

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

Representing:

DIVISION OF BOND FINANCE
FINANCIAL SERVICES COMMISSION, FINANCIAL REGULATION
FINANCIAL SERVICES COMMISSION, INSURANCE REGULATION
DEPARTMENT OF REVENUE
DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES
BOARD OF TRUSTEES OF THE INTERNAL IMPROVEMENT TRUST FUND
STATE BOARD OF ADMINISTRATION

The above agencies came to be heard before
THE FLORIDA CABINET, Honorable Governor Crist presiding,
in the Cabinet Meeting Room, LL-03, The Capitol,
Tallahassee, Florida, on Thursday, November 20, 2008,
commencing at approximately 9:05 a.m.

Reported by:

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APPEARANCES:

Representing the Florida Cabinet:

CHARLIE CRIST
Governor

CHARLES H. BRONSON
Commissioner of Agriculture

BILL McCOLLUM
Attorney General

ALEX SINK
Chief Financial Officer

* * *

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(Presented by BEN WATKINS)

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(Presented by KEVIN McCARTY)

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(Presented by LISA ECCHEVERI)

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CERTIFICATE OF REPORTER 62

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

2 (The agenda items commenced at 9:08 a.m.)

3 GOVERNOR CRIST: I would like to ask the
4 Cabinet to approve the appointment of two members
5 to the Nonmandatory Land Reclamation Committee. Is
6 there a motion to approve the appointments of Ann
7 Paul and John Robert Sherwin?

8 COMMISSIONER BRONSON: So move.

9 CFO SINK: Second.

10 GOVERNOR CRIST: Moved and seconded. Show the
11 appointments approved without objection. Thank
12 you.

13 Our next Cabinet meeting will be Tuesday,
14 December the 9th, 2008.

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1 GOVERNOR CRIST: As stated earlier, we will do
2 SBA at the end, so Division of Bond Finance and Ben
3 Watkins. Good morning, Ben.

4 MR. WATKINS: Good morning, Governor and
5 Cabinet members. Item Number 1 on the agenda this
6 morning is approval of the minutes of the
7 October 14th meeting.

8 GOVERNOR CRIST: Is there a motion?

9 COMMISSIONER BRONSON: Motion on Item 1.

10 ATTORNEY GENERAL McCOLLUM: Second.

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

13 MR. WATKINS: Item Number 2 is a report of
14 award on the competitive sale of \$150 million of
15 PECO bonds sold for school construction. The bonds
16 were awarded to the low bidder at a true interest
17 cost of 5.41 percent.

18 ATTORNEY GENERAL McCOLLUM: I move it.

19 CFO SINK: Move it.

20 ATTORNEY GENERAL McCOLLUM: Second.

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

23 MR. WATKINS: And Item Number 3 is a
24 resolution which does two things. It authorizes
25 the negotiated sale of certain bond issues, which

1 is a deviation from the way we normally sell bonds.
2 And the second thing that it does is to recommend
3 an underwriting syndicate to execute those
4 transactions should circumstances warrant.

5 As you are aware, since September the 14th,
6 the municipal credit market had been closed as a
7 result of all of the turmoil in the markets from
8 the bankruptcy of Lehman Brothers and the bailout
9 of AIG, and all of the circumstances surrounding
10 the credit crisis had adversely affected the
11 tax-exempt bond market. And it impaired our
12 ability to borrow money, to sell bonds to borrow
13 money to fund our ongoing capital needs. In order
14 to address that issue, we have developed a
15 strategy, a different way of selling bonds should
16 circumstances warrant.

17 Subsequently -- the market was closed to us
18 for a period of about six weeks, where state and
19 local government issuers had difficulty, and in
20 fact were prohibited from selling bonds, because
21 there were no buyers in the market. That has
22 subsequently changed. This PECO bond issue on
23 October 28th is a result of an improvement in
24 market conditions and our ability to proceed with
25 selling bonds competitively like we have in the

1 past. And yesterday -- I'll report it on the next
2 Cabinet meeting, but yesterday we were also able to
3 sell another \$35 million bond issue.

4 So market conditions have improved over the
5 last three weeks, but they remain very volatile,
6 and it's a day-to-day prospect with respect to what
7 the conditions in the market will be on any given
8 day.

9 The primary demand is from retail investors,
10 and that is what is allowing transactions to be
11 executed in the market today. And so in order to
12 be able to effectively access that demand, it
13 cannot be done competitively. It has to be done on
14 a negotiated basis.

15 GOVERNOR CRIST: What does that mean?

16 MR. WATKINS: It means that you hire a group
17 of professionals in order to be able to negotiate
18 bond issues with, and it allows the opportunity for
19 that group of underwriters to take the time
20 necessary to sell bonds to retail investors.

21 And so the second part of the resolution
22 recommends an underwriting syndicate, so pursuant
23 to our rules, we've done an open, competitive
24 selection process, and the firms are the top-ranked
25 firms in their categories being recommended.

1 Should circumstances warrant, if market conditions
2 deteriorate where we cannot sell bonds
3 competitively, we will have this preapproved group
4 of underwriters in place so that we would be able
5 to sell bonds and to borrow money.

6 So if the market conditions continue to
7 improve, stabilize, we may not ever need to use the
8 negotiated method of sale in order to borrow money.

9 So it really is a Plan B. It's contingency
10 planning. We didn't know six weeks ago how long
11 these problems would persist, and so it was prudent
12 for us to plan an alternative, a Plan B, if you
13 will, to be able to strategically access credit or
14 sell bonds if in fact we couldn't do it in the
15 normal way. And so this is the culmination of that
16 process. The competitive selection process and the
17 authorization to do the bond issues that we had
18 previously approved and had wanted to execute and
19 were not able to execute, it authorizes those to be
20 done in a different way if market conditions
21 prohibit us from selling bonds competitively, which
22 is the way we normally sell bonds.

23 GOVERNOR CRIST: Any questions?

24 ATTORNEY GENERAL McCOLLUM: I do. I have a
25 question.

1 GOVERNOR CRIST: Sure, General.

2 ATTORNEY GENERAL McCOLLUM: Is there a sunset
3 provision to this, or should there be one, Ben?

4 MR. WATKINS: It is open-ended now. There is
5 not -- the time is indefinite in terms of how long
6 this is in place. And like I said, it is for a
7 contingency. We can put an outside date on it
8 where we would need to go back and do this again a
9 year or two years from now. But if the market
10 continues to improve or remain stable, then this is
11 just on the shelf, if you will.

12 ATTORNEY GENERAL McCOLLUM: Well, the reason
13 I -- I just like, personally like sunsets of a
14 period of something reasonable to make sure it
15 triggers back. Now, you'll be here. I trust you
16 personally. I have great admiration for you. But
17 let's assume, you know, God forbid, you dropped
18 dead next week, the next fellow I might not trust
19 as much. And so --

20 GOVERNOR CRIST: That's a bad scenario.

21 ATTORNEY GENERAL McCOLLUM: That's a bad
22 scenario, you're right. Well, let's give him a few
23 more years. But let's assume that you're not in
24 office for whatever reason. That's why I like
25 sunsets in a situation like this, where it's forced

1 to come back to us. But that's just my suggestion.
2 I have no problem putting a couple of years as a
3 sunset, but I would like to see one here. I don't
4 know if anybody else would. And I would suggest
5 any motion that's made, and I would be glad to make
6 one, to approve Item 3 include a two-year sunset
7 provision in it.

8 MR. WATKINS: That makes sense to me. I have
9 no problem with that at all.

10 GOVERNOR CRIST: Is there a second?

11 CFO SINK: Second.

12 GOVERNOR CRIST: Moved and seconded. Any
13 further discussion? Show it approved without
14 objection.

15 MR. WATKINS: Thank you, sir.

16 GOVERNOR CRIST: Thank you.

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1 GOVERNOR CRIST: Office of Financial
2 Regulation, Alex Hager.

3 MR. HAGER: Good morning, Governor.

4 GOVERNOR CRIST: Good morning.

5 MR. HAGER: And Cabinet members.

6 The Office requests approval to file for final
7 adoption with the Department of State amendments to
8 Rule Chapters 69V-40 relating to mortgage brokering
9 and lending, 69V-560 relating to money services
10 businesses, and 69W-600 relating to the securities
11 regulation.

12 The proposed rules reflect statutory fee
13 changes that were passed during the 2008 regular
14 session. The Florida Legislature increased the
15 statutory fee charges by the Department of Law
16 Enforcement for fingerprinting processes for state
17 criminal history checks from \$23 to \$24. The
18 proposed rule passes the additional dollar
19 processing cost along to the license applicant.

20 In addition, the Florida Legislature decreased
21 the statutory fee required to be filed with a
22 mortgage broker license application from 200 to
23 195. The proposed rule reflects this reduction as
24 well.

25 COMMISSIONER BRONSON: Motion on Item 1.

1 ATTORNEY GENERAL McCOLLUM: Second.

2 GOVERNOR CRIST: Moved and seconded. Show it
3 approved without objection. Thank you very much.

4 CFO SINK: Governor, could I just --

5 GOVERNOR CRIST: Of course.

6 CFO SINK: -- make a comment while Alex is up
7 there?

8 GOVERNOR CRIST: Sure.

9 CFO SINK: We're living in very stressful
10 times for our banking and financial industry, and
11 we've been in almost daily contact with Alex. And
12 his office is trying to stay on top of the health
13 of the state's banks and the status of individuals
14 who have applied to take advantage of the
15 Department program coming out of Washington.

16 And Alex, of course, is in this interim
17 position to serve the State, and I just want to
18 comment on how hard I know everybody in your office
19 is working and your leadership and just say how
20 much we appreciate it and how important it is for
21 you to remain diligent about the health of the
22 state's banks and credit unions.

23 MR. HAGER: We are very diligent, and these
24 are interesting times in all the areas that we
25 regulate in the Office of Financial Regulation.

1 CFO SINK: Thank you.

2 MR. HAGER: Thank you.

3 GOVERNOR CRIST: Thank you very much.

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

4 MR. McCARTY: Good morning, Governor and
5 members of the Commission. Today we have three
6 agenda items, and with your acquiescence, Governor,
7 we would like to defer these three issues to the
8 December 9th meeting.

9 CFO SINK: Move approval of deferring the
10 items.

11 COMMISSIONER BRONSON: Second.

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

14 MR. McCARTY: Thank you, Governor.

15 GOVERNOR CRIST: Thank you very much.
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1 GOVERNOR CRIST: Department of Revenue, Lisa
2 Echeverri. Good morning, Lisa.

3 MS. ECHEVERRI: Good morning.

4 GOVERNOR CRIST: How are you?

5 MS. ECHEVERRI: I'm well. We have seven items
6 on our agenda today. Item 1 is approval of the
7 minutes from the September 30th meeting.

8 ATTORNEY GENERAL McCOLLUM: So move.

9 COMMISSIONER BRONSON: Second.

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

12 MS. ECHEVERRI: Item 2 requests approval of
13 amendments to Rule 12B-8.006. This rule provides
14 the updates to percentages used by insurers to pay
15 the State Fire Marshal regulatory assessment.

16 These are updated every five years to reflect the
17 change in the amount of fire risk coverage in
18 multi-peril policies. Recommend approval.

19 CFO SINK: Move it.

20 ATTORNEY GENERAL McCOLLUM: Second.

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

23 MS. ECHEVERRI: Item 3 requests approval of my
24 2008-2009 performance contract based on standards
25 established by the Legislature.

1 I call your attention to our performance for
2 the prior year. We exceeded or met our performance
3 measures in five of our ten measures, but we were
4 below expectations in five measures, and I just
5 wanted to speak briefly with respect to those
6 measures.

7 In the area of child support, you'll see that
8 in orders with support and percent of current
9 support collected, we fell below the anticipated
10 targets. Those were stretch targets. We do have
11 our CAMS implementation, our automation
12 implementation that should improve these numbers.
13 When you look at the raw data, though, you'll find
14 that we actually entered more orders, collected
15 more support, established more paternities. It's
16 just that the populations are growing faster, and
17 that denominator was growing faster than we kept up
18 with. So hopefully with some new strategies and
19 the implementation of that technology, we'll see
20 improvement in these measures.

21 In the general tax area, we also had two
22 measures that fell below performance. Percent of
23 compliance examinations resulting from an
24 adjustment, with respect to this measure, as we
25 went through our final integration of SUNTAX with

1 our unemployment tax, we did have some issues early
2 in that integration with the issuance of some
3 nonvalid billings that had to be corrected, and
4 that impacts those numbers.

5 We're also seeing a trend towards businesses
6 that are closing their businesses without notifying
7 the Department, and so we end up sending billings
8 because we think businesses are still in business.
9 Then when we go, you know, to check it out, there
10 is no business, so there's no adjustment. We're
11 not making a collection there. So we have
12 strategies to work on those issues.

13 And then also in the percent of cases resolved
14 in less than 90 days, we had a big push to really
15 try to resolve a lot of our accounts receivable to
16 bring more money in. As we did, we were touching
17 some of those older receivables, and that pushed
18 that measure down. That should improve in the next
19 year.

20 And finally, in property tax oversight, our
21 measure that fell below in that category was
22 percent of classes and subclasses studied and found
23 to have a level of assessment at least of 90
24 percent. That's really a measure that's looking at
25 property appraisers' performance based on our

1 statistical measures. And as you know, property
2 valuations have changed dramatically and will
3 continue to do so probably in the next year, so
4 that really just reflects what's going on in terms
5 of the property appraisers' ability to keep up with
6 changes and our testing mechanism to look at those
7 levels of assessment. So we expect improvement in
8 all of those areas next year.

9 I recommend approval of this performance
10 contract.

11 CFO SINK: I'll move it, but I do have some
12 questions.

13 GOVERNOR CRIST: CFO.

14 CFO SINK: Lisa, in the area of child support
15 compliance, this percent of current support
16 collected, the federal definition, your actual
17 performance is 52 percent. The legislative
18 standard is 64 percent. What is the federal --
19 what's the experience among all states in terms of
20 percentage of support collected?

21 MS. ECHEVERRI: It is tied very directly to
22 the economy and economic conditions. I think all
23 states are seeing those numbers fall slightly as a
24 result of higher unemployment, you know, people
25 falling behind on child support payments.

1 We had actually expected and had put out some
2 pretty aggressive stretch targets there, had
3 expected with our implementation of our CAMS
4 Phase 1, which was the enforcement piece, to have
5 seen a significant increase in collections. We
6 actually have seen quite a bit of an increase, but
7 we've also seen a significant increase in our
8 caseload. And so again, we're not keeping up with
9 the denominator.

10 We did see in our rollout of CAMS Phase 1 that
11 there were some decision rules or issues with that
12 system that were not functioning the way we had
13 anticipated, so we spent the last year making
14 corrections and hope to see higher performance
15 there.

16 One of the most significant things I think
17 that's coming with that back end enforcement piece
18 is getting income deduction orders in place more
19 rapidly with employers, finding out when somebody
20 does have a job and getting an income deduction
21 order in place rapidly so those collections can
22 begin.

23 But all states I think are seeing some
24 performance dips in that area, you know, as we see
25 issues with the economy.

1 CFO SINK: So for us, 52 percent is a pretty
2 decent number, given how other states do and how
3 the economy is operating today?

4 MS. ECHEVERRI: And it's nothing to brag
5 about, but we were at 51 percent last year, so we,
6 you know, crept up to 52 percent. We're headed in
7 the right direction, but just not as rapidly. You
8 know, families depend on the support that we
9 collect, so we know how important this is, and we
10 will continue to improve.

11 CFO SINK: Okay. Thank you.

12 GOVERNOR CRIST: Any other questions? Is
13 there a second?

14 ATTORNEY GENERAL McCOLLUM: Second.

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

17 MS. ECHEVERRI: Item 4 requests approval of
18 the Department's legislative budget request. This
19 legislative budget request represents a slight
20 increase in recurring funding, but an overall
21 decrease in the total operating budget from '08 to
22 '09. This budget does not take into account
23 proposed reductions in our budget, both for the
24 current year and for the '09-10 budget year.

25 I just wanted to highlight some of the big

1 issues in our legislative budget request that I
2 wanted to bring to your attention, one, continued
3 funding for that child support automated system.
4 We're in Phase 2. Phase 1 was the back end
5 enforcement piece. Phase 2 is really the piece
6 that facilitates the establishment of orders, the
7 case management, location of addresses for
8 custodial parents and noncustodial parents, so we
9 should see some improvement in our performance
10 based on the continued implementation of that
11 system. It will require about 10 million in
12 general revenue, but this is a match program, so
13 for every dollar we spend, the Feds match \$2 to pay
14 for the development of this system.

15 We also are requesting funding for the upgrade
16 of our centralized contact center in child support.
17 You may have heard that, you know, like other state
18 agencies, call centers struggle. We're looking at
19 some strategies to try and take our call center to
20 a new level of technology that will allow some
21 skills-based routing.

22 Our turnover rate in our call center for child
23 support is about 71 percent. So when you expect
24 the call center employee to know everything about
25 child support, there's a significant amount of

1 training that has to go on. New technology would
2 allow us to do skills-based routing so that you
3 could train employees in specific areas, and they
4 would be proficient more quickly.

5 It would also allow us to use telecommuting.
6 I have an interest in seeing us try to tap into an
7 alternative labor force, looking for people with
8 disabilities who may be homebound that would like
9 to work in a call center environment, but can't
10 leave home, and so other private sector companies
11 have looked at telecommuting as a way to handle
12 call center type of work.

13 We also have an issue in general tax. It's
14 2.6 million in trust funds to develop a collection
15 analytic system. We realize that with the economic
16 situation the way it is, continuing to have high
17 levels of collections of our tax revenues is
18 important. Collection analytic systems allows you
19 to take limited resources and devote them in areas
20 where they are most likely to produce revenue
21 collections, so you'll see that issue.

22 We also are seeking 10 positions in our
23 property tax program. I know this sounds like a
24 lot, especially in this time, and we certainly
25 understand that with the budget situation the way

1 it is, you know, we may not get all that we're
2 looking for. But here, this is about 735,000 in
3 funding.

4 And as you probably are aware, the Legislature
5 has placed significant additional responsibilities
6 on the Department with respect to property tax. We
7 now are not only very involved in overseeing the
8 millage levying process and the voting process on
9 millage rates, but the value adjustment board
10 process.

11 And I have to tell you, our staff is very
12 excited about the fact that we are involved in
13 ensuring that citizens have a fair, uniform process
14 to challenge property tax valuations in front of
15 value adjustment boards, and so we're developing
16 those rules that will be coming to you early next
17 year and trying to put a lot of improvements to
18 create standardization and uniformity for taxpayers
19 in that area. But it has created a significant
20 workload on a program that is very small. There
21 are only about 170 employees in property tax
22 oversight today, so we've requested some additional
23 funding.

24 And then the last item that I'll mention is
25 the Southwood move. As you know, the Legislature

1 authorized and bonds were sold to build several
2 buildings out at Southwood for the Department of
3 Revenue. We right now are housed in 18 facilities
4 across Tallahassee, some of them that are in a very
5 poor grade of condition. And so those buildings
6 will be completed in '09 and early '10, and so the
7 '09-10 budget year would require some funding for
8 modular furniture for those offices, because they
9 are the open space type of buildings that require
10 modular furniture and moving costs.

11 So those are the items I wanted to highlight
12 in our budget request for you today. And I
13 recommend approval.

14 GOVERNOR CRIST: Any questions?

15 CFO SINK: Yes, I have a couple.

16 GOVERNOR CRIST: CFO.

17 CFO SINK: One is on the issue of enforcement,
18 because clearly we're in a revenue crunch here in
19 the state, and I think that the citizens are
20 expecting that we comb through every budget item,
21 but very importantly, to assure that we're
22 collecting the revenues that are rightfully owed to
23 the State.

24 And so have you -- I'm glad to see that you're
25 asking for additional enforcement personnel, and I

1 want to get a comment from you -- I didn't have an
2 opportunity to warn you about this ahead of time.
3 Just right off the top of your head, what are some
4 of the areas in which you feel that through more
5 effective enforcement -- I know you're doing the
6 best you can with what you have, but can we invest
7 in more people or more systems and achieve, you
8 know, multiple times the benefit in terms of being
9 sure that the people who do owe the State revenues,
10 they're actually paying it and you're collecting
11 it?

12 MS. ECHEVERRI: You know, the history on this
13 is really pretty interesting. In 1995, we had
14 approximately 780 auditors in the Department.
15 Today we have 454. Our collections, enforced
16 collections of taxes have increased dramatically
17 since that time.

18 I think the foresight in investing in
19 technology that allowed us to integrate all the
20 taxes so that we could see a taxpayer across all
21 taxes and find noncompliance and make corrections
22 in a very efficient, cost-effective way allowed us
23 to really grow our enforced collections, take those
24 reductions in staff without the State seeing any
25 impact in revenues. In fact, this year, even with

1 declining revenues as a result of the lack of
2 business activity, our enforced collections are up
3 \$50 million year-to-date from last year at this
4 same time. So there has been a lot of effort to
5 automate, to be efficient, and to keep those
6 collections up.

7 Yes, there's still noncompliance out there in
8 the world. There always will be. We have multiple
9 strategies. We have compliance campaigns that
10 target industries that seem to have compliance
11 issues, for example, convenience stores, you know,
12 different -- transient rentals and commercial
13 rentals. So we try to look in areas, use our audit
14 staff in areas where, you know, they can be most
15 effective and they also concentrate their efforts
16 on, you know, the biggest cases.

17 We have about -- just for sales tax, for
18 example, our audit coverage is only about
19 .6 percent, so we have talked to the Legislature
20 about the possibility of funding additional
21 positions that would allow greater coverage.

22 Certainly during hard economic times, you want to
23 make sure that you can be in there visible enough
24 that people will keep up with their tax compliance,
25 because the situation for them when they fall

1 behind really becomes pretty bad with interest
2 rates and penalties that are imposed on top of
3 that.

4 So, you know, we do have a number of
5 strategies that are trying to focus on not only
6 keeping up that performance, but increasing
7 performance over the next several years.

8 CFO SINK: Well, Governor, I think that we
9 know how tight the budget is going to be, not only
10 in this fiscal year, but also for the next fiscal
11 year. But I would just encourage our legislative
12 staffs, and as you formulate your budget, to give
13 very serious consideration to these increases in
14 the Department of Revenue's request, because I'm
15 sure that they -- based on their history, that we
16 will get multiple times the benefit coming back to
17 the State in terms of additional revenues.

18 That's all I have.

19 ATTORNEY GENERAL McCOLLUM: I move Item 4.

20 GOVERNOR CRIST: Is there a second?

21 CFO SINK: Second.

22 GOVERNOR CRIST: Moved and seconded. Any
23 objection?

24 Florida law requires that the Governor
25 independently submit budget proposals, and

1 accordingly, I will abstain from the vote on this
2 item. Therefore, the record should reflect that
3 this item is approved with one abstention. Thank
4 you.

5 MS. ECHEVERRI: Thank you. Item 5 requests
6 approval of the Department's long range program
7 plan. This plan reflects the Department's
8 commitment to not only maintaining their current
9 performance, but improving performance during these
10 challenging times. We're very proud of the
11 completion of our SUNTAX system and the final
12 integration of unemployment tax, which has really
13 allowed us to see enhancements in our overall
14 revenue collection. But we continue to want to
15 move forward with enhancements such as collection
16 analytics, as we mentioned, from the LBR, e-portals
17 that will allow us to interact with taxpayers
18 electronically more easily on their accounts, and
19 CIT electronic filing systems that would help us
20 link in with the IRS to make it easier for
21 taxpayers to comply with corporate income tax and
22 federal income tax.

23 We look forward to the completion of our CAMS
24 system in 2011, which should allow us to face these
25 increased workload demands that we expect as we

1 enter these challenging times and we know families
2 depend on this support more than ever. And we're
3 really excited, as I said earlier, about our
4 additional responsibilities in property tax and
5 trying to bring fair, more uniform system to the
6 citizens.

7 With that, I would recommend approval of our
8 long range program plan.

9 COMMISSIONER BRONSON: Motion on Item 5.

10 GOVERNOR CRIST: Is there a second?

11 CFO SINK: Second.

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

14 MS. ECHEVERRI: Item 6 is our capital
15 improvement plan. We already talked about the
16 Southwood move, but just to give you an idea, the
17 Department has over 76 leases. We have facilities,
18 seven facilities in six states. That always
19 surprises people. We do have audit staff in other
20 states, because that is where some of our larger
21 businesses are located with their books and
22 records, and it's actually cheaper for us to keep
23 audit staff there than to have them on travel.

24 We've reduced our space in the previous year.
25 We closed two of our out-of-state offices in Ohio

1 and Pennsylvania, and we also closed four in-state
2 offices, in CSE in Belleglade and Port St. Joe, and
3 our property tax program in Leesburg and Pensacola.
4 This allowed us to contract space. We were able to
5 shift staff to other offices that were close by.
6 These were offices that didn't really provide much
7 in terms of customer service. They didn't have
8 high traffic levels. And as part of the budget
9 reductions from last year, we offered those as
10 reductions.

11 The Southwood, the location of our offices
12 from our 18 facilities here in Tallahassee to
13 Southwood will show an annualized lease savings of
14 almost a million dollars a year when we're able to
15 finally make that transition.

16 With that, I recommend approval of our capital
17 improvement plan.

18 ATTORNEY GENERAL McCOLLUM: Move Item 6.

19 CFO SINK: Second.

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

22 MS. ECHEVERRI: Item 7 requests approval of
23 our legislative concepts. A number of these
24 concepts are offered for the second time this year.
25 We didn't really have a problem with the issues in

1 front of the Legislature last year. The bill just
2 didn't make it out of its final committee for
3 approval by both houses and presentation to the
4 Governor. It wasn't that there were issues that
5 were controversial that they had problems with.

6 In addition to the issues that we are bringing
7 back from last year that you've already seen, we
8 have some additional issues to improve the
9 efficiency of our child support system, really
10 looking more to some administrative means to try
11 and move those cases more quickly. We are
12 conforming with some federal requirements on
13 medical support, and in general tax, providing some
14 additional issues to improve enforcement and
15 administration of those taxes as well.

16 I also want to point out to you that in terms
17 of our administrative services program, we have a
18 concept that would allow us to tap into volunteer
19 workforce more aggressively. The Department would
20 like to see the use of employees who have retired
21 who have expressed an interest to come back and on
22 a volunteer basis provide some assistance, and in
23 some areas look to the public who may want to
24 provide some volunteer services in some areas where
25 it's appropriate where we would reach out and

1 provide education or information to taxpayers or
2 custodial parents and noncustodial parents. So
3 we're seeking authority to try and expand the use
4 of some volunteer services.

5 GOVERNOR CRIST: Any questions?

6 CFO SINK: Yes, Governor.

7 GOVERNOR CRIST: CFO.

8 CFO SINK: I have a couple. One is the issue
9 about the short sales that I see you have in here.
10 What -- I guess you're going to try to clarify how
11 a short sale should be handled. And I know this
12 has caused a great deal of confusion. So what is
13 happening in the meantime? Because short sales are
14 occurring now.

15 MS. ECHEVERRI: You know, the current economic
16 situation has, you know, raised issues that I think
17 people never even thought of before.

18 CFO SINK: Right.

19 MS. ECHEVERRI: I mean, everywhere I turn,
20 there's something that has sort of been turned
21 upside-down on its head. As challenging as that
22 is, it's kind of neat to be involved at a time when
23 you're getting to make some decisions on things
24 that are really, you know, first impression kind of
25 issues.

1 The issue of short sales came up as homeowners
2 tried to avoid foreclosure, work with their
3 financial institutions to reach out and find
4 arm's-length buyers of property, to sell their
5 property for slightly less than what their mortgage
6 was for, what they were financed for. They would
7 then contact the financial institution and get an
8 agreement from the financial institution that the
9 financial institution would accept the proceeds
10 from that sale as full satisfaction for that
11 mortgage, even though it was less than the total
12 amount of the mortgage. That created what's called
13 a short sale.

14 In documentary stamp tax, tax applies to the
15 transfer of that deed based on the consideration,
16 and there's a definition of consideration that
17 includes the forgiveness of debt. And it's not
18 really specific, and it wasn't very clear what that
19 meant, but when you looked at the history, what it
20 meant was the forgiveness of debt by the party that
21 was going to receive the property. So if I was
22 going to transfer a piece of property to you and
23 you -- you know, I owed money to you and you were
24 going to forgive that debt, that was part of the
25 consideration.

1 So when we looked at it, we really felt that
2 that was not applicable to the situation with the
3 short sales, that it was arm's-length, there was no
4 relationship between the financial institution and
5 the purchaser of the property, and that that was
6 not included in the definition of consideration.

7 So we issued a ruling by the Department saying that
8 that portion was not subject to the documentary
9 stamp tax.

10 Because there were so many questions about it,
11 because there were debates among tax professionals
12 about how that language should apply, we felt it
13 was appropriate to go to the Legislature and make
14 sure that they clarified that language so that this
15 issue wouldn't come up again, because people change
16 in government, and times get better, and then 20
17 years from now, and they might get worse again and
18 you might forget some of that history about how you
19 made these decisions. And unless we really
20 clarified that language, you couldn't guarantee
21 that people would come to the same conclusion with
22 the institutional knowledge that we had standing
23 here in, you know, 2008.

24 So that's why we're presenting that issue to
25 the Legislature. It's not to change the position

1 we've taken. It's not because we don't believe the
2 position that we've taken is correct. It's just to
3 make sure that the statute provides the guidance
4 that taxpayers should be able to get when they
5 just, plain language, open the books and read the
6 language.

7 CFO SINK: Governor, so if -- unfortunately,
8 if your package has the same experience it did last
9 year, which I really hope it doesn't, and this does
10 not get through, then the homeowners or the sellers
11 are still covered by the ruling that you have that
12 you've already issued?

13 MS. ECHEVERRI: Yes. It won't change our
14 position if it doesn't pass.

15 CFO SINK: Okay. And just one more question
16 having to do with this issue that's rolling around.
17 I'm sure you're familiar with the -- in the
18 business community, the so-called unintended glitch
19 in the depreciation laws not being piggybacked upon
20 the federal laws. Have you taken a position or
21 made an opinion upon that particular situation?

22 MS. ECHEVERRI: The issue you're talking about
23 is the --

24 CFO SINK: They're calling for a special
25 session, and they're anxious to get it clarified

1 before they have to make their next tax payment on
2 December the 15th, and I would just like to hear
3 how you've evaluated it.

4 MS. ECHEVERRI: Right. This is the bonus
5 depreciation issue that I think a number of the
6 business groups have raised. During the session,
7 the Federal Government passed some additional
8 depreciation, sort of sped-up depreciation issues
9 for taxpayers.

10 Florida did not couple to that. We normally
11 follow exactly what the Feds do. We didn't. We
12 decoupled from that. But we didn't provide in our
13 law how to handle that once you got on to your
14 Florida corporate income tax return. And as a
15 result, in addition to just not coupling to that
16 increased depreciation, we will actually harm
17 taxpayers further, because when they take that
18 federal depreciation, they won't have the basis to
19 depreciate later, so next year when they come in
20 with their return, it will be less, even though
21 they didn't get the benefit of that in the first
22 year in Florida. So it's trying to provide the
23 mechanism to make sure that we don't harm them in
24 addition to just not coupling with the federal
25 provision.

1 Both houses of the Legislature have been in
2 contact with us. Numerous business entities have
3 been in contact with us.

4 This isn't really a unique situation. This
5 happened to us in 2004. At that time, we took the
6 position that as long as leadership of the
7 Legislature was telling us that they intended to go
8 back in and correct that situation, that we would
9 commit to taxpayers that we would not penalize
10 them -- now, they would still owe tax, and they
11 still owe interest, but we would not penalize them
12 if they took -- if they handled those transactions
13 on their returns the way they thought they were
14 going to come out as a result of the commitment
15 from the Legislature, and then ultimately the
16 Legislature didn't pass the legislation.

17 So we are going to issue a TIP probably Monday
18 that says, you know, as long as taxpayers are
19 handling their transactions in a way that's
20 consistent with what they believe the Legislature
21 is going to do, that if that -- in the unlikely
22 event it doesn't happen, they would not be subject
23 to penalties.

24 CFO SINK: Okay. Good. Thank you.

25 COMMISSIONER BRONSON: Governor.

1 GOVERNOR CRIST: Yes, Commissioner.

2 COMMISSIONER BRONSON: One of the things --
3 and I don't know that this has been done anything
4 with since I was in the Legislature, but one of the
5 complaints I had on doc stamps especially was where
6 family farms were trying to keep the land in the
7 family farm situation, for estate tax purposes,
8 where gifting within the family was done so that
9 the land never changed the family hands, it stayed
10 within the family, but the name, instead of being
11 an LLC or a company or whatever, from the family
12 name to an individual for estate planning purposes,
13 full doc stamps were attached to that, even though
14 the land never left the family. In other words,
15 you were paying taxes on something you already had
16 through the doc stamp situation.

17 You know, if you're in a situation on a family
18 farm where you're really not bringing in that much
19 revenue, that's money right off the top to pay for
20 those doc stamps, even though the land has never
21 been exchanged outside the family. And I've always
22 thought that was a little unfair. Since the family
23 didn't sell outside, there was no outside
24 transaction.

25 It has really caused some problems with family

1 farms in this state and trying to keep family farms
2 in operation. It's just one of those little
3 thousands of dollars every time you try to change
4 some land from one family member to another, but
5 keep it within the family. And I think that's
6 something that still needs to be looked at. If you
7 want to keep family farms viable, I think that's
8 one of the things that needs to be looked at.

9 GOVERNOR CRIST: Very good. Do we have a
10 motion on Item 7?

11 CFO SINK: Move it.

12 COMMISSIONER BRONSON: Second.

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

15 Thank you, Lisa.

16 MS. ECHEVERRI: Thank you. It been a
17 challenging year, and I think the next one coming
18 up is going to be even more challenging, but I
19 really appreciate the opportunity to serve in this
20 capacity. I enjoy every minute of it.

21 GOVERNOR CRIST: Well, you're doing a great
22 job. Thank you.

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1 GOVERNOR CRIST: Highway Safety and Motor
2 Vehicles. Electra, hi.

3 MS. BUSTLE: Good morning. I have six items
4 for consideration today.

5 Item 1, we respectfully request the approval
6 of the minutes from the September 30th meeting.

7 COMMISSIONER BRONSON: Motion on Item 1.

8 ATTORNEY GENERAL McCOLLUM: Second.

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

11 MS. BUSTLE: Item Number 2, we respectfully
12 request approval for final adoption of Rule
13 15A-7.001, which relates to commercial driver's
14 license and third party testing and conforms the
15 rule to federal law and current Department
16 practice.

17 COMMISSIONER BRONSON: Motion on Item 2.

18 CFO SINK: Second.

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

21 MS. BUSTLE: Item Number 3, we respectfully
22 request approval for final adoption of Rule
23 15B-2.013 and 2.016, which relate to testing and
24 newly approved speed measuring devices.

25 ATTORNEY GENERAL McCOLLUM: Move Item 3.

1 COMMISSIONER BRONSON: Second.

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

4 MS. BUSTLE: Item Number 4 is our first
5 quarter performance report. As you can see, we've
6 continued to focus on safety and enforcement and to
7 keep our roads safe, and the initiatives are listed
8 in the report for this quarter.

9 We are on target to meet most of our annual
10 measures. However, there are a few falling below
11 standard, and you will notice those are generally
12 impacted by external factors, such as fewer numbers
13 of titles and registrations being issued and fewer
14 mobile homes being produced.

15 I'm happy to answer any questions, but if not,
16 we would respectfully request approval of the first
17 quarter performance report.

18 COMMISSIONER BRONSON: Motion on Item 4.

19 ATTORNEY GENERAL McCOLLUM: Second.

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

22 MS. BUSTLE: Items 5 and 6 are some good news
23 items. We have some new appointments to our
24 Medical Advisory Board. Today we are happy to be
25 able to -- that we have recruited and to recommend

1 to you two very accomplished doctors who have
2 graciously accepted the offer to become part of our
3 advisory board and are before you today for
4 appointment.

5 Item number 5 would be -- we recommend the
6 appointment of Dr. Vicki Erwin-Wilson to the
7 Department's Medical Advisory Board. And just a
8 bit of trivia about Dr. Wilson, who is here today.
9 Not only does she maintain a successful medical
10 practice and very generous in her volunteer work,
11 but her husband -- she and her husband are parents
12 to eight children. So she found time to help the
13 State out with some volunteer work, so with that, I
14 would request approval.

15 COMMISSIONER BRONSON: Motion on Item 5.

16 ATTORNEY GENERAL McCOLLUM: Second.

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

19 CFO SINK: Governor, could we have the doctor
20 stand up so we can see her?

21 GOVERNOR CRIST: Doctor.

22 CFO SINK: Thank you.

23 GOVERNOR CRIST: Please be congratulated.
24 Thank you.

25 (Applause.)

1 MS. BUSTLE: Item Number 6, we respectfully
2 request the appointment of Dr. Andrea L. Randell to
3 the Medical Advisory Board. Dr. Randell was unable
4 to join us today, but I would respectfully
5 recommend her for appointment.

6 ATTORNEY GENERAL MCCOLLUM: I move Item 6.

7 COMMISSIONER BRONSON: Second.

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

10 Commissioner.

11 COMMISSIONER BRONSON: No, that's fine.

12 MS. BUSTLE: I also just want to introduce
13 Dr. Lakshmin, who is here today. He serves as our
14 chairman of the board, was unable to make it last
15 time when he was appointed, but he's here, and I
16 wanted to welcome him today as well.

17 GOVERNOR CRIST: Good morning, Doctor. Good
18 to see you.

19 (Applause.)

20 CFO SINK: Governor, I --

21 GOVERNOR CRIST: CFO.

22 CFO SINK: I just want to comment on something
23 to the director that was brought to my attention,
24 that evidently the University of Alabama at
25 Birmingham just did a study on highway traffic

1 deaths for older drivers. And after a law was
2 passed that required vision tests for people over
3 the age of 80, which I'm sure was probably
4 controversial in some respects, we had a 17 percent
5 drop in highway deaths related to seniors.

6 And I just wanted to compliment Electra and
7 her whole team, because you're responsible for
8 enforcing this and dealing with these older drivers
9 who are coming to get their licenses, and I'm sure
10 some of them who don't pass are not very happy
11 about not getting their licenses, but we are saving
12 lives. And other states, as I understand it, do
13 not have a similar type of legislation and are not
14 achieving very good results for our seniors.

15 MS. BUSTLE: Thank you very much. Thank you.
16 We are proud of those results.

17 GOVERNOR CRIST: Thank you, Electra.

18 MS. BUSTLE: Thank you.

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1 GOVERNOR CRIST: Board of Trustees, Mike Sole,
2 Secretary. How are you?

3 MR. SOLE: Good morning, Governor. I'm well.

4 GOVERNOR CRIST: Good morning.

5 MR. SOLE: Item Number 1 requests submittal of
6 the minutes of the September 30th, 2008, Cabinet
7 meeting.

8 GOVERNOR CRIST: Is there a motion on the
9 minutes?

10 COMMISSIONER BRONSON: Motion on Item 1.

11 ATTORNEY GENERAL McCOLLUM: Second.

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

14 MR. SOLE: Item Number 2 requests
15 consideration of a report from the Land Management
16 Uniform Accounting Council. This report was
17 prompted by legislation last year, and it requests
18 that we look at a new methodology or a formula for
19 allocating land management funds from the
20 Conservation and Recreation Lands Trust Fund.

21 The council is comprised of the state managing
22 agencies, Division of State Lands, Recreation and
23 Parks, Greenways and Trails, Coastal and Aquatic
24 Managed Areas, as well as staff from the Department
25 of State's Division of Historical Resources, the

1 Department of Agriculture and Consumer Services'
2 Division of Forestry, and the Florida Fish and
3 Wildlife Conservation Commission.

4 ATTORNEY GENERAL MCCOLLUM: I move Item 2.

5 CFO SINK: Second.

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

8 MR. SOLE: Item Number 3 requests
9 consideration of a 50-year lease to the City of
10 Doral for 5.8 acres to build a police station
11 located in Miami-Dade County. The property borders
12 the United States Southern Command facility to the
13 west. And because this is a public lease to a
14 governmental entity, there is no consideration for
15 the lease.

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

17 CFO SINK: I move it.

18 ATTORNEY GENERAL MCCOLLUM: Second.

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

21 MR. SOLE: Item Number 4. This requests
22 consideration of an option agreement to acquire 14
23 tracts located within the Blackwater River State
24 Forest. The acquisition is from the Nature
25 Conservancy, who acquired these tracts at an

1 auction. The consideration is \$2.339 million,
2 which is 74 percent of the approved value.

3 COMMISSIONER BRONSON: Motion on Item 4.

4 ATTORNEY GENERAL McCOLLUM: Second.

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

7 MR. SOLE: Item Number 5 requests
8 consideration of an option agreement to acquire
9 54.74 acres within the Florida First Magnitude
10 Springs Florida Forever project. This is an A List
11 Top 21 project located in Leon County. The state
12 park that is adjacent to it is located on the
13 National Register of Historic Places.

14 This is a unique property, Governor and
15 Cabinet, where the St. Marks River drops into a
16 sink hole and flows underground for one quarter of
17 a mile before re-emerging. This also is a location
18 where the second largest Civil War battle located
19 in the State of Florida occurred.

20 The consideration is for \$3.395 million, which
21 is 100 percent of the approved or appraised value.

22 ATTORNEY GENERAL McCOLLUM: Move Item 5.

23 COMMISSIONER BRONSON: Second.

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

1 MR. SOLE: Thank you. Item Number 6 requests
2 consideration of an option agreement to acquire
3 35.69 acres within the Wekiva-Ocala Greenway
4 Florida Forever project. Again, this is also a
5 Florida Forever A List Top 21 facility. The
6 consideration is for \$2 million, which is 100
7 percent of the approved value.

8 COMMISSIONER BRONSON: Motion on Item 6.

9 CFO SINK: Second.

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

12 MR. SOLE: Thank you, Governor.

13 GOVERNOR CRIST: Secretary, thank you.

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1 GOVERNOR CRIST: SBA, Ash Williams. Good
2 morning, Ash.

3 MR. WILLIAMS: Good morning, Governor and
4 Trustees.

5 The first item is approval of the minutes from
6 our 28 October meeting.

7 ATTORNEY GENERAL McCOLLUM: I so move Item 1.

8 CFO SINK: Second.

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

11 MR. WILLIAMS: Item 2 is a fiscal
12 determination for the Florida Housing Finance
13 Corporation multifamily mortgage revenue bonds.

14 ATTORNEY GENERAL McCOLLUM: Is there a motion
15 on Item 2?

16 CFO SINK: Move it.

17 ATTORNEY GENERAL McCOLLUM: Second.

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

20 MR. WILLIAMS: Item 3, an additional fiscal
21 determination, also for the Florida Housing Finance
22 Corporation, Fairview Cove Phase II Apartments.

23 ATTORNEY GENERAL McCOLLUM: I move Item 3.

24 CFO SINK: I second.

25 GOVERNOR CRIST: Moved and seconded. Show

1 approved without objection.

2 MR. WILLIAMS: Item 4 is the appointment of
3 Campbell Cawood as a consumer representative to the
4 Advisory Council for the Florida Hurricane
5 Catastrophe Fund.

6 ATTORNEY GENERAL MCCOLLUM: Move Item 4.

7 CFO SINK: Second.

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

10 MR. WILLIAMS: Item 5, Executive Director
11 Update. I just wanted to share with you that we
12 met last Friday with the budget director and
13 Legislative Appropriations staff and answered
14 questions regarding the Lawton Chiles Endowment
15 Fund. And if there are any questions this morning
16 -- I provided that same information to each of your
17 offices. I'll be happy to answer any questions you
18 may have.

19 GOVERNOR CRIST: Thank you, Ash. Any
20 questions?

21 CFO SINK: Yes.

22 GOVERNOR CRIST: CFO.

23 CFO SINK: Because there's just been so -- I
24 requested Ash to come and report on this because
25 there has been so much conversation around the

1 possibility of borrowing from the Chiles Endowment,
2 and I was interested in not only the current
3 valuation -- and I see that you provided us a
4 statement here that shows that as of June the 30th,
5 which is when this was contemplated as a
6 possibility, we had a \$2.1 billion balance in the
7 endowment fund. As of today, the available balance
8 is down to just a billion 1.

9 So it just seems to me that if we were going
10 to take up to a billion dollars from the Chiles
11 fund, we wouldn't have a Chiles fund left, which is
12 a policy issue that, of course, the Legislature and
13 you, Governor, have to deal with.

14 But just operationally, Ash, how would this
15 even be accomplished? Because this is a fund
16 that's invested as an endowment for the long term,
17 and it's sitting in equities and fixed income
18 instruments, and we all know the terrible shape
19 that the stock market is in right now. Hopefully,
20 we are approaching the bottom, but we would
21 potentially be selling out in the bottom of the
22 market cycle. So would you just describe for us
23 how this might even -- how you would even
24 operationalize this?

25 MR. WILLIAMS: Yes. The assets of the Chiles

1 Endowment are held primarily in liquid securities,
2 both equity and fixed income. We do not --

3 CFO SINK: Excuse me, Ash. When you say
4 liquid securities, to me, that means cash. What do
5 you mean by liquid securities?

6 MR. WILLIAMS: Let me rephrase the question.

7 I mean liquid as opposed to something like private
8 equity or distressed debt, something of that
9 nature.

10 CFO SINK: So marketable --

11 MR. WILLIAMS: Listed securities that can be
12 sold. If you own U.S. equities, you can sell them.

13 Your earlier point, however, is well taken,
14 which is that the market is down significantly, and
15 if one had to choose a time to sell an asset, the
16 old axiom of "buy low and sell high" comes to mind.
17 It's hard to sell anything high in this
18 environment. But in terms of these assets being
19 salable, they are things that can be sold, but they
20 will be sold at current prices, obviously.

21 CFO SINK: Okay. Thank you.

22 ATTORNEY GENERAL McCOLLUM: I don't have a
23 question, Governor, about the Chiles Endowment.
24 But I do think, Ash, in light of all the discussion
25 in the newspapers the past week, which some of us

1 have been called about, on the overall market
2 condition and the effect on the State Board of
3 Administration's entire fund here, the principal
4 one being, of course, our pension fund, I wonder if
5 you could give some comment publicly here about the
6 averaging of what we look at, how the marketplace
7 relates to the plan that we have as the State Board
8 of Administration and you have to look at
9 benchmarks over a period of time, over a number of
10 years, and why, even though the market is in
11 distress and we're all concerned about it, the drop
12 in perhaps asset value of these equities is not as
13 dramatic in terms of the impact on the employees or
14 on the ability to pay as some might think it would
15 be.

16 MR. WILLIAMS: Certainly. I think the key
17 points here would be, number one, it's a long-term
18 orientation. The horizon we're looking over is a
19 15-year horizon. It's not 60 days, 90 days, a
20 year. It's a much, much longer horizon than most
21 of us as individuals might use in looking at our
22 own investments.

23 Because of that long-term horizon and the way
24 we invest, which is to say, rather than by trying
25 to pick individual securities, we pick a mix of

1 what are known as asset classes, domestic equities,
2 foreign equities, fixed income, and what we call
3 strategic investments, which would include things
4 like private equity. Our objective is to pick the
5 mix of asset exposures that over that long horizon
6 we think provide the highest probability of meeting
7 the return objective that will keep us in the
8 strong position we have historically been in with
9 regard to the ability to meet pension benefit
10 payment obligations going forward and to minimize
11 the probability that we would have a shortfall in
12 our ability to pay those benefits.

13 Florida came into the current downturn in the
14 market as one of the very strongest funds in the
15 country, if not the strongest. On a relative
16 basis, we have done as well or better than most
17 other major institutions. And therefore, on a
18 relative basis, we continue to be, even net of the
19 haircut that we have suffered at the hands of the
20 markets, one of the strongest funds in the country,
21 I'm quite sure.

22 The fund is also subject to an annual
23 independent actuarial review. This is done in the
24 fall of each year and has been done this year. We
25 don't have the final results yet, but the initial

1 indications are that, at least as of, I want to
2 say -- it was at an earlier date this year. This
3 is not through the current close, obviously, but
4 the funded ratio was still approximately 107
5 percent. Obviously, with the diminution in
6 portfolio value since 30 June, as we just saw an
7 example of on the Lawton Chiles Endowment, that
8 ratio has almost certainly come down. But having
9 said that, the same is true of every other fund's
10 ratio in the country.

11 And the good news is, we don't have to pay out
12 all our benefits at the end of the current calendar
13 year or the fiscal year. We're looking way into
14 the future.

15 And if history is any guide, we've been
16 through 1987, 1998, 2001, 2002, et cetera, all of
17 which were miserable years, and through all of
18 which we followed our rebalancing discipline, which
19 essentially says that to the extent one part of the
20 portfolio either increases dramatically in value so
21 that we become overweight to it, we sell it off and
22 reallocates those dollars elsewhere, or a different
23 part of the portfolio goes down dramatically in
24 value so we become underweight to our target, we
25 therefore add more money to it. That rebalancing

1 discipline is what forces us unemotionally to move
2 money so that we are literally buying assets when
3 they are cheap, and we are selling them when they
4 are dear. And that's what we have continued to do
5 through this cycle, and it has served the Board
6 well for many years.

7 ATTORNEY GENERAL McCOLLUM: One of the critics
8 was suggesting that we ought to sell equities right
9 now and move somewhere else. And that, in light of
10 CFO Sink's comments and the discussion we just had
11 on the Chiles Endowment, sounds like a very
12 imprudent thing. That would go back to your point
13 of selling high and buying low. In this case, if
14 anything, we probably ought to be buying some
15 equities if we could.

16 But the reality is, we adjusted, this Board
17 did, last spring to reduce equity exposure, and I
18 would assume that as a result of that adjustment
19 that we actually probably suffered less loss or
20 decline in value than we would have had we not made
21 that adjustment.

22 MR. WILLIAMS: I think that's correct. If you
23 look at the month of November to date, the FRS has
24 suffered through yesterday's close roughly a
25 3 percent decline. If you look at the Russell

1 3000, which is the relevant equity benchmark, it
2 has declined 6.3 percent. So take a look at the
3 math. If you're talking about \$100 million, a 3
4 percent -- \$100 billion, a 3 percent difference is
5 a very significant amount of money. So, yes, I
6 think there's benefit in that.

7 And I think, as I was saying earlier, we're at
8 a point now where we may be re-evaluating whether
9 we should rebalance net of that lower equity
10 exposure target because of the dramatic decline in
11 equities. And what happens is, when the stock
12 market goes down, you can put in an amount of money
13 and buy more shares than you could when the market
14 was higher for the same amount of money. And what
15 that means is, when the market comes back, you have
16 the room for the appreciation in those shares that
17 you bought while things were depressed.

18 ATTORNEY GENERAL McCOLLUM: So because we have
19 this long horizon and you look at a 15-year
20 benchmark, actually, contrary to the critics, this
21 might be a very good time for the pension fund,
22 FRS, us, the State Board of Administration, to be
23 buying stocks in the right, prudent way. And
24 that's what you're suggesting you're looking at, at
25 least in the near term.

1 MR. WILLIAMS: Yes, sir. And I would suggest
2 further if you look at some pretty highly regarded
3 investors, Warren Buffet, Prince Al-Walid, the
4 prince is said to be buying more Citibank right
5 now. That's a courageous move.

6 But I remember vividly in -- gosh, I was
7 working at the State Board before. I want to say
8 it was in 1993. Citibank shares then went down to
9 \$8, and the prince came in and put a huge position
10 in Citi and profited very, very handsomely from it.

11 So smart money would suggest that there are
12 bargains to be had, but it's a time for caution and
13 prudence, as you suggest.

14 ATTORNEY GENERAL McCOLLUM: Well, thank you
15 very much for giving us that report. I just wanted
16 to bring that up because of so much comment in the
17 press in the last couple of weeks, and we won't see
18 you again for a couple more. Hopefully the market
19 will be off its bottom, or at least creating a
20 greater awareness of where it is by that time.

21 Thank you very much. Appreciate it.

22 MR. WILLIAMS: Thank you.

23 CFO SINK: Governor, could I just ask --

24 GOVERNOR CRIST: CFO, of course.

25 CFO SINK: -- to clarify something, because

1 something reminds me that one of the last times
2 General Milligan was in here, he did ask the Board
3 to suspend the rebalancing, so -- I can't remember
4 whether that was for a short-term time frame or
5 whether it was for a longer term. Where are we
6 standing right now?

7 MR. WILLIAMS: I believe it was a short-term
8 decision. And what happened was, the Board had
9 tripped -- because of a very violent decline in the
10 market, the Board had tripped on the high side the
11 boundary for fixed income. And the reason is,
12 stocks went down so much that as a proportion of
13 the fund, fixed income, which didn't go down as
14 much, became larger than its target.

15 The concern at the time was, given the
16 volatility, that there could be another significant
17 leg down in the immediate future, and therefore,
18 maybe we should hold in abeyance a second
19 rebalance. That was adopted. Subsequently, the
20 market came back, took the equity target back into
21 the range and took the fixed income target back
22 down into its range, so the issue went away.

23 One of the things I looked at earlier this
24 morning was where we are on the target allocations
25 relative to yesterday's big leg down in equities,

1 and I think we are again on the high side in fixed
2 income. That's something we'll be looking at
3 internally and will come to you with a
4 recommendation on.

5 GOVERNOR CRIST: Well, we certainly appreciate
6 your conservative, frugal approach to investing
7 that you've taken, and obviously, it's helping.

8 MR. WILLIAMS: Thank you.

9 GOVERNOR CRIST: I want to also welcome
10 President Brogan to the Cabinet room, a gentleman
11 who used to serve on this Cabinet for quite a few
12 years as our Education Commissioner and formerly
13 our Lieutenant Governor. It's good to have you
14 here, President.

15 (Applause.)

16 GOVERNOR CRIST: And with that, we are
17 adjourned. Thank you. Happy Thanksgiving.

18 (Proceedings concluded at 10:08 a.m.)

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1 CERTIFICATE OF REPORTER

2

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 61 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 6th day of December, 2008.

17

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