T H E   C A B I N E T

S T A T E   O F   F L O R I D A

Representing:

FINANCIAL SERVICES COMMISSION, OFFICE OF INSURANCE REGULATION

DIVISION OF BOND FINANCE

STATE BOARD OF ADMINISTRATION

The above agencies came to be heard before THE FLORIDA CABINET, Honorable Governor Crist presiding, in the Cabinet Meeting Room, LL-03, The Capitol, Tallahassee, Florida, on Tuesday, January 15, 2008, commencing at approximately 9:10 a.m.

Reported by:

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Governor

CHARLES H. BRONSON
Commissioner of Agriculture

BILL McCOLLUM
Attorney General

ALEX SINK
Chief Financial Officer

* * *

I N D E X

FINANCIAL SERVICES COMMISSION, INSURANCE REGULATION
(Presented by KEVIN McCARTY)

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DIVISION OF BOND FINANCE
(Presented by BEN WATKINS)

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STATE BOARD OF ADMINISTRATION
(Presented by GENERAL BOB MILLIGAN)

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P R O C E E D I N G S

(The agenda items commenced at 9:25 a.m.)

GOVERNOR CRIST: Our next Cabinet meeting will be Thursday, January the 31st. And our first order of business this morning is the Financial Services Commission, Commissioner Kevin McCarty, my hero.

Good morning, Commissioner. I know you need to go early so you can get on with those hearings with Allstate. God bless you.

MR. McCARTY: And I appreciate you accommodating my schedule, sir.

GOVERNOR CRIST: Of course, of course.

MR. McCARTY: The first agenda item is minutes from the meeting of November 14th.

CFO SINK: Move approval.

COMMMISSIONER BRONSON: Second.

GOVERNOR CRIST: Moved and seconded. Show Item 1 approved without objection.

MR. McCARTY: Agenda Item Number 2 is approval for final adoption for amendments to Rule 69O-171.002 through 008. This proposed amendment incorporates the Office's new updated electronic filing system for collecting information. None of the information collection has changed, just the medium of collecting it electronically.

ATTORNEY GENERAL McCOLLUM: Move Item 2.

COMMMISSIONER BRONSON: Second.

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

MR. McCARTY: Agenda Item Number 3 is approval for final adoption for Rule 690-137.001. This has to do with annual and quarterly reports. Essentially, this rule adopts the 2007 National Association of Insurance Commissioners rules as regards to instructions for annual filings for their accounting practices and procedures.

COMMMISSIONER BRONSON: Motion on Item 3.

ATTORNEY GENERAL McCOLLUM: Second.

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

MR. McCARTY: Likewise, the next rule is for the Financial Condition Examiners Handbook. This rule adopts the 2007 National Association of Insurance Commissioners Financial Condition Examiners Handbook as required by Section 624.316, Florida Statutes.

COMMMISSIONER BRONSON: Motion on Item 4.

CFO SINK: Second.

GOVERNOR CRIST: Moved and seconded. Show Item 4 approved without objection.

MR. McCARTY: Agenda Item Number 5 is repeal of Rule 69O-186, which is certificate of mortgage release. During the 2007 regular session, the statute authorizing the Financial Services Commission to establish a premium was repealed. Therefore, the Office requests the repeal of this provision of the Florida Administrative Code.

ATTORNEY GENERAL McCOLLUM: Move Item 5.

CFO SINK: Second.

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

MR. McCARTY: And Agenda Item Number 6 is approval to publish amendments to Rule 69O-167, which requires preinspection of private passenger automobiles. This rule is being updated to reflect recent statutory changes for preinspections of automobiles. This was previously on the agenda. It was removed, and thanks to Commissioner Bronson, we have some disclosure language modifying that form.

COMMMISSIONER BRONSON: Motion on Item 6.

CFO SINK: Second.

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

MR. McCARTY: Thank you, Governor, and members of the Cabinet.

GOVERNOR CRIST: Thank you very much, Commissioner.

GOVERNOR CRIST: Division of Bond Finance, Ben Watkins. Good morning, Ben.

MR. WATKINS: Good morning, Governor.

GOVERNOR CRIST: How are you, sir?

MR. WATKINS: Item Number 1 is approval of the minutes of the December 18th meeting.

ATTORNEY GENERAL McCOLLUM: I move the minutes.

COMMMISSIONER BRONSON: Second.

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

MR. WATKINS: Item Number 2 is a report of award on the competitive sale of $250 million in Lottery Revenue Bonds sold to help fund class size reduction. And the bonds were awarded to the low bidder at a true interest cost of approximately 4.37 percent.

GOVERNOR CRIST: Is there a motion on Item 2?

COMMMISSIONER BRONSON: Motion on Item 2.

ATTORNEY GENERAL McCOLLUM: Second.

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

MR. WATKINS: Item Number 3 is a report on the negotiated sale of $100 million in Everglades Restoration Revenue Bonds. These bonds were sold to help fund the restoration of the Everglades. The bonds were priced initially to yield 3.15 percent. And these bonds are different from the vast majority of our other bonds, in that they're variable rate bonds, and the interest rate resets weekly. So this is the second installment, $100 million installment for Everglades bonds, and there's two years remaining on the statutory authorization for that program.

COMMMISSIONER BRONSON: Motion on Item 3.

ATTORNEY GENERAL McCOLLUM: Second.

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

CFO SINK: Governor, could I just --

GOVERNOR CRIST: Yes, CFO Sink.

CFO SINK: -- ask a question about that. I'm sorry I didn't ask this yesterday when we met, Ben.

I understand that in these variable rate scenarios that we do have the option to convert to a fixed rate.

MR. WATKINS: Yes, ma'am.

CFO SINK: So just walk me through very briefly what your thought process is in terms of making that decision to lock in a rate and not to be subject to further rate increases because of the variable rate nature. I mean, this could get out of hand, so just walk us through what the process is for making that decision.

MR. WATKINS: When we -- with respect to the fixing of the rate, we -- actually, the whole purpose of the environmental program being done on a variable rate basis was, the State didn't have any variable rate debt on its books. So we have $24 billion of debt on our books, and none of it was variable rate. It's all fixed rate. And it's just a more efficient, effective balance sheet management, because we've got lots of short-term assets and money invested in the Treasury.

And so to the extent that we have -- and we have interest earnings on that money, and so we wanted some variable rate debt, because if you look over the long term, variable rate debt, the interest rate on variable rate historically is lower than fixed rate. So this 3.15 percent we would expect to remain. Even though it resets weekly and it can change from time to time, we expect over the long term the interest rate to be lower than what we could borrow at a fixed rate.

We monitor this weekly, so if we ever see that the interest rate is not performing as we would expect, we have the ability to fix the rate by selling fixed rate bonds, which would then convert these bonds from a variable rate to a fixed rate. So --

CFO SINK: And who is we?

MR. WATKINS: Myself.

CFO SINK: Okay. So you --

MR. WATKINS: Me.

CFO SINK: -- and you -- that's all right. You and you alone would make that decision to lock in a fixed rate?

MR. WATKINS: I would bring it to you at least for information purposes. Embedded within the documents is the ability to convert. We can chose -- it's what's called multi-modal, which means in the documents that originally authorized it, we can choose daily rates, weekly rates, monthly rates, annual rates, or fix it to term. So all of those options are embedded within the documents that authorize them.

Our expectation would be that absent something extraordinary and unexpected occurring, that we will leave these bonds outstanding at a variable rate and therefore lower the overall interest rate on the loan over the long term.

CFO SINK: Okay. Thank you.

MR. WATKINS: Yes, ma'am.

GOVERNOR CRIST: Thank you very much. Is there a motion?

ATTORNEY GENERAL McCOLLUM: I think it has been moved and seconded.

CFO SINK: We passed it.

GOVERNOR CRIST: Did we pass it? We did. You're right. Forgive me. Thank you, Ben.

MR. WATKINS: Thank you. Item 4 is presentation of the 2007 Debt Affordability Report.

The Division of Bond Finance is required annually to prepare and deliver an analysis to the Legislature relating to the affordability of debt in the state, and it's required to be delivered on December 15th, which it was, and then be updated prior to the regular legislative session in March. And so this presentation summarizes the high points of the report that was delivered to the leadership of the Legislature, President of the Senate, Speaker of the House, and the Chair of each respective Appropriations Committee.

The statute also designates a benchmark debt ratio, and this ratio is a ratio of our annual debt service requirements, the payments required to be made annually on all the State's debt, divided by the revenues that are available to make those payments with, and it establishes target of 6 percent and a cap of 7 percent. And this benchmark debt ratio and the 6 and 7 percent target and cap really form the basis of the analysis which is presented to the Legislature.

The purpose of the debt affordability analysis is to provide a framework for measuring, managing, and monitoring the State's debt position on an ongoing basis, and most importantly, to provide the Legislature with the information they need to evaluate the long-term financial impact of borrowing decisions. It is, in effect, an analytical approach to evaluating the State's position on an annual basis that is based on the benchmark debt ratio, which again is the amount of our annual debt service payments divided by the amount of revenues we have available to make those payments with.

The results of this exercise is to take the executive branch function, which we perform in terms of borrowing money by selling bonds, with the legislative branch function, which is deciding how much we borrow and what we borrow for, which is done through the budgetary process every year by the Legislature.

The process for preparing the debt affordability analysis involves several steps, which I'll walk through each of these with you today. The first is to calculate the amount of debt that we have outstanding. The second is to evaluate how that debt and the debt service requirements have changed over the last 10 years. Then we update the projections of the debt ratio based on what we expect to borrow for all of our existing programs, as well as the latest revenue estimates that we have from the Revenue Estimating Conference. And then we plot the benchmark debt ratio with that latest information we have available, look at it against the 6 percent target and the 7 percent cap, and calculate what our future expected bonding capacity is based on the amount of revenue that we expect to have available to us. And lastly, we look at the reserve levels at the State, and we also review the State's credit rating.

This first picture is simply a pie chart showing that the amount of state debt outstanding is $24.1 billion, and it shows what we use that debt to fund. And 55 percent is for construction of education facilities, so over half is education facilities, followed by transportation and environmental protection. And this picture is fairly static. In other words, it doesn't change much from year to year, because once the debt is outstanding, it takes 30 years to pay it off, so it only increases incrementally by the amount of new debt that we issue and the amount of debt that's repaid during the year.

So it's important to take a longer term view when you're evaluating debt, because if you just look at the picture, it's not particularly meaningful. It's important to look at it over time. So that's this chart, which shows over the last 10 years how the amount of debt that we have outstanding has grown over time. And the debt has increased from $13.2 billion to approximately -- to $24.1 billion over the last 10 years.

Then we evaluate what our annual payment obligation is, how that has changed over the same 10-year period. And what we see is that, as you would expect, as we've increased the amount of debt that we have outstanding, the amount that we have to pay every year to repay that debt that has also increased. So we see the increase in the annual debt service requirements over the last 10 years. And currently, at the end of 2007, our annual payment obligation is $1.8 billion. So before the Legislature provides for other essential services, we have to set aside $1.8 billion to repay the debt that has already been issued to fund school construction, road construction, and acquire conservation land, and the multitude of other financing programs the State has. It's important from a budgetary perspective, because it, in effect, reduces budgetary flexibility.

That completes the look back, and now we start looking at the information looking forward, what to expect over the next 10 years. And this is simply a schedule of all of the debt that's expected to be issued over the next 10 years for the financing programs that are currently authorized. And so we see that over the next 10 years, our best estimate of the debt that we expect to issue totals $12.2 billion, which is the total at the bottom of the right-hand side, with the vast majority of that being made up of public education capital outlay bonds, $6.8 billion for school construction.

Then the other variable in the equation that affects the benchmark debt ratio is the revenues that we have available to make payments with. In this graph, the top blue line shows what the revenue estimates were when we prepared this report last year, and the red line are the current revenue estimates as of November, the revenues we expect to collect over the next 10 years.

So what you can see is that we have a fairly substantial drop in the amount of revenues that we expect to have available. In fact, for the current fiscal year, we've had three Revenue Estimating Conferences since this report was prepared last. We had the March revenue estimate for regular session last year. We had the August Revenue Estimating Conference, the special conference that was held because of the decline in revenues that was being experienced. And we've also had the most recent November Revenue Estimating Conference that's used in connection with the budget recommendations being prepared by the Governor's Office.

So this takes into account -- each Revenue Estimating Conference took revenues down, so this is the aggregate of the change in the revenues that we expect to collect over the last three conferences. And we see that in the current fiscal year, we expect to have $2.6 billion less in revenues than we expected to have this time last year, or 7.6 percent.

And the reason that I put this chart in here and the reason that I wanted to emphasize this is, the decrease in revenues that we expect to have available to us has a significant impact on the benchmark debt ratio, and it also has a significant impact on the amount of debt capacity, future debt capacity we expect to have available to us.

This next chart is pretty busy, but what it's intended to do is to take those two variables, the future expected debt issuance of $12.2 billion, as well as the most recent revenue estimates, and calculate what our future expected benchmark debt ratio is expected to behave based on this most current information we have available. The horizontal green line is the 6 percent target. The horizontal red line is the 7 percent cap. The left part of the chart is historically how the benchmark debt ratio has performed, and then plotted against that, the blue line from 2006 forward was our projection last year, and then the red line is how that projection has changed this year based on the most current information on future issuance and revenues available.

And what we see is that the benchmark debt ratio is expected to increase to 6 percent, 5.99 percent at the end of the current year, and then 6.1 percent at the end of next fiscal year, and then it's expected to improve based on our future revenue collections. So the benchmark debt ratio is consistent with the 6 percent target and well within the 7 percent cap.

The only caveat that I have with respect to these revenue projections is that it doesn't include any deterioration, further deterioration in our expected revenue collections, nor does it include any future debt issuance to fund class size. So it includes what has been authorized today, but it doesn't include any additional borrowing to fund class size reduction.

Then the last step in the process of analyzing the State's debt position is to say, "Okay. Well, what does that mean for future debt capacity?" And this is -- we calculate the future debt capacity based on the 6 percent target, and then we calculate it based on the 7 percent cap. And so what this chart does is to take the total debt capacity available within 6 percent, which is the top right-hand number of 24.7 billion, and then it subtracts our future expected debt issuance of $12.2 billion under our existing program to arrive at the remaining capacity available within the 6 percent target. And that is $12.6 billion in future debt capacity within the 6 percent target over the next 10 years. That's the good news.

The bad news is, that capacity isn't available until the out years. Because we're expected to be at 6 percent for the next few years, there is no debt capacity within the target over the next few years, but the capacity is available in the out years, and that's for the 6 percent target.

And then we do the same thing for the 7 percent cap, and what we see is that we have $19-1/2 billion of debt capacity available within the 7 percent cap. And the near-term capacity between now and 2011, we have $5-1/2 billion of capacity available within the 7 percent cap. So there is capacity available in the range between the 6 percent target and the 7 percent cap, from zero at the 6 percent target up to $5-1/2 billion at the 7 percent cap.

So the way that I characterize this is, below

6 percent we're in the green zone. Between 6 and 7 percent, we're in the yellow zone. It's a stop, look, and listen with respect to the Legislature's authorization of future additional debt. And then over 7 percent is in the red zone. So we're just broaching the 6 percent target, and we're consistent with that.

So the Legislature needs to be cognizant, and that's what this debt affordability analysis is intended, to give them this information so that they have this information when they have new borrowing initiatives or they're deciding how much we need to borrow for what programs. These are intended to be guidelines and not bright line tests. It's intended to be a planning model for the Legislature so that they can evaluate the long-term fiscal impacts so that they can make the decisions they need to make in prioritizing what the capital spending plan for the State looks like.

That completes really the debt affordability analysis, the formal part of the analysis, but there are two other elements that are important from the credit market's perspective and how the State is viewed, and that is the level of reserves that the State has available to it. So this is a very important measure of financial strength and financial flexibility, is the level of reserves. This chart represents the combined balance of the budget stabilization fund and the working capital or unreserved, undesignated general fund balance. So we combine those two numbers and plot this on a graph, and what we see is a tremendous increase in those revenues during the boom years or when we were collecting more revenues than we thought we were going to collect, and our reserves increased to 6.6 billion at the end of 2006, or 22-1/2 percent of general fund expenditures, which was extraordinary.

And then during the last two years, where we've had less revenues available to us, the Legislature has used a portion of those reserves to supplement spending rather than adjusting the spending plan or reducing the budget for the reduced revenues that we have available to us because of the deteriorating economic conditions.

And at the end of the current fiscal year, if the revenue estimates hold and there's no further adjustment in the spending plan, we would expect to have 2.2 billion or 8-1/2 percent of general fund expenditures available to us in reserves, which is considered adequate by the rating agencies and the credit markets.

And lastly, a review of the state credit ratings. Florida continues to have very strong credit ratings with a stable outlook. We're AAA by Standard & Poor's and AA+ and Aa1 by Fitch and Moody's, which is the next highest rating category. The credit strength cited by the rating agencies are conservative budget and financial management, the swift response by the Legislature to changes in revenue estimates.

Historically, the Legislature has met to reduce the budget whenever we had revenue estimates that were lower than what we expect and how the spending plan was built, which is exactly what we did from the August Revenue Estimating Conference. The Legislature met to change the budget or reduce the budget. That hasn't happened with respect to the November Revenue Estimating Conference, but there's some expectation that there will be an adjustment to spending before the end of the fiscal year to adjust for the lower revenues that we expect to have available to us.

The challenges confronted by the State's rating outlook are a weaker economy and declining revenues, continued budgetary pressure for infrastructure, and the need to maintain adequate reserves. This is not unique to the State of Florida. In fact, there's a front page article in the *Wall Street Journal* this morning about the problem that other -- that all states are experiencing because of economic weakness and simply having less revenues available to them to provide the essential services to the citizens of the state. Florida is no different. As the economy, as the real estate market has deteriorated and the economy has slowed, we have less revenue available to us, and the Legislature has to prioritize that spending. And that's exactly the challenge that's confronted by -- that we're confronted with, and the rating agencies are watching with interest how the State reacts and how the State is going to manage through these difficult economic times.

In conclusion, the benchmark debt ratio end of the year at 5.5 percent, 5.49 percent, is expected to increase to 6 percent, with a further increase to 6.1 percent, so that's consistent with the target benchmark, the debt ratio that has been set. The increase in that ratio is not due to anything that we did with respect to borrowing, but more a function of simply having less money, less revenues available to us in the future. The near-term debt capacity within the 6 percent target is nonexistent, but we have $5-1/2 billion in available capacity within the 7 percent cap in the near term. The revenues, or reserves, I should say, are adequate at their current level, but are declining. And lastly, our rating is stable but challenged by economic conditions and budgetary pressure.

So that concludes the highlights of the debt affordability analysis, and this information will be updated in connection with any new revenue estimates that come out and the information delivered to the Legislature so that they will have this information available to them in formulating the State's spending plan.

GOVERNOR CRIST: Great. Ben, thank you very much. I think the General has a question.

ATTORNEY GENERAL McCOLLUM: I have a couple of quick questions, Ben. In the beginning, you gave us the pie chart and showed us the ratio of the $24 billion in debt divided between a large component for education building and construction of transportation and environment, and you said that had been relatively stable. Approximately the same ratio existed over the whole 10 years as we grew from 13 billion to 24 billion in debt?

MR. WATKINS: Yes, sir.

ATTORNEY GENERAL McCOLLUM: And you project that's going to stay pretty much that way over the next several years, that same approximate balance, even though I realize we'll pay off some debt and issue more? And you said a lot of this is going to be education that we're going to be doing to get the next 12 billion over 10 years in debt; is that correct?

MR. WATKINS: Yes, sir. Without a major change in policy or financing programs that the Legislature would authorize, I would expect the mix between those various programmatic areas to stay approximately the same. It changes from time to time, but the relative mix has stayed fairly consistent.

ATTORNEY GENERAL McCOLLUM: Well, 10 years ago we had over 13 billion roughly, around that, in debt, and now we have 24 billion.

MR. WATKINS: Yes, sir.

ATTORNEY GENERAL McCOLLUM: You've told us that we are expecting in your projections to issue another 12 billion in debt over the next 10 years. Is that going to be 36 billion in debt we have at the end? Or some of this will be paid off, I assume, over time. Where do you think we're going to be 10 years from now? If it's 24 billion in debt total now, what would be the total debt we would have, you know, 10 years from now?

MR. WATKINS: I don't have that information exactly, but my guess would be somewhere in the 28 to $30 billion range. I think we'll see a year over year increase in average annual debt. Assuming that no major new financing programs are enacted and we stick with the financing programs that are currently authorized in law, it would increase it about a billion dollars a year. And that's a net number. In other words, we usually issue about a billion five a year, but we're repaying some of the debt that's outstanding currently, so the net increase is something less than that, and in round numbers, it's about a billion dollars a year.

ATTORNEY GENERAL McCOLLUM: But obviously, the debt service is going to grow in that period because the total debt is growing, and presumably, to meet that debt service and still our other obligations the Legislature and we have, we'll wind up having to see the economy grow. I mean, if it doesn't, we're all in deep trouble; right?

MR. WATKINS: That's correct.

ATTORNEY GENERAL McCOLLUM: All right. Thank you.

GOVERNOR CRIST: We'll pray for growth. Any other questions?

CFO SINK: Yes.

GOVERNOR CRIST: CFO.

CFO SINK: Yes. Thank you, Governor. One of the items that I've been kind of thinking about because of the state the Florida economy is is now, we're in one of those lulls which we've experienced over our history, is whether or not the State might have -- and this would be a legislative decision, of course. But according to Ben's comments, there may be an opportunity to do some moderate amount of additional or incremental bonding in order to stimulate our economy.

And I know, Governor, you've expressed interest in transportation opportunities. I have a special interest in affordable housing. And these are the types of activities that if we were able, which we are able to -- it needs to be further analyzed -- perhaps do a little bit of extra bonding this year, then those moneys then do create jobs. They stimulate economic activity in the area of affordable housing. If we're building or supporting affordable housing, then that sales tax revenue comes right back into the state coffers.

And I think that we're in good shape because the State has been so well managed financially because of the fiscal discipline of the Governor and the Legislature to be in a position, unlike a lot of other states, I imagine, Ben, who don't have any flexibility to do things to help their economy move along.

So I'm just hopeful that the Legislature, and you, Governor, will take this report and give some real consideration to doing some additional bonding in a very responsible way that wouldn't impact our debt rating, but yet stimulate our economy. I think there's some real opportunities there.

GOVERNOR CRIST: I do too. I think, you know, bonding to invest is something that we certainly need to consider, especially in the areas of affordable housing and transportation and other needs.

Yes, Commissioner.

COMMMISSIONER BRONSON: Well, Governor, it's apparent by the trend that's going on that really one of the things we've got to concentrate on as well is the overall business atmosphere in the State of Florida, bringing in some business that can create an increase in our gross domestic product, which is going to hire more people to go into fields that maybe we don't even have in the State of Florida yet, and higher income positions as well to go with that, which would stimulate our housing market again and get all those things going.

And I will say that I believe that the Legislature and yourself signing off on some of the things that are now in its second year, such as the ethanol production and some of the things that are actually beginning to take place now, is going to help create some of those jobs. And I hope using some fiscal restraint, but also some very positive thinking processes, that we can maybe bring in some related issues for business in the state.

Right now, agriculture is one of our mainstays. Of course, we still want it to stay that way. That's the one thing that keeps bringing us some money in. But we do need some other alternative issues out there that can stimulate this economy. And so I too hope that we will focus on that and try to create those new opportunities and jobs for the State of Florida.

GOVERNOR CRIST: You couldn't be more right, Commissioner. That's why I was so pleased to be able to announce that Max Planck decided to locate to Florida, AirTran decided to stay in Florida and create about 150 new jobs in the central Florida area. Torrey Pines already had announced to come here, Burnham, so many others. And FP&L has invested or will invest 2.4 billion in a solar power plant, the largest one in America.

So while things are challenging, it could be a lot worse. Florida is on the rise, and I'm very, very pleased by what's happening with our innovation economy.

Thank you, Ben.

MR. WATKINS: Thank you all.

GOVERNOR CRIST: State Board of Administration. General Milligan. Good morning, sir, and Happy New Year to you.

GENERAL MILLIGAN: Good morning, Governor, and good morning, Trustees. I appreciate again the chance to spend some time with you.

The first item, Agenda Item 1, is request approval of the minutes of the December 11 and December 18, 2007 meetings.

ATTORNEY GENERAL McCOLLUM: So move.

CFO SINK: Second.

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

GENERAL MILLIGAN: Governor, I would like to withdraw Items 2 through 6 from today's agenda. We are getting additional information on these interest rate exceptions and plan on bringing them back at the January 31 meeting. We've spoken to each of the law firms working on these exceptions, and they are in agreement with the postponement. SBA staff, with the expert help of Ben Watkins and his people, are revising the review process to require additional information on these and future interest rate exceptions. This will be documented in supporting materials provided to you which we believe will give you a better idea of what is going on in each of these projects and what and who it affects.

GOVERNOR CRIST: Great. Is there a motion to withdraw on these two items?

GENERAL MILLIGAN: I wish to request withdrawal of Items 2 through 6.

CFO SINK: I move it.

ATTORNEY GENERAL McCOLLUM: Second.

GOVERNOR CRIST: Moved and seconded. Show Items 2 through 6 withdrawn without objection.

GENERAL MILLIGAN: Item 7 is request approval of the reappointment of John Jaeb to the Investment Advisory Council. Mr. Jaeb is an appointee of the Attorney General.

ATTORNEY GENERAL McCOLLUM: I move Item 7.

CFO SINK: Second.

GOVERNOR CRIST: Moved and seconded. Show Mr. Jaeb's reappointment approved without objection.

GENERAL MILLIGAN: I haven't given you an update really since December the 18th on the Local Government Investment Pool, and I would like to spent a little time with that.

We have been focused on preserving and

strengthening confidence in the pool since it was reopened to investors on December 5. Pool cash flows continue to improve in 2008. We've had a number of positive cash flow days, and Pool A assets have increased this year. As of last Friday, Pool A had $724 million in available liquid balances, which means that many investors have left balances in the pool.

We believe that a series of recent events and actions by the SBA and BlackRock have contributed to rebuilding confidence in the Local Government Investment Pool. Working with BlackRock, we moved quickly to obtain a top rating from Standard & Poor's, which gave the fund a AAA rating on December 21st, which I think most of you have read about.

We have expanded our website and hired Tucker/Hall consulting us on communications with the press and stakeholders, and we really energized trying to get information out both to the press, but also to really the stakeholders.

We met with the principal -- excuse me, met with the Participant Advisory Committee on January 3rd and will continue to meet regularly with the stakeholders to answer their questions.

We have begun to schedule meetings with editorial boards, elected officials, and investors to answer questions and provide investment updates, a very aggressive effort to get out and really keep people informed on what's going on.

The Invitation to Negotiate for a permanent money manager firm to take the place of BlackRock and run the pool was released, and we have received 15 responses. Selection is slated for January 31st. The chair of the Participant Advisory Committee, Jeannie Garner, will serve on the selection committee.

We've worked with BlackRock to develop new liquidity rules that will take effect January 18, 2008. That's this Friday. The increased liquidity is due to improved market conditions and BlackRock's proactive sale of about 2 billion in securities that would have matured this summer. The current Pool A liquidity rule is greater than 2 million or 15 percent of the account balance, which was established on December 5. The new liquidity rule would effectively be the greater of 4 million or 37 percent of the account balance, making over 2.5 billion available to investors. We also expect to transfer more than 650 million in cash and maturities from Pool B to become new available liquid balances in the coming months in Pool A. By the end of April, we expect to have provided a total of roughly 4.7 billion in new liquidity from both Pool A and Pool B.

And that kind of completes my summary. At this time, any questions?

GOVERNOR CRIST: CFO?

CFO SINK: Yes, General. What's the -- I notice you said 600 and some million might be moved from Pool B to Pool A. What's the status of the Countrywide 600 -- is that the Countrywide?

GENERAL MILLIGAN: Well, a good deal of that is Countrywide. And Countrywide, we were -- we had even looked at moving Countrywide back into Pool A because of its upgrading but decided against it. We felt that Standard & Poor's might not really consider that appropriate at this time, and we want to maintain that AAA rating. But it will come due, and we're prepared to -- and we're assuming that they will meet their commitment and redeem. So that's about 400 million.

CFO SINK: Okay. Good. Thank you.

GOVERNOR CRIST: General, I just want to compliment and congratulate you on your leadership and stabilization of this fund. It is a great credit to your vision and your integrity that you have done a tremendous job. We're all grateful to you, sir.

GENERAL MILLIGAN: Well, thank you, Governor, but we have a long way to go.

GOVERNOR CRIST: I didn't say you were done. I'm just thanking you so far. I really sincerely appreciate it.

GENERAL MILLIGAN: I'll move on to Item 9. This is the direction that you gave me to conduct a search for a permanent executive director. And I request approval of several things. One, let me talk about the position description first, which real focuses on -- a heavy emphasis on leadership, with an underpinning of financial and investment expertise. It really doesn't talk much about management as it did in the past. It really talks about trying to come up with the appropriate level of leadership skills to provide the type of leadership that the SBA requires.

The salary range to get such a person I estimate to be between 250 and 350,000, and I am asking that that be the target range that we put out when we go after the new director. That should be what we advertise, and I need to have a commitment to some level of salary, and that's my recommendation.

The other principal aspect is whether to go with a search firm or to do it by advertising ourselves through media around the country. As it turns out, the cost differential is about 50 or $60,000 between doing it ourselves, which would be about 50,000, and about 110,000 to have a search firm do it. I think for that additional 60,000 to be able to really target quality people, it's worth going with a search firm.

So my recommendation is to accept the position description as I have provided it to you, that we go with the 250 to $350,000 salary range, and that we use a search firm.

GOVERNOR CRIST: Very good. General?

ATTORNEY GENERAL McCOLLUM: I would move that, and let me comment on it, if I could, Governor. I have looked at the materials that are here, and I've also looked at the report that was given to us, to the SBA in June of 2007, the McLagan, I guess they call it, report. And it looks to me, looking at comparables of other states that have pension funds and have management operations like our SBA, that the average high management salary for the top person there, the base is about 350,000. And when you add in bonuses they get in those states, I think the average total compensation is about $450,000. And that actually is not too far below that where several other of their top management people lie too.

We need to do this right, in my judgment. We cannot continue to have the kind of operation that we've been dealing with that has shown up in the investment pool, and we can't expect to see the confidence restored in our pension funds if we are not paying for the quality leadership that we deserve in this state. I mean, we are the fourth largest state in the country, maybe the third, and if we are going to go forward, I for one want to invest what we need to in this, including the search that you've recommended, the cost for that, going out and getting a professional search team to do this, and put in a salary range at least where you put it, at the base, 250 to $350,000.

I might add that, Governor, I've learned we pay a bonus for good performance to the management of SBA of 5 to 8 percent. And the average bonuses range in these other states, 10 top, according to this report, 75 to 125 percent. And that's just really a huge difference. We have the money, as I understand it, over in a pool set aside over here, or in a fund. I shouldn't use the word "pool" now, I guess. But it's not like we're going to need more money or have to go to the Legislature or anything like that.

So I strongly urge what General Milligan is recommending today, that we give him that range, and then at some point we consider adjusting the bonuses as well. We're just nowhere near the bonus range that other comparable pension funds in other states are offering their top management. And if we don't get there, we're never going to get the top people to manage this, and we're never going to keep them. I just can't see how we could if we don't do that.

So I move the range in the report and recommendation that General Milligan has made to us, both for the range of 250 to 350 and for going to the -- to pay the outside headhunters to do this.

GOVERNOR CRIST: Thank you, General.

CFO SINK: Governor, I'll second the motion. And also, just as a point of clarification, General, as we go out to do this search, what do you contemplate we are going to say about bonuses, because I imagine the issue will come up in the process of recruiting top candidates.

GENERAL MILLIGAN: My intent was to use the same bonus procedure that's in place right now and not address any changes to it. We have a bonus system in place, a bonus plan in place, and we would go with that.

CFO SINK: Okay. Additionally, Governor, I just want to add that I agree with General McCollum that the information provided about the comparable salaries of other managers of -- I started to say large state pension funds, but the ones we were given, compared to the size of ours, are small, only $40 billion in assets under management as opposed to $140 billion. And I think we've learned a lot of lessons throughout this process, and we're going to continue to learn more, I'm sure, the importance of having our director be knowledgeable about investments, have had experience running other multibillion-dollar or pieces of multibillion-dollar funds.

So I am in agreement with the salary range being offered, because I do hope that we'll get some of these -- we need to get some top rated candidates in here. And by going the external route in terms of hiring the search firm, they'll have the opportunity to talk to many, many individuals who might not just be job-seekers and send in their resumé, but actually go out and recruit the people that we want as opposed to waiting for somebody to send a resumé in.

The only other comment that I had, General, was really around the job, the position description that you put together. And as we have developed our learnings, I personally would like to -- you have it divided out as administrative responsibilities, investment responsibilities. I would like to add a section in there on risk management responsibilities. I think we're seeing that we possibly had some shortfalls in the areas of risk management, and this -- to me, as I have an opportunity to interview the candidates or the finalists, whatever process we decide on, this is an area I'm going to really be questioning a lot about, is the person's experience and knowledge about how to put together a really effective and dynamic risk management and control environment at our SBA. So that would just be my recommendation for an addition to the position description.

GENERAL MILLIGAN: And certainly that's not easy to accommodate, but we will accommodate that. That's important.

CFO SINK: Thank you. So again, I'm very enthusiastic about us going through this process. It may be one of the most important hires that we as a board make. It will be one of the most important decisions that we make in our tenure, and I think the General has got a good plan here. So I do second the motion.

GOVERNOR CRIST: Okay. It is moved and seconded. If there are no other comments, all in favor say aye.

ATTORNEY GENERAL McCOLLUM: Aye.

CFO SINK: Aye.

GOVERNOR CRIST: All opposed say aye. Aye.

Thank you very much, General.

GENERAL MILLIGAN: Thank you.

GOVERNOR CRIST: I think we're done. We're adjourned.

(Proceedings concluded at 10:15 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA:
COUNTY OF LEON:

I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 1 through 43 are a true and correct record of the aforesaid proceedings.

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

DATED THIS 22nd day of January, 2008.

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