

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:

STATE BOARD OF ADMINISTRATION

The above agency came to be heard before
THE FLORIDA CABINET, Honorable Governor Crist
presiding, in the Cabinet Meeting Room, LL-03,
The Capitol, Tallahassee, Florida, on Thursday,
November 29, 2007, commencing at 11:45 a.m.

Reported by:
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CHARLIE CRIST
Governor

BILL McCOLLUM
Attorney General

ALEX SINK
Chief Financial Officer

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P R O C E E D I N G

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3 GOVERNOR CRIST: Good morning. I'd like to call
4 to order the special meeting of the State Board of
5 Administration. Let the record reflect that CFO Sink
6 is here in the meeting room, and Attorney General
7 McCollum is joining us by phone from Utah. Let's begin
8 by standing for the Pledge of Allegiance to our flag.

9 (Pledge of Allegiance)

10 GOVERNOR CRIST: Coleman, would you like to give
11 us a prayer?

12 CFO SINK: Governor.

13 GOVERNOR CRIST: Yes, CFO.

14 CFO SINK: Do you mind if I just make a few
15 comments?

16 GOVERNOR CRIST: No, no. Go right ahead. Please
17 do. Please do.

18 CFO SINK: I kind of feel like I asked for this
19 emergency meeting, and I want to thank you and the
20 General for agreeing to get together at such short
21 notice.

22 GOVERNOR CRIST: Well, I think only I can call the
23 meeting, and I am very grateful for your good advice.

24 CFO SINK: I wanted to just -- since obviously you
25 and I haven't talked, I know that we all understand

1 that we share a responsibility for the State Board of
2 Administration and that one of the things that is
3 important for us to do is to attempt to find a way to
4 restore confidence to our local governments and school
5 boards, boards who are investors in this fund.

6 There are probably around about 950 to 1,000
7 entities, local government entities that have
8 participated in this fund. And we were last discussing
9 the SBA funds in general at the November 14th board
10 meeting, our last Cabinet meeting. And our executive
11 director spoke to us about -- a little bit about the
12 Local Government Investment Pool.

13 But since then things have changed. And in the
14 past two weeks the withdrawals from the fund have been
15 accelerating at what I would call an alarming rate. So
16 there is a heightened sense of urgency about the fund.
17 I hope you've seen the news articles. I'm sure you
18 have. General, you probably haven't, but there were
19 more articles published around the state newspapers
20 this morning about the withdrawals --

21 GOVERNOR CRIST: Can I interrupt you just for a
22 second?

23 CFO SINK: -- and the lack of confidence. Yes.

24 GOVERNOR CRIST: Can I interrupt you for a second?

25 CFO SINK: Of course.

1 GOVERNOR CRIST: General McCollum, can you hear us
2 okay?

3 ATTORNEY GENERAL McCOLLUM: I can hear you just
4 fine, Governor. I hope you can hear me. I'm listening
5 very intently. Thank you.

6 GOVERNOR CRIST: Okay, great. Thank you. Pardon
7 me. I'm sorry.

8 CFO SINK: Thanks, that's good. And I hope that
9 you agree with me and the many investors that we do
10 need much more transparency and open communications
11 with all the interested parties.

12 And that word "transparency" is critical. It's
13 very important. It's essential to see if we can figure
14 out a way to get the fund back on the right track. I
15 believe that we also need to have a thorough and timely
16 assessment of the situation by an independent financial
17 expert. I think that certainly the people at the SBA
18 have been working hard managing the fund, but they may
19 be a little bit close to it at this point in time.

20 And, finally, as board members, to try to identify
21 solutions to restore confidence. Many of our local
22 governments rely on this fund to make payroll and pay
23 other obligations and operational costs, and I have a
24 primary concern for what's fair for all of the
25 investors.

1 And I asked for the special meeting because it was
2 appearing that we were going to wait until our Cabinet
3 meeting next Tuesday, as we usually do, to have an SBA
4 agenda. And because of just the events of the last
5 couple of days, I just think that we have to have a
6 real sense of urgency around this situation.

7 And like we would do in the private sector, things
8 are happening, we need to know more about them. We
9 need to figure out where we're going to go. And just
10 like a private board would do, the three of us sit here
11 as the Board, as the overseers of the SBA. And I'm
12 anxious to hear from our executive director. Thank
13 you.

14 GOVERNOR CRIST: I share your concerns, CFO. And,
15 again, I thank you for your recommendation of a special
16 meeting today. I'm sure that the Attorney General
17 shares in that as well. We have a fiduciary
18 responsibility to adapt and adjust as facts require.

19 And there have been some facts over the past week
20 or so, maybe a little bit longer, and continue today,
21 as I understand it.

22 And with that, Coleman, if you could sort of run
23 us through what we're experiencing here, why, and maybe
24 we would have a few questions thereafter and some ways
25 to address this issue and instill confidence.

1 MR. STIPANOVICH: Good, Governor. Thank you very
2 much. I certainly welcome the opportunity to address
3 you all because this is time sensitive. And, CFO, I
4 appreciate that you asked the Governor to call this
5 meeting and the Attorney General coming out of his
6 meetings out on the West Coast to participate.

7 There are three objectives of the Local Government
8 Investment Pool. And this is what we're going to be
9 focused on today and then talk about possible solutions
10 to achieve those objectives.

11 The number one objective of the Local Government
12 Investment Pool, because it is a 2a-7 type investment,
13 which is money-market-like, it's equivalent to like
14 your typical money market fund in the private sector.
15 It's not 2a-7. It's just 2a-7-like. So the idea is it
16 operates like a money market fund.

17 The investors in that regard expect to put in a
18 dollar and they expect to get out a dollar, and they
19 expect to get that dollar out whenever they want to get
20 that dollar. And the State Board of Administration has
21 for 25 years done just that. We have never lost any
22 money in the Local Government Investment Pool and we
23 have no intentions and do not believe that we will lose
24 any money moving forward. So what I want to focus on
25 are those three investment objectives.

1 Last night I circulated to the trustees a
2 five-point plan that we would like to move forward with
3 to begin to achieve these investment objectives. But
4 it might be helpful if I sort of put things in context
5 before we get to some actual, the five-point plan and
6 some specific recommendations.

7 I went back and looked. The question was asked at
8 the previous Cabinet Meeting in terms of cash flows.
9 We knew then that we are in, because of the subprime
10 meltdown, we have for months been in a
11 once-in-a-lifetime event.

12 I've been in the business over 25 years. I'm
13 talking to people on Wall Street that have been in the
14 business over 40 years. Without exception, everybody I
15 talk to -- and there are a lot of smart people on Wall
16 Street -- say they have never seen anything like this
17 liquidity crisis that we're dealing with today.

18 For this fund it's more of a liquidity turmoil
19 than really, in our view, a safety -- you know, in
20 terms of a safety objective. But I'll talk about that,
21 because we do have some troubled securities. And part
22 of the proposal is how can we address that on the
23 safety front.

24 In October, compared to last year, we actually had
25 positive cash flows in. In November, the first two

1 weeks of November, as I stated to you all at the last
2 Cabinet meeting, the question was asked, are we seeing
3 any cash flows out. And the answer was, yes, we are
4 seeing cash flows out, but it doesn't appear to be
5 material cash flows.

6 As the CFO said, there are close to a thousand
7 participants in this plan. We have over 2,000 accounts
8 in this plan. And then there are hundreds of
9 transactions that take place daily. So it's hard to
10 ascertain why everybody is putting money in or taking
11 money out.

12 And so for that two-week period there might have
13 been cash flow out of about one and a half billion.
14 Now, that's not normal to the previous year. But in
15 terms of material cash outflow, it simply wasn't
16 happening.

17 The Cabinet meeting took place on November 14. On
18 November 15th an article appeared in the Bloomberg News
19 that, by virtue of errors, omission and tone, created a
20 climate of fear among the Local Government Investment
21 Pool participants that precipitated a material
22 withdrawal that requires the immediate action that
23 we're here for today.

24 Today, I checked the -- first of all, we had a bit
25 of our own crisis at the State Board of Administration.

1 We had the sixth floor flood, and we literally had to
2 go into disaster recovery plan and evacuate everybody
3 from the building. Water was coming down through all
4 the electrical systems. The engineers and the building
5 management was concerned about people's safety. And so
6 the pool shut down.

7 And for the participants that may be on this call
8 listening, the phones of course began to ring because
9 they were not able to access the pool. The pool,
10 because electricity was taken down, all our computers,
11 because the water was taken down, was shut down for
12 about an hour, but we got it back up, and I suspect
13 everybody was able to continue business.

14 GOVERNOR CRIST: Did that shut down business
15 during that time?

16 MR. STIPANOVICH: Oh, yes, sir. We were shut
17 down, people standing outside. And it was because of
18 people's safety in terms of the water and the
19 electrical.

20 GOVERNOR CRIST: Safety first.

21 MR. STIPANOVICH: Yes. So from about -- from
22 November the 15th, when this article appeared, we've
23 gone from about 24 and a half billion to the close of
24 the day, the best estimate I got, is to about 10
25 billion. We had 3.5 billion withdrawals estimated out

1 today.

2 So the five-point plan is to address this issue.
3 I'm sorry. We're at 15 billion, with 10 out. So from
4 the 24 and a half, 25, down to 15, we've had 10 billion
5 in withdrawals.

6 GOVERNOR CRIST: So a drop of nine since the 15th
7 of November?

8 MR. STIPANOVICH: Yeah. It's probably closer to
9 10, Governor, through today. So we need to come away
10 from this meeting today setting the record straight,
11 getting the facts right to build credibility back in
12 this Local Government Investment Pool that the
13 Legislature created 25 years ago to provide a service
14 to the local government parties that has been very
15 successful at a very low cost. And that confidence
16 needs to be restored.

17 The biggest issue that we're dealing with right
18 now is about, because the value of the fund drops,
19 these securities that have been downgraded below
20 purchase requirement guidelines that's been referred to
21 as having defaulted -- and I don't want to split hairs
22 here, but in a practical sense they have not defaulted
23 because they're paying principal and interest. We have
24 collected \$64 million since August in principal and
25 interest. They are paying.

1 Now, we've had to work through these -- work with
2 the issuers and other senior note holders and work
3 through restructuring the programs and have had to make
4 exceptions in terms of extending when the paper -- you
5 know, this market may get better, so for example some
6 of these may come due in February. We hope to be able
7 to get our par value in February, March.

8 As you've heard me say many times, we believe and
9 we have gone through and looked at this collateral.
10 We're fiduciaries. We're investment professionals. We
11 know what we're doing. And we're working with other
12 senior note holders that are investment professionals,
13 institutional, sophisticated investment professionals.

14 None of us believe that that collateral is
15 anything less than par. It's AAA. It is not -- and I
16 saw this said again today in the newspaper. We do not
17 have direct exposures to subprime mortgages.

18 CFO SINK: Coleman, let me just go back. How can
19 those instruments be AAA if they were in danger of
20 default and they got restructured before they
21 defaulted?

22 MR. STIPANOVICH: The commercial paper defaulted,
23 but the collateral is different. The collateral is
24 sitting down here, which you can take the collateral --
25 we have the option in terms of the renegotiations, we

1 have the ability to take that collateral. When you
2 look at the collateral, it's prime collateral. For
3 example, those residential mortgages, these are people
4 that have paid more than 20 percent down payments on
5 their house, they've got over 700-point credit ratings.
6 They fall outside of the agency commercial paper, and
7 it may be because they're under the threshold to be an
8 agency-issued paper or maybe they're above the
9 threshold.

10 But we've had, in one of the issuers, a forensic
11 accountant look at the collateral. We have looked at
12 this collateral. We continue to look at this
13 collateral. We will always look at this collateral.
14 And if we believe it's --

15 CFO SINK: What did you mean by AAA?

16 MR. STIPANOVICH: It has an S&P rating of AAA in
17 terms of the quality of --

18 CFO SINK: Commercial paper or the underlying --

19 MR. STIPANOVICH: No, not the paper. The paper
20 has been downgraded. It is not by any means investment
21 grade. It has been downgraded. The collateral, the
22 collateral underneath the commercial paper, which is
23 what generates the principal and interest, is the
24 investment, is AAA. I mean, it's good collateral. So
25 the fact that this is subprime --

1 GOVERNOR CRIST: If I might, if that's the case,
2 why the depletions?

3 MR. STIPANOVICH: Because of the turmoil in the
4 market. The market doesn't care because they're trying
5 to figure out, an asset-backed commercial paper is
6 toxic. They don't care what kind of collateral you've
7 got underlying. They're trying to figure out on their
8 own books, you know, what kind of exposures do I have
9 to subprime.

10 So before they take on any more exposure and buy
11 paper and let it roll and take on more of this type of
12 paper, they're saying, Uh-uh, don't want any exposure
13 to this, we're not buying it anymore. If we buy it,
14 we're going to buy it at a huge discount. The paper
15 now, being a fair value, ranges from anywhere like 95,
16 93, 95, 97 cents. We're not selling it for one cent
17 less than par.

18 And so if you went to the street and literally had
19 to hit a bid, it's likely it would even be less because
20 there is no liquidity out there. There are no bids.
21 And it's not any more complicated than that.

22 So if we can address that seven percent, because
23 if the fund drops, it becomes a higher exposure and one
24 of -- in terms of addressing the safety of the fund, if
25 the participants in the plan understand that we can put

1 an investment proposition forward that you all can take
2 action on today in terms of giving us approval to move
3 forward in an expedient manner, doing all the due
4 diligence -- again, we do a lot of due diligence, as
5 you all know.

6 And when we look at this stuff, we will have an
7 independent fair market value done on what -- you know,
8 what's the value of exercising this investment
9 proposition for securing or providing insurance for
10 those troubled securities.

11 So if we can pretty much assure -- and we'll just
12 call it providing insurance. If we can pretty much
13 provide insurance that guarantees par value for those
14 securities, that's what the participants in the local
15 government plan are going to see. They're going to
16 say, oh, wow. That's what they're most concerned
17 about. The portfolio has been restructured. So the
18 portfolio -- and it's all out on the Web now. You can
19 see in terms of communications and transparency, we
20 have the entire holdings with every statistic that
21 you'd want to see and what that security looks like.

22 We have pie charts, just simple pie charts that
23 everybody can see the entire rating of the portfolio.
24 They can see another illustration of all the asset
25 types that are on the portfolio, and the little sliver

1 of downgraded securities. They can see what's left in
2 asset-backed commercial paper securities. Even if it's
3 backed by banking and insurance companies, we're not
4 buying any more asset-backed commercial paper. At one
5 point in time we were probably in the mid forties. We
6 are down to about 20 percent now. By the end of
7 December we're going to be down to under 15 percent of
8 any asset-backed commercial paper.

9 I don't care if it's got bank backstops. I don't
10 care if it's got insurance. Right now the participants
11 are scared to death, and they're running to -- it's a
12 flight for high quality. So they're moving their money
13 out of here and going to Treasury money market funds.

14 And not all -- you know, unfortunately, and I
15 don't believe we're in the frying pan, but some are
16 jumping out of the pan into the fire because they're
17 going to other corporate mutual funds. And we had one
18 example, and when you looked at the portfolio of that
19 corporate mutual fund, Jesus, I mean, it had more
20 exposure than anything that we had. But that's -- they
21 don't care.

22 One of three things are happening, is they're
23 sitting over there saying, I just want to be away from
24 this. The investment people and the people in the
25 trenches are looking at this, and many of them can get

1 comfortable with it. But when they have to go to the
2 county commission or the city commission and these kind
3 of folks, they're saying, no, I just want to be out of
4 there. I don't want to deal with the risk. I don't
5 want to deal with the headlines. Just get me out of
6 there. And when this market settles down and we know
7 what's going on at the Local Government Investment
8 Pool, then maybe we will likely come back, but I'm just
9 simply not going to do that now.

10 And so that's why we need to implement this
11 five-point plan and secure those troubled securities.
12 So if we can secure those troubled securities, where
13 they say, okay, not a problem anymore, we're not going
14 to lose money there, if you look at the portfolio in
15 terms of what's left and you say, good quality stuff,
16 don't have the kind of exposures that we've had -- and
17 when I talk about the downgraded securities that are
18 below purchase requirements, I'm also lumping in there,
19 in terms of protecting, Countrywide.

20 Now, Countrywide has been downgraded, but it's
21 still several notches, I believe, above the purchase
22 requirements. But Countrywide has a scary name. Now,
23 we don't believe, and there are a lot of folks on Wall
24 Street that don't believe that Countrywide is going to
25 go under, that Citigroup, Citibank is going to go

1 under, because the banking system will collapse, and
2 the possibility of this government letting the banking
3 system collapse is highly unlikely.

4 But there is a fear that Countrywide has got
5 problems and they could go in bankruptcy. So guess
6 what? The participants don't want Countrywide in the
7 portfolio. So part of the proposal is, let's put
8 Countrywide in there in terms of back-stopping against
9 anything less than par. So in effect --

10 CFO SINK: Coleman, would you just review with us
11 the dollar amount that you're talking about in terms of
12 the downgraded securities?

13 MR. STIPANOVICH: That would be about a billion
14 dollars.

15 CFO SINK: And that includes the \$800 million that
16 was restructured?

17 MR. STIPANOVICH: That's a billion dollars, yes.

18 CFO SINK: That's a billion, okay.

19 MR. STIPANOVICH: Yes, ma'am. And Countrywide
20 represents about 650 million.

21 CFO SINK: Is there anything else out there that's
22 suspect?

23 MR. STIPANOVICH: When you look at the portfolio
24 that's left -- and this is where we're trying to get to
25 because, again, that first objective is trying to get

1 the participants to having a real appreciation of the
2 safety of this portfolio.

3 When you look at that other 90 percent, 7 percent
4 downgraded, some small amount in terms of Countrywide,
5 when you look at that balance and you go look at what
6 those investment types are and you go see them, they
7 are high quality.

8 The average duration of this fund now is 20 days.
9 It used to be 40. You know, we've eliminated some of
10 the duration risk, some of the interest rate risk. But
11 the balance of the portfolio is high quality
12 investments.

13 So I can't imagine that they would be concerned
14 with what's left in the portfolio. Their concern is
15 going to be centered around those securities I just
16 talked about. And in the five-point plan, as you can
17 see -- and I'll get to that in a second, but I'll go
18 ahead and touch on a couple of points.

19 The whole idea of that five-point plan is to bring
20 back confidence in the Local Government Investment
21 Pool. So we are recommending that we make changes to
22 how the Local Government Investment Pool has been
23 managed moving forward.

24 For example, we're working towards an S&P, what we
25 think is a AAA rating, the highest rating that you can

1 get, and have the money market pool rated. We have had
2 a lot of people, participants in the pool tell us that
3 that would be very helpful.

4 CFO SINK: Are you going to go through the points
5 one by one?

6 MR. STIPANOVICH: Yes. Would you like for me to?

7 CFO SINK: Yeah. Because the people out here
8 can't see, so -- you're kind of jumping around a little
9 bit.

10 MR. STIPANOVICH: So let me do that then, CFO. So
11 I pretty much have talked about -- unless you have
12 questions, I pretty much have talked about point one,
13 the importance of providing that protection for those
14 specific securities.

15 GOVERNOR CRIST: Could you review it again,
16 though, Coleman?

17 MR. STIPANOVICH: That would be, the first thing
18 we need to do is assure the participants --

19 GOVERNOR CRIST: I have an idea. Do you have
20 somebody from your office here? Maybe you could stick
21 it under that thing that puts it on the screen so
22 people can follow. Or, Rachel, do you have that
23 capability?

24 MR. STIPANOVICH: I do have a pie chart that I can
25 put up which would show the breakdown of the

1 securities.

2 GOVERNOR CRIST: I'm looking at this thing that
3 has one through five on it.

4 MR. STIPANOVICH: No, sir, I don't have that.

5 CFO SINK: We have it.

6 MR. STIPANOVICH: Yeah, you can put that on there.
7 That's going to be hard to read.

8 CFO SINK: Y'all can really read that, can't you?

9 GOVERNOR CRIST: I think we need to --

10 CFO SINK: That's good.

11 GOVERNOR CRIST: I think the five points may be
12 lower on the page.

13 MR. STIPANOVICH: Yeah. You're going to be at the
14 bottom of the first page. There you go.

15 CFO SINK: Let me just ask a question. Do the
16 people in the audience have this, or not? Because I
17 can get my staff to run out and make copies of it.
18 Does anybody want a copy of what we're looking at?

19 MR. STIPANOVICH: CFO, in the press release that
20 we sent out last night -- of course, which these people
21 may not have. I can see a lot that certainly will have
22 it. But in the press release we sent out last night,
23 we outlined the five-point plan.

24 CFO SINK: Well, that's what I have, the press
25 release. But not everybody has it. Good. Thank you.

1 GOVERNOR CRIST: We're getting copies for you.

2 MR. STIPANOVICH: Step one would be to provide
3 credit protection for the pool to essentially ensure
4 that the pool will receive par value for those
5 securities in the event of anything approaching a real
6 default. And that would be anything less than par,
7 where it's not paying --

8 GOVERNOR CRIST: Now, when you say credit
9 protection, can you explain what you mean? Credit
10 protection, what do you mean by that?

11 MR. STIPANOVICH: Where there would be a vehicle
12 in place, and it would really be -- Governor, I can't
13 help but get a little technical here. It's called a
14 couple of things, a default credit swap or a put
15 option. And I'll try to do it in put terms.

16 The Local Government Investment Pool would have
17 the option to -- the proposal is going to be the
18 Florida Retirement System, the strategic investment
19 asset class, which is a diversified asset class that
20 has a five percent real objective return for that asset
21 class, every asset class has an investment objective
22 that rolls up into the total return.

23 Where would that best fit? In the strategic
24 investment asset class, with a five percent rate of
25 return -- again, we need to get an independent, fair

1 opinion on what premium you have to pay the State Board
2 of Administration, because you've got two hats on here,
3 the hat as a fiduciary for the pension fund and the hat
4 as a fiduciary for the Local Government Investment
5 Pool.

6 And both those have to be served. So if the -- if
7 because there is no -- there is no option out there,
8 that unless you're going to go and deal with someone
9 that's going to give you a huge haircut and charge you
10 -- excuse me -- charge you a high premium for providing
11 you that protection, if you look at it from a market
12 basis, it's going to be cost prohibitive.

13 The way we're going to look at it is from a
14 fundamental basis. In other words, look at that
15 collateral. Do we feel that that is a good, solid
16 investment. If it is, what's the appropriate rate of
17 return. What's the appropriate adjusted risk rate of
18 return.

19 Once we know what the appropriate -- based on the
20 quality of the investment, the underlying collateral,
21 depending on what that premium is -- and we've done
22 some back-of-the-envelope estimating, but again we need
23 to have it done independently and get that fairness
24 opinion.

25 If it's anything chose to what we say it is, we

1 think that it will meet, from the pension fund side,
2 the investment objective of the strategic investment
3 asset class.

4 Not only will it meet the investment objective of
5 the asset class, but it will be a wonderful diversifier
6 in the asset class. It will have a negative
7 correlation to the other investments in that asset
8 class, which means it would reduce the volatility in
9 that asset class. So it would reduce risk and it would
10 meet our investment objective.

11 If we can get to that point, as fiduciaries,
12 investment professionals making this decision that it
13 meets that criteria, then, you know, the next thing is
14 on the Local Government Investment Pool.

15 Again, if they were charged what market rates
16 would be, they would be disadvantaged, unfairly
17 disadvantaged because that collateral is worth more
18 than what the market would give you for it because of
19 the turmoil that's going on in the market and the
20 psychology in the market and the emotionalism in the
21 market, there just isn't a bid, a fair bid out there
22 that you're going to get.

23 So they would get what's fair and we would be able
24 to meet our investment objectives and reduce risk in
25 the pension fund.

1 So what would happen is we would pledge the amount
2 of those securities in a sense. Again, it's like a
3 surety that we're going to pledge that if -- that they
4 would get par for those securities, but only if it gets
5 down to the point that they have to -- the securities
6 drop below par and they have to liquidate them.

7 At that point we're going to make them whole and
8 take delivery of the securities, and they would go into
9 the pension fund in the strategic investment asset
10 class. And we would continue to hold those securities
11 because, again, at that point in time we still believe
12 it's a good investment. We're going to hold those
13 securities.

14 And typically the life of those mortgages on those
15 particular issuers is about two to three years. You
16 know, they're paying out, you get your principal and
17 you get your interest. We would take those securities
18 into the pension fund.

19 If they don't, if they don't, and let's just say
20 they mature at par and they eventually roll when the
21 market settles down and they get what we think is a
22 fair price, which is par, then they're home free. The
23 money goes out. They get the money. The securities
24 are gone.

25 In the meantime the pension plan earned a premium.

1 We never actually put up any real principal. That
2 billion dollars would actually be about -- because
3 we're going to put Countrywide in there, because we
4 want to get Countrywide out and we want to basically
5 safeguard the Local Government Investment Pool against
6 any bankruptcy or problems with Countrywide, because
7 again we want to address safety to get the pool
8 participants comfortable --

9 CFO SINK: Coleman, I know we've got four more
10 items to discuss here.

11 MR. STIPANOVICH: They'll move pretty quickly.

12 CFO SINK: Governor and General, we're also the
13 fiduciaries of the retirement system. And it just --
14 actually, the State doesn't have a legal obligation in
15 this local government fund; is that correct?

16 MR. STIPANOVICH: That's correct.

17 CFO SINK: So I think what we're doing here today
18 is trying to figure out, from a concern on behalf of
19 our cities and counties and our taxpayers out there
20 what we might be able to potentially do to shore up
21 this local government fund.

22 But the notion of transferring the risk, which
23 there is risk, I'm kind of getting a little bit tired
24 of the "we think" commentary, especially when we're
25 talking about transferring really an unknown risk at

1 this point in time over onto the backs of the millions
2 of retirees that depend on our pension fund to be
3 making wise investments.

4 And, granted, there's all sorts of different rated
5 securities in the \$140 billion pension fund. But we
6 would be, in effect, bailing out one fund over which we
7 have no legal obligation with the star fund of Florida,
8 which is our pension fund, which is highly rated and
9 highly regarded.

10 I believe there are potential legal implications
11 from an IRS and an ERISA standpoint. And I'm not
12 saying necessarily today to take this idea off the
13 table. I'm highly skeptical of it. But I don't think
14 we ought to be -- I think we have to be very, very
15 careful about transferring this suspect risk, known
16 suspect risk right into our pension fund, when we
17 can't -- the market won't give us par value for the
18 securities, so why should our pensioners take it at par
19 value or close to par value?

20 GOVERNOR CRIST: I think that's well stated. I
21 would concur.

22 MR. STIPANOVICH: Governor, members, respectfully,
23 there certainly is risk in any investment and some less
24 sometimes and more. But to us it's not unknown risk.

25 GOVERNOR CRIST: Say again.

1 MR. STIPANOVICH: It is not unknown risk. As
2 investment professionals, we have looked at that
3 collateral, and we believe we know what the collateral
4 is, and we think we know what our risk/reward
5 relationship is. It's not unknown risk to us. And we
6 will get an independent fairness value opinion that
7 confirms that with an arm's length transaction to see
8 if their view is the same as ours. That's part of our
9 due diligence.

10 The legal thing the CFO talks about, that's part
11 of our due diligence. We've looked at whether or not
12 this will jeopardize our tax status as a tax-exempt
13 pension fund. And our preliminary, very preliminary
14 view is that it will not. But we will get a tax expert
15 to look at that. And we would never make that
16 investment to jeopardize the Florida Retirement
17 System's tax-exempt status.

18 That is part of what we do in terms of conducting
19 our due diligence and making a sound investment
20 decision. We get this independent analysis. We get
21 the lawyers to look at it. We know what our known
22 risks are. So that is the position we would take with
23 our fiduciary.

24 Governor, members, if we thought for one second
25 that the pension fund was bailing out the Local

1 Government Investment Pool and being disadvantaged, we
2 would not do this. We simply wouldn't do it because
3 we're fiduciaries, too.

4 CFO SINK: Well, Coleman, you know, there are
5 three board members here. And one of the
6 recommendations I have is that we find our own -- we
7 need an independent advisor who is not too close to the
8 situation to evaluate a proposal like this.

9 GOVERNOR CRIST: I think that's prudent.

10 ATTORNEY GENERAL McCOLLUM: Governor, can I ask
11 Coleman a question or talk to him a little bit?

12 GOVERNOR CRIST: Please.

13 ATTORNEY GENERAL McCOLLUM: Can you hear me?

14 GOVERNOR CRIST: Yes, sir, very well.

15 ATTORNEY GENERAL McCOLLUM: Coleman, I understand
16 this, I think, but I want to make sure I do. First of
17 all, my understanding is that the questionable, risky,
18 if you want to call it that, securities or paper we're
19 talking about are all paper that is surrounding folks
20 like Citibank and others that have been downgraded in
21 this whole process of commercial paper downgrading,
22 from AAA rating to B or A-minus or whatever it is.

23 And, therefore, the value, if you sold it tomorrow
24 morning is -- you can't sell it, for one thing, because
25 people don't want to buy it because they're afraid of

1 it. But the only way you're really going to lose money
2 is, A, if you do have to sell it, of course, you would
3 have to sell it way under par value at this point, if
4 anybody would buy it. Or, B, if in fact one of these
5 issuing entities went under, went bankrupt, which I
6 think all of us believe is highly unlikely.

7 So it's still paying, and that's your point. The
8 paper is still paying interest, will continue to pay
9 that. They're having to restructure a little bit of
10 it, meaning to lengthen the time that the people who
11 owe the money, the principal, have to pay off the
12 principal.

13 But overall, unless the folks that are issuing
14 this or the primary responsible parties go bankrupt,
15 there's no loss involved in this unless we sell or
16 you're forced to sell this paper. Am I right about
17 that?

18 MR. STIPANOVICH: You're exactly right, General,
19 about that. And even if the issuers on the
20 asset-backed commercial paper defaulted and they went
21 under, we take the collateral.

22 ATTORNEY GENERAL McCOLLUM: What is the
23 collateral? You keep talking about that. To the
24 average person, what do you mean when you say
25 collateral? What is the collateral?

1 MR. STIPANOVICH: The collateral is the single
2 family residential mortgages. It's just like your
3 mortgage, my mortgage. My mortgage is out there in
4 somebody's investment pool. And so the type of --

5 GOVERNOR CRIST: So we would take the property,
6 the house, the building?

7 MR. STIPANOVICH: No, sir. We would take on the
8 loan. And then what happens is, if the collateral
9 defaults -- this is Rob Smith, the senior investment
10 officer over the asset class. So let Rob explain it.

11 MR. SMITH: I think it is a good idea to step back
12 for a minute and understand, because it is almost a
13 three-part transaction. Mortgage loans were given to
14 people who are considered prime borrowers. They were
15 loans on single family residences. These are the ones
16 that Coleman referred to as having a credit score of
17 700 and above. That's the limit to be a creditworthy
18 prime borrower. They paid down 20 percent of their own
19 money as equity in the house at origination.

20 So all those thousands of mortgages that were
21 issued are then put in a big pool of mortgages. That
22 pool of mortgages is then used as a basis to issue
23 securities off of those mortgages.

24 What we have as collateral for the commercial
25 paper that we own in the pool are these securities

1 themselves. The good thing about that is the
2 securities themselves actually have support, credit
3 support below them, so that's why they get the AAA
4 rating, and they should continue to be AAA rated.

5 The problem here is that these securities
6 themselves have an average life of about three years.
7 Commercial paper has an average life of about three
8 months.

9 So you've got one group of people that own the
10 commercial paper that are very short-term risk averse
11 people, and yet they are depending on collateral that's
12 two or three years to pay them off. And the
13 illiquidity of the market today makes it such that if
14 that collateral had to be sold today to pay off the
15 commercial paper, it's doubtful that it could pay it
16 off at par. It would pay it off at some amount less
17 than par. We really don't know. We don't want to have
18 to find out.

19 So the object here that Coleman is trying to do in
20 terms of this insurance is that the pool would pay the
21 pension fund a premium, an insurance premium to
22 guarantee that when this commercial paper comes due in
23 the next several months, that irrespective of market
24 conditions, they'll get paid par for the commercial
25 paper.

1 If that doesn't happen, their commercial paper
2 will mature. They will earn interest. Then they'll
3 have their money to reinvest.

4 ATTORNEY GENERAL McCOLLUM: It sounds like a
5 pretty good actual investment deal for the fund, for
6 the pension fund, actually, with little or minimum
7 risk. But I agree with CFO Sink, we ought to get
8 outside analysis.

9 But Coleman is saying that you're planning to do
10 this or at least you're planning to get somebody to do
11 it. I certainly believe, before that actually occurs,
12 we need that confirmation for everybody's security and
13 concern and the prudent thing to do. But on the
14 surface, it sounds to me like that this is actually a
15 very good investment for the pension fund.

16 MR. STIPANOVICH: General, we'll know more. In
17 terms of the review that the investment staff has done,
18 that's where we are today in terms of the
19 recommendation. But until the proper due diligence
20 that we typically do that's unquestionable, we really
21 won't know, and we will get that independent
22 evaluation.

23 GOVERNOR CRIST: How long will that take, Coleman,
24 do you think?

25 MR. STIPANOVICH: Governor, we would like to move

1 very quickly with this.

2 GOVERNOR CRIST: I'm just kind of curious.

3 CFO SINK: I mean, what is very quickly? Three
4 days, a week?

5 MR. STIPANOVICH: If we get approval today, we
6 would like to close the transaction hopefully no later
7 than about December 4th.

8 CFO SINK: Well, as for me, I'm not approving
9 anything like that today. I might approve the hiring
10 of an independent auditor to go out and assess the
11 situation.

12 GOVERNOR CRIST: I thought that's what you were
13 talking about.

14 MR. STIPANOVICH: No.

15 GOVERNOR CRIST: My question was how long would it
16 take to get an independent auditor.

17 MR. STIPANOVICH: What's before you today is to
18 give us approval to move forward with a plan that would
19 enhance pool liquidity, provide credit protection and
20 safeguard assets. Part of that would be, in terms of
21 number one, part of that would be as providing the
22 safeguard for those securities in the Local Government
23 Investment Pool, because if we don't do something
24 quickly, we're not going to have an investment pool.

25 GOVERNOR CRIST: What are the other options?

1 MR. STIPANOVICH: Pardon?

2 GOVERNOR CRIST: What are the other options?

3 MR. STIPANOVICH: We have looked at letters of
4 credit with banks. We have looked -- you know, we have
5 experience in the defined contribution plan with what
6 they call stable value funds, where you get a credit
7 wrap from insurance companies. We have looked in terms
8 of sources from Wall Street, in terms of providing the
9 same type of sources that a pension fund would do. But
10 they want to do it on a market basis rather than a
11 fundamental basis. And, of course, they're wanting to
12 capitalize on the market environment, and you can't
13 blame them for that.

14 Governor, we have spent a lot of time looking at
15 those options, and we hit a wall. Everywhere we turn
16 we hit the wall. But from our view, because we -- if
17 you want to base this on a market value, then it's a
18 nonstarter. If you want to base it on what we think is
19 a sound investment that's a reasonable risk-adjusted
20 rate of return, backing out the market psychology -- a
21 year from now we probably wouldn't be having this
22 discussion. Of course, we probably wouldn't have the
23 securities. We can't do that now.

24 So if we don't shore up, these participants that
25 are listening today and in this plan, three billion,

1 three and a half billion went out today, if we don't
2 solve this -- address their concerns about safety of
3 this Local Government Investment Pool in a
4 time-sensitive manner, we're going to have to take
5 other measures. And other measures to be considered,
6 which we have reservations about, and I know the pool
7 participants would be livid, is restricting liquidity
8 in the pool.

9 GOVERNOR CRIST: What does that mean in English?

10 MR. STIPANOVICH: Where they can't get their
11 money.

12 GOVERNOR CRIST: Well, let's talk about our
13 options. Here we are. And, you know, livid or not, we
14 have a fiduciary duty to protect; do we not?

15 MR. STIPANOVICH: To protect --

16 GOVERNOR CRIST: To protect what's there.

17 MR. STIPANOVICH: Sure.

18 CFO SINK: Well, we have a moral obligation.
19 Let's go back, because I want everybody to hear this.
20 Tell the audience again what the withdrawal rates have
21 been and how much you all sent out today.

22 MR. STIPANOVICH: Today we stand at 15 billion.

23 CFO SINK: Right. So \$10 billion in 15 days.

24 MR. STIPANOVICH: That's about right. Since
25 November 14th, 15th, \$10 billion has come out of the

1 fund. Now, we were prepared for the worst. So way
2 prior to this two-week period, we're raising liquidity,
3 because we know the market we're in. We know we're
4 getting these downgrades. So we started raising
5 liquidity. And that's one reason we shortened the
6 duration from 40 to 20 days, so that we'd have more
7 liquidity, because we wanted to be able to make sure
8 that we had liquidity.

9 CFO SINK: Well, how much -- I understand from my
10 chief of staff that you told him yesterday that you had
11 about four billion in liquidity. Three and a half
12 billion dollars already went out of the shop as of, I
13 guess, 11 o'clock. How much liquidity do you have
14 left?

15 MR. STIPANOVICH: We would have to sell
16 securities, and at this point we haven't had to sell
17 securities for losses. And so what happens is, at some
18 juncture, if you get forced to sell, again -- and good
19 paper in the portfolio, not troubled. We're talking
20 about the non -- the illiquid stuff is the problem
21 securities. That other 93 percent -- and then if you
22 throw in Countrywide, because it's certainly selling at
23 a discount. Even the good paper, the corporate, just
24 the plain vanilla corporate high-rated paper is selling
25 at slight discounts because of the market we're in.

1 So we sold some today at a slight loss, like seven
2 basis points, to get ready for the next couple of days,
3 so we'll have several billion dollars in terms of ready
4 liquidity for tomorrow.

5 But, again, what I'm talking about in this being
6 time-sensitive, we are at a juncture now -- and that's
7 why I'm glad we are having this meeting, so the
8 participants and you all can hear this, and it's
9 happened overnight, we are at a juncture now that we're
10 going to have to start selling, before long, securities
11 at a loss.

12 And when you do, the people that want their money
13 run the risk of not getting a dollar. Now, there is no
14 guarantee, there's no guarantee by the State of Florida
15 and there's no guarantee by the SBA and the Local
16 Government Investment Pool.

17 But I can tell you these Local Government
18 Investment Pool participants fully expected to be able
19 to get a dollar for a dollar and have liquidity. The
20 problem is, they've got bills. There's payroll in the
21 next couple of days. You've got bond proceeds over
22 there that have to pay the debt service.

23 So if you just arbitrarily kind of cut off
24 liquidity, I have no idea -- and you probably have some
25 pool participants in here. I have no idea what the

1 ramifications of that will be and the fallout from that
2 will be in terms of them not being able to get their
3 assets.

4 CFO SINK: Coleman, what are the chances, though,
5 that -- what's going to happen -- you have these
6 participants continue to call for their investments
7 back. What happens to the participants who have the
8 last \$2 billion in the pool? They get zero.

9 MR. STIPANOVICH: That's exactly what's going on
10 here.

11 CFO SINK: Well, I think it's time to suspend
12 withdrawals and go into a workout mode and have the
13 investors participate in figuring this thing out so
14 that the pain can be shared as opposed to just the
15 lucky ones that -- those people who got their three and
16 a half billion dollars today, they're darn lucky. Is
17 that fair? Is that fair to the investors, the
18 investors who are the remaining ten billion?

19 MR. STIPANOVICH: If we can take action and move
20 forward and the participants can come away from this
21 meeting today and feel like their issues are being
22 addressed in terms of safety and you're not impairing
23 liquidity, money will come back in. Money will come
24 back in if we can come away with some decisive decision
25 that gives them comfort in terms of, my money is safe.

1 You know what? I understand. I get it now. The Local
2 Government Investment Pool has put in a plan -- and
3 we've got four points left to talk about -- that makes
4 us feel safe and secure, and it has good rates of
5 return. I'm in a Treasury now earning three percent.
6 I'm earning 5.2 in the Local Government Investment
7 Pool. I feel like it's safe. I'm losing 150-something
8 basis points in spread. It's costing me money in my
9 budget and in my county or at my school. I am prepared
10 to get back in that Local Government Investment Pool.
11 We've had a great -- they're ready to come back home.
12 We've had a great relationship for 25 years, and now
13 we've got a problem because of a one-in-a-lifetime
14 event that has never happened.

15 We have an opportunity here to solve this, give
16 them some comfort. But if we don't -- you know, time
17 is of essence.

18 CFO SINK: I agree with you. There may be an
19 opportunity to solve the problem. And I'm going to
20 shut up and let my buddies talk in a minute. But we
21 can't -- I don't see a way for us to guarantee this
22 fund today with state dollars. It's not even legally
23 possible.

24 MR. STIPANOVICH: Well, CFO, I don't want to --
25 I'm just trying to provide factual information and

1 provide you good information. I don't want to sound
2 argumentative. Those things, if we can move forward,
3 we would know about the legal ramifications, about the
4 independent -- the things you keep bringing up. That
5 is what we do.

6 We wouldn't do it, CFO, your investment staff out
7 there would not do this, as fiduciaries that work for
8 you and the Governor and the Attorney General, we would
9 not do this if we didn't think it was prudent and done
10 properly. And so --

11 ATTORNEY GENERAL McCOLLUM: This is Bill McCollum.
12 Let me interject here, Coleman. I think we have three
13 options on here, and one has not been discussed because
14 nobody appears to think it's a viable option.

15 But as to the options, you could just liquidate
16 the remaining \$15 billion today and take whatever
17 losses you took on it and then prorate out the balance
18 to the people who are the investors, to all the cities
19 and the counties. They wouldn't get their full
20 investment. Nobody would. But you could do that, and
21 then we wouldn't have any state local pool anymore. It
22 would just disappear.

23 That's one thing you could do. Am I not right,
24 that that's one of the three, that we don't want to do
25 that, but that's one that you could do?

1 MR. STIPANOVICH: That is certainly an option.
2 And I would opine -- and it's an opinion, but I would
3 opine that if you restrict the Local Government
4 Investment Pool's liquidity and you come up with some
5 methodology that you can get X cents on the dollar, you
6 in effect have shut down the fund. There will be a run
7 on the fund like nothing we've ever seen.

8 They may not be able to get but X cents on the
9 dollar, but they will be standing at the door until
10 it's depleted. So ultimately, unless you literally
11 shut them down, ultimately you've just really closed
12 down the Local Government Investment Pool.

13 ATTORNEY GENERAL McCOLLUM: Well, that's the
14 second option, is to restrict it completely, and you
15 could say you can't take any more out without a
16 cooling-off period, which I think is what CFO Sink
17 suggested might be an option here; everybody, let's get
18 together and talk about it. I think you believe that
19 if we do that, the same result will happen as though we
20 just did it today, and the pool will disappear.

21 And the third option, which is the one you're
22 advocating, although there are other components to it,
23 is the centerpiece of this. And that is that we do
24 have the pension fund, in essence, purchase this
25 amount, or we're getting paid to take it on, actually.

1 We're going to take on all the risky stuff into the
2 state pension fund, or what people perceive as risky.

3 Other than doing that, there's no other option
4 really out here. These other things you've put down
5 that I've read -- and I'm all for your going over them,
6 but they're just adjuncts to the other proposition,
7 aren't they?

8 MR. STIPANOVICH: That's correct, General.

9 ATTORNEY GENERAL McCOLLUM: So I think we have a
10 choice to make. And based on what I'm hearing, I would
11 prefer to give you the choice that the pension fund
12 take on these risks, assuming that we have the outside
13 corroboration you're seeking in this. And I trust you
14 to get that set up.

15 But I don't know what the Governor thinks. I
16 think CFO Sink doesn't want to do that. But I don't
17 like the other two choices.

18 MR. STIPANOVICH: And I'll just make another
19 point, and this has nothing -- this is not on the
20 merit -- an investment merit type comment. But for
21 whatever it's worth -- and I've heard this from -- and
22 this has nothing -- I probably shouldn't even say this
23 because it has nothing to do with investment decision,
24 but it does add some color to this.

25 And what I've heard from participants in the Local

1 Government Investment Pool is that, look, we're 75
2 percent of the Florida Retirement System. We are the
3 Florida Retirement System. We would much rather see
4 our dollar over in an investment fund that is
5 structured for the long-term to take on risk, unlike
6 the Local Government Investment Fund which is not set
7 up that way.

8 So, again, someone told me this, and I said, yeah,
9 well, thank you very much, I appreciate it. And a very
10 wise and smart man that's here with us today made that
11 suggestion. And I said, of course, it's something
12 we're looking at, we'll continue to consider. At that
13 time we didn't know. We're doing our due diligence.

14 But I said, you know, to think that somebody is
15 not going to clamor about this, that we did this with
16 the pension fund and the perception is that we're
17 bailing out the Local Government Investment Fund,
18 that's going to happen. But what was kind of alleged
19 is, it won't happen from us, we're going to be happy.
20 But, again, that has nothing to do with the investment
21 decision.

22 GOVERNOR CRIST: I want to sort of take a step
23 back and ask a few questions, Coleman, about this Local
24 Government Investment Pool. What is its purpose?

25 MR. STIPANOVICH: I believe -- of course, I wasn't

1 around 25 years ago but --

2 GOVERNOR CRIST: Well, you were. You just weren't
3 here.

4 MR. STIPANOVICH: I was around, just wasn't here.
5 I was in the investment business but not in this
6 office. I believe the intent of the legislation was to
7 serve local governments, for the State, the big
8 brother, the father to step up and help the smaller
9 entities that get charged -- I mean, the average --

10 GOVERNOR CRIST: To be able to make -- if I might,
11 I'm trying to put a fine point on it. To be able to
12 make investments so that they have funds that they put
13 in an account to make a good return? Is that the
14 point?

15 MR. STIPANOVICH: Yes, sir. What they wanted to
16 do, Governor, is to give all the local governments a
17 low-cost investment option, because when you look at
18 these money market funds, costs will eat you up.

19 GOVERNOR CRIST: If I might, if I might, I want to
20 stick to the script that I've written for a minute. So
21 a laudable thing to do, if possible.

22 MR. STIPANOVICH: Very much.

23 GOVERNOR CRIST: If possible. Something they can
24 do on their own.

25 MR. STIPANOVICH: Yes, sir, and they're doing it.

1 They're going out and --

2 GOVERNOR CRIST: So we're sort of pooling funds to
3 be able to get more return. And the Legislature wrote
4 this into law 25 years ago or so. But it's an option
5 the State can exercise. It's not a mandate upon state
6 government to do so.

7 MR. STIPANOVICH: No.

8 GOVERNOR CRIST: Is that a good idea?

9 MR. STIPANOVICH: I think it's a great idea
10 because it provides a wonderful service to the Local
11 Government Investment Pool.

12 GOVERNOR CRIST: I'm wondering whether it's a good
13 idea today.

14 MR. STIPANOVICH: To maintain the Local Government
15 Investment Pool and move forward?

16 GOVERNOR CRIST: Well, I wonder. I'm asking. I'm
17 not making a comment. I'm asking a question.

18 MR. STIPANOVICH: In my opinion, it is because we
19 can do it low cost and cost effectively. We charge a
20 basis point and a half. After we usually give kind of
21 fee holidays -- last year, for example, it dropped down
22 to 1.25 basis points.

23 The average money market fund in the private
24 sector, I believe, is about 20 basis points of fees.
25 You know, what is that, when you do the math? 2,000

1 percent or something higher than ours. So you take 20
2 basis points out of something that's yielding, you
3 know, five percent or four percent, that is a lot of
4 money.

5 GOVERNOR CRIST: I get it. I understand. So it's
6 a nice thing for us to be able to do if we can do it
7 and it's prudent and it doesn't risk the pension for
8 the people. We have a higher duty, not to just help
9 local government make a lot of dough --

10 MR. STIPANOVICH: Right, sure, absolutely.

11 GOVERNOR CRIST: -- but also to make sure that
12 those who are invested in the pension, the people are
13 protected first.

14 MR. STIPANOVICH: Absolutely. No, sir.
15 Absolutely.

16 GOVERNOR CRIST: I think that's sort of an issue
17 that the CFO and I and probably the AG are sensitive
18 to. Okay. Now, you express that there is a confidence
19 drop which has now manifested itself in significant
20 withdrawals. And you seem to believe that's based on a
21 Bloomberg article more than something else. I don't
22 want to shoot the messenger either, because I'm trying
23 to figure out what the facts are, as all of us are.
24 I'm trying to get your analysis.

25 MR. STIPANOVICH: Again, I've learned a long time

1 ago --

2 GOVERNOR CRIST: And sometimes in our business
3 what are facts and what are believed to be facts
4 doesn't make a whole lot of difference, if there's a
5 run going on.

6 MR. STIPANOVICH: Governor, I learned a long time
7 ago, I carry around an ink pen. They carry around
8 barrels of ink. And so to take on the press --

9 GOVERNOR CRIST: I'm not suggesting we take them
10 on. That's not my point. I'm trying to understand why
11 you think this is happening.

12 MR. STIPANOVICH: I think there's a lot of
13 misinformation out there. I think the Bloomberg
14 article had some not factual information. It basically
15 was represented that the state pension fund has
16 defaulted on \$2.2 billion. There was no mention that
17 it's continuing to pay principal. There's no mention
18 that it's continuing to pay interest. It was like we
19 have lost \$2 billion and we have nothing but trouble in
20 that portfolio and get out.

21 GOVERNOR CRIST: And your statement to that would
22 be?

23 MR. STIPANOVICH: Not true.

24 GOVERNOR CRIST: But we're here where we are, so
25 we have to face that fact. Okay. Well, I mean, I'm

1 sensitive to what the CFO says. What I would like,
2 what I think would be good is her suggestion of an
3 independent analysis to give us an opportunity to --
4 you know, my dad is a doctor. He doesn't ever mind
5 when people ask for a second opinion. I assume you
6 don't either. It's a mature way to approach business
7 and medicine. And I think that that's prudent,
8 frankly.

9 And I think that we need to protect what is there
10 in the interim while we await a second opinion, if you
11 will. So, CFO, if you have a suggestion about that,
12 or Attorney General.

13 CFO SINK: I do, yeah. I think we've got to
14 temporarily suspend withdrawal and put together a
15 very -- get our independent analyst on board, which I
16 would suggest, because of the way this board operates,
17 that, Coleman, you might come up with some ideas today,
18 if not tomorrow, to help us, as the three board
19 members, evaluate in an independent second opinion
20 way -- I like the way you described your dad -- second
21 opinion way.

22 I would recommend, Governor, that the SBA put
23 together a committee of the investors to work with the
24 SBA to kind of come up with some ideas or suggestions
25 about what kind of withdrawals might be permitted or

1 permissible, with the idea --

2 GOVERNOR CRIST: Like payroll, things like that?

3 CFO SINK: -- with the idea of fairness for the
4 remaining investors in the \$15 billion. I mean,
5 clearly, we cannot continue to have total withdrawals
6 and, in all fairness, have the last ones in potentially
7 be -- have the biggest losses. That's just not fair.

8 GOVERNOR CRIST: It seems inequitable.

9 CFO SINK: There has got to be some pro-rata way
10 to do this, and to come back on Tuesday and submit a
11 withdrawal plan in conjunction with working with the
12 investors, as to how we can in an orderly manner
13 continue to release the funds that are needed for
14 critical needs, like payroll and other legitimate needs
15 that our cities have, and rely upon our independent
16 advisor to develop a workout plan, and also to analyze
17 the suggestion and give us, as board members, some
18 advice about whether or not it's advisable to put these
19 suspect instruments in the Florida Retirement System.

20 MR. STIPANOVICH: May I comment, please?

21 GOVERNOR CRIST: So just to maybe recap, is that
22 in the form of a motion?

23 CFO SINK: Yes.

24 GOVERNOR CRIST: That we would suspend
25 withdrawals, is that the first thing you said?

1 CFO SINK: Yes. Temporarily suspend withdrawals.

2 GOVERNOR CRIST: Yes, ma'am.

3 MR. STIPANOVICH: Governor, CFO, may I comment?

4 GOVERNOR CRIST: Can I just let her finish
5 synopsizing?

6 CFO SINK: I'm making a motion, because we'll
7 discuss this --

8 GOVERNOR CRIST: And then of course.

9 CFO SINK: -- that we temporarily suspend
10 withdrawals, that we engage an independent financial
11 guru who is rife in the -- has experience in this kind
12 of situation, to help us evaluate the best option in
13 fairness for our investors, and also to -- and,
14 thirdly, to review the option of employing the Florida
15 Retirement System, and make a recommendation to the
16 Board.

17 GOVERNOR CRIST: Say that again, CFO. I'm sorry.

18 CFO SINK: And make a recommendation to the Board
19 about the use of the Florida Retirement System.

20 GOVERNOR CRIST: We'll review that, not exercise
21 it.

22 CFO SINK: Review it. No.

23 GOVERNOR CRIST: Gotcha, okay.

24 CFO SINK: Review it.

25 GOVERNOR CRIST: That's very important. All

1 right.

2 CFO SINK: And fourthly is to have the SBA work
3 with a group of the investors to come up with a
4 withdrawal, an orderly withdrawal plan that would be
5 presented to us on Tuesday.

6 GOVERNOR CRIST: With the idea, the goal be that
7 the independent financial advisor would be able to
8 report to us before December 4th.

9 CFO SINK: Yes, if possible. I mean, today is
10 Thursday, so we have a meeting scheduled for Tuesday.
11 But I would imagine they could be working over the
12 weekend.

13 GOVERNOR CRIST: Some enterprising firm, I think,
14 would like the opportunity.

15 CFO SINK: I'm sure. I'm sure.

16 GOVERNOR CRIST: Okay. General, do you understand
17 the motion?

18 ATTORNEY GENERAL McCOLLUM: I will second her
19 motion.

20 GOVERNOR CRIST: So will I. Sounds like it's --
21 well, Coleman, you want to comment first before we
22 vote.

23 MR. STIPANOVICH: I just want to make sure that --
24 again, I'm not a -- you know, I can't predict things,
25 but I just wanted to mention what could happen. We're

1 talking about some decision in terms of slowing down
2 liquidity or restricting liquidity. At the Tuesday
3 Cabinet meeting a proposal will come forward about some
4 restriction on liquidity, is that correct, at the
5 Tuesday Cabinet meeting?

6 CFO SINK: Right.

7 MR. STIPANOVICH: I venture to say, because I
8 don't believe that when we leave this meeting today,
9 that the participants in the plan are going to feel any
10 safer than they did when this meeting started, and I
11 predict that by Tuesday we will have somewhere
12 approaching \$10 billion in cash outflow.

13 GOVERNOR CRIST: Say again.

14 CFO SINK: Well, you won't because we're not
15 making withdrawals.

16 MR. STIPANOVICH: Are you saying we're going to --

17 CFO SINK: I'm saying we are suspending
18 withdrawals effective immediately.

19 MR. STIPANOVICH: Okay.

20 GOVERNOR CRIST: Right. It's a shutdown.

21 CFO SINK: Now, I think that --

22 GOVERNOR CRIST: Well, we have a motion and two
23 seconds, which sounds like a unanimous vote. All in
24 favor say aye.

25 CFO SINK: Aye.

1 GOVERNOR CRIST: Aye.

2 ATTORNEY GENERAL McCOLLUM: Aye.

3 GOVERNOR CRIST: Okay. So it passes. So that's
4 what we will do.

5 CFO SINK: Governor, I do think it's really very,
6 very critically important that the staff of the SBA
7 work very -- it's the investors' money. This is going
8 to create hardships and --

9 GOVERNOR CRIST: Well, there's a safety valve on
10 this that you've smartly put into motion, for payroll
11 and other --

12 MR. STIPANOVICH: Is there any appetite, interest
13 for -- there are participants here, if you just want to
14 get a flavor of what their thinking may be. I know
15 you've already acted on the motion.

16 GOVERNOR CRIST: I think their flavor is to take
17 their money out.

18 MR. STIPANOVICH: Well, in terms of the
19 complications. And, again, we can come back to that.

20 CFO SINK: Well, Coleman, I think that just as we
21 had our emergency meeting today, if there's another
22 emergency situation --

23 GOVERNOR CRIST: But I think the motion was
24 smartly drafted and articulated, so that payrolls will
25 be met. I think it's --

1 CFO SINK: Well, you'll have to -- the SBA then
2 will have to determine a legitimate request for
3 payrolls.

4 MR. STIPANOVICH: CFO?

5 CFO SINK: Yes.

6 MR. STIPANOVICH: I do not think that's possible
7 for us to do that. They go onto the computer and they
8 enter orders, hundreds of orders and thousands of
9 participants. And so what I understand --

10 CFO SINK: Coleman, let me back up now. These
11 governments do have other liquidity sources.

12 GOVERNOR CRIST: Especially local governments.

13 CFO SINK: And we're talking about three days here
14 to be fair to everybody.

15 MR. STIPANOVICH: I understand the shutting it
16 down completely. That's easy. We can shut it down
17 completely. I thought you were saying try to evaluate
18 orders as they come in in the interim and give them
19 some money if you think they need it.

20 CFO SINK: Well, I think that's part of the plan,
21 Governor, for next week.

22 GOVERNOR CRIST: Not orders, not orders. That's
23 why I asked the questions I did before, what was the
24 purpose of this fund. And the purpose, as explained to
25 me, is for local government to be able to pool their

1 funds at the state level in order to make some money.
2 That's prudent.

3 It's not apparently set up to pay payroll. So I
4 don't see any harm in the action that we have just
5 passed.

6 MR. STIPANOVICH: I understand.

7 GOVERNOR CRIST: Especially for a few days, except
8 to stop the bleeding.

9 MR. STIPANOVICH: We will be -- we, effective now,
10 will not allow any more withdrawals, but we will not be
11 able to screen and make subjective decisions as to who
12 should get money and who shouldn't, based on what their
13 needs are and that kind of thing. But we can shut it
14 down and come back with a recommendation.

15 GOVERNOR CRIST: Yes, sir. Thank you. I think
16 we're adjourned. General, did you have a comment? I'm
17 sorry. Attorney General?

18 ATTORNEY GENERAL McCOLLUM: I'm all for what we're
19 doing. I think we have to do it. But I wanted to make
20 one comment. I would think it would be prudent for the
21 three of us trustees, not today, but to work on it or
22 have our staff work on it over the weekend, to get
23 ready and do an op-ed piece for next week, after we've
24 got this settled down, at least prepare the framework
25 for it, to explain this to the public.

1 It's rather confusing. And I think no matter what
2 is reported, it's not going to be as clear as we'd like
3 it to be. And so I would urge that your staff, CFO
4 Sink's staff and my staff work on such a piece over the
5 next few days and do something that we can all be happy
6 with very quickly after whatever we do on Tuesday.

7 GOVERNOR CRIST: Very good. Very good, General.

8 MR. STIPANOVICH: Thank you, Governor, members.

9 GOVERNOR CRIST: That's a great idea. Thank you
10 very much. We are adjourned.

11 (Whereupon, the proceeding was concluded at 12:50
12 p.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)

COUNTY OF LEON)

I, Jo Langston, Registered Professional Reporter,
do hereby certify that the foregoing pages 3 through 57,
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
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IN WITNESS WHEREOF, I have hereunto set my hand
this 30th day of November 2007.

JO LANGSTON
Registered Professional Reporter