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Representing:

STATE BOARD OF ADMINISTRATION

(EXCERPT OF MEEETING)

The above agency came to be heard before THE FLORIDA CABINET, Honorable Governor Crist presiding, in the Cabinet Meeting Room, LL-03, The Capitol, Tallahassee, Florida, on Tuesday, December 4, 2007.

REPORTED BY:
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* * *

GOVERNOR CRIST: State Board of Administration, Coleman Stipanovich.

MR. STIPANOVICH: Good morning, Governor, members.

GOVERNOR CRIST: Good morning, Coleman.

MR. STIPANOVICH: The first item on the agenda is request for approval of the minutes of the November 14, 2007 and --

GOVERNOR CRIST: Is there a motion to approve?

MR. STIPANOVICH: -- November 29, 2007 meetings.

ATTORNEY GENERAL McCOLLUM: So moved.

CFO SINK: Second.

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

MR. STIPANOVICH: The second agenda item is request for approval of plan to safeguard assets and provide liquidity for the Local Government Investment Pool. At the special meeting that was held last week, you all gave us direction to do two things. One was to go and engage a --

GOVERNOR CRIST: Excuse me. I'm sorry.

CFO SINK: There's a lot of noise in the audience, and I'm having a little bit of a hard time hearing Coleman.

GOVERNOR CRIST: If we could have a little quiet, please.

CFO SINK: And speak up a little more. Thank you.

GOVERNOR CRIST: If you could start over, Coleman, on 2.

MR. STIPANOVICH: Item Number 2 was request for approval for a plan, request approval for a plan to safeguard assets and provide liquidity for the Local Government Investment Pool. At the special meeting last week, you all gave us direction to do two things.

One was to go and engage a world-class institution that would act as a financial advisor to help us figure out how to safeguard these assets and provide liquidity.

The second charge was to engage the participants, the participants that make up the Local Government Investment Pool. So what we did was reach out to the five associations that pretty much make up the Local Government Investment Pool and asked them to provide three representatives from their associations to make up an advisory committee. The charge was to have an advisory committee provide input and recommendations.

So with that I would like to introduce Ms. Jeannie Garner with the Florida League of Cities, who was elected by these folks to represent them.

GOVERNOR CRIST: Good morning.

MS. GARNER: Good morning. Thank you.

GOVERNOR CRIST: How are you?

MS. GARNER: I'm doing great. Thanks. I'm speaking to you today on behalf of the newly formed Advisory Committee, as Mr. Stipanovich mentioned. You have a handout in your packet, I think, of the actual Advisory Committee formal recommendation.

The last page of that handout actually lists all the members of the Advisory Committee. At the end of my presentation, some of the members are actually here. If I can't answer all your questions, they'll be happy to step in.

The committee consists of representatives. I'm going to read through these associations so everybody understands. The Florida Association of Court Clerks, the Florida League of Cities, the Florida Association of Counties, Florida School Boards, Florida Association of District School Superintendents, Florida Tax Watch and Citizens Property Insurance.

The Advisory Committee has held two open teleconference meetings in the past few days, and we received input from many pool participants across the state. The Advisory Committee understands why the trustees caused a cease of withdrawals last Thursday. We commend the establishment of this Advisory Committee to give us a voice to you.

Your decision to hire an independent advisory firm we also commend, BlackRock, and appreciate their hard work over the weekend to deliver some solid recommendations to you.

For the last 25 years the Local Government Investment Pool has been a valuable tool for local governments. As quoted on the SBA Web site, it was established to provide local governments a low cost, low risk, fully transparent investment option for surplus funds.

Local governments are required by law to adopt and follow an investment policy quoted from the state statutes. Such policies shall be structured to place the highest priority on safety of principal and liquidity of funds. The optimization of investment return shall be secondary to its requirements for safety and liquidity. The holdings of the pool in the recent months do not appear to promote the intent of the statute that we are required to follow.

The primary objective of the trustees today should be to minimize the losses and work towards a continuation of the fund as a primary investment vehicle for local governments. The Advisory Committee presents to you the following recommendations to help reestablish the trust and confidence of local governments, and these actions should be taken immediately. I'm going to read these verbatim.

Number one: The State should provide a guarantee that participants will receive 100 percent of their assets back. This can be subject to reasonable withdrawal provisions to meet liquidity needs.

Number two: The State should continue to use an independent advisory firm for the following purposes. Number one, to assist the review of current holdings. Two, to establish an interim investment statement emphasizing safety and liquidity. Number three, to develop a plan to restructure the portfolio and to reflect new investment statement.

Number three: The Advisory Committee supports the BlackRock proposal that I'm sure you'll be hearing about next of utilizing a Fund A and Fund B structure, with Fund B holding questionable, at-risk securities only and Fund A securing and maintaining a AAA rating.

Number four: The Advisory Committee is strongly against redemption fees for withdrawal. The Advisory Committee supports implementing temporary withdrawal provisions for participants to meet needs such as payroll, debt service, construction draws and operations. These provisions would last only until sufficient liquidity is restored. The Advisory

Committee can assist in developing these provisions.

Number five: The State should promote renewed and enhanced communication between the SBA and participants. Communications must include full disclosure and transparency of the Pool's portfolio, current assets and liquidity potential. Reports should be prepared and distributed monthly, holdings updated daily online and any significant changes immediately communicated to the participants.

Number five -- number six, excuse me: A permanent Advisory Committee should be established comprised of depositors, local government officials as well as finance officers that manage government funds, to work with SBA staff, and a permanent investment advisor to establish a new long-term investment policy.

The policy should in turn include limits by type of security, sector and issuer. The primary goal of the policy should be to, one, assure safety of principal; number two, assure liquidity of funds; and, lastly, to provide an appropriate yield. The policy should also provide guidelines to prevent excessive withdrawals in the future.

The committee should meet at least quarterly to review reports and provide feedback to the SBA staff. The committee should perhaps possess the authority to request additional oversight from another agency, such as the Auditor General, to ensure that the investment policy is being followed.

Finally, as related to the tax collector holdings, number seven, the State should recognize and assure that the statutory requirement for tax collectors to distribute collected revenue by December 31st to taxing districts is met -- taxing authorities is met.

If these recommendations are adopted, the Advisory Committee will actively work to reestablish the trust and confidence in the fund and encourage participants to reinvest in and provide the needed liquidity to the fund.

In closing, we hope this is not the end of our work but only the beginning because this is not a short-term problem. We need to work together to find long-term solutions and we're here to help you.

With our property tax revenues being cut this past year and the possibility of even more in the future, this pool and the interest earnings it has created for us is now more important than ever. Those of us left in the pool are your friends and your partners. We trust that you, the trustees, will find a solution that will help maintain our trust and restore confidence of others.

I'll be happy to answer any questions, with the help of all my friends in the audience. Thank you.

GOVERNOR CRIST: Thank you.

CFO SINK: Governor --

GOVERNOR CRIST: CFO.

CFO SINK: -- I would make a comment that, I just want to compliment all the investors that have come together in such a quick manner and have been working diligently over the weekend on this issue. And they've come up with some very well-thought-out recommendations.

And I think that the spirit of cooperation in digging in and trying to find solutions as opposed to casting arrows is -- has been very, very commendable. We have some tremendous local government leaders in our state, as evidenced by the culmination of this report, but just all the work that they've done in the past three or four days has been incredible.

GOVERNOR CRIST: I would echo that as well and want to thank you for your great presentation this morning and thank you for your spirit of cooperation and your sense of calm.

ATTORNEY GENERAL McCOLLUM: And I would like to make one comment if I could.

GOVERNOR CRIST: General, please.

ATTORNEY GENERAL McCOLLUM: I think that that report shows us very clearly that we need to have the investors involved in the future in some formal structure in terms of involvement in advice and -- this is their money. This is the money that -- it's not a pension fund. It's sort of a cash management pool.

And it seems to me that that portion of your recommendation that goes to continued progress in this regard is very, very important to not only the sense of confidence in the programs but for the valuable input that you'd have to give direction in terms of how you want this money managed and the ways in which things like we are now seeing today could be addressed before we got to the point where we are in some future situation that hopefully would never be this grave but still would be problematic. So I do think that's a very important part of this recommendation.

GOVERNOR CRIST: Thank you. Coleman.

MR. STIPANOVICH: Governor, I don't know what your pleasure is. There are actually two folks that have asked to speak, so if you'd like to do that now on the heels of this --

GOVERNOR CRIST: Sure, that's fine.

MR. STIPANOVICH: Mr. Tom Morris, chief operations officer with Clay County Utility from Middleburg, Florida, would like to speak. And I believe these speakers are wanting to address their kind of very emergent needs in terms of needing their capital.

GOVERNOR CRIST: Certainly. Good morning.

MR. MORRIS: Good morning, Governor, Cabinet members. My name is Tom Morris. I'm representing the Clay County Utility Authority.

GOVERNOR CRIST: Would you be kind enough to lift your microphone up a little bit? I'm having a hard time hearing you.

MR. MORRIS: Is that better?

GOVERNOR CRIST: Thank you. I'll find out in a second.

MR. MORRIS: My name is Tom Morris. I'm with Clay County Utility Authority. I'm here basically just to echo what has already been said and I'm sure what will be said later. We are a utility company, a public utility company that provides an essential public service. About 95 percent of our working capital is invested with the SBA.

We don't have a whole lot of options. And as luck would have it, we have a very aggressive capital campaign ongoing this moment as we speak. We're very concerned about the possibility of defaulting on some contracts that are already in place. And we've presented the trustees, along with Coleman, with a forecast, a short-term forecast of our cash requirements, both operating and capital.

And we're worried, as are most of the folks in this audience, and it is my purpose here to just let you all know the gravity of our situation in particular, and I'm sure with everyone else. They share similar concerns. But we do have most of our eggs in this basket, and we don't have a whole lot of options before us.

GOVERNOR CRIST: Thank you, Tom.

MR. MORRIS: Thank you.

GOVERNOR CRIST: Appreciate you being here.

MR. STIPANOVICH: Governor, members, the next speaker is Ms. Maureen Rischitelli, town manager of the town of Oakland, Florida.

GOVERNOR CRIST: Good morning.

MS. RISCHITELLI: Good morning.

CFO SINK: Excuse me. Governor, would you have her say her name and her city again?

MS. RISCHITELLI: Rischitelli, R-I-S-C-H-I-T-E-L-L-I, the town of Oakland, and usually what people say is, "Where is Oakland?" Oakland is 2,000 residents that sits between the City of Clermont and Winter Garden. It has a charter school of 550 elementary school children, who give this state an A rating.

GOVERNOR CRIST: Thank you.

MS. RISCHITELLI: Right now the town basically is facing a true financial crisis. It's only a matter of time and how we shift the dollars that St. Peter has and St. Paul has, because when I received information over the radio that the fund was in trouble, we listened to your broadcast.

In that, a decision had to be made because our charter school bond of $700,000 was due yesterday at 5:00 p.m. In that charter school bond, in trying to be a good partner with the State, $1 million is sitting in the fund for the bond. My fallback position would be to tap into the reserve for that bond, but that's also sitting in the fund. So right now the town had to front $425,000 to the school again to keep it running.

As of January my next bond will be due, which is our water bond. Our reserve, what little we have -- and right now it's not truly a reserve -- is sitting in the fund. So we have no other funds to tap into. We aren't seeing great payments in the ad valorem taxes.

And we will honor our commitment, because we are a partner with the State with regards to the transportation projects on State Road 50, the Wekiva

Study Act. We are looking at my salary being used next year to pay for the 250,000 gallon storage tank that we need to meet DEP requirements.

So as our town struggles to remain a town, which is how Florida was started, I'm hard pressed to explain to my commissioners that they're seeing not only their plan for the citizens of Oakland and the Oakland Avenue Charter School children continue on, but truly the question to come back especially in January and/or April to the State is, "When do I hand you the keys to both the school and the town?"

Other cities and towns will tell you they're just a little further and have reserves, but these actions will continue because you can only do so much, just as you had said earlier. There's only so much money. You're trying to do it.

And as you can tell from my accent, I come from a place where I've been through this before, and it gets worse. Then it does get better. But the key is that you have to look at the entire ramifications and do not lump everybody in the same category, because our town has not raised its millage in over five years because they know in order for people to live in West Orange County and provide certain services, this is what happens.

And the only item I'd like to address with regards to the first proposal that I read in the Orlando Sentinel was that with regards to the ten percent fee should we have to withdraw our money, like I said, my salary is pledged to the water system. That $100,000 will be my principal, my assistant principal, my curriculum resource teacher, books.

When something gets pulled out, it comes from within. Every dollar goes to those school children. It doesn't go to the town. We're fortunate that we get to operate it. But every penny of that school education money stays with that.

So those are the choices that we make. It's not that we're looking to hire. If you come to town hall right now, there are six people working in town hall. I have eight police officers and 30 teachers.

We do the same as every other city and town. But the key is, when you start moving those things around, the dominoes fall, and that's where we'll end up, back here, most likely with keys for you. I thank you for your time.

GOVERNOR CRIST: Thank you.

MR. STIPANOVICH: The next speaker is a representative with the Florida Tax Collectors' Association, the Honorable Patsy Heffner, Osceola

County Tax Collector.

MS. HEFFNER: Governor and members of the Cabinet, on behalf of the tax collectors across the state of Florida, we appreciate the opportunity to be a part of the solution to this challenge. We strongly urge you to adopt the recommendation of the Advisory Committee and would also request that any permanent advisory committee that is formed, that a tax collector also be a part of that committee as a large contributor to this fund. Thank you for your time.

GOVERNOR CRIST: Thank you, Patsy. George, thank you.

UNIDENTIFIED SPEAKER: Good seeing you, Governor.

MR. STIPANOVICH: Governor, members, the last speaker is Ms. Sharon Binnun, chief financial officer with Citizens.

MS. BINNUN: Good morning. Sharon Binnun, CFO of Citizens Property Insurance Corporation. Thank you, Governor Crist, CFO Sink, General McCollum and Coleman. I just wanted to make a couple of points, please. Citizens is by far the largest participant in the pool, and I think we've made that clear.

We have participated in the Advisory Committee, but I just wanted to kind of articulate that we've participated in the committee meetings that have been called by the SBA. There have been some additional Advisory Committee meetings that were held that we chose not to participate because Citizens by statute is not permitted to engage in outside lobbying activities, and by meeting with associations and so forth, we felt like that might not be appropriate.

So just to distinguish ourselves, we were not part of the vote electing, and Jeannie did an excellent job. We certainly agree with some of the points by that team but not all of the them. And I think that we have provided each of you with Citizens' recommendation, which I won't belabor.

But I just wanted to say, from Citizens' perspective, we think really the primary emphasis should be on return of principal with interest and absolutely an equitable distribution, whatever the final decision is made, an equitable distribution for all investors in the pool. Citizens was not part of the run on the bank and stuck with the pool.

And while we do not have any immediate needs for liquidity, we certainly expect to get a return on our investment and get our complete principal back and would expect an equitable distribution.

And from our perspective at least today, we would suggest perhaps the focus should not be on the continuity of the pool but on how to deal with where we are today with what's in the pool and how those assets would be distributed or allocated, if a decision is made to do that. Thank you very much.

MR. STIPANOVICH: I now would like to introduce Barbara Novick, the Vice Chairman of BlackRock, which is a world-class financial services institution that we engaged to give us advice in coming up with a plan to safeguard assets and provide liquidity. Barbara.

MS. NOVICK: Good morning, everyone. First of all, thank you very much for inviting us. We're honored to be here. Obviously, this is an unprecedented situation in the markets, and we recognize the gravity of it.

I'd like to give a little context. As we sit here today, it's easy to think about Florida and the specifics here. But just to give you an idea of public entities who have announced very serious losses related to money markets, SIVs, et cetera, they include names you will all recognize, B of A, Legg Mason, U.S. Bancorp, Wachovia, Credit Suisse, FCI, SunTrust and Federated.

And those numbers range from as small as 5 million to several who have losses over 250 million. So not that it's any consolation to you, but recognize that you're not alone in this situation and it is a very grave situation in the whole market. I think we've been able to take a lot of input and come up with some ideas for you.

We also recognize the need to act decisively to protect the shareholder interests. I'd like to start by providing a little background about the assignment, what we've done, the steps we've gone through. And I will defer to my colleagues to give some details on each of the pieces.

If you don't mind, we'd like to defer to the end the questions so that we can cover all the points. I think what you'll find and hopefully you'll be pleased, we're going to address many of the issues that have been raised over the last four days.

So, first, BlackRock was hired, as you know, on Friday by this board. We have had a team of people working literally around the clock for four days. We've analyzed every individual security and assessed it for credit. We've assessed the structure of the portfolio, the maturity structure, the liquidity capacity of the portfolio.

We've conferred with staff with more conference calls than you could count. We've worked with people at SBA at the State. We've conferred with the Florida

State Board Association yesterday morning. And the spirit of cooperation was palpable in the room.

Likewise, we participated in one of the Advisory Committee conference calls yesterday afternoon. And there also, the spirit of cooperation here in Florida is really to be commended.

Last night, rather late, I reviewed the survey of shareholders. Tom and Maureen's stories are just two. There are many people who we recognize need access to their funds and they need it now.

We're going to talk about that. I think you will be very pleased, especially for smaller shareholders, they can have not only their funds but almost all of their funds very quickly.

Please keep in mind, we were hired as an advisor. We're not the manager of the fund. And we're going to talk specifically about advice for today of what could happen and how to go forward.

We recognize the shareholders are quite diverse. They're large. They're small. They're school districts. They're cities. They're counties. Some have a concentration of assets in the pool, as you just heard. Some have other sources of liquidity, which is quite encouraging for the pool. Some need to make payroll or to pay contractors. Some are building fire stations, water treatment plants, roads or jails, obviously a very diverse group.

A few themes have emerged across all of the shareholders. You've heard the recommendations. I'll sum them up slightly differently. Everyone is seeking the preservation of capital. There's a very strong desire for access to at least some of their funds right away, the more the better. There is a willingness to wait for some of the funds, especially with some of the larger balances, which is very helpful.

There's also this willingness to help each other out, and there's a strong interest in what I would call restoring confidence in the fund. This has been a 25-year program many people have used very successfully and really would like to see it back. They would like to invest in a conservative fund, and they really want what we call a rated fund.

Lastly, it's very clear there's a desire for enhanced communication, everything from portfolio transparency to input in the decision process going forward and a very clearly articulated plan from this board and from whoever you choose as a manager.

I'd like to take a moment to really thank everyone we've met in the last 48 or, I guess, a little bit longer than that, 72 hours. We've been treated to

Florida hospitality in a very nice way. It's a very difficult situation. I fear there are some very high expectations, but we're going to try and address as many of those issues as possible. I think we have a workable solution.

Maureen, I think you'll be very pleased, as a smaller balance holder, to see exactly how it plays out. And likewise, Patsy, we heard you loud and clear in terms of transfers within the fund and a way to do that with no penalties whatsoever.

We see in this whole assignment what I call dual goals, maximize the value to the shareholders while also providing liquidity to municipalities in the fund. We've considered quite a few different ideas. Many of you asked us questions yesterday about the roles for SBA or State. Unfortunately, as we tried to answer, although maybe not as articulately as you would have liked, between fiduciary issues, statutory limitations and the practical limitations of how much cash is available, it rules out a lot of what could be potential solutions in other circumstances.

We've even considered what we call the wholesale liquidation of the portfolio, but we see this as a very poor option and one that we would not recommend, especially given how much high quality assets we found in the pool, and we really think we can come up with much better solutions.

We considered what we call a run-off option. It's included in the documents we've shared today. Think of it as a liquidating trust. We'll touch on it briefly, although what we really are recommending is what we call the operating option. We think it's far superior, meets a lot more of the goals and would serve you very well.

At this point, I'd like to introduce the first of my two colleagues. Chris Stavrakos is the co-head of the cash portfolio management group at BlackRock. We manage over $200 billion of cash assets. We have a very large and dedicated team just doing cash. They have experience with credit, liquidity, operations, shareholder communications. And Chris is going to walk you through on pages three and four the analysis of the portfolio.

MR. STAVRAKOS: Thank you, Barbara. Thank you, Govern and Cabinet members. It's an honor to be here. On page three I'd like to just briefly take you through what we view as the two principal risks embedded in any portfolio, including this portfolio, and then the challenges that we face in trying to manage each of those risks while balancing competing needs.

The first risk we'd identify is credit risk, being the risk that some securities will not pay out as promised. When a security defaults, there's a real economic loss to the holder of that security, and certainly that credit risk is more heightened in today's market, everywhere we look.

The Local Government Investment Pool has securities currently with face amounts equal to about six percent of the fund that are currently in default, have defaulted, or have extended. And the actual recovery of amounts is currently unknown, and the timing of that is currently unknown.

Liquidity issues normally is the cost of selling large quantities of securities into the marketplace and/or liquidating illiquid securities. And, again, as I mentioned earlier, at this point in the market, that liquidity comes at a premium because everybody is trying to access that precious commodity of liquidity.

This risk, separate from credit risk, even exists, it also exists for securities that are creditworthy and good securities, high quality securities. However, those securities obviously haven't matured or thrown off any cash flow, and trying to liquidate those into this market comes at a cost.

In that case it may be a better policy to hold that security until maturity, waiting for full payment of principal, given that the liquidity premium is a very high premium.

So going forward we have to try to balance these competing needs of the shareholders, recognizing the two risks that are embedded in the portfolio.

Turning to page four, I'd like to take you through just briefly the evaluation of the portfolio that we did. BlackRock received from the State Board information regarding investment holdings in the pool, and those holdings were uploaded into our systems. And a team of senior portfolio managers and credit analysts and others worked over the course of the last four days, night and day, to analyze that portfolio and the individual holdings, both from an individual basis as well as a holistic basis.

Our initial observations of the portfolio include that there is 14 billion in the par amount of securities. The market value today is less than the book value and less than that par amount. There is about 867 million of face amount of securities -- that represents about six percent of the existing fund. Those securities either are in default, have defaulted or have extended, and there is some uncertainty with regard to the timing and the amount of repayment of those securities.

Another 1.2 billion of securities, or about eight percent of the fund, is held in securities that are under stress due to credit issues. And, again, referring to what I said earlier, those credit issues can be either real credit issues in terms of credit impairment or liquidity issues that are unique to the circumstances we find ourselves in today.

That leaves the remaining 12 billion in securities that are very high quality securities, we feel, high quality money market instruments. And of those securities, they have maturities ranging between very near maturities this month, December of '07, and December 2008. Many of those high quality securities are the same securities that you will see in many of the money market funds if you were to look at the holdings of money market funds across the universe.

The other note that I'd like to make is that while much of -- we know much about the portfolio, there are still many uncertainties that exist, again harkening back to the comments I made earlier about liquidity and timing and credit risk embedded in this and any other portfolio that you might see. Thank you.

MS. NOVICK: With this as background, I'd like to introduce my second colleague, who is Simon Mendelson.

Simon is the COO of our cash management business. He's going to walk you through what we call our recommended approach, the operating option, which starts on page seven, if we could advance the slides. We believe this approach addresses many of the concerns outlined by shareholders.

And as Simon is going to explain in detail, this option will provide immediate access to a substantial percentage of their cash. It creates a clean pool of assets that investors can gain confidence in. And it walls off the problem assets that Chris just described and allows time to work these out and maximize value. Simon.

MR. MENDELSON: Thank you. This operating option that Barbara introduced, in this scenario, as we've described in the materials, the LGIP would be divided into two parts. Fund A, which Chris alluded to in his description of the quality of the assets, about 86 percent of the assets are high quality.

We took a tough line on what counts as high quality. These would literally be AAA quality assets, so we could move the fund towards a rating. We'll talk about that. Barbara will address that later. We literally looked at each security, at each of the names, and we believe each of the individual names will inspire confidence in that, in that Fund A.

Fund B is everything else, things that have defaulted or are in default or maybe have merely extended. That means they've lengthened the time of payouts, or are just names that might be in the news. And so those are into Fund B, about 2 billion, or 14 percent of the assets. The idea is we end up with a Fund A that will really have the best shot at inspiring confidence going forward.

If you flip to the eighth slide, let me tell you, therefore, a couple of features about Fund A. Fund A would be managed as a cash vehicle, offering money market yields that we would believe would be competitive in the market. We are extremely confident in the quality of these assets in this fund.

Now, if we open the doors tomorrow -- the goal is to open the doors as soon as possible and bring the fund to full and normal operation. However, due to the environment, we would not recommend doing that immediately. We would instead propose doing it gradually. And that's what this proposal is about.

So let me describe what would happen on day one and then say again that the goal ultimately is to get back to full open operation, as any money market fund is. But this is a way to get there by starting, if you will, cautiously.

First -- and these are, again, laid out here on this page. First we would need to spend a little more time understanding investors' commitment to stay in the pool, investors' commitment to add additional funds to the pool.

We were very encouraged in our meeting with the advisory group. There seemed to be a tremendous amount of goodwill in the room to do -- to either stay in the pool, only take out their needs, or to add additional assets.

We believe there's about $2 billion of very liquid cash or very liquid assets in there right now. So that's encouraging. So that's the starting point.

On day one we would then meet the shareholders' needs for liquidity in three ways. The first -- and I believe this will be comforting in terms of some of the comments we just heard. Current shareholders would be allowed to redeem with no fees the greater of 15 percent of their holdings or $2 million.

And the reason we went to a percent or $2 million, the greater of, was simply for the smaller shareholders, where a percent might be too small an absolute number, you say, okay, you can take out at least 2 million. And I would note that $2 million will cover 71 percent of the shareholders in this fund. Most of them are below -- most of these accounts are smaller accounts. And, therefore, they would have full liquidity of their Fund A portion.

And so it would open on day one, 15 percent or $2 million. We expect that number of 15 percent to increase over time. As the fund gets more liquid, we would increase that number, as prudent, over time and eventually, again, hopefully get ultimately back to full normal operation as a money market fund, which has no particular limits on liquidity.

The second way we would, on day one, get liquidity to shareholders, other than this sort of available amount, would be to arrange a public-private partnership to allow shareholders simply to borrow against their shares.

Very simply, shareholders could pledge their shares in Fund A as collateral. A bank or lending institution would then lend them the amount of those shares. The shareholder would pay the interest to the bank but would still collect the interest the shares deliver.

So the true cost to them, if you will, would be the difference of what they have to pay the bank versus what they're yielding on the fund, and we would hope this cost would be small. And in some cases, if the need for liquidity is short, that would certainly be preferential to what I'm going to get to in a minute about any redemption fees. It would be a very quick way to get additional liquidity beyond the 15 percent or the 2 million I spoke about.

Finally, as a last resort, for those shareholders whose needs aren't met by the 15 percent, 2 million, or aren't met by that plus the availability of this lending facility, shareholders would still be free to redeem additional amounts from the fund, but we would recommend these be subject to a sort of -- a redemption fee.

And let me say a word about that. First of all, our initial projections -- and, again, this has been a very short shot clock here, but initial projections are the redemption fees would be in the realm of a two percent fee, as a starting point. And, again, this is something that could, of course, come down over time.

The fee will not apply to the redemptions I've just described, the 15 percent or 2 million, of course. This fee would not apply to transfers between shareholders. So if a tax collecting agency had an account here and needed to transfer the shares to another shareholder in the fund, that would not be subject to a redemption fee, because it doesn't force us to sell assets into the market. We simply transfer shares within the fund.

The third point is extremely important. New deposits would not be subject to this redemption fee. Why is that? Well, boy, we want to encourage people to come into the fund. And if we said, if you put money in the fund and you may have this redemption limitation, who would? So new money is great for everybody. It opens up the liquidity of the fund, and we want to encourage that. And so this would not be subject to redemption fees.

As I mentioned, the redemption fee would decline over time, as the liquidity structure of the fund improves. And I guess I'll jump to the last point. What happens with these redemption fees might be a question. Well, it's important to note the redemption fees will be retained in the Fund A reserve account purely for the benefit of the remaining shareholders. And this is very important.

Some folks said they don't like redemption fees. Well, we don't like redemption fees either. But the idea in this case is it is only a last resort. It would only come in after you've gone through those two other layers of liquidity. And in addition, it is not meant to be a penalty. It is not meant to be punitive in any way. It is if a shareholder sells, must sell into this market, there is a real economic cost. And this fee is in place to protect the other shareholders from bearing that cost.

In other words, it says, if after all these forms of liquidity you still really must sell now, you should take the cost yourself as a shareholder instead of providing it to the -- spreading it to the other shareholders. So that's the logic of this fee.

And, again, we would hope it would decline over time, the fund would get more liquid and these restrictions would be removed over time and we'd get back to more normal function.

If you go to slide ten, I've talked to you about Fund A. Now let's go to the other side of the wall to Fund B. This is the fund -- again, as the pool is comprised of assets that may have defaulted, they may be paying now, they may have missed a single payment but are now paying or they are in default or they've extended.

And the idea is this would be walled off. It would not be subject to subscriptions or redemptions. You couldn't put money in or take it out at will. We have in our proposal the idea that the November income from the LGIP, plus there was a loss reserve within the LGIP, would be put into Fund B.

The goal of that is to offset some of the losses that are inherent in Fund B. There are some real economic losses in Fund B. Precisely what those are is hard to ascertain. These securities haven't run through their course yet. But these two amounts, which I believe are about 90 million of income related to the LGIP November interest, plus 22 million in the reserve account, would be put into Fund B.

A number of shareholders in our conversations indicated, and in the survey, that this would be important to them because in November a number of shareholders left the pool and those left within the pool felt like as if they had been left behind.

This is some of the money that was generated by the assets of the people who have left the pool, and it would be retained for the benefits of the people who stuck with the pool. So it would be infused into Fund B.

Now, Fund B would then generate its own interest. It would pay off over time. And with the infusion of this pool, we would hope that it would beat our expectations in terms of performance, and we would have to watch it.

To be clear, however, Fund B shares will be illiquid and not tradeable. These will be securities that each municipality and school district will hold. How much cash will come out of it is a good question. We don't know yet. You have a bit of a tradeoff here. Fund B could pay out cash as it receives it, but then you reduce the chances of building back the lost capital. You pay it out.

The more you hold in the fund, the better chance you have of building back the lost capital, and that's a bit of a tradeoff and could be determined over time working with the investment manager.

So just to make all of this a little more concrete, if you flip to slide number 12, these are just two very simple examples, but I think they'll illustrate how we hope this mechanism will sort of thread the needle in terms of the interest of capturing back our capital but also returning liquidity.

In example one, imagine an LGIP shareholder with a $10 million balance -- and, again, the vast majority of shareholders have far less than this. The fund would be split into two. Remember 86 percent is Fund A, so you would get $8.6 million of Fund A shares. You'd get 1.4 million of Fund B shares. Near term immediate day one liquidity in the fund, it's that formula I described, 15 percent or $2 million, whichever is greater. In this case, 15 percent would only be 1.5 million, so 2 million is greater, so you have 2 million of liquidity.

And then the loan is out there. We hope to have this in place, that we anticipate probably something like 5 to -- $5.3 to $5.9 million could then be borrowed from this loan facility if you really need to get that liquidity done.

Similarly, you can see an example, I don't need to take you through it, it's a similar kind of math around a larger shareholder on the bottom. You see how much liquidity they have. In this case the 15 percent operates and they have the 14 percent -- $14 million.

If you turn to page 13, you know, there is no perfect answer in here, but we believe this is your best course of action at this point because it does create greater freedom than the other option that we didn't take you through today of a pure run-off, in really managing their own shareholder -- their own liquidity needs. Shareholders can choose to leave money in the fund or take out funds that have no -- that are free and clear or take out -- use the credit facility or make their own choices.

In addition, problem assets are identified and really walled off in Fund B. And this is why we can use Fund A as collateral to borrow, because Fund A will be clean. And this also optimizes our chances of creating an ongoing entity. And as Barbara mentioned, there is a lot of interest in the advisory group of having an ongoing entity.

So the cons are people have to make some choices. There is no easy way to provide a hundred percent liquidity, and this, I think, represents that. You may ask, well, why isn't this fund more liquid on day one? You told me -- Fund A, that is. Why isn't Fund A more liquid on day one? You just told me it's a money market quality asset. Why isn't it like a money market fund on day one?

And the answer is that it is all money market quality, but it is less liquid due to the recent sell-off we've been through. It's a money market quality assets that is simply not yet of the perfect liquidity mix. And, again, that's why on day one we want to put a few restrictions in. And the mix will gradually improve. It can be managed back to the more perfect sort of liquidity balance that should exist within a money market fund. Then the liquidity restrictions come off over time, and it begins to operate that way.

So it's -- there are some liquidity restrictions. They're not about quality. They're just about the current mix post a very large sell-off that would be reality in Fund A. That's it. I'll turn it back to Barbara.

MS. NOVICK: Just to reiterate, I know it was a small point that Simon made, but it's a very important one. In the operating option, the 15 percent and $2 million we believe takes care of well over 50 percent of the shareholders' immediate liquidity needs, so a very important point.

So if we could wrap up the next page, page 14. Assuming the board and shareholders endorse what we're calling the operating option, what's next on this page, we mention several steps that we think are necessary to restore investor confidence. One of them, the most obvious is the communication and the transparency. Second is to actually approach the rating agencies and obtain a money market rating for this fund.

That's something that we do on a number of our funds that we manage ourselves. We would also ask the government to step in and encourage new investments through the advisory board and other means, because that would certainly help the liquidity of the overall fund.

And we also recommend considering the use of a manager, as was in one of the points that Jeannie raised, somebody who, in terms of characteristics, probably somebody who manages rated funds and who also has workout experience, given the very different requirements of Fund A and Fund B.

If we can go to the next page. One of the immediate action steps, first of all, while this is, I think, a good proposal, I'm sure we could refine it and get it a little better. It's been a very busy four days, and we made some very important changes even yesterday from the feedback we got. If we were selected, we'd like to spend some more time with the Advisory Committee or their representatives and refine a few things.

Obviously this board may want to select a manager, thinking about short-term versus long-term, and we give a couple of ideas here. To do a full RFP in this time frame probably is not practical, and there are other ways of addressing that, addressing the immediate liquidity needs with some of the ideas that are in Option A.

You might say this all sounds great on paper but how on earth could you implement it? We're pleased to say we had an operational meeting yesterday with the staff at the SBA, and they have been very thoughtful and planning ahead during this crisis period in thinking about how to change things operationally, and we believe in reasonably short period of time that could be up and running. We would also need to work with the in-house lawyers on separating the Fund A and B assets. We are not experts in municipal law.

We would recommend strongly creating that public-private partnership, negotiating the terms of a credit facility, trying to get them to be as favorable as possible to the municipalities and shareholders, initiating the rating process immediately. We estimate it takes three to four weeks, if you start with a rated manager, and we think that that would be something that could be achieved here. And then, of course, lots of communication.

What we've heard loud and clear from everyone is they want to know what's going on. They want a clearly articulated plan. They want access to the portfolio and to information about their shares and their shareholdings.

With that, we will open it to questions. And Simon and Chris will join me, depending on what questions you've got.

GOVERNOR CRIST: Great. Questions? CFO?

CFO SINK: Thank you, Governor. This just came to mind. We've heard loud and clear, of course, and we all desire that there not be any loss or realized loss of principal. Did the investor group -- and we will be accruing interest on the Fund B to support Fund B. But was there any conversation or interest on the part of the current investors to take some portion of the interest earnings on Fund A and reserve it for potential losses in principal in Fund B?

MS. NOVICK: Let me separate what I'll call the November earnings from the future earnings.

CFO SINK: Right.

MS. NOVICK: Quite a few people in the surveys mentioned that they felt that the November earnings, which have not yet been distributed, should be retained and should be put into, we'll call it Fund B for this purpose, but should be retained to offset losses that remain in the fund.

We agree with that. We think it's sensible. It apportions somewhat fairly people who left early and got out at par versus people who are still in the pool. That's a significant amount of money.

In addition, there is a small reserve fund that has been in the fund for years. We would recommend taking those two items in aggregate. Let's say it's about $125 million. And that would help to offset whatever losses might happen in B.

The problem with syphoning off interest income from Fund A on an ongoing basis is you no longer have a current pay competitive rate on money fund and it will not attract new investments. It will essentially turn itself into the run-off option.

CFO SINK: And what -- do you recall what are the projected earnings from Fund B that will be accruing in the Fund B over the course of a 12-month period, for example?

MS. NOVICK: We estimate between, let's say, five and seven million a month.

CFO SINK: So potentially 70 million. So we would have almost $200 million, in effect, embedded in Fund B for any possible risk of capital default on some of the instruments there.

MS. NOVICK: Exactly.

CFO SINK: Am I thinking about it the right way?

MS. NOVICK: Exactly.

CFO SINK: Okay. Good.

GOVERNOR CRIST: General.

ATTORNEY GENERAL McCOLLUM: I have three or four questions, Governor. First of all, in -- let me say this. I think BlackRock has done a terrific job and I think you should be commended. This is a great work product considering all the things I know that the three of us have been listening to and you've been working on over the weekend, and I know we couldn't collectively get together, but our staffs have been doing that, and we appreciate it.

Secondly, the first question I have, though, is on page four in the discussion, you discuss $12 billion that have high quality money market instruments that we're talking about. These are all -- is there commercial paper involved in these? This isn't all Treasuries or something; is it?

MR. STAVRAKOS: These are all money market instruments of a corporate nature. There is no Treasury, no agency paper in here.

ATTORNEY GENERAL McCOLLUM: What do you mean by money -- I'm just looking at this as a plain English thing. I think I understand, but if you could explain it, what are they?

MR. STAVRAKOS: There is some commercial paper. The preponderance of assets in the pool currently and that would reside in Fund A are longer term, medium term notes by corporate -- issued by corporations and banks. So much of this --

ATTORNEY GENERAL McCOLLUM: Are there bonds in here, too? Are there corporate bonds?

MR. STAVRAKOS: Those would be considered corporate bonds.

ATTORNEY GENERAL McCOLLUM: Are there any stocks?

MR. STAVRAKOS: No stocks. All fixed income.

ATTORNEY GENERAL McCOLLUM: All fixed income.

MR. STAVRAKOS: Yes, sir.

ATTORNEY GENERAL McCOLLUM: All right. If they were for some reason to be downgraded, would that present a problem by the rating system? If somebody said -- we can't anticipate that right now. I know you can't.

MR. STAVRAKOS: Right.

ATTORNEY GENERAL McCOLLUM: But would it present a problem?

MR. STAVRAKOS: Certainly it depends on the amount of rating downgrade. It depends on how close to maturity that rating downgrade would happen. That is a risk that's evident in any corporate security, in any money market fund. Today, the ones that we manage, the ones that competitors of ours manage, everyone is exposed to that element of risk, which I described earlier as credit risk, yes.

ATTORNEY GENERAL McCOLLUM: Well, the reason I ask you those questions in that realm is because I did take heart with the Advisory Committee's note that the statute says that the policies for the investment of their monies in this pool shall be structured to place the highest priority on safety of principal and the liquidity of funds. The optimization of investment return shall be secondary to the requirements for safety and liquidity.

One could argue that in order to be safe, they all have to be invested in U.S. government bonds or bills or notes, paper, because that's the only thing that you could say is guaranteed.

Once you get into the business or commercial area, once we've invested any of these bonds or notes, even though they may be money market fund quality, there is some risk ultimately if there is a downgrade in the value. It's not likely. It's improbable. But there is some risk. Is that not true?

MR. STAVRAKOS: Yes, General, that is true and that has always been true. It's our opinion and, I guess, the market's opinion that that risk has been a relatively minimal risk for a very long period of time. We find ourselves in a very unusual situation that is really unprecedented historically.

The markets have never seized up systemically to the extent that they have in the recent past, in the last three to four months, in any of our collective history. So this truly is a very, very unique circumstance. And outside of this particular circumstance, I would say that the level of safety and liquidity available to investors, even though they may be corporate securities and/or bank paper or commercial paper, is very high safety, very high liquidity, because of the restrictions on rating, quality, as well as maturity and duration.

ATTORNEY GENERAL McCOLLUM: Well, normal -- and, again, I just want to establish this with you because you're the experts in this. Normal business practice, normal investment practice to get to the type of safe investment that the statutory language that I just read you contemplates would involve investment in these higher grade corporate bonds and securities and so forth, not just in Treasuries.

MR. STAVRAKOS: Yes.

ATTORNEY GENERAL McCOLLUM: It would be the normal course of business to do this; would it not?

MR. STAVRAKOS: Yes, sir.

ATTORNEY GENERAL McCOLLUM: So we're not talking about investing in something that's highly risky or considered risky under the statute if we continue in this pool to invest in the type of money market quality investments you've described, right?

MR. STAVRAKOS: That is our opinion, yes, sir.

ATTORNEY GENERAL McCOLLUM: A second area of question, on page eight, there is a comment in the fifth one. It says, "For shareholders who need additional funds and are not able to make use of the credit facility, they can redeem shares." Are not able to make use of the credit facility, what do you contemplate would be the type of situation or the type of investor that you know is in this pool who would not be able to make use of a credit facility?

MS. NOVICK: General, as we said earlier, we're not schooled in municipal law in Florida or any law, actually, of municipalities. And we understand that some municipalities or some shareholders in this fund may not be allowed to pledge their shares or may not be allowed to take out loans. And we don't really know -- have any way of verifying that.

So the thought was to have that backstop. I know there's -- in the policy statement there's a feeling against redemption fees. Hopefully, in Simon's comments it's clear, that is the choice of last resort. Hopefully people can get their liquidity from the earlier, the 15 percent and the $2 million, in addition the loans. The redemption fee option would be if you can't get enough, only then would you go to that.

ATTORNEY GENERAL McCOLLUM: I understand that. I was just -- and you can't really answer my question because you don't know. But my question would have gone probably to the advisory group, and maybe we'll need to, maybe we won't need to get to that. But I was curious as to how many of these cities, counties, other entities would not be able to go to a bank and pay interest.

MS. NOVICK: We don't know.

ATTORNEY GENERAL McCOLLUM: And you don't know that. On page nine you have a chart that you showed to us but you didn't discuss. And it shows the amount of expected operating option, expected maturities for Fund A.

There is a $4 billion top on that. They mature at a hundred percent by December of next year. But I thought there's $12 billion that would be in Fund A. What am I misreading here? Where are the other $8 billion?

MR. MENDELSON: The number on the left is monthly liquidity.

ATTORNEY GENERAL McCOLLUM: Oh, it's monthly liquidity. That's my misreading. Okay.

MR. MENDELSON: The cumulative is on the right, so that 100 percent represents the 12 billion.

ATTORNEY GENERAL McCOLLUM: A hundred percent is represented here in this chart.

MR. MENDELSON: Yes. So the bars tie to the left, and the line ties to the right.

ATTORNEY GENERAL McCOLLUM: Okay. I was just confusing it. I apologize for that. And one last question, which I think you probably have answered in answering CFO Sink's question. But in Fund B in this operating option, would the cash that is being brought into it that is coming over from November's earnings and in the whole pool and whatever is being earned by this, the amount of money set aside in Fund B, would it be compounded, would it be reinvested, in other words, in some of these high quality money market fund type assets?

MR. MENDELSON: Yes. That was the plan. It would be invested in the same money market standard assets.

ATTORNEY GENERAL McCOLLUM: Thank you very much.

GOVERNOR CRIST: Have you got any more questions? I've got a couple.

CFO SINK: No. Let me just -- yeah, ask yours. I just wanted to make a -- I'll make a comment in a minute. Go ahead.

GOVERNOR CRIST: Go ahead. You first.

CFO SINK: Well, I was just going to comment along the lines of the banking institutions of the state. Many financial institutions around the state did step up last week when we had to suspend withdrawals. And it's a sign of great confidence in the relationships they have with the local governments.

And, Governor and General, I do want to commend the financial institutions of the state for helping many, many cities get over these critical -- some payroll and bonding funding issues that they had. It was very good.

GOVERNOR CRIST: You come from a good business, CFO. First I want to compliment BlackRock on your extraordinary work in a very short period of time. I think you've come up with some very good suggestions that will help us stabilize things, and we appreciate that very much.

I really don't have any questions of you, but I would like to ask some questions of Jeannie and Maureen, if you're still here, please. Maureen from Oakland on Highway 50 in Clermont.

CFO SINK: I've been there, done that.

GOVERNOR CRIST: I have, too. If it's in Florida, we've probably all been there. I'm impressed by what I've heard. But, frankly, it's kind of in your hands.

And so I would like to know what you think about what BlackRock has presented to us and see what your opinions are. And I don't mean to put you on the spot, but I'm putting you on the spot, because it really affects you the most.

MS. RISCHITELLI: That's why they sent me, because I will give you my opinion.

GOVERNOR CRIST: I'm sure you will. Where up north are you from?

MS. RISCHITELLI: You may not like it, but that's why they hired me.

GOVERNOR CRIST: May I ask, Maureen?

MS. RISCHITELLI: Pardon me?

GOVERNOR CRIST: Where are you from?

MS. RISCHITELLI: Massachusetts.

GOVERNOR CRIST: Massachusetts, very good.

MS. RISCHITELLI: I am a New England Patriot. That's why they sent me, too.

GOVERNOR CRIST: Is that why? Well, you guys are pretty good at winning.

MS. RISCHITELLI: In the true sense of the word, not so much football.

GOVERNOR CRIST: Good, good, good.

MS. RISCHITELLI: The key is the town --

GOVERNOR CRIST: And I don't know if you've had time to really review it. I don't want to be unfair.

MS. RISCHITELLI: I've worked all weekend, too, so --

GOVERNOR CRIST: Okay.

MS. RISCHITELLI: When we listened to the broadcast, the key was we had no intention -- we left one fund in there. It's not big, $6,000, but the town is committed to the SBA process because of the liquidity as well as the safety of it from that perspective.

The pulling of the funds that we were requesting was in anticipation of what was needed based on, again, not receiving a lot of information. I appreciate the staff that's been working, but they called me at 5:30 last night and 7 o'clock this morning, which if you're going down the list of percentages, that's probably where we flesh out.

But, you know, the criteria is then the town looks for equity in the entire process, total understanding of when you were talking about the pension fund and what you can back and what you can't back.

The criteria that I would look at again is the fact of you have to be careful when you start advising how local governments are going to utilize their funds because they, hopefully, with advice of managers, are only using what we need to use when we need to use it.

Our goal is to keep the funds in there because that's where we get interest. But now we have to go back and look at what our commitments are, and in putting those in priority, that's the criteria. So we were only tapping initially what we needed for our funds.

And then the compounding piece is the charter school, because what will happen now is that the bank will have to divest that money because of the experience.

You know, the town doesn't have the funds to come up with another 700,000 to create a reserve account for that charter school, which is required by the bond. If there was a way to get out of something, I can tell you that I would have researched it and go -- I always try to go the path of least resistance.

But with regard to that, now the bank will have to look at divesting that million dollars that we have there in order to protect the reserve which is required by the bond document.

So in asking what I would take out, I don't have an option there, because of the way the documents are structured. Unless the banks all go back and restructure those bond documents and release us of certain obligations, there's nothing we could do.

I was waiting for the other shoe to come, as the markets tumble, that the bank would ask me for another 700,000 to have two years' worth of reserve as opposed to one.

So the key is we looked to see within our commitments, and that's why I go back to that domino effect. Every time I try to take one step forward, I end up two back because of the way the structure is. So you don't want to panic, but you've got to make sure those other partners in the game, such as banks and other lending institutions, can and are willing to do that as well. And then when you start looking at their business, they go through the same thing that you're facing now, too.

GOVERNOR CRIST: Well, not to put a fine point on it, but I will. If you were in our chair, would you vote for this operating option or not?

MS. RISCHITELLI: I think the operating option is fine. The only concern, as I said before, was the penalty with regards to the withdrawal. You know, the key is you're going to have to further define the parameters of the withdrawal, because I can tell you, when I go back to the commission meeting tonight, if I make it back, unless your troopers stop me on the way, that --

CFO SINK: Don't speed.

MS. RISCHITELLI: They have to protect the little money that we have and have to explain it to 2,000 people, 550 children. And as you know, trying to explain it to 1,000 parents is a whole nother thing.

So, you know, it's to keep a calm -- I can do that pretty much because I talk fast. But the other is those are where it comes down to for us. It comes down to books. It comes down to pencils. It comes down to salaries.

So if it's fully defined and people understand the ground rules and the game plan, then they can then sell it to their constituencies, just like you're going to have to.

GOVERNOR CRIST: This is democracy in action, Maureen.

MS. RISCHITELLI: That's right.

GOVERNOR CRIST: And so you're not off the hook. I need an answer, if you're willing to give one.

MS. RISCHITELLI: So long as you can clearly define what those parameters are, because right now you're not telling me whether or not I can withdraw up to what percentage. You know, what are you --

MS. NOVICK: The greater of 15 percent or

$2 million would be what you could --

GOVERNOR CRIST: Up to 2 million. Do you want to speak in the microphone so that it's all appropriately on the record?

MR. MENDELSON: Whatever the balance is, 14 percent would be in Fund B, that would not be liquid, but of the remaining balance, you would be able to withdraw up to $2 million free and clear.

GOVERNOR CRIST: Without a fee.

MR. MENDELSON: Without any fee, just straight out. That would be on day one. And then, of course, that 15 percent and $2 million we expect to improve over time, as we said. And then when the thing finally stands up as a regular functioning money market fund, those restrictions would entirely go away.

MS. RISCHITELLI: The 15 percent doesn't cover the debt. That's my problem.

CFO SINK: Excuse me, Governor.

GOVERNOR CRIST: CFO.

CFO SINK: I think it would be helpful if you would share with us the dollar amount that you have.

MS. RISCHITELLI: I have a million dollars in the school fund and 550,000 in the town fund.

MS. NOVICK: You would need the $2 million --

GOVERNOR CRIST: Then you're covered by the

2 million.

MS. RISCHITELLI: But that's not what you said. You said Part B goes into one.

CFO SINK: Let's go back. How much total do you have?

GOVERNOR CRIST: This is important.

CFO SINK: It is, and it's instructional.

MR. MENDELSON: Just to take the million dollar one -- and these would apply at the account level. So for each of those accounts, 14 percent would be in Fund B. That's not liquid. So let's say it's a million dollar account, $140,000 would be in Fund B. The 860,000 that remains, that would be entirely available to withdraw on day one, because it is less than $2 million, which is the minimum liquidity everyone would have in every account.

MS. RISCHITELLI: That would pay the bond, but then it would put the bond in jeopardy as it relates to the reserve fund.

GOVERNOR CRIST: So you want us to do this or not?

MS. RISCHITELLI: I'd say no as it relates to the Town of Oakland.

GOVERNOR CRIST: What's that?

MS. RISCHITELLI: It would be no as it relates to the Town of Oakland because with regards to that charter school bond, the $1 million is solvent. The town would make a determination on the 550, what could they hold off. State Road 50 is not going to come tomorrow, so I can give you a yes on the town fund.

But as it relates to that charter school bond, the answer would be no because that remains as an entity as it relates to the bond document. And that's the yes and nos that you get.

GOVERNOR CRIST: Yes and no, sort of how we work around here a lot. Jeannie, your opinion, please.

MS. GARNER: I think it's definitely fair to say that the Advisory Committee would love a little bit of time to chew this up and spit it out a little bit. But knowing that we don't have that, I'll try to give a couple of comments. A question, first of all. Is the withdrawal -- the minimum draw, is that a monthly or a one-time withdrawal opportunity?

MS. NOVICK: The thought is that day one -- the thought is that day one we're very comfortable, we have enough liquidity to do the greater of 2 million or 15 percent. Over time we're going to update those numbers, but it would be starting with the initial numbers. So it's not going to be 15 percent a month. It would be 15 percent. It would grow to maybe 20 percent, 25 percent, but that would be cumulative from the beginning.

MS. GARNER: I think one of the problems with the proposal is the fact, just like she is saying, it's a blanket solution, and there's still going to be exceptions. We think it's small exceptions, where people like her will need her money immediately and the amount is small.

So to be able to do that, it's almost -- we think that there would be enough liquidity. Is this going to actually take -- have you taken into consideration the people that won't withdraw their money, that may say, "We want to leave it in," or any additional deposits coming in as time goes?

MS. NOVICK: If we can get written commitments from some of the larger investors that they can stay in for six months, nine months, for a specific time, that will enable us to increase those percentages and dollar amounts. But in the absence of that, we really can't put the fund at risk.

MS. GARNER: But it's very possible that those written commitments would be enough to take care of the smaller solutions, small exceptions. If we are willing to actually accept withdrawal provisions, which we are, we understand this problem, we understand that we will keep some of our money in and only allow those exceptions, then we are hoping that those small exceptions can be worked around and the people that actually -- the people I'm looking at, it's the smaller exceptions that's got everybody worried.

GOVERNOR CRIST: Well, that's a real question, is does it instill confidence in you and your membership, in order to stay or continue to contribute to this fund. That's really what it comes down to, at least for me. I can only speak for me.

MS. GARNER: I think you could get some commitments from some of the larger school boards and their --

GOVERNOR CRIST: I mean, I want to be really transparent.

MS. GARNER: I'll have Mr. Montford come up here and address that. While he's coming up, another question is, for the tax collectors, I think you need to make sure you understand that some of the internal transfers that they've been talking about, a lot of those distributions actually will go outside the fund because those monies have left. So think about -- I don't know if y'all contemplated that as well.

GOVERNOR CRIST: Bill?

MR. MONTFORD: Thank you, Governor, members of the Cabinet. I represent the school superintendents of

Florida, and in the absence of Wayne Blanton, he's in a meeting somewhere else, I think I can represent the school boards as well.

GOVERNOR CRIST: Can you speak a little more into the microphone, Bill, please? Thank you.

CFO SINK: And give your name, please.

MR. MONTFORD: I'm sorry. Bill Montford, CEO of Florida Association of District School Superintendents. Our concern is, first of all, is losing any of the fund that we invested, and we know that. And we know that you appreciate that. Our concern, too, though, quite frankly, is if we -- we are working so very closely together.

Is it possible for one government, one school system to say, we don't need this money and we will pledge our money to the school district that does need it? This was discussed yesterday. Can we do that? And so the district that is over the maximum, can they borrow from another school district?

MR. MENDELSON: I think, as Barbara indicated, if there were some of the shareholders who were willing to put down in writing or really guarantee that they would not take their funds out, that 15 percent or $2 million number, which is a conservative way to start, could be -- we could make changes to that right away. You could start to create more and more liquidity in the fund right away if you know people were going to stay or, frankly, you knew people were going to come into the fund. That would change the picture if we knew that.

MR. MONTFORD: And, Governor and members of the Cabinet, quite frankly, we're between a rock and a hard place. We know that you've got to make a decision today and we need money yesterday. And so we answer your -- the question, Governor, was, I think, "Would you vote for it," or it could have been, "What would you do if we were sitting there?" That's another whole question.

If you were to ask me if you would vote for it, I would take a deep breath and say yes, under a few conditions. One is that if the State would work with us in every way possible to make sure that this is as flexible as possible so that we can be as creative as possible, so that we can continue the spirit of cooperation, even with those school districts that have no fund in there now.

We have school districts that are willing to participate and get back in to help their colleagues. That's how the -- there's a strong, strong commitment among the colleagues. There's also a very strong commitment to ensuring the continuity of the SBA. It's been very, very good for school districts in Florida.

So there is a commitment there to help each other out. So if we can get a commitment from the State to say we will be as flexible as possible, we'll be creative as possible, and the number one priority is to take care of those immediate needs and be able to work cooperatively together and let's be flexible so that we can help each other.

And, again, one of the primary objectives here -- and I don't think we've spoken enough about it today -- is the critical need of restoring confidence in the process. If we can restore that confidence in the process and we have believers in the SBA, then our problem will go away.

ATTORNEY GENERAL McCOLLUM: I have a question or a comment. In one aspect what you're asking, Bill, with regard to one school board or one school district being able to transfer money or be able to use the other's money or whatever, I think in a way that may be contemplated on page eight in this operating overview.

And I do want to ask BlackRock about it. In paragraph 5-B it says, transfers between shareholders will not be treated as redemptions. So if you transfer between each other, it seems to me if, for example, school board X or school district X had no need for the money but they could draw down $2 million or let's just say 2 million, it could be 15 percent, and school district Y needed all of its 2 million plus another whatever, there certainly could be something worked out between the school districts, it seems to me.

And that would at least seem to me to fit within the parameters of BlackRock's contemplation here. That's a little complicated, but it would require sort of contractual agreements between those school districts. Am I not right? Can BlackRock, somebody clarify that?

MS. NOVICK: It's a little like selling air rights or pollution rights, because what you're talking about is not transferring money from one participant to another, which is what we have on page eight. We're talking about transferring liquidity from one participant to another.

We would find that extremely difficult to implement, and I can't imagine the operational aspects of that, tracking which participants said they would give liquidity to another one.

So I think it comes back to if we have enough of the larger investors in the pool. Keep in mind the 15 percent, $2 million takes care of -- we estimate 70 percent of the participants could take their whole 86 percent balance out, not Fund B, but 86 percent of the money they could take day one.

So you're talking about the remaining 30 percent, many of which have larger balances. If some of those can say, I'm in and I'm in for an extended period of time, in Fund A, that will immediately raise the 15 percent, the 2 million number substantially, but for everyone, not one school district to another.

ATTORNEY GENERAL McCOLLUM: I understand what you're saying. But let's just say, let's assume you're not managing this at the end of the day and let's just assume that on their own, one school district decides that they're going to withdraw, they don't really need it, but they're going to withdraw it because they have a right to, they could make a contractual relationship and give the money over or loan the money over to the other district, and that wouldn't be part of your deal. That wouldn't be part of our management --

MS. NOVICK: This is America. They can lend money to each other, yes.

MR. MONTFORD: Let me -- we've been talking a lot about the smaller districts and small counties, and that's critically important, we feel. And that's one of the strengths of the SBA program to start with, is that the smaller entities can collectively work with SBA and make a lot of money, but -- or not make a lot of money, excuse me -- and maximize their investments.

We also need to remember that we have, for example, Hillsborough School District has over 500 million. And so if they begin to assess a penalty, that's a lot of money, and I know it's in proportion. But the other thing, Governor, and let me conclude with this, is that many of us in this room are not financial geniuses, and that can help in a situation like this, because we can think of things that may -- that there are a lot of reasons for it not to work. But if we're creative -- I mean, I believe if we can get banks to step up and be able to pledge and school districts be able to pledge their shares to a bank, it seems like to me we should be able to pledge the shares to another school district and let them help them out.

Now, probably there are a lot of reasons and rules you can't, but now is the time for us to start bending those rules a little. Thank you.

CFO SINK: Governor.

GOVERNOR CRIST: CFO.

CFO SINK: Let me ask BlackRock kind of an operational question. When would you see the window opening for withdrawals?

MR. MENDELSON: We met on a series of operational issues with the folks at the SBA, and we were actually quite encouraged. It was an extremely productive conversation. They've actually started, as I think Chris alluded to, started to anticipate some of these issues. And so we could move quite quickly.

I think we could, towards the end of this week or preferably early next week, that would be doable.

CFO SINK: What about tomorrow?

MR. MENDELSON: Well, there is some work to do. I'm hedging because I'm fearful of committing that we could literally get the thing open tomorrow. There is work to be done to split the funds into two. There is work to be done to get the Web site correct to implement these rules, because the day you open the door, you have to make sure the rules are functioning appropriately, we have the balances correct, the restrictions correct.

But I think certainly by the end of the week, perhaps sooner, clearly the implication of your question is you'd like it to be sooner rather than later, and we can go spend some more time --

CFO SINK: Well, we've frozen access to their funds, I guess we met last Thursday. And these -- a lot of entities had to scramble around, borrow money, in the anticipation, knowing that we would be taking action today. And I think there is a heightened sense of urgency.

MR. MENDELSON: There are two related issues. One is the setting up of the Web access and making sure that the service works. The second is, should, again, you choose to appoint an outside advisor on the fund, there's a connectivity that has to be established to let that advisor literally make the trades and manage the assets.

And so those two things need to happen. It could start immediately, should you make that decision immediately, and it could happen quite quickly. I just -- I'm worried about saying tomorrow morning 9:00 a.m.

CFO SINK: Governor, I am prepared to make a series of motions whenever appropriate, one of which is going to be that we are in an emergency time-critical situation. I think it's really important that we get independent management, independent professional management that has credibility.

And I'm prepared, one of my motions -- and we need to work on this together, obviously -- to name BlackRock as an interim fund manager so we can begin this work immediately and again pursue an RFP to invite other financial entities to bid on or to issue an RFP to open it up.

But I think we need to get started immediately. So if this motion passes, then can you tell me when you think you might be able to open the window up?

GOVERNOR CRIST: Chris.

MR. STAVRAKOS: I think it's -- you know, there will be folks working around the clock to do this. I think it's inadvisable to attempt this tomorrow. But I think Thursday is very much in the realm of possibility.

CFO SINK: Okay. Thank you.

GOVERNOR CRIST: When? When did you say?

MR. STAVRAKOS: Thursday morning.

GOVERNOR CRIST: Thank you.

ATTORNEY GENERAL McCOLLUM: If that's a motion to do that, I would second it.

GOVERNOR CRIST: I think the motion might have more to it.

CFO SINK: Yes. Let me just -- let me tell you, I've given this some thought, what I think we have to take action on, and then we can -- you decide, Governor, whether you want to break it up. Number one would be that we --

GOVERNOR CRIST: I like consolidation.

CFO SINK: Okay, good. Number one would be that we pursue the operating option as described in the BlackRock presentation, which is the creation of Fund A and B.

Number two is that we would direct BlackRock to serve as the interim fund manager so that we can begin work immediately and have the withdrawal window open as soon as possible.

Three would be that we direct the SBA to prepare and issue an RFP or whatever -- the SBA has different processes that they use in contracting -- to hire a permanent fund manager as soon as possible.

GOVERNOR CRIST: Did you state -- I'm sorry to interrupt. Did you state how long the interim manager would serve?

CFO SINK: No, I didn't because I don't -- I don't know what's feasible in terms of an RFP. You might --

GOVERNOR CRIST: I don't know. Ninety days? Sixty days? I don't know.

ATTORNEY GENERAL McCOLLUM: We'll put an outside limit, 90 days --

CFO SINK: Ninety days.

ATTORNEY GENERAL McCOLLUM: -- ought to be able to do it by that time.

GOVERNOR CRIST: So that's in your motion?

CFO SINK: That's in my motion. And the fourth would be to direct BlackRock and the investors to pursue a relationship with a -- with financial institutions to allow, to put together a borrowing program against the collateral in the new fund.

ATTORNEY GENERAL McCOLLUM: On my list you had allowing the fund withdrawals to meet payroll and other important payments subject to current liquidity. Is that part of your motion?

CFO SINK: No, I'm not including that because I believe that -- I believe their plan incorporates the most immediate needs.

ATTORNEY GENERAL McCOLLUM: I would second your motion.

GOVERNOR CRIST: Discussion?

ATTORNEY GENERAL McCOLLUM: I'd just like to comment that I know that nobody likes the redemption feature of this, and I've heard any number of you individually as well as this morning tell me that who are the investors. But it seems to me BlackRock has explained why we need that, and I think we need to all up here acknowledge the reality of this.

The reality is that there is going to be, because of the liquidity issue, if there are withdrawals within a certain time frame, there will be losses sustained just by the nature of the forced liquidation. And I think that BlackRock has explained, in fairness, the persons or the entities that should bear that particular loss, for the proportion of it that's at the current time redeemed or withdrawn at that earlier stage, need to be the participants that have to make that withdrawal.

If you don't make the withdrawal, you're going to pay -- go borrow money. You're going to pay a little penalty because you're going to pay interest on the loan that you're going to make, assuming you can make it. So there is some pain involved in this.

And I know that's hard for school boards and hard for city commissioners and hard for county commissioners particularly to go back to their constituencies and explain. But I think for all of us, this is a shared and important way to achieve the goal that everyone on the Advisory Committee and everyone else here today has expressed, and that is to put solvency back into this pool to allow it to have a chance to continue to exist, since I think everybody has concluded, in talking to us, that you want to see that rather than the liquidation of the pool and end this option and go some other route.

So I don't see any other option that makes any sense to me than what BlackRock has presented. And as I said to you earlier when you were up here testifying, I think BlackRock has done a great job and I'm anticipating that we pass this in a few moments and that you will do an equally good job over the next 90 days, or however long it is before a permanent management team is there, to do the same kind of quality work in working this out as you've done and preparing this for us today.

But I want to thank you and I want to thank all of the advisory members that participated. You spent a lot of time on this up here this weekend, I know; and not just our staff, but all of you individually and many others who aren't in this room.

So I urge the passage of the motion, but I wanted to put my two cents in about that point.

GOVERNOR CRIST: Sure, great. Thank you, General. Did you want to say anything else before we vote?

CFO SINK: Just that I think that -- I think some really good work has been done here today. I'm encouraged about the operation of Fund A. I hope that -- I believe that this restores confidence and what we've done is going to restore confidence and encourage -- at a time when the tax collections are coming in, I hope many local governments will re-enter the fund and realize that it is going to be managed by an institution that's managing $200 billion in cash assets and has an impeccable reputation.

And I hope soon you will be working on getting the fund rated so that we can start doing business as normal and work very closely with the investor group.

There has been a lack of communication and transparency that has been unacceptable. And I know that BlackRock has heard the message loud and clear and has already begun some meaningful conversations with the investor interests.

And I would like to add -- this is not part of the motion necessarily, Governor. But I think that in this time, that we should expect to have a report back to our board -- I'd like to have a report back to us as the board members every time we meet, in terms of the reporting on the level of activity in the fund and perhaps also have a report, include a report from the investors' group as to whether or not they believe that the relationship is good and that their needs are getting met, because there may be some exceptions that we'll have to consider as we go forward.

GOVERNOR CRIST: Thank you. General?

ATTORNEY GENERAL McCOLLUM: I'm ready to vote.

GOVERNOR CRIST: Yeah. I'm almost ready to vote.

I wanted to just offer some comment a well. First I want to thank you, CFO, for your leadership on this issue. I appreciate it very much. And, General, thank you for your indulgence and your legalese as it relates to these issues that are very interesting and very important to all of us.

I want to thank the staff, too. Jim and George and Joe worked very, very hard, our respective chiefs of staff. And I want to thank them for their input.

And BlackRock, I want to thank you. You know, coming into the fore on short notice and doing very good work in a very transparent way, that is very important to all of us. It is deeply appreciated. I think that what you have presented is prudent. It is logical. It restores confidence. And it's done in a calm, smart way. And that's very important to the people of Florida, and it's very important to us.

And so with that, I'll call for a vote. It's been moved and seconded. All in favor please say aye.

ATTORNEY GENERAL McCOLLUM: Aye.

CFO SINK: Aye.

GOVERNOR CRIST: Aye. So it passes unanimously. And, Coleman, do you have any final comments for us?

MR. STIPANOVICH: Yes, sir. First of all, I want to thank Barbara and Jeannie and your committee for the fine work that you all have done in advancing this. I also want to thank the SBA staff, who has been working relentlessly and around the clock as well in doing this good work.

You know, Governor, driving in this morning, you're often quoted, but one quote that's particularly close to my heart is, "Do the right thing." And doing the right thing and doing my best in my personal and professional life has been the cornerstone of my very existence.

It is because of these two important principles of life I've arrived at an important decision. It is an important decision because it is in the best interest of a great organization of wonderful people, the SBA, and you the trustees.

The decision is to step down as executive director of the State Board of Administration. There is nothing more important to me, except my family and friends, than to restore confidence in the -- from the people in the State Board of Administration. So today I'm doing that by doing the right thing.

Governor, I hope my actions today help the SBA move forward. Thank you for allowing me to serve for seven years.

GOVERNOR CRIST: Thank you, Coleman. Do you have a time within which you would want to depart?

MR. STIPANOVICH: I will discuss that with your office.

GOVERNOR CRIST: Okay. Very good.

ATTORNEY GENERAL McCOLLUM: If I could make a comment.

GOVERNOR CRIST: General.

ATTORNEY GENERAL McCOLLUM: First of all, Coleman, I personally understand your -- you talked to us privately, I assume each of us individually about this. But I think people should be aware that, for example, today -- I don't know if it's formally released, but I believe -- you haven't brought it before us as an item, but you've got the investment returns out for the year that ended June 30th on the pension funds, on the main things that you manage.

And I think that in light of what you are doing and the criticism that maybe some have leveled your way for this pool, people should be aware that, to your credit and the credit of all the people in the organization of SBA, the funds, the primary funds that you've managed have had an extraordinary result, best in the nation probably, of any funds over quite a period of time.

What I see before me and I think I'm right in reading, it's right off the pages that SBA has produced, that over ten years, you've had an 8.46 percent return, net return on investment; over five years, 11.52 percent; over three years, 12.88 percent; and over the last 12 months, 18.7 percent.

And I cannot imagine any pension fund, any state fund in the nation that could say the same high quality things about their fund and their management that we could say about you.

So while we know that this has been a difficult time for you, I just think that all of us owe you a debt of gratitude, and your team, for what you have produced that's extraordinarily positive and that you not take away from this -- it is your decision, I know, and you feel you need to do this -- the leaving and the departure and the difficulties of this investment pool to overshadow the good work and the great work, actually, that you have done for us, and you are to be commended for that.

GOVERNOR CRIST: Let me echo those comments as well, Coleman. You know, having produced that well for the people of Florida and their pension fund is the primary mission. And so, on behalf of over a million people who are in the fund and the over 18 million people who live in the state, I appreciate your public service to Florida.

MR. STIPANOVICH: Thank you, Governor.

CFO SINK: And I'd like to add my thanks also. It's been nice for all of us to run around the country and say we have the number one pension fund in the country. Not very many funds are overfunded at all. And it's, as I said last week, that pension fund is the star in our crown, and I appreciate your leadership.

MR. STIPANOVICH: Thank you, CFO. Governor, members, on behalf of the staff at the State Board of Administration, I know they're very appreciative of your comments.

And, General, you're right on point. That organization of people out there that you have and that we're blessed to have working for us and have been working for us for years have done a phenomenal job.

This year is exceptional in that it's rare in this business that you exceed your benchmarks across all time periods. And this year we beat our one-year benchmark, our three-year benchmark, our five-year benchmark, our ten-year benchmark, and since-inception benchmark.

We rank this year in the top quartile among our peers, meaning that over 75 percent of the people performed worse than we did. And we have the number one surplus in the nation. And it's the people at the State Board of Administration that deserve all the credit, not me. Thank you very much.

GOVERNOR CRIST: With that -- unless you have something, General.

ATTORNEY GENERAL McCOLLUM: Well, only one comment. We do have a workshop. If we could, I don't know what the pleasure is --

GOVERNOR CRIST: I know what the pleasure is.

ATTORNEY GENERAL McCOLLUM: What's the pleasure?

GOVERNOR CRIST: Well, go ahead.

ATTORNEY GENERAL McCOLLUM: Well, I was going to suggest -- we've got people here -- that we reconvene at 10 after and do it, but perhaps you want to have lunch. Maybe you want to move it off to another time. Governor, we certainly will accommodate. I just know there are a lot of people here expecting to put it on. But we'll do whatever the pleasure of my colleagues is.

GOVERNOR CRIST: Well, maybe I'd just suggest a half hour recess to 12:30.

ATTORNEY GENERAL McCOLLUM: 12:30 would be fine. That would be fine with me.

GOVERNOR CRIST: Okay. We'll do that. Thank you. Thank you, General.

(Whereupon, the meeting was concluded at 11:55 a.m.)