GENERAL McCOLLUM: I do. As you  
15 know, Governor, we have for some time been aware  
16 that we aren't shifting risk in this process. We  
17 just heard that this morning. And the reality is  
18 that over time, there is the potential, of course,  
19 for there to be some greater event even than the  
20 capacity of the Cat Fund that we have. Borrowing  
21 all we can, going out and bonding as was described  
22 is what we would do in the event it was greater  
23 than the liquidity we're raising today and so  
24 forth. We also know that at some point, we've  
25 reached a maximum ability for the Legislature and

1 for us to do things that will reduce or mitigate  
2 the cost in terms of premiums to the folks who have  
3 to pay for homeowners and for commercial insurance  
4 in our state.

5 And you, as we're all aware, have been talking  
6 nationally to those that are supporting the idea of  
7 a catastrophic program federally. There has been  
8 some progress in that regard, as I understand it  
9 from reports that I have heard you give and read  
10 about. But it seems to me it would be prudent for  
11 the Cabinet, for us as the State Board of  
12 Administration to have a resolution, which I'm  
13 offering today and seek support for, to encourage  
14 this process to occur, to encourage the Federal  
15 Government to do this, because otherwise we're  
16 simply not going to be able to bear all of these  
17 burdens as a single state.

18 This resolution is fairly straightforward. It  
19 just lays the background as to what has happened  
20 and the possible losses that might occur and why  
21 it's important to have a national catastrophic  
22 insurance program. But at the end of the day, what  
23 the resolution says, it says it's necessary to  
24 maximize the risk bearing capacity of the private  
25 markets and provide quantifiable risk management

1 through and for the Federal Government, and it is  
2 resolved that the program should address the  
3 following concepts: (1) Provide consumers with a  
4 federal reinsurance program that covers all perils  
5 and promotes stability in the homeowners insurance  
6 market; (2) mitigate future economic damages and  
7 raise the bar for disaster preparedness and  
8 recovery by encouraging states to adopt stronger  
9 building codes and emergency response capabilities  
10 in order to participate in the plan; (3) create the  
11 national catastrophic insurance program to improve  
12 the availability of homeowners insurance for the  
13 purpose of facilitating the pooling and spreading  
14 of risks of catastrophic financial losses from  
15 disasters and to improve the solvency of the  
16 homeowners insurance market.

17 So I would move this resolution, Governor, and  
18 really in support of your already ongoing efforts  
19 and encourage the Cabinet -- encourage, first of  
20 all, the State Board of Administration to adopt  
21 this, and then I certainly would hope we would get  
22 Commissioner Bronson to join us as the full Cabinet  
23 on this resolution.

24 GOVERNOR CRIST: I suspect that he would. Is  
25 there a second?



1 CFO SINK: Yes, I'll second it, and I want to  
2 add a few comments.

3 GOVERNOR CRIST: Please.

4 CFO SINK: Thank you, Governor.

5 General, thank you for bringing this up. I  
6 think it's a really important thing for us as the  
7 Cabinet to do, and it's very timely.

8 I haven't seen you all since I had an  
9 opportunity to be in Washington two or three weeks  
10 ago, and I took the opportunity to meet with  
11 Congressmen Mahoney and Klein, who have taken the  
12 lead in the House at the direction of Congressman  
13 Barney Frank to put together a program. I spent a  
14 great amount of time with Congressman Mahoney, and  
15 it's very -- I think it's very encouraging for us.

16 You know, there's that whole thing that we get  
17 thrown back in our face, "Well, the people in  
18 Montana aren't interested in covering the hurricane  
19 losses in Florida." But the National Association  
20 of Insurance Commissioners has reported that every  
21 Florida -- every American taxpayer has already  
22 contributed over \$1,000 for Katrina relief, so  
23 people in Montana are supporting hurricane relief.

24 I think one of the most important facets of  
25 their proposal is that they're going to require

1 states to have their own cat funds, and require  
2 states to have building codes, and require states  
3 to be focusing on mitigation. All those things  
4 we're already doing here in Florida. We've done  
5 more in Florida than any other state to protect  
6 ourselves.

7 But we all agree, as I do with you, General,  
8 that the national government, our Federal  
9 Government needs to step up and say at some point  
10 in time with a certain amount of catastrophe, yes,  
11 the Federal Government, as it always has before, is  
12 going to step in and help individual states,  
13 because no individual state can bear the sole  
14 burden of one of these Andrews or Katrinas or these  
15 big bad ones.

16 And I was just very encouraged, and now we  
17 just need to work on our senators, because it seems  
18 that they might be the stopping point. But I think  
19 all of us, we are working in a bipartisan way here  
20 and need to work with Democrats and Republicans,  
21 and now is the time. They're expecting to have  
22 hearings in September for us to weigh forth, and  
23 not make it this is just a "bail out Florida"  
24 issue. It's an issue, as you said, for people all  
25 over this country.

1           So I heartily second your resolution.

2           ATTORNEY GENERAL McCOLLUM: Well, thank you  
3 very much. If I might add onto it, Governor, that  
4 what CFO Sink is talking about is so true, and the  
5 reality is that this would cover earthquakes as  
6 well and other major catastrophic events.

7           I know when I was in Congress a few years ago  
8 and proposed something similar to this, it was hard  
9 charging, hard and difficult to do after Hurricane  
10 Andrew. We found that there were a lot of state  
11 legislators, a lot of Congressmen in states like  
12 Missouri, where there's the fault line that goes  
13 through there, that would support this, and the  
14 California delegation did, and so on.

15          So I would hope that once there is a reality  
16 check in Congress that the senators who might be  
17 reserved about this would come around and realize  
18 what CFO Sink is talking about, and that is that  
19 the risk must be spread, that it benefits  
20 everybody, and that when we have one of these big  
21 disasters, earthquake, hurricane, whatever it is,  
22 and if it's big enough, the Federal Government is  
23 going to pay for this, and it's going to be a lot  
24 less expensive for the Federal Government if we  
25 have more people insured and more reinsurance out

1 there, which you will have if they do a federal  
2 backstop. That's, of course, not what some of the  
3 people in a few of those states are thinking about  
4 right now.

5 So I'm very glad we're having the discussion.  
6 Hopefully, the same discussion will be what they do  
7 in Washington in a few weeks when those hearings  
8 take place.

9 But anyway, I would encourage the adoption of  
10 this resolution.

11 GOVERNOR CRIST: Of course. And I want to  
12 applaud your efforts as well, General. You know,  
13 the importance of putting forth a resolution like  
14 this to put that much more momentum behind the  
15 effort is incredibly important, and so I applaud  
16 your efforts in doing so this morning, and I thank  
17 you for doing so and would echo the comments of CFO  
18 Sink.

19 And she's right. I've had conversations as  
20 well with Congressman Mahoney and Congressman  
21 Klein. They have been leading in the U.S. House of  
22 Representatives on this. And I also had a chance  
23 to talk to Speaker Pelosi as well as Senate Leader  
24 Reid, and they are supportive as well. And, of  
25 course, our senators have been very aggressive,

1 both Senator Nelson and Senator Martinez, on this  
2 front. We just have to convince the other senators  
3 to be as concerned.

4 But your point is well taken. I mean, this is  
5 not just a Florida issue. This is an issue that  
6 affects the entire country. You know, we have a  
7 national defense to protect us from foreign  
8 invasion. We ought to have, in essence, a national  
9 defense for natural diaster. It just makes sense,  
10 it is prudent, and it's the right thing to do.

11 So I want to thank you again, and without any  
12 objection, it is unanimously approved.

13 ATTORNEY GENERAL McCOLLUM: Thank you.

14 GOVERNOR CRIST: Thank you. I think that's  
15 all the business we have, so we stand adjourned.

16 MR. STIPANOVICH: Acting on the  
17 recommendation, Governor. Did you all --

18 GOVERNOR CRIST: I'm sorry?

19 MR. STIPANOVICH: I don't think the motion was  
20 taken -- action was taken on the recommendation.

21 GOVERNOR CRIST: Say that again.

22 MR. STIPANOVICH: Was there a second to the  
23 motion to approve the recommendation?

24 CFO SINK: Yes, I seconded it.

25 GOVERNOR CRIST: On Item 1?

1 MR. STIPANOVICH: Did you vote?

2 GOVERNOR CRIST: We adopted it without  
3 objection.

4 MR. STIPANOVICH: Okay.

5 (Proceedings concluded at 9:24 a.m.)

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1 CERTIFICATE OF REPORTER

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3 STATE OF FLORIDA:

4 COUNTY OF LEON:

5 I, MARY ALLEN NEEL, Registered Professional  
6 Reporter, do hereby certify that the foregoing  
7 proceedings were taken before me at the time and place  
8 therein designated; that my shorthand notes were  
9 thereafter translated under my supervision; and the  
10 foregoing pages numbered 1 through 22 are a true and  
11 correct record of the aforesaid proceedings.

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

16 DATED THIS 23rd day of July, 2007.

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19 \_\_\_\_\_  
MARY ALLEN NEEL, RPR, FPR  
2894-A Remington Green Lane  
20 Tallahassee, Florida 32308  
(850) 878-2221

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