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Representing:

FINANCIAL SERVICES COMMISSION, OFFICE OF INSURANCE REGULATION

BOARD OF TRUSTEES, INTERNAL IMPROVEMENT TRUST FUND

STATE BOARD OF ADMINISTRATION

FLORIDA HURRICANE CATASTROPHE FUND FINANCE CORPORATION BOARD

The above agencies came to be heard before THE FLORIDA CABINET, Honorable Governor Crist presiding, in the Cabinet Meeting Room, LL-03, The Capitol, Tallahassee, Florida, on Tuesday, April 13, 2010, commencing at 9:15 a.m.

Reported by:
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Chief Financial Officer

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P R O C E E D I N G S

(Agenda items commenced at 10:15 a.m.)

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GOVERNOR CRIST: And first we will hear from Financial Services Commission, Office of Insurance Regulation, Belinda Miller. Hi, Belinda. How are you?

MS. MILLER: Thank you, Governor and members of the Cabinet. I'm fine, Governor. Thank you. How are you?

GOVERNOR CRIST: I'm good.

MS. MILLER: Appreciate your allowing us to present today. Kevin McCarty sends his apologies. He was unable to be here, but I'll try to carry the flag. Commissioner Bronson at a couple of meetings ago asked us a question. He asked about Citizens, and he asked, you know, Citizens has reported 3.9 billion in surplus at yearend, and that sounds wonderful, but how are they going to pay claims if we have a hurricane and are people going to be able to get their claims paid?

And so today, to give him a much more full answer to that question than I was able to give a few weeks ago, we have some people from Citizens who you will update you on both their financial capabilities and their bonding efforts. They've had some recent success in the bond market. So I'd like to introduce Sharon Binnun, who is the chief financial officer for the Citizens Property Insurance Corporation, and John Forney of Raymond James, who is the financial adviser for both Citizens and the Florida Hurricane Catastrophe Fund.

GOVERNOR CRIST: Good morning.

MS. BINNUN: Good morning, Governor and Cabinet members. My name is Sharon Binnun. I'm the chief financial officer of Citizens Property Insurance Corporation, and I appreciate the opportunity to come before you and talk about Citizens' financial position.

At the end of my section of the presentation, I'll ask John Forney to come up. He's the financial adviser to Citizens from Raymond James, and he'll talk about the most recent very, very successful pre-event bond financing program that was just undertaken.

I know the Cabinet members are very familiar with Citizens and probably know every piece of information on slide one, but I know there are also perhaps some stakeholders out there who are listening in, and I wanted to give a brief overview of what is Citizens.

Citizens is a state-created, not-for-profit, tax-exempt governmental entity, and our public purpose is to provide property insurance coverage to those unable to find affordable coverage in the private market. That's the reason that we exist. And there are a lot of people out there, as you'll see by our policy count, who would not otherwise be able to find affordable cover, and we're proud of the opportunity to be able to do that.

Citizens operates pursuant to a plan of operation that is reviewed and approved by the Financial Services Commission, which is comprised of the Governor, the CFO and the Attorney General. Citizens is subject to regulation by the Office of Insurance Regulation. We file our rates, our proposed rates with the Office of Insurance Regulation, and the Office then establishes the rates that we charge to our policyholders.

Citizens currently is the largest property insurer in the state of Florida and we have over a million policies. And we provide about $405 billion of property coverage to Floridians. I want to add a footnote next to that $405 billion of cover. That number represents the total value of every single property throughout the entire state that we cover. That is not a number that represents potential hurricane losses. And we'll talk about that number, the potential hurricane losses, which we refer to as the probable maximum loss, a little bit later in the presentation.

Right now Citizens represents about 23 percent of the residential market share in Florida. Now, when I started working at Citizens just over three years ago, we were 30 percent of the residential market. So Citizens is not growing, and in fact since 2007, Citizens has shrunk. And the next slid will give a little more detail on that.

Slide two just provides an executive summary of some recent activity in the last few years and how it has impacted Citizens. And most of the activity in the past few years, if not all of it, has very positively impacted Citizens. We've had four years of no hurricanes striking Florida, which allows Citizens to build up surplus. Again, we build up surplus tax-free, which has put us in a very nice position this year. We're in the best financial position we've ever been. And when I go through some hurricane loss scenarios later in the presentation, you will see just how strong Citizens is.

We have today over $11 billion of cash and invested assets. That number includes $2.4 billion of the pre-event bond financing program for the HRA that we recently undertook and Mr. Forney will discuss. We've got at the end of 2009 close to $4 billion of surpluses or resources that are otherwise unencumbered that we can use for claims paying. And when we go through the calculation, which I'll also present in more detail later, we have claims paying ability for the 2010 hurricane season of $14 billion.

Citizens has three separate legal accounts related to our predecessor entities, the personal lines account, the commercial lines account and the high risk account. Each of these accounts are maintained and accounted for separately. They are separate legal accounts. For financing purposes and reinsurance purposes, the personal lines account and commercial lines account are combined.

And for the first time in Citizens' history, the personal lines account and commercial lines account do not need any outside pre-event liquidity. We did not need to re-up our credit line program from last year. We have no debt outstanding. And, again, in some of the loss scenarios you'll see in a few slides, the personal and commercial lines account is very, very strong and healthy and able to perform as it needs to.

And the high risk account is not quite as strong financially and does need some outside resources, but we just underwent a very successful program. We met our target at very reasonable prices, and we're very proud of that pre-event program.

So that when you put everything together, the lifting of the rate freeze, the implementation of the glide path that we began in 2010, all of these measures help Citizens be able to meet its obligations and have Citizens' board of governors and management very comfortable that we will be able to meet our obligations if we have a catastrophic event in Florida.

I mentioned on the first slide that we have shrunk and not grown the last three years. In fact, our exposure, which is the total value of all the properties statewide that we cover, has shrunk 20 percent since 2007. The number of policies in force that we provide cover for has shrunk 28 percent since 2007. And the probable maximum loss, which is an estimate of hurricane losses using catastrophe models, has gone down ten percent. So all these things are absolutely for Citizens moving in the right direction.

Citizens' leadership includes an experienced and engaged board of governors and a stable executive management team, five of whom have over 105 years -- 107 years of combined insurance knowledge and expertise, and we're very proud of our management team and of our board of governors.

And one other item that I did not put on here, Citizens had a negative outlook from Moody's. We -- as part of this bond financing program, we met with the rating agencies, and the negative outlook from Moody's was changed to stable. So all of these things, very positive for us as we enter the 2010 hurricane season.

The next slide just provides information on where does Citizens get its financial resources. As a governmental entity, we have certain resources. But as a governmental entity that is in business of providing insurance coverage, we have, on the left-hand side of the slide, typical insurance resources. We are not funded by the State of Florida. We are self-funded. And we have premium coming in. We have investment income. We have surplus that accumulates from prior years' profits that builds tax-free to provide us ample surplus. And then we have reinsurance reimbursements. And those are traditional revenue sources for insurance companies. But we're not an insurance company. We're government.

And because Citizens, unlike the private market, we are there to provide cover for those who need it. A private carrier perhaps would make a decision to limit exposure in a certain part of the state or a certain geographic location. And Citizens is there for when we're needed, to grow or to shrink as people need cover. So we do not have the ability to turn away exposure.

And we have a statutory ability to ensure we'll fulfill our obligation to policyholders in the form of these unique resources on the right-hand side, or contingent capital. So in the unlikely event that there is a storm strong enough to expend all $4 billion of surplus, we have some other resources available to us so that we can be sure to meet our policyholder obligations. And those are listed on the right-hand side, and there are some future slides that provide more detail of those items.

Slide four presents our unaudited balance sheet. Our audit fieldwork is completed, and we expect the audited financial statements to be issued in the next few weeks. But we have had our outside independent actuary review our reserves. I'll just point to two numbers. The very first line on our admitted assets row, $8.2 billion. This is as of December 31st. So this would not yet include the $2.4 billion of pre-event financing that we just obtained.

But 93 percent of Citizens' assets are in cash and invested assets. And not only are they in cash and invested assets, we have seven outside professional money managers assisting us, managing our resources. All of our assets are invested in fixed income securities, very high credit quality and very short duration.

And as a governmental entity, our primary focus is security and liquidity. So if we say we've got this value of assets, we do. And if we're called upon in the event of a catastrophic event to liquidate those assets, we can do so readily and be sure that we can meet our policyholder obligations.

Citizens meets the State of Florida and the National Association of Insurance Commissioners solvency requirements. That includes writing ratios, minimum surplus, as well as risk-based capital. And as you can see at the bottom of this slide, again, I've mentioned at the end of 2009 we had nearly $4 billion of surplus in our consolidated accounts.

Slide five gives actually the calculation of how we derive our estimated claims paying ability. And so you'll see on the right-hand side there, that $14 billion of claims paying ability, this is before any assessment dollars come in. And it's basically our expected surplus at the end of 2010, which is about $4.6 billion. We have almost $3.7 billion of pre-event liquidity. When you sum those two, that's $8.3 billion of immediately available claims paying ability if we're called upon if a storm strikes Florida.

And of course, if we do have a storm in Florida, the total dollar amount of losses might be recognized in financial statements but the cash flows would not go out immediately because it takes time for policyholders to file claims, claims to get adjusted and paid. And then, of course, if we have a big enough storm that would trigger the Cat Fund reimbursement, Florida Hurricane Catastrophe Fund reimbursement to it, that's another $5.8 billion. So all told we've got $14 billion of claims paying ability.

And just for perspective, all eight storms in 2004 and 2005, Citizens' portion of the losses before any reimbursement from reinsurance was $6.2 billion. So we've got more than twice of all eight storms for 2004 and 2005 of claims paying ability.

And I have to say, I'm talking about the financials and financial position of Citizens, but I can't talk about our claims paying ability without talking about our claims department. We've got the financial resources, but we also have the infrastructure and the internal resources.

We've got a top-notch claims department. I hope they are not called upon this year, but if they are, they're ready. We have a catastrophe plan ready, and our claims department will deliver if they're called upon.

Slide six and seven, Commissioner Bronson, hopefully address the question that you asked at the last Cabinet meeting, and they give hurricane loss scenarios, a kind of what-if analysis, what if a storm of this size struck, what would happen and so forth. I have to point out to all the users of this information, footnote number one is very important, and it's right on the page of six and seven at the bottom.

And what it says is the probable maximum loss is the calculation from hurricane loss models, but we add to that number -- if we have a catastrophic event, the cost to adjust claims can be expensive. We'll have to outsource more claims because we want to make sure we deliver timely, get people's homes and properties repaired and back to work and so forth.

There's a cost associated with adjusting that volume of claims. And we've included that cost, because when we predict loss estimates and how we're going to fund it, we want to give you all those costs that we estimate and not just pick some and pick others.

And then on slide eight, I won't read slide eight unless the Cabinet members would like, but there are very important notes on how we calculate the probable maximum loss, the type of model that we use, because models are different and there are different methodologies that can be used, and they're not always apples to apples. So when users out there compare Citizens' probable maximum loss to other entities or statewide, it's important to use the same measure. So we're picking a number that's maybe a little on the higher side so that we can look at a worst case scenario and be able to demonstrate to ourselves and our stakeholders that we can fulfill our obligations.

So on the left-hand side of slide six demonstrates a one in five year event. We often, in the property insurance business, refer to a one in 100, a one in 50. And really all that is is a probability factor. So a one in five year event is really a 20 percent probability. So there's a 20 percent chance in any year that we will have, according to our hurricane models, losses of, including loss adjustment expenses, of about, on the bottom of slide six, about $1.5 billion.

Now, a 20 percent probability event is like a Wilma, to put it into perspective, in terms of the size of the storm and the amount of losses. So in that type event, we expect the losses, including the cost to adjust claims, would be about a billion and a half dollars, which is significant. However, as you can see by the pie chart, all of those losses would be borne by Citizens through its own surplus. We would not need any outside resources. And the loss would actually be below the threshold that we would attach to the Florida Hurricane Catastrophe Fund.

And each scenario describes a more severe event. A one in 25 year event is a four percent chance of striking, so relatively remote chance of striking. We expect the losses would be about $8 billion; again, the probable maximum loss calculation, including the cost to adjust claims. And as you can see here, this would require no emergency assessments, no post-event bonding.

And in fact, all the Citizens policyholder surcharge, the regular assessment and the emergency assessment, those would all relate only to the high risk account. The personal lines and commercial lines account are so financially strong that we could bear a storm of that size with our own financial resources to pay all the claims. So I think that's very positive.

Slide seven again provides the same information but just looks at a more severe event, a one in 50 year storm, which is about a two percent chance of striking. I think an Andrew is close to that, for perspective, in terms of size of the storm, strength, extent of loss, that sort of thing. And we would actually have emergency assessments triggered in a storm of that size. However, that would also only be for the high risk account, and the personal and commercial lines account would have a small policyholder surcharge, no regular assessments, no emergency assessments, again, those accounts are so strong.

And even if we had a storm of that size, which is a pretty big storm, almost $14 billion of loss and loss adjustment cost, we would likely not have to engage in any post-event financing because the emergency assessment is a dollar amount, and after -- and we've got so many other resources that we probably would not need the cash flows.

We move on to a one in 100 year event. I don't know if we've ever had a one in 100 year event in Florida since we began measuring these models. I can't say. I can tell you all it is -- what it is is a probability of one percent chance that a storm will strike Florida and that Citizens would have losses, including the cost to adjust claims, of about $22.4 billion. And then this demonstrates where those resources would come.

We would have emergency assessments. But those only would be for the high risk account. The personal and commercial lines account, it would not trigger -- even a storm of a one in 100 year size would not trigger emergency assessments in the personal and commercial lines account. And when you look at those emergency assessments of $6.9 million, I would point out, for an average policyholder who has maybe $3,000 a year of assessable premium, if we did it over two years, it would be a $300 bill, and if you did it over 20 years, it would be about a $30 bill.

So this is a pretty severe event, and we can see, at least from my perspective, we've got the resources to be able to withstand, and even the assessments, in the unlikely event that they're triggered, would not be as severe as one might have expected.

Again, I'm not going to read slide eight. But any users of this information, it's really important to read slide eight. Contact Christine Ashburn or any of us at Citizens if there are questions because it's really important, when evaluating Citizens and comparing Citizens data to other industry data, that it's apples to apples, and we can be helpful in that regard.

Slide nine just provides an overview of

assessments. There is an absolute tiering of assessments. The first layer of assessments is to our own policyholders who enjoy the benefit of the coverage. And you first apply the first layer of assessment. If there still remains a deficit, then you would go to the next layer and so on. And, again, I think the previous slides demonstrate the potential of the amount of assessments and the probability, and this just provides the tiering.

I included slide 10 because it's a really important component of Citizens' credit rating. We're really proud of the credit rating that Citizens has. Three years ago the high risk account was A3. Now it's up to A2. We're really proud of the work that we've done and demonstrated to the ratings agencies about the financial stability of Citizens.

And one really important element in the credit rating as well is making things work if we had a really unlikely severe event in Florida. But Citizens, both the regular and emergency assessments, are very broad and diverse. They cover multiple lines of coverage. There are about 800 insurance companies in that base. And the diversity and size of that base is important for the credit rating and also helps reduce the pocketbook impact per capita because it's a larger base over which those assessments, if they are triggered, would be levied.

So in conclusion, Citizens is in the very best financial condition it has ever been. We have $4 billion of surplus today. We think it will be about 4.6 at the end of 2010. We've got claims paying ability going into this 2010 hurricane season of $14 billion. Mr. Forney will come up momentarily and talk about the really successful pre-event program that we're so proud of on the high risk account side. And the personal and commercial lines account needs no outside liquidity, has no outstanding debt, and as you can see by these loss scenarios, can withstand very, very large losses and just utilize our own financial resources.

We meet the National Association of Insurance Commissioners as well as Florida minimum and -- minimum surplus and solvency requirements. Citizens is not growing. We're shrinking. Things are moving in the right direction. The exposure has come down. The policies in force are going down. And the probable maximum loss, which would be the expected loss related to hurricanes, has declined. The rate freeze is lifted, and we've implemented the glide path little by little so it's not too difficult a toll on our policyholders.

And my presentation is over. I'm happy to answer questions, or at a later time. And if not, I'll ask Mr. Forney to step up.

GOVERNOR CRIST: Thank you, Sharon. That was great. Any questions? Commissioner? Sure sounds good. Thanks.

MS. BINNUN: Thank you.

COMMISSIONER BRONSON: The reason why I wanted to hear how Citizens was doing is we've heard a lot about the private industry issues with insurance, those who are requesting higher -- abilities to assess at a higher rate.

But I'm confused about a couple of things that you did say. And you said there was no state money involved. But I noticed that after the second year of the multi-hurricane years where we were in really a pretty good crunch in the state, we had eight hurricanes in two years, four of those were in 2005, but the Legislature supplemented the assessments of 2005, by my account, by $714.7 million. Instead of the assessments going -- having to go directly back to the citizens of the state, they infused

$714.7 million of general revenue money to help stabilize that effect. And so when you said there's been no state money, it appears to me that at least at that period of time, there was state money put in to stabilize that situation.

I personally believe, if we didn't have Citizens, we'd be in real trouble because there are a lot of people who would not be able to get or afford insurance. There's no doubt about that, especially those living anywhere near the coastline within so many miles.

So I'm not arguing the point, any point here that we don't need Citizens or -- because we actually do need it. I want to get a leveling of the field here as what we're doing with Citizens as compared to the private industry and how they operate, because the full faith of the state, of the people of the state of Florida, I think, if I'm not mistaken -- you correct me if I'm wrong. I pay an extra premium on my insurance, private insurance policy that goes to help support Citizens.

Private industry doesn't have somebody paying an extra amount to support their business. So I just want to make sure that we're being clear with the public and especially those who are on Citizens, that this is being supported by the full faith of the State of Florida, both from general revenue early on as well as people paying a premium on their private insurance to help support state Citizens policies and those on those policies.

And I see that if we have a major disaster, that those assessments could go up to the people of the state of Florida, both private policyholders who are paying for their insurance, as well as those on Citizens will have to pay even a much higher percentage.

And I'm not sure that the average citizen of the state of Florida knew all that. I mean, they know there's a Citizens and they know there wouldn't be coverage if it wasn't for Citizens. If the Legislature and the Governor and the Cabinet had not come together quickly after 2004 and '5, we would have been in much worse financial shape economically than we were actually in.

But I wanted a chance for the public to see how Citizens operates, how it's paid for, how it's going to be covered if there's a major disaster, who pays for it, and how that relates to the private industry and what they're asking for and the reason for asking for it.

You know, the first insurance company that I remember ever hearing about in the world was Lloyd's of London, and that goes back quite a few hundred years.

CFO SINK: For them, not you.

COMMISSIONER BRONSON: Yeah, well, yeah, exactly. But, you know, insurance is based on risk. You know, the higher the risk, the more you pay for insurance, and that's the way business operates. And I just felt, to the members of the Cabinet here and to the Governor, that I wanted people to know how this is all done.

I don't think the general public is aware of it. I think they're aware of they're paying a little bit on their premium to some degree, but I'm not sure they're aware of how Citizens is put together.

So I just wanted to clarify that, that there is $714 million of public money that actually helped found this Citizens deal so that the public didn't have to pay that extra assessment fee. And that's the base. And thank God we haven't had any major hurricanes in the past five years. And I think that's one of the positive sides of Citizens being in the financial situation it's in. That has stabilized itself right now.

But we all know, as turbulent as the weather conditions are, not global warming, weather conditions, that we could have a round of this again, as they probably did 100 years ago and we saw in '04 and '05, which is basically a 100 year event or better, that it could happen again.

And the stability of Citizens is only because of the extra effort of citizen input on their private policies and the general revenue of the State to help solidify that position. But I'm glad we have Citizens. I'm not against Citizens. If we didn't have it, we'd be in trouble.

MS. BINNUN: Well, thank you, Commissioner Bronson. I appreciate the clarifying comment. Through recurring revenue, certainly the State does not support Citizens. But you're absolutely correct, after the 2004 and 2005 hurricanes when Citizens was not nearly as well positioned financially as it is now, the State Legislature did appropriate $715 million from general revenue to Citizens for the exclusive reason of reducing assessments, and the regular assessments were eliminated mostly. The regular assessment was made then very, very small, and the emergency assessments are as they are now. So I appreciate your clarifying comment.

CFO SINK: Sharon, let me just clarify one other thing, that Commissioner Bronson is a member of the Financial Services Commission so --

MS. BINNUN: Pardon me. I apologize.

CFO SINK: He's very much a part of the oversight of Citizens and the other offices.

MS. BINNUN: Thank you. You have my apologies.

CFO SINK: That's all right. I just wanted to clarify that for people who were listening.

ATTORNEY GENERAL McCOLLUM: If I could, I'd like to ask a question just for clarification. I think Commissioner Bronson, Governor, has elaborated in your absence a good deal about how this worked and the history behind it. But the thing that strikes me about this is, even though you've brought the number of policies down and we've somewhat depopulated Citizens, there's still a lot of them out there.

And there are surcharges that are there, as the Commissioner points out. Those surcharges are regularly there. But one of the things I wanted to ask you just for clarification, all these charts, like six -- five, six, seven, whatever, where you've got the five year event, the 25 year event, 50 year event and the 100 year event, once we get to the 25 and then on to the 50 and the 100 year event possibilities, you do have surcharges for policyholders in the 25 year event and regular assessments categorized here. But it particularly jumps up for the 50 year and the 100 year.

Are these new assessments that will go out onto policies on top of whatever is there right now in order to meet these demands to fill these holes, or is this a fund of accumulated monies that are coming in currently that will be tapped in the event that we reach the 50 year event or the 100 year event?

MS. BINNUN: Thank you, General McCollum. There is currently an emergency assessment that's been levied, that's one of those contingent forms of capital after the 2004, 2005 hurricanes, for a period of ten years beginning in 2007, ending in 2017. It is 1.4 percent. Now, that is based upon the old assessment base. So those of us who have property in the state of Florida will see that only on our property coverage, 1.4 percent, because prior to 2007, the assessment base was only property premiums. Beginning in 2007 the base was expanded.

So in the future, if there is a storm, there is a larger assessment base but other types of policies that you would see those. The 1.4 percent that you see on Citizens' side of the emergency assessment now on your policy relates to the old storms, and those monies are spoken for. We did engage in post-event bond financing to have the cash resources --

ATTORNEY GENERAL McCOLLUM: Well, what I'm getting at is that in the figures and the calculations on these charts, do the payout assumptions here anticipate new and additional charges that will be added -- that will have to be added, or is this just based upon the current percentages that will go out into these funds already assessed, already projected, already assumed that you'll collect, regardless of whether there is a 50 year event or 100 year event? That's what I'm getting at.

MS. BINNUN: Okay. Thank you, sir. These assessments that you would see would be in the event of a future storm. And if you see a dollar amount of assessments, those would be future assessments that would be levied. By law Citizens, if it has a deficit, our board of governors is required to levy assessments in the tiering.

So, for example, in the one in 25 year event on slide six -- I don't know if I have to go back. On slide six, we would have Citizens policyholder surcharges, the 344 million you see on the bottom of the right-hand side, it would be about 15 percent to all of our policyholders. The average policyholder that has, say, a $1,000 a year property premium, it would cost them $150 for one year.

ATTORNEY GENERAL McCOLLUM: In other words, this is something that's not being assessed right now, that is, nobody is paying that on their policies, but in the event this occurred, then that would occur --

MS. BINNUN: Yes, sir.

ATTORNEY GENERAL McCOLLUM: -- what you just described. And the same would be true for the 50 year and the 100 year, we're going to keep going up with these different assessments. You'll see on your policies, auto insurance, et cetera, depending upon what you have to do under law. I know it's already an existing law.

But I just wanted to clarify that, because even though Commissioner Bronson was making that statement, I suspect people aren't aware of this, you know, might have assumed, listening to you this morning and hearing our discussion, that there's some pool of general assessment that's already going on right now and it's accumulating and then you're going to be drawing from it.

And that's not the case. I want to make sure I'm right about this. When and if these storms occurred like this, in your projections, there would be new charges that would be -- every policyholder in the state of Florida, whether it's homeowner's, whether it's Citizens, auto insurance, these other policies, we'd be paying more money, right?

MS. BINNUN: Yes, sir, you're exactly right. And the dollar amounts that we project is if that storm occurs in 2010. Each year that there is no storm or small storms, as we build up surplus tax-free, we would reduce the reliance on assessments. And as we continue on the glide path, we'll build up more surplus to reduce that reliance. But you're exactly right.

GOVERNOR CRIST: So just to be clear, those assessments only occur if those storms hit.

MS. BINNUN: Yes, sir.

GOVERNOR CRIST: Yet you continue to generate revenue from premiums that are being paid every year.

MS. BINNUN: Yes.

GOVERNOR CRIST: And that's how you've gotten this incredible increase in the surplus. What did you say, 4 billion?

MS. BINNUN: Yes, sir.

GOVERNOR CRIST: So the approach is that you only assess if a storm hits as opposed to others in the market that wanted to assess regardless of being hit.

MS. BINNUN: Yes, sir. We would only levy assessments if we had a deficit, and we would only have a deficit if we have a catastrophic event. With no catastrophic event, Citizens is building up cash flow and surplus so that we can build those resources for future events.

GOVERNOR CRIST: I think the point I'm trying to make is that, you know, we've all seen requests for rate increases of 47 or whatever percent that there are, that fortunately the Office has rejected. But some companies had the philosophy that they were going to go ahead and charge the people and assess the people every year as though the 100 year storm was hitting every year, whether it did or not.

Citizens' approach, thank God, is that you only would assess people if in fact the storm did hit.

MS. BINNUN: Yes, sir.

COMMISSIONER BRONSON: Governor, can I --

GOVERNOR CRIST: Thank you.

COMMISSIONER BRONSON: I'm unsure now, because I thought I was paying on my policy every single year a percent of that policy into the fund for Citizens without a major storm hitting. Am I incorrect in that? Don't I pay a -- isn't there a premium on my insurance premium that goes to Citizens every single year, whether there's a storm or not, or am I wrong?

GOVERNOR CRIST: I think what we were just talking about were Citizens policyholders. No?

MS. BINNUN: If I might, there was an emergency assessment levied in 2007 for the 2004 and '5 storms, and there was a deficit large enough to trigger emergency assessments. So the emergency assessment of the 1.4 percent is what you're currently paying now. That relates to prior storms, and that's the recovery of costs. Citizens had a deficit, needed resources to ensure we could meet our policyholder obligations, issued a post-event bond. And then we provide the debt service of the bond with those future collections.

The emergency assessments, and you'll see them on our balance sheet, are due to be collected in full in 2017. So those relate to old storms. Until we have another storm, there would be no new assessments, and we would continue with that 1.4 percent of the old emergency assessment until completion, which is scheduled for 2017.

ATTORNEY GENERAL McCOLLUM: Governor, if I could make one observation.

GOVERNOR CRIST: Of course.

ATTORNEY GENERAL McCOLLUM: With all due respect to your comment on private versus the Citizens insurance, one difference does strike me that exists, just thinking about it while you were talking --

GOVERNOR CRIST: Well, before you go there, if I might. I don't mean all private. I just meant a couple.

ATTORNEY GENERAL McCOLLUM: That's all right.

GOVERNOR CRIST: For the record. There's lots of good private ones.

ATTORNEY GENERAL McCOLLUM: My point only is that the private companies don't have the opportunity to levy these additional assessments on all policyholders in the state of Florida and, therefore, spread that risk. They only have the opportunity to increase the rates on their policyholders. It would be like Citizens being only able to increase the surcharges to Citizens policyholders. So there's a big difference, I think, and we ought to remember that when we do think about private insurance rate base. Thank you.

MS. BINNUN: Thank you. If I may, there are some nuances, and Belinda Miller, Deputy Insurance Commissioner, might want to explain some of those nuances on the pricing side.

GOVERNOR CRIST: Please, sure.

MS. MILLER: Thank you. Governor, I think where you were headed with that was that companies pay for reinsurance, and when we transfer risk to an insurance company, a private insurance company, that risk is transferred. The people of the state of Florida don't have it anymore. It goes to the private company, and from there it goes to the reinsurance company, and we pay a premium for that and they take away.

And that is not what Citizens was ever designed for. Citizens is more like a self-insurance mechanism. It is to finance our risk. We don't take it away. So there's a much bigger cost involved in having the risk removed by having it put into the private sector and then to the reinsurance market, where that risk is removed.

We still have the risk with Citizens, but it is much less expensive over the long-run for the people of Florida to finance their own risk than to have it all put into the private market. We need both. We need both the private insurance market and we need a residual market for those policies that the private market can't handle.

And there is a tolerance level where people just will not be able to pay any more than they can. So I think that the State's challenge has been to strike a balance between all of those things, pay for as much risk to be transferred as we can, and then keep the risk in Citizens that can't be transferred to the private market and finance it over time.

It was never intended for Citizens to build up enough surplus to pay for a one in 100 year event every year. It pays for a one in 100 year event in 100 years. But I think that we have been fortunate in the last few years not having a storm, that it can catch its breath and build up some surplus and build up some resources so that, as a people-owned industry, they can hold this risk and hold it economically.

I would say that the analogy that everybody is trying to draw on assessments is more akin to shareholders of a private company than it is anything else. The people of the state of Florida are more like the shareholders of Citizens, and the people in the private market who own those companies sometimes have to contribute money into those companies in order to recapitalize them as well.

So it works. It's amazing. It was an innovation that Florida came up with, I think, after Hurricane Andrew, and many other states have copied us on this. And it provides insurance that would not otherwise be there. I absolutely agree with Commissioner Bronson's statement. If we didn't have Citizens, I don't know how our economy would continue. So that's what it is. And what it is not is a big pot of money that is going to cover a 100 year event every year.

ATTORNEY GENERAL McCOLLUM: Belinda -- could I ask another question, Governor?

GOVERNOR CRIST: Yeah, of course.

ATTORNEY GENERAL McCOLLUM: This is not the scope of today's request by Commissioner Bronson, but you reminded me of the fact that Citizens is more than an insurer of last resort these days. It has other policy lines. And that's a somewhat contentious issue with the private insurance market.

Sometime down the road at an additional Cabinet meeting, meeting of this group, I'd like to have us, the Financial Services Commission, I'd like to have us look at your bringing somebody forward. What does that additional line contribute to this? Obviously we're seeing a build-up here, but some of this must be due to the additional line of insurance. What would it mean if Citizens were stripped back to only the insurer of last resort, which it was originally founded to do?

But that's not for today. I just am commenting that that's not -- it's not purely a wind storm, hurricane homeowner property insurance company anymore, right?

MS. MILLER: It does cover the underlying risk, like fire and theft and other things for most of its policyholders. In the high risk account it has wind-only policies, which I would advocate that the Legislature stop allowing Citizens to write and have the private companies -- more pressure to write that.

But I think that when we made that change, we also, the Legislature and we advocated that we also put in this 15 percent provision, that if a person can only find a policy in the private market that is 100 or 200 percent more expensive than what they can find in Citizens, they can still go to Citizens.

And you hear a lot about that from insurance companies and how that expanded Citizens' role. I'm not sure, as a practical matter, it had as large an effect as they're portraying, because it's very difficult to know if a person has had another offer.

And they're supposed to shop the market and tell Citizens if they have another offer, and their agent is supposed to tell Citizens that. But I'm not sure that that made, as practical, as big a difference as it has been made out to be.

ATTORNEY GENERAL McCOLLUM: I didn't mean to take you down that rabbit hole. I just wanted to make the observation. At some point, when we have more time and perhaps a different agenda, it would be something I would like to see us explore a bit more in depth.

MS. MILLER: I agree. Ideally Citizens would be as small as we can make it, so that most of the risk is covered by the private market so that it's transferred and somebody else is covering it.

ATTORNEY GENERAL McCOLLUM: Me too. Thank you.

MS. MILLER: Thank you.

MS. BINNUN: Thank you. If there are no other questions, I'll ask John Forney of Raymond James to talk about our recent pre-event financing program for the HR, high risk account.

GOVERNOR CRIST: Thank you, Sharon.

MR. FORNEY: Thank you, Sharon.

GOVERNOR CRIST: Can we take a moment? Sorry. Where are y'all from, the kids?

UNIDENTIFIED SPEAKERS: Roberts Elementary.

GOVERNOR CRIST: You are? And how long are you here?

UNIDENTIFIED SPEAKER: I guess today.

GOVERNOR CRIST: Today? What grade are you in?

UNIDENTIFIED SPEAKERS: Second.

CFO SINK: You're very well behaved. Congratulations to the teachers.

GOVERNOR CRIST: Thank you very, very much for coming by. It was great to have you with us today. Sorry, John.

MR. FORNEY: No problem. I can see how that discussion might have driven them out of the room. Governor Crist, members of the Cabinet, good morning. For the record, my name is John Forney. I work for Raymond James & Associates, and we're the financial adviser to Citizens. It's been a long and vigorous discussion of Citizens, so I promise I will be very brief.

But it is really my privilege to be here today, especially with such great news about the reception that Citizens got recently in the financial markets when it went out to do some pre-event bond financing.

You're all well aware of how unsettled the financial markets have been over the last few years and how widespread the negative impacts of that have been. We talked about it at one of the most recent SBA meetings, the very low investment yields that the Cat Fund and Citizens are earning in their investments. And, of course, that affects insurance companies around the country, not just public ones and not just here in Florida.

But one of the most widely noted potential negative impacts of the financial crisis has been the concern that frozen markets could keep Citizens and, for that matter, the Cat Fund from accessing the markets to get the money they needed after a large hurricane.

And that's a legitimate concern. But this financing that Citizens just completed demonstrates two things; one, that markets have thawed significantly and, two, that the relevant constituencies in the financial markets have strongly endorsed the credit construct that Sharon Binnun described to you earlier.

This was a very successful financing. Citizens accessed the market for $2.4 billion in a very tight maturity range, clearly could have done more if it needed to and it could have expanded the maturity range. It did it by accessing a blue chip range of institutional investors, including Fidelity, Federated, Vanguard, Wellington, PEMCO, et cetera, et cetera, and literally thousands of individual investors in the state of Florida and around the country who bought Citizens bonds. And they did it at interest rates that were over 150 basis points lower than where Citizens was able to access the market last year when financial markets were more troubled, so well under four percent interest cost.

I would point out, Commissioner Bronson and General McCollum, that there are no assessments associated with this type of financing. This is a financing that just enhances the pool of money that Citizens has to pay claims after a storm, and that money would be reimbursed to it from the Florida Hurricane Catastrophe Fund.

So a very successful financing. We hope that Citizens will never have to touch a dollar of these proceeds. And we certainly hope that Citizens will not have to access the markets after one of these large events that Sharon showed you. But if they do, this financing is a very good sign and a good bellwether that the reception would be quite positive in that event.

So I'm happy to answer any questions you might have at this point.

ATTORNEY GENERAL McCOLLUM: If I could, Governor.

GOVERNOR CRIST: General.

ATTORNEY GENERAL McCOLLUM: Just to clarify, what I think you just said was pretty clear, but I want to make sure everybody caught that. The financing we're talking about would be liquidity for the purposes of what happens with an event that occurs up to a certain amount. And you said the Cat Fund, the Catastrophe Fund would reimburse that to Citizens at some point. So it's sort of a layer for a short period of time when we need it to pay claims. Is that basically what it boils down to?

MR. FORNEY: That's exactly correct, General McCollum.

ATTORNEY GENERAL McCOLLUM: Thank you.

GOVERNOR CRIST: John, thank you, sir.

MR. FORNEY: Thank you very much.

GOVERNOR CRIST: Appreciate it very much. Great presentation.

GOVERNOR CRIST: Board of Trustees, Secretary Sole.

CFO SINK: So as he's coming up, I think these are the last group, which is the fourth graders from Roberts Elementary in the back of the room. They're the white T-shirt crowd.

GOVERNOR CRIST: Good morning. Good to see you. Thanks for joining us.

MR. SOLE: Good morning, Governor and Cabinet.

GOVERNOR CRIST: Good morning.

MR. SOLE: Item Number 1, submittal of the minutes of the February 9, 2010, Cabinet meeting.

GOVERNOR CRIST: Is there a motion on the minutes?

CFO SINK: Move it.

COMMISSIONER BRONSON: Second.

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

MR. SOLE: Thank you. Item Number 2, a request that we withdraw this item from the agenda.

GOVERNOR CRIST: Is there a motion to withdraw?

COMMISSIONER BRONSON: Motion to withdraw Item 2.

ATTORNEY GENERAL McCOLLUM: Second.

GOVERNOR CRIST: Moved and seconded. Show it withdrawn without objection.

MR. SOLE: Thank you. Item Number 3, this is a consideration of an application from Doctors Lake Marina. This is in Orange Park, which is in Clay County. It's to modify an existing sovereignty submerged land lease. It's currently a 98-slip, wet slip, open-to-the-public marina. They're requesting to add 60 wet slips to the facility. The consideration is for $24,459.

It's worth noting that as part of this application or this request, there's an existing conservation easement that was established in order to protect manatees. What that conservation easement did was eliminate the capacity to add additional wet slips. It was also intended to ensure that there were no additional dry slips.

When we went through the conservation easement, what we recognized is we need to expand that to cover the entire property. We believe that the conservation easement and the proposed lease expansion is consistent with the original proposal because there will not be any new overall boats in the facility. Currently there's 373 boats at the facility. This action will continue to have 373 boats at the facility, just some will be moving to the wet slips.

The Department did also have -- note that there was a compliance history, a couple of noncompliance issues in the past 13 years. They have been addressed through enforcement by the agency. The Department recommends approval.

COMMISSIONER BRONSON: Motion to approve.

ATTORNEY GENERAL McCOLLUM: Second.

GOVERNOR CRIST: Moved and seconded. CFO?

CFO SINK: Yeah, I do have a comment.

GOVERNOR CRIST: Please.

CFO SINK: Since our staffs have been working, I know, Secretary Sole, you're aware of what my concerns are. It just -- it really irritates me that a conservation easement was put on this property in 1993. And certainly Commissioner Bronson and I have been talking a lot about the idea of conservation easements and that they're a better way to go in many respects.

But in this case the owner put a conservation easement on this marina to basically say that they were not going to expand the amount of slips. I think that the total number of slips at the time of the easement was 150. It was done supposedly to protect the manatee activity in this area.

And so I am presuming and assuming that as most landowners do, they took a tax deduction or got a decrease in the value of their property because they were putting a conservation easement. That's what you typically do. You get the tax credits back, et cetera. But in this case the owner turns right around and just keeps adding more slips and just kind of thumbs their nose at the whole idea that there's a conservation easement on this property and puts -- this is not -- he put 225 more slips on this property --

MR. SOLE: In the dry storage, yes, ma'am.

CFO SINK: -- that was subject supposedly to this conservation easement. So now he wants to come back and get us to approve this new expansion, renegotiate. And I just think it sets an extremely bad precedent for this board to agree or accept a conservation easement on a property in which -- I mean, the word will be out that, well, so what? Put a conservation easement on. I'll just do what I want to anyway. I won't abide by the terms of the easement, and the Board of Trustees won't do anything to me about it. It's just very irritating to me. I have to say that.

GOVERNOR CRIST: Any comments, Secretary?

MR. SOLE: I do, Governor. One of the things, when we looked at the conservation easement, that conservation easement only covered that ten foot of shoreline, that riparian shoreline. This is something that we've done in the past, trying to limit the number of structures going into the water.

What we have done in this case is we have worked with the Fish and Wildlife Conservation Commission to craft a much broader conservation easement that covers the entire property, not just that ten-foot strip of shoreline, to ensure that the intent originally as proposed back in 1993 to limit the number of boats can be adhered to.

We've identified how many boats are there. We think that this at least basically mirrors that intent and actually provides a better enforcement tool in the event that in the future, if they encroach and add, it's something that's much more clear.

So we think this is a solution to a problem that did exist, CFO. And I appreciate the issue that you raise, because I think originally the intent was thought that, no, they weren't allowed to have any additional upland dry slips either at the time. But the reality is the conservation easement only covered that ten-foot swath of land.

This clears that up. And I think this is a resolution to what will hopefully solve a long-standing problem in the area.

CFO SINK: And what were the penalties?

MR. SOLE: As a result of -- the penalties were primarily associated with one specific noncompliance event, where roughly four boats were moored outside of the easement, excuse me, outside of the lease area. Penalties in that case were roughly $4,000 for those four boats being moored outside of the lease area.

We also more recently, in 2006, identified a small finger dock that actually had been there for some time, and we had missed it in prior compliance assessments. And we got them to remove that finger dock and charged them an additional thousand dollars. Total penalties were roughly a little over $6,000 for the two events. Not significant as it relates to fines, I understand.

GOVERNOR CRIST: Did you have a --

CFO SINK: Well, yeah, I mean, I would suggest that if it seems that this is going to be approved, that -- you know, we had a situation similar not too long ago in which you agreed to put some other provisions and requirements on the owner, which involved an annual certification that they were abiding by the terms.

But also I think in my mind more importantly, I think we had a solution in which the owner was required to take photographs and submit them to your office so that the overseers could ensure for themselves that the property is in fact being used under conditions that we require and that we don't have another 17 years of noncompliance.

GOVERNOR CRIST: Is that in the form of a friendly amendment?

CFO SINK: Yes. That would be a friendly amendment.

GOVERNOR CRIST: I'll second it. But I guess it's really up to the mover. And I can't remember if it was you, General, or whether the Commissioner made the motion.

COMMISSIONER BRONSON: I moved the motion. And I was willing to also amend the motion to include the special approval of the conditions and the special lease conditions and also payment of the amount that has been decided upon.

MR. SOLE: Yes, sir.

GOVERNOR CRIST: Okay. Does everybody

understand --

ATTORNEY GENERAL McCOLLUM: I second, will go with that.

GOVERNOR CRIST: -- the new model? Okay. Are there any objections? Show it approved as amended.

MR. SOLE: Understood. Thank you, Governor, Cabinet members.

GOVERNOR CRIST: Thank you, Secretary. Thank you, CFO.

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

MR. WILLIAMS: Good morning, Governor, Trustees. How are you today?

GOVERNOR CRIST: Good.

MR. WILLIAMS: Item 1, we request approval of the transcript of the February 24 meeting.

ATTORNEY GENERAL McCOLLUM: So moved.

CFO SINK: Second.

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

MR. WILLIAMS: Item 2, request approval of fiscal determination for the issuance of an amount not exceeding $7.8 million Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds.

GOVERNOR CRIST: Is there a motion on Item 2?

CFO SINK: Move it.

ATTORNEY GENERAL McCOLLUM: Second.

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

MR. WILLIAMS: Item 3, request approval of the 2010 Florida Hurricane Catastrophe Fund Reimbursement Premium Formula. By way of background on this, the law requires that the rates for the Catastrophe Fund each year be actuarially indicated rates and that they be confirmed by an external consultant. Both of those tests have been met. In addition, the formula has been reviewed by the Florida Hurricane Catastrophe Fund Advisory Council in public meeting and approved unanimously. Recommend approval of the formula.

ATTORNEY GENERAL McCOLLUM: I move Item 3.

CFO SINK: Second.

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

MR. WILLIAMS: Thank you. Item 4, request approval of and authority to file a Notice of Proposed Rulemaking for the Florida Reimbursement -- Florida Catastrophe Fund Reimbursement Premium Formula.

CFO SINK: Move it.

ATTORNEY GENERAL McCOLLUM: Second.

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

MR. WILLIAMS: Item 5, we request approval of the State Board of Administration's resolution regarding the issuance of bonds by the Hurricane Catastrophe Fund Finance Corporation. And we have a brief presentation, if you'd like me to walk you through it, addressing a couple of questions that came up at the prior meeting.

GOVERNOR CRIST: Please.

MR. WILLIAMS: Okay. This is very brief, honestly. And we'll cut quickly to the substance of the questions that were raised at our last meeting. First, a little bit of background on the legal requirements and obligations of the Catastrophe Fund. The Hurricane Catastrophe Fund has a legal obligation to reimburse insurers for specified payments that insurers make to their policyholders.

The law provides for the issuance of revenue bonds for the Florida Hurricane Catastrophe Fund to meet these obligations. Insurers are required to file loss reports at yearend and quarterly thereafter. The Catastrophe Fund is required to reimburse insurers as soon as practical after receiving proof of loss reports.

We go on to the next page. The examination process that the Catastrophe Fund has is quite active, thorough and comprehensive. We've in fact reviewed over 17,000 proof of loss reports for '04 and '05 losses. Loss payment requests are reviewed and analyzed before, during and after reimbursements are made.

Before reimbursements are made, we do an examination of the exposure the various insurers have by zip code, so we know exactly where their exposures are. There are education and training programs to inform insurers on how to appropriately submit loss experience to us.

During events and claims coming in, we examine proof of loss reports. These are required to have the signatures of two executives of the insurance companies. So to the extent there's any falsification there, you have people who are directly accountable for any problem.

We also review that information for integrity and validity. So, for example, if you know in advance that an insurance company's exposures are in inland zip codes and you start seeing claims submissions for hurricane loss on the coast, you know by comparing your original analysis of their exposures to where their claims are coming in from that there's something wrong there and it needs to be held up and examined.

Likewise, we compare the loss submissions we receive from different insurance companies so that we look across companies. And if we see some extraordinary loss experience in one company in comparison to others, that again is a tip-off that it should be held up and looked into more thoroughly.

Lastly, we look at the reimbursements after they've been made. There's a very thorough and ongoing review of losses, including on-site audits conducted by the Hurricane Catastrophe Fund. And to the extent we identify that any insurer has been reimbursed excessively, we have the ability under current law to reclaim those excess reimbursements together with interest penalties, and we claim the maximum penalty allowed by law to the extent we do reclamations of that nature.

The Cat Fund routinely withholds reimbursements if there are any irregularities, unusual reporting situations or noncompliance issues. Currently we have approximately $13.2 million in reimbursements being withheld from 30 different insurers.

Over $43 million has been recouped by the Cat Fund for excess loss reimbursements stemming from the '04 and '05 storm events. Interest penalties have been charged at the maximum level allowable by law. And to the extent there's any indication of illegal or fraudulent activities, these are reported to the proper authorities.

Moving on to page three and digging directly into fraud and the potential for illegal activities, that was a major concern in our last meeting. We didn't want to have good Floridians paying bad claims, very legitimate question.

We looked at the question of what is the incidence of fraud and illegal activity. And after working with a number of different entities, including the Office of Insurance Regulation, Division of Insurance Fraud, et cetera, we were pleased to find -- and we'll demonstrate this in detail in the next couple of pages -- that the incidence of fraud and illegal activity seems to be extremely low. Insurers are required by current law to implement anti-fraud programs, and they are in fact aggressively reporting suspected fraud to the Division of Insurance Fraud.

If we move over to page four and look into what the experience has been with insurance fraud -- and this is looking across all forms of insurance, not homeowners alone, not property and casualty alone. This is across all forms of insurance. What we find is that total referrals and tips relating to fraud were a little north of 66,000. Insurers provided 46,000-plus of these. This led to the opening of over 9,000 cases, roughly 4,700 arrests, close to

5,000 prosecutions and over 3,000 convictions. Rewards were paid out to various people providing tips on fraud in excess of $140,000.

Now, again, this is across all insurance. And if you look at residential property and casualty losses for '04 and '05, you're talking about over two million claims, and our analysis suggests that the incidence of potential fraud in that claim base is something in the low single digit range, three to five percent.

We go over to page five. We zero in specifically, we're narrowing this -- this triangle compared to the prior one is dramatically smaller numbers for two reasons. First, we're looking at a data sample of only one year. The prior information was five years cumulatively. Second, we're looking here only at homeowner related fraud cases. So the numbers are much, much smaller. The number of complaints, 446, that's less than four percent of the total; cases opened, 75; prosecutions, 24; arrests, 20; convictions, 23. Very significant narrowing of the numbers, given the smaller proportion of fraud relating to homeowner insurance.

If we move over to page six, we just want to recognize and thank the other entities that we worked with compiling this information and those who have specific roles, and you can see them; Office of Insurance Reg, Division of Insurance Fraud, Division of Consumer Services, Office of the Consumer Advocate, the Division of Rehab and Liquidation, and the Florida Guaranty Insurance Fund.

Moving on to page seven, there are factors impacting our loss experience, which has been growing, particularly from the '05 storm events, storm season. And these include appraisal provisions and insurer contracts, replacement cost holdbacks, potential time limits on filing claims, the growth in public adjusters, public adjuster fee and compensation practices, and damage for partial losses resulting in payments for total losses.

As we discussed at our last meeting, these are areas whose remedies largely rest in the Legislature. As you can see in the second bullet on this page, there are a range of different bills currently in consideration in the legislative process that constructively address these issues and we believe will make progress in an appropriate direction on all of these areas. For example, the public adjuster legislation I understand is up today in the Senate Judiciary Committee.

If we move on to page eight and we look at the obligations and resources of the Cat Fund -- and this is as of month-end January of this year -- the outstanding losses in aggregate, and these include the incurred and reported losses as well as incurred but not reported, that means not reported to us by the insurance companies, those aggregate to $827 million.

The current cash resources on hand at the Cat Fund that are available to pay these particular claims are 213 million, leaving a need for additional resources that we estimate to come in over time, from this 827 number, of 614 million.

Our recommendation is that we issue debt that would include the proceeds to the Cat Fund itself, a reserve for debt service and capitalized interest, together with cost of issuance and underwriter's discount, that would aggregate an issue of up to $710 million.

If we move on to page nine, what we would recommend doing, if the trustees, if you the trustees concur, is to proceed with debt issuance of up to $710 million. We will get to work on this immediately and would anticipate coming to market in the -- as a practical matter, probably during May.

We'd like to get this done prior to hurricane season starting. And this would, we think, put us in position to have sufficient liquidity to pretty well cure the 2005 claims. Can't be absolutely positively certain with permanence on that, but I think we're pretty darn close.

CFO SINK: Governor.

GOVERNOR CRIST: CFO.

CFO SINK: Do we have -- you know, the number in this chart that's kind of an estimate is the 376 million incurred but not reported number. I would just hate for us to have to come back and do this again. Do you have enough flexibility? Is there enough -- have you been pretty darn conservative about this $376 million so that you feel confident that the 710 million is going to be the right number? Do we need to give you the leeway perhaps to go up to 750 million?

Just kind of share with us how you feel about how close you're -- how close you're cutting these numbers, because in my opinion we ought to figure out what the right number is and put this thing to bed.

MR. WILLIAMS: Potentially give it some head room and leave it at that? I hear you. The

$376 million I think is reflective of a 2005 storm season that has behaved, in terms of the way claims have come in after the fact, unlike any other, including 2004.

The difference between the way claims experience was between '04 and '05, contiguous years, has been night and day. It makes no sense. And as we discussed at the last meeting, it seems to be largely a consequence of the very dramatic deterioration in the economy and the fact that you've had a terrific increase in public adjusters and a terrific cumulative effect of very, very consumer-friendly insurance laws in Florida.

In terms of putting a hard boundary around this, if we wanted to put some head room on it, we certainly could. We could -- and what I would recommend doing if we do that is I would not go into the market presently for more than what we've asked for here, but if we needed to go back subsequently, we could. Conversely, if you prefer for us to come back, we could do that as well, but recognizing the amount of motion involved every time we do this.

CFO SINK: Well, I hate to make the number bigger. I just am a little concerned that if you have -- if you cut it too close in terms of your estimate, then it just prolongs the agony.

MR. WILLIAMS: Right.

CFO SINK: We have to do this.

MR. WILLIAMS: Yes. And we could potentially have a situation where we come back at some future date with some tail end of obligations that we need to meet that we would need to do more issuance for. And what I would suggest is, if you want to go the route of expanding the authorized amount today, then I think the way to do it would be to do so with the assumption that we would -- and with the restriction that we would go out for no more than what we've requested currently. And if six months down the road or seven months or a year down the road we have a need to do something further, then the idea would be we would obviously do the minimum, and we would confirm it back to you in public meeting before going forward as an information item.

ATTORNEY GENERAL McCOLLUM: If I could, just a point of clarification. In terms of the 700 million or whatever we're going out and bonding, I assume we're choosing not to take this out of any build-up premium reserves that we've gotten because we want to be ready for this hurricane season. But we do have some money we could take this out of if we had to right now, right?

MR. WILLIAMS: The amount we have that we can take it out of is only 213 million, General.

ATTORNEY GENERAL McCOLLUM: That's it?

MR. WILLIAMS: If we -- we do have significantly more cash reserves, but for reasons of our tax-exempt status and the nature of our agreement with the Internal Revenue Service to have that tax-exempt status and the nature of the covenants and the debt currently outstanding to pay other claims from the Cat Fund, we cannot, on opinion of tax counsel, invade those other cash funds for this purpose.

ATTORNEY GENERAL McCOLLUM: So it's a tax and obligation, existing obligation --

MR. WILLIAMS: Correct.

ATTORNEY GENERAL McCOLLUM: -- reason for doing this. Secondly, Hurricane Wilma triggered all of us in here, with your discussion and now the Legislature, into realizing the statute of limitations is too long. We've got another year, I believe, to go on those claims. And hopefully the next time we have storms we'll have a shorter statute of limitations. But I don't know how anybody here could stand there in your shoes and tell us exactly how many more claims are going to be filed in the next year over this thing, the way they're going.

MR. WILLIAMS: Agreed.

ATTORNEY GENERAL McCOLLUM: And for one, I'd do it either way. If you want more authorization, fine. But it's -- CFO, I think it would just be a shot in the dark to guess at what it is. So I think we should just give you this today and leave it alone, and if you've got to come back, you've got to come back. Hope you don't. I would move it, if it's appropriate.

CFO SINK: Second.

GOVERNOR CRIST: I just have a question. If we could go to that slide number five, Ash, please. And it talks there about the incidence of homeowner's fraud for one year, 2008.

MR. WILLIAMS: Yes.

GOVERNOR CRIST: And then I guess about four lines down, five lines down, it talks about convictions, 23 convictions, 4.32 percent. So I'm assuming from that chart that that means that these 23 individuals were convicted of fraud as it relates to their homeowner's insurance. And the question I guess I have is how much fraud did that represent in monetary terms. How much did they scam? If you totaled up the 23, how much did they rip off?

MR. WILLIAMS: I don't have a hard answer to that, Governor, but --

GOVERNOR CRIST: Do you have a soft answer? I'm just kind of curious.

MR. WILLIAMS: I appreciate that. I would offer a clarification, that the percentages you see here, like the 4.32 convictions, that's a percentage of the aggregate convictions across all insurance. That doesn't mean 4.32 percent of the people who were charged with homeowner insurance fraud were convicted.

GOVERNOR CRIST: Yes, sir. So how much money?

MR. WILLIAMS: I don't have a hard answer on that.

CFO SINK: Governor, I don't know, but I can get it for you.

MR. WILLIAMS: Division of Insurance Fraud would be the place to get it.

CFO SINK: The way to think about it would be that somebody filed a claim that said that -- oh, I don't know -- that their roof needed a repair and it was determined that it was just a fraudulent claim, and it could range from 30,000 to maybe $350,000 if they proved their whole house was damaged. It's in that range. So you can multiply it out that way. But we'll get the numbers for you.

GOVERNOR CRIST: I appreciate that, because that matters.

CFO SINK: Yes.

GOVERNOR CRIST: Okay. It's been moved and seconded. Show it approved without objection. I think you have another item. Is that right?

MR. WILLIAMS: Thank you. Yes. We need to move forward to Item 6, request approval of the State Board of Administration's resolution regarding the levy of emergency assessments.

ATTORNEY GENERAL McCOLLUM: I move it.

CFO SINK: Second.

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

MR. WILLIAMS: Thank you. Now I believe we need to also go to the Florida Hurricane Catastrophe Fund Finance Corporation's agenda.

GOVERNOR CRIST: Right, correct.

GOVERNOR CRIST: I will now convene a meeting of the Florida Hurricane Catastrophe Fund Finance Corporation Board. This board is composed of the members of the State Board of Administration and also Ben Watkins and Jack Nicholson. All members are present. Ash, are you ready to proceed?

MR. WILLIAMS: I believe we are, if I can get to the agenda.

GOVERNOR CRIST: I'm sure you are.

MR. WILLIAMS: Item 1, request approval of the February 24, 2010 minutes.

GOVERNOR CRIST: Is there a motion on the minutes?

CFO SINK: Move it.

ATTORNEY GENERAL McCOLLUM: Second.

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

MR. WILLIAMS: Item 2, request adoption of a resolution authorizing the corporation to issue revenue bonds. These are, of course, the bonds we just discussed.

ATTORNEY GENERAL McCOLLUM: I move Item 2.

CFO SINK: Second.

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

We are adjourned.

(Whereupon, the meeting was concluded at 11:35 a.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, Jo Langston, Registered Professional Reporter, do hereby certify that the foregoing pages 3 through 70, 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 26th day of April 2010.

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JO LANGSTON
Registered Professional Reporter