

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

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Representing:

DIVISION OF BOND FINANCE

FINANCIAL SERVICES COMMISSION, OFFICE OF  
FINANCIAL REGULATION

FINANCIAL SERVICES COMMISSION, OFFICE OF  
INSURANCE REGULATION

DEPARTMENT OF REVENUE

DEPARTMENT OF LAW ENFORCEMENT

FLORIDA LAND AND WATER ADJUDICATORY COMMISSION

BOARD OF TRUSTEES, INTERNAL IMPROVEMENT TRUST FUND

STATE BOARD OF ADMINISTRATION

The above agencies came to be heard before  
THE FLORIDA CABINET, Honorable Governor Crist  
presiding, in the Cabinet Meeting Room, LL-03, The  
Capitol, Tallahassee, Florida, on Thursday, January  
31, 2008, commencing at 9:05 a.m.

Reported by:

JO LANGSTON

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2894 REMINGTON GREEN LANE

TALLAHASSEE, FLORIDA 32308

(850) 878-2221

APPEARANCES:

Representing the Florida Cabinet:

CHARLIE CRIST  
Governor

CHARLES H. BRONSON  
Commissioner of Agriculture

BILL McCOLLUM  
Attorney General

ALEX SINK  
Chief Financial Officer

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P R O C E E D I N G S

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(Agenda items commenced at 9:10 a.m.)

GOVERNOR CRIST: And our agenda begins with the Division of Bond Finance, Ben Watkins. Good morning, Ben.

MR. WATKINS: Good morning, Governor, Cabinet members. Item Number 1 is approval of the minutes of the January 15th meeting.

GOVERNOR CRIST: Is there a motion on the minutes?

COMMISSIONER BRONSON: Motion on 1.

CFO SINK: Second.

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

MR. WATKINS: Item Number 2 is a resolution authorizing the competitive sale of up to \$300 million in Public Education Capital Outlay Bonds.

ATTORNEY GENERAL McCOLLUM: Move Item 2.

COMMISSIONER BRONSON: Second.

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

MR. WATKINS: Item 3 is a resolution authorizing the competitive sale of up to \$155 million in Right-Of-Way Acquisition and Bridge Construction Bonds for the Department of Transportation.

1 COMMISSIONER BRONSON: Motion on Item 3.

2 ATTORNEY GENERAL McCOLLUM: Second.

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

5 MR. WATKINS: Item 4 is a resolution authorizing  
6 the issuance and competitive sale of up to \$132 million  
7 of Lottery Revenue Refunding Bonds.

8 GOVERNOR CRIST: Is there a motion on Item 4?

9 COMMISSIONER BRONSON: Motion on Item 4.

10 CFO SINK: Second.

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

13 MR. WATKINS: And, lastly, Item 5 is a report of  
14 award on the competitive sale of \$325,775,000 in  
15 Turnpike Revenue Bonds. The bonds were awarded to the  
16 low bidder at a true interest cost of approximately  
17 4.17 percent.

18 The bond issue consisted of both new money  
19 issuance for road construction as well as a refunding  
20 component. The new money portion was approximately 60  
21 percent, or 59 percent of the transaction, and the  
22 refunding was approximately 40 percent of the  
23 transaction. The refunding component resulted in debt  
24 service savings, gross debt service savings of  
25 approximately 13 and a half million dollars over the

1 remaining term of the loan.

2 GOVERNOR CRIST: Is there a motion on Item 5?

3 CFO SINK: Move it.

4 ATTORNEY GENERAL McCOLLUM: Second.

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

7 CFO SINK: Governor.

8 GOVERNOR CRIST: CFO, please.

9 CFO SINK: Could we just have Ben give us a little  
10 update on the state of the credit markets and the  
11 impact upon Florida specifically, please?

12 MR. WATKINS: The credit markets, the subprime  
13 mortgage crisis and the related credit contraction have  
14 had impacts that had been unanticipated and continuing  
15 to -- and have now bled over into the municipal market.

16 And the way that has occurred is the uncertainty  
17 regarding the bond insurers and their AAA ratings.  
18 Bond insurance has become a significant part of the  
19 municipal market in general. Over half of all  
20 municipal bonds are now sold with bond insurance and,  
21 therefore, have a AAA rating.

22 Because of both the investments of the bond  
23 insurance companies as well as the bond insurance that  
24 they have written on structured financial products,  
25 including collateralized mortgage obligations and

1 collateralized debt obligations, the rating agencies  
2 have revisited their assumptions with respect to the  
3 expected losses on those securities that the bond  
4 insurers have insured and have told most of the bond  
5 insurers, not all, but most of the bond insurers that  
6 their current capital is not adequate with respect to  
7 their expected losses, calling into question their  
8 ability to maintain their AAA rating, which is -- loss  
9 of a AAA rating in this business is tantamount to loss  
10 of a franchise, because the whole reason for bond  
11 insurance is to get the AAA rating on the bonds.

12 So there's a lot of uncertainty surrounding the  
13 ability of the bond insurers to maintain their AAA.  
14 And what impact this has had on the market in general  
15 is primarily with respect to variable rate debt. And  
16 so the interest rate on variable rate debt has shot up  
17 or spiked as a result of the uncertainty of the bond  
18 insurers.

19 And fortunately for the State of Florida, we have  
20 not -- do not have -- our balance sheet is long-term  
21 fixed rate debt. And so the deterioration of the bond  
22 insurance has no impact on the State with respect to  
23 the vast amount of debt, the \$24 billion of debt that  
24 we have outstanding. So that's the good news.

25 So the market is -- the municipal market is



1 suffering from the uncertainty relative to the bond  
2 insurance and the bond insurers' ratings. The impact  
3 on the State of Florida is minimal, very manageable.  
4 The only variable rate debt we have outstanding is 200  
5 million of Everglades bonds, and we are monitoring  
6 those interest rates on a weekly basis. They went up  
7 last week. They've come back in line and actually down  
8 this week. So we're paying attention to that in terms  
9 of whether this is a permanent dislocation and we need  
10 to fix those rates or whether we can continue to leave  
11 that debt outstanding at a variable rate.

12 So that's the most direct impact that it has on  
13 us, and that's what's going on in the municipal bond  
14 market.

15 CFO SINK: Okay, thanks.

16 GOVERNOR CRIST: Sure. Thank you.

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1 GOVERNOR CRIST: Next we'll hear from Don Saxon,  
2 Office of Financial Regulation. Good morning.

3 MR. SAXON: Morning, Governor, members of the  
4 Cabinet. I have three agenda items today. First is  
5 the Office is requesting approval of the minutes of the  
6 November 14th and December 4th, 2007 meetings.

7 GOVERNOR CRIST: Is there a motion on the minutes?

8 CFO SINK: Move it.

9 ATTORNEY GENERAL McCOLLUM: Second.

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

12 MR. SAXON: The Office is requesting approval to  
13 file for final adoption amendments to Rule Chapter  
14 69V-40, Florida Administrative Code, relating to  
15 mortgage brokering and lending. If you will recall,  
16 Chapter 2006-213 is the law that updated our licensing  
17 process to make them more efficient.

18 The rules before you today are similar to the ones  
19 that you have previously approved with respect to the  
20 money transmitters, retail installment sellers and  
21 consumer finance companies. These will be applicable  
22 to our mortgage brokers and our lenders.

23 ATTORNEY GENERAL McCOLLUM: I move Item 2.

24 GOVERNOR CRIST: Is there a second?

25 COMMISSIONER BRONSON: Second.

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

3 MR. SAXON: Agenda Item 3, the Office is  
4 requesting approval to publish a notice of proposed  
5 rulemaking to Rule 69V-560.102, Florida Administrative  
6 Code, relating to money transmitters. The proposed  
7 rule amendment reduces the fingerprint processing fees  
8 from \$47 to \$42.25.

9 ATTORNEY GENERAL McCOLLUM: Move Item 3.

10 COMMISSIONER BRONSON: Second.

11 GOVERNOR CRIST: Moved and seconded. Show Item 3  
12 approved without objection. Thank you very much, Don.

13 CFO SINK: Governor.

14 GOVERNOR CRIST: Yes, CFO.

15 CFO SINK: I'm just full of questions this  
16 morning.

17 GOVERNOR CRIST: Sure, that's good.

18 CFO SINK: Actually, General McCollum, this might  
19 be for you. This is related to the work that Don does,  
20 but as all of us do, I've been traveling around the  
21 state quite a bit, and we do have a foreclosure crisis  
22 in the state related to subprime lending.

23 I've just been -- I was reading in the Wall Street  
24 Journal or the newspapers last night about the attorney  
25 generals in some of the larger states and also the FBI

1 is evidently investigating 14 firms that have been  
2 involved in subprime lending, all the way from mortgage  
3 brokering to these investment houses that sold the  
4 funds.

5 And I'm just curious to know -- I don't assume  
6 anything. Is your office staying in close touch and --

7 ATTORNEY GENERAL McCOLLUM: We are. We have a  
8 Mortgage Fraud Task Force. In fact, I discussed that  
9 when we had our press conference last week with Don  
10 Saxon and in the legislative arena. And I do want to  
11 comment on that as well, that we are really proud of  
12 the teamwork that's been going on between your office  
13 and mine and your office, too, Don, to push this  
14 legislative initiative that looks very good, to give us  
15 some new authority in the mortgage fraud area.

16 But in the areas that we are most pressing with in  
17 our team on consumer protection, we have now, I think,  
18 21 cases that are open. We have one case that has  
19 actually been brought in litigation, against people who  
20 are doing acts and have been doing acts in the rescue  
21 fraud arena, where somebody is in dire distress because  
22 of their problems with relationship to foreclosures and  
23 the threat of foreclosures, in that arena.

24 And I think that's important to know because  
25 people tend to get desperate at the end when they're

1           having a problem, and they'll turn to some group that  
2           is unscrupulous who says, "We'll save your home," and  
3           instead they skim the equity or they get you to  
4           transfer your title to the property in the name of  
5           saving your home, and in reality they're stealing your  
6           home. So we are very much involved in that.

7           And we're also involved in concerns that relate to  
8           the issues surrounding subprime in terms of companies  
9           like Countrywide. We just -- I got in a discussion  
10          yesterday with the Wall Street Journal over the fact  
11          that we have sent out subpoenas to Countrywide.

12          We're very concerned that in the initial marketing  
13          that they did of some of the products that they did in  
14          Florida, that they were misleading in the advertising  
15          that they did of those. We also believe there may be a  
16          problem because of the bankruptcy representations we're  
17          now hearing out of bankruptcy courts, that they may  
18          have been guilty of some of the misleading statements  
19          that were made in that process as well.

20          So we have currently subpoenas for information  
21          from them, and more will be forthcoming for other  
22          mortgage companies. Thank you for giving me the  
23          opportunity to say that.

24          CFO SINK: It's important. People are really  
25          hurting out there. We've got a serious problem in

1 Florida.

2 GOVERNOR CRIST: Thank you both very much.

3 MR. SAXON: And if I may, I'd like to express my  
4 appreciation to the General's office and to Madam CFO  
5 Sink's office for their cooperation. I think working  
6 collectively we can make a difference, and I think  
7 we're making gainful strides. And I will continue to  
8 pursue our initiatives, to do what we can do in this  
9 area to protect people.

10 GOVERNOR CRIST: Thank you, Don, very much.

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

3           MR. McCARTY: Good morning, Governor, members of  
4 the Cabinet. The one agenda item today is the approval  
5 for final adoption of a new rule, 690-170.0155. When  
6 House Bill 13C reenacted the PIP law, the personal  
7 injury protection, a new provision was added that  
8 requires healthcare providers to certify that they meet  
9 the eligibility requirements of the law. This was  
10 intended to ferret out fraud in the system.

11           GOVERNOR CRIST: Is there a motion?

12           COMMISSIONER BRONSON: Motion on Item 1.

13           CFO SINK: Second.

14           GOVERNOR CRIST: Moved and seconded. Show it  
15 approved without objection. Thanks for your great  
16 work, Commissioner.

17           MR. McCARTY: Thank you very much, Governor.

18           GOVERNOR CRIST: Yes, sir.

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1 GOVERNOR CRIST: Department of Revenue. Lisa,  
2 good morning.

3 MS. ECHEVERRI: Good morning. We just have two  
4 items on our agenda for today. The first item is  
5 approval of the minutes from the December 18th meeting.

6 COMMISSIONER BRONSON: Motion on Item 1.

7 GOVERNOR CRIST: Is there a second?

8 ATTORNEY GENERAL McCOLLUM: Second.

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

11 MS. ECHEVERRI: Item 2 is requesting approval for  
12 the Department to enter into a contract with Deloitte  
13 Consulting for creation of our Child Support Automated  
14 Management System Phase II Project. This is the  
15 automation of our entire child support system.

16 Phase I that was approved and funded dealt with  
17 the enforcement side of child support. Phase II deals  
18 with case creation, establishment of paternity,  
19 establishment of support, and the financial side of  
20 child support enforcement.

21 This project -- this particular contract is for  
22 111.9 million. The majority of that project is funded  
23 by the federal government. About 73 million comes  
24 directly from the federal government as reimbursement.  
25 Another 25 million comes from incentives that we've



1           earned through performance. And the State will fund  
2           about 12.1 million through nonrecurring GR.

3           ATTORNEY GENERAL McCOLLUM: I move Item 2.

4           CFO SINK: Second.

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

7           MS. ECHEVERRI: Thank you.

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1 GOVERNOR CRIST: Department of Law Enforcement.

2 Assistant Commissioner Mark Zadra. Good morning, sir.

3 MR. ZADRA: Good morning, Governor, members of the  
4 Cabinet. Florida Department of Law Enforcement has two  
5 items on today's agenda. The first is the minutes of  
6 the November 14, 2007 Cabinet meeting.

7 GOVERNOR CRIST: Is there a motion on the minutes?

8 COMMISSIONER BRONSON: Motion.

9 ATTORNEY GENERAL McCOLLUM: I'll second.

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

12 MR. ZADRA: Number 2 is the final approval of  
13 proposed Rule 11B-27.014, Florida Administrative Code.  
14 This rule was noticed at the November 14th Cabinet  
15 meeting. The Department has not received any request  
16 or did not receive any request for a public hearing,  
17 nor did we receive any written comments.

18 The proposed rule specifies Florida's requirements  
19 for retired law enforcement officers to become  
20 certified to carry a concealed weapon under the Federal  
21 Law Enforcement Officer Safety Act of 2004. Retirees  
22 meeting the requirements are issued an identification  
23 card, which is our Criminal Justice Standards and  
24 Training Commission card, or 600 Form. This card will  
25 be accepted in all 50 states and is a requirement to be

1 renewed every 12 months.

2 COMMISSIONER BRONSON: Motion on Item 2. But I do  
3 have a question.

4 GOVERNOR CRIST: Sure.

5 CFO SINK: Second.

6 GOVERNOR CRIST: Moved and seconded.

7 COMMISSIONER BRONSON: While I understand the  
8 general -- and I was concerned about its implication  
9 when you brought it up originally because there are  
10 different jurisdictional issues. Like in the area of  
11 Washington, D.C., it seems to work a little  
12 different -- I know that surprises everybody -- than  
13 the rest of the world, and including their law  
14 enforcement division and programs there. You've got a  
15 number of federal and local jurisdiction issues there.

16 It was unclear to me whether under those  
17 circumstances -- because I'd hate for some retired law  
18 enforcement officer who goes through this, who  
19 qualifies, who gets their license, who goes to D.C. and  
20 gets arrested because things are a little different  
21 there. And I wasn't sure whether this program actually  
22 covered them under those situations, and if not, they  
23 need to be told exactly what their parameters are.

24 And I still have not been given that information.  
25 I mean, saying for sure, no matter where they go in the

1 United States, under this provision of law, as a former  
2 law enforcement officer, with their qualifications,  
3 they are able to carry a concealed weapon to protect  
4 the public at large if something happened, is that the  
5 case in D.C. or not the case in Washington?

6 MR. ZADRA: Yes, sir. It's the law across the  
7 nation. Now, the exception and what may be adding to  
8 that is that there are certain requirements of certain  
9 buildings where even an individual that has a right to  
10 carry a concealed weapon must relinquish their weapon,  
11 such as if you went to the United States Capitol, if  
12 you went to the United States Supreme Court, into those  
13 areas, there are areas that for security purposes, that  
14 individuals even that normally would have a right to  
15 carry that firearm must relinquish that firearm to the  
16 safety and security of a safe or that type thing on the  
17 premises.

18 But, yes, the intent of this is that a retired  
19 officer and active officers, under a different rule,  
20 have the authority to carry weapons across the United  
21 States.

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

24 MR. ZADRA: Thank you.

25 GOVERNOR CRIST: Appreciate it.

1 GOVERNOR CRIST: Florida Land and Adjudicatory  
2 Commission. Lisa Saliba?

3 MS. SALIBA: Saliba, yes, sir. Thank you.

4 GOVERNOR CRIST: Thank you.

5 MS. SALIBA: Good morning. We have four items for  
6 your consideration today. Item 1 is the recommendation  
7 and approval of minutes from the November 14th meeting.

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

9 ATTORNEY GENERAL McCOLLUM: So moved.

10 COMMISSIONER BRONSON: Second.

11 GOVERNOR CRIST: Moved and seconded. Show the  
12 minutes approved.

13 MS. SALIBA: Item Number 2 is the recommendation  
14 to approve proposed rule amendment to expand the  
15 boundary of the Tuscany Community Development District  
16 and to authorize the secretary to file the final rule.

17 GOVERNOR CRIST: Is there a motion?

18 CFO SINK: Move it.

19 COMMISSIONER BRONSON: Second.

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

22 MS. SALIBA: Item 3, recommend approval of a  
23 proposed rule to establish the Myakka Ranch Community  
24 Development District in Sarasota County and authorize  
25 the secretary to file for final rule adoption.

1           ATTORNEY GENERAL McCOLLUM: I move Item 3.

2           COMMISSIONER BRONSON: Second.

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

5           MS. SALIBA: And the last item, recommend approval  
6 of proposed rule to establish Huntington Hammocks  
7 Community Development District in Hernando County and  
8 authorize the secretary to file the final rule for  
9 adoption.

10          COMMISSIONER BRONSON: Motion on Item 4.

11          CFO SINK: Second.

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

14          MS. SALIBA: Thank you.

15          GOVERNOR CRIST: Thank you very much.

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1           GOVERNOR CRIST: Board of Trustees. Secretary  
2 Sole, good morning.

3           MR. SOLE: Good morning, Governor, Cabinet.  
4 Before I jump into the agenda, I just want to bring up  
5 a point. In the December Cabinet meeting, there was a  
6 discussion about Weeki Wachee and the Department  
7 potentially moving forward in negotiating Weeki Wachee.

8           I just want to report back favorably, that the  
9 Department has reached an agreement for the transfer of  
10 the Weeki Wachee property to the State of Florida.  
11 We've also worked it out with the West Florida Water  
12 Management District.

13           And so the good news is, as it stands, come  
14 November of '08, Weeki Wachee will become part of the  
15 State's acquisition or holdings. So that's a big deal.  
16 Appreciate everyone's leadership on that.

17           ATTORNEY GENERAL McCOLLUM: Mike, I just want to  
18 congratulate you and your team on that. I know that  
19 was a struggle to get it done. But you did it  
20 efficiently and effectively, and it will be a great  
21 asset to Florida. I guess the Governor and I and the  
22 CFO and the Commissioner can all go down and watch the  
23 mermaids again, and on state property before long.

24           GOVERNOR CRIST: Outstanding. Thank you, Mike.

25           MR. SOLE: Thank you, Governor. And, again, a lot

1 of kudos go to Bob Ballard, who really helped spearhead  
2 that initiative.

3 With that, Item Number 1 is request approval of  
4 the minutes for the September 19th, October 2nd and  
5 October 16th and November 14th, 2007 Cabinet meetings.

6 CFO SINK: Move it.

7 COMMISSIONER BRONSON: Second.

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

10 MR. SOLE: Thank you. Item Number 2, the  
11 Department at this time is actually requesting a  
12 deferral of this item. We recently got some  
13 information. And I want to thank Mr. Inglis, who has  
14 traveled from South Florida and presented some  
15 information. We need to do a little bit more due  
16 diligence before we bring this back to the Cabinet.

17 GOVERNOR CRIST: Is there a motion to defer Item  
18 2?

19 COMMISSIONER BRONSON: Motion.

20 CFO SINK: Second.

21 GOVERNOR CRIST: Moved and seconded. Show Item 2  
22 deferred.

23 MR. SOLE: Item Number 3, the Department is also  
24 requesting a withdrawal of this item at this time,  
25 based upon information that recently came to our



1 attention.

2 GOVERNOR CRIST: Is there a motion to withdraw  
3 Item 3?

4 CFO SINK: Move it.

5 ATTORNEY GENERAL McCOLLUM: Second.

6 GOVERNOR CRIST: Moved and seconded. Show Item 3  
7 withdrawn without objection.

8 MR. SOLE: Thank you. Item Number 4 is a request  
9 for approval of a five-year sublease with four  
10 additional five-year renewal terms to Sprintcom for an  
11 installation of a wireless communication antenna and  
12 supporting electronic equipment. This will be on the  
13 rooftop of the Hurston Building, which is in Orange  
14 County.

15 ATTORNEY GENERAL McCOLLUM: I move Item 4.

16 COMMISSIONER BRONSON: Second.

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

19 MR. SOLE: Thank you. Item Number 5 is request  
20 for an approval on an option agreement to acquire 1.21  
21 acres within the Florida Keys Ecosystem Florida Forever  
22 Project. The property cost is \$330,000, which is a  
23 hundred percent of the appraised value.

24 CFO SINK: Move it.

25 ATTORNEY GENERAL McCOLLUM: Second.

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

3           MR. SOLE: Thank you. Item Number 6 is request  
4 for an approval on an option agreement to acquire over  
5 1,600 acres within Osceola County. The property will  
6 be managed by the Florida Fish & Wildlife Conservation  
7 Commission as part of its Three Lakes Wildlife  
8 Management Area.

9           The cost is 11,651,000, which is 94 percent of the  
10 approved value and is an inholding to that existing  
11 management area.

12           ATTORNEY GENERAL McCOLLUM: I move Item 6.

13           COMMISSIONER BRONSON: Second.

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

16           MR. SOLE: Our last item, Governor and Cabinet,  
17 the Department is also requesting withdrawal of this  
18 item at this time.

19           GOVERNOR CRIST: Is there a motion to withdraw  
20 Item 7?

21           ATTORNEY GENERAL McCOLLUM: So move.

22           COMMISSIONER BRONSON: Second.

23           GOVERNOR CRIST: Moved and seconded. Show Item 7  
24 withdrawn without objection. Thank you, Mike.

25           MR. SOLE: Governor, thank you, Cabinet.

1 CFO SINK: Governor.

2 GOVERNOR CRIST: CFO, please.

3 CFO SINK: I just want to add something here. I  
4 just became aware that every year our accounting  
5 department -- and Doug Darling is here, he's the head  
6 of the Division of Accounting and Audit -- presents the  
7 financial report for the State. And I'm somewhat  
8 embarrassed to say, but we've never been able to get an  
9 unqualified audit. And the reason is because --

10 GOVERNOR CRIST: Wouldn't you like a qualified  
11 one? Forgive me. I'm sorry.

12 CFO SINK: We could spin that, couldn't we? But  
13 the reason -- and it's always been accepted that the  
14 reason is that we just have such enormous land holdings  
15 in the state. It's just been very, very difficult to  
16 be able to specifically identify and account for every  
17 piece of land that the State has.

18 But the Department of Environmental Protection has  
19 undertaken, over these past couple of years, an effort  
20 to get all the accounting straight and all the  
21 identification straight. And so for the first time in  
22 history our state is going to receive an unqualified  
23 audit. And it's due entirely to the efforts of  
24 Secretary Sole and his teammates at the DEP.

25 And so it's nice, for at least my first year, to

1 be able to sign an unqualified audit for the State.

2 Thank you, Mike.

3 MR. SOLE: Thank you, CFO. And I do want to thank  
4 Deborah Poppell, who is our acting state lands  
5 director, for her significant effort to achieve that  
6 goal. So thank you very much.

7 GOVERNOR CRIST: Thank you, CFO, and thank you,  
8 Secretary.

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1           GOVERNOR CRIST: SBA. Ron Poppell. State Board  
2 of Administration.

3           MR. POPPELL: Good morning. I'm filling in for  
4 the General, who is a little under it this morning as a  
5 result of some minor surgery the other day. So he  
6 called me and asked me to fill in.

7           GOVERNOR CRIST: Pass our regards on to him.

8           MR. POPPELL: Item 1 is approval of the minutes  
9 from the January 15th meeting.

10          ATTORNEY GENERAL McCOLLUM: I move Item 1.

11          CFO SINK: Second.

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

14          MR. POPPELL: Item 2 is the request for approval  
15 of a fiscal sufficiency of amount not exceeding \$300  
16 million State Board of Education Public Education  
17 Capital Outlay Bonds. Ben has talked to you about this  
18 one.

19          GOVERNOR CRIST: Is there a motion on Item 2?

20          CFO SINK: Move it.

21          ATTORNEY GENERAL McCOLLUM: Second.

22          GOVERNOR CRIST: Moved and Seconded. Show Item 2  
23 approved without objection.

24          MR. POPPELL: Item 3 is approval of a fiscal  
25 sufficiency of amount not exceeding \$155 million

1 Department of Transportation Right-Of-Way Acquisition  
2 Construction Bonds. Ben has talked to you about this  
3 one as well.

4 CFO SINK: Move it.

5 ATTORNEY GENERAL McCOLLUM: Second.

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

8 MR. POPPELL: Item 4 is approval of a fiscal  
9 sufficiency of amount not exceeding \$132 million State  
10 Board of Education Lottery Revenue Refunding Bonds.

11 ATTORNEY GENERAL McCOLLUM: I move Item 4.

12 CFO SINK: Second.

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

15 MR. POPPELL: Item 5 is request approval of a  
16 fiscal determination of amount not exceeding \$250  
17 million Florida Housing Finance Corporation Homeowner  
18 Mortgage Revenue Bonds.

19 CFO SINK: Move it.

20 ATTORNEY GENERAL McCOLLUM: Second.

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

23 MR. POPPELL: Item 6 is request approval of a  
24 fiscal determination of an amount not exceeding  
25 10,500,000 Tax-Exempt Florida Housing Finance

1 Corporation Multifamily Mortgage Revenue Bonds.

2 ATTORNEY GENERAL McCOLLUM: I move Item 6.

3 CFO SINK: Second.

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

6 MR. POPPELL: Item 7 through 12 are all requests  
7 for interest rate exceptions. We haven't done one of  
8 these since about 2001, so there's a group of these  
9 that have stacked up over the last month.

10 Ben is here, along with Anthony Delaney, if you  
11 have questions about the process or the details on any  
12 of these.

13 Item 7 is approval of an interest rate exception  
14 for the Buckeye Park Community Development District on  
15 a proposed issue not exceeding \$16 million.

16 GOVERNOR CRIST: Can you describe to us what an  
17 interest rate exception is?

18 MR. POPPELL: I'll let Ben just talk to you about  
19 the whole process. That's the easiest thing.

20 MR. WATKINS: Good morning. Governor, there's a  
21 Florida Statute that sets a maximum interest rate on  
22 tax-exempt bonds that can be sold in the state. And  
23 it's based on an index plus 300 basis points, which  
24 means 300 percent.

25 Because of the state of the municipal market and

1           what we refer to in our parlance as the blowout of  
2           credit spreads that has occurred -- again, the genesis  
3           was the subprime mortgage crisis. It's now bled over  
4           into the municipal market. We are, for the first  
5           time -- the statute has been in place a long time  
6           and --

7           GOVERNOR CRIST: The statute that sets the  
8           maximum.

9           MR. WATKINS: The statute that sets the maximum.

10          GOVERNOR CRIST: And what is that maximum?

11          MR. WATKINS: The maximum, it's based on a bond  
12          buyer index, the 20 Bond Buyer Index, plus three  
13          percent. So the rate at this point in time, based on  
14          last month's index plus 300 basis points, is 7.44  
15          percent.

16          GOVERNOR CRIST: Thank you.

17          MR. WATKINS: And because of the change in the  
18          market and the increase in the interest rates necessary  
19          to sell this type of debt, we are now seeing the -- we  
20          now have six items on the agenda relating to a waiver  
21          of that interest rate.

22          GOVERNOR CRIST: Now, would the waiver increase it  
23          or decrease it?

24          MR. WATKINS: The waiver would allow the bonds to  
25          be sold in excess of the rate set by law.



1           GOVERNOR CRIST:  And who would have to pay that  
2           increase?

3           MR. WATKINS:  The landowners within the develop --  
4           the bonds are secured by special assessments on land  
5           within the community development district.  So the debt  
6           is repaid through an assessment on property owners  
7           within the district.

8           GOVERNOR CRIST:  So this would, in effect,  
9           increase the cost of property in these developments to  
10          the purchaser?

11          MR. WATKINS:  It will increase the cost of the  
12          financing --

13          GOVERNOR CRIST:  Well, isn't that like the whole  
14          deal?

15          MR. WATKINS:  -- which presumably will then be  
16          passed on to the landowners within the district.

17          GOVERNOR CRIST:  Why do we want to do this?  Why  
18          would we want to do this?  I mean, I just want to make  
19          sure I'm hearing you right.  That's all.  So I've got  
20          to ask.  This would make it more expensive to purchase  
21          land in these developments?

22          MR. WATKINS:  Yes, sir, it could.

23          GOVERNOR CRIST:  That doesn't sound good.

24          MR. WATKINS:  It is -- the community  
25          development --

1           GOVERNOR CRIST: Is it necessary for some reason,  
2 Ben? I mean, can you elaborate, please?

3           MR. WATKINS: These are -- this is a traditional  
4 way that infrastructure has been financed in the state  
5 probably for over the last decade. There have been  
6 hundreds of millions, if not billions of dollars of  
7 bonds issued through this process to finance the  
8 infrastructure within the district.

9           It's roads and utility services, water and sewer,  
10 as well as stormwater treatment. It's that kind of  
11 public infrastructure that is required of the developer  
12 in order to get approval of the necessary permits to  
13 develop property within the state.

14           And so this has been a conventional traditional  
15 mechanism that the development community has used over  
16 the last decade to finance the growth and the  
17 infrastructure -- well, to finance the infrastructure  
18 in the state necessary to provide for growth.

19           And it's only because -- and you have not seen  
20 those. And you have not seen those because the market  
21 was in a place that allowed those financings to occur  
22 at a rate below the maximum rate established by law.

23           Prior to -- back in the late eighties and early  
24 nineties, prior to your tenure here, based on the  
25 market conditions, these exceptions were more

1           commonplace. And then we've gone through a period of  
2           time of historically low interest rates, and these  
3           types of financings were done to finance  
4           infrastructure, but you all were not aware of them  
5           because it didn't exceed the maximum rate.

6           But now the market has changed and we have a  
7           situation where in order to continue the developments  
8           or the development of the infrastructure in these  
9           districts, it may be necessary, in order for these  
10          bonds to be marketed, to exceed that rate established  
11          by law.

12          So we have -- I have -- the representatives from  
13          the developers -- in terms of the process that we've  
14          gone through to do the due diligence necessary to  
15          provide you all with the information necessary to make  
16          an educated decision on these, we've written up the  
17          development, description of the development, as well as  
18          had Public Resources Advisory Group, an independent  
19          financial advisor, independently review the request for  
20          an interest rate waiver to determine if, based on  
21          existing market conditions, that interest rate is  
22          reasonable, based on the credit of the individual  
23          community development districts as well as the existing  
24          market conditions.

25          So that's what we have done in terms of complying

1 with the statute and doing the review necessary to  
2 submit these items for your consideration for an  
3 interest rate waiver.

4 ATTORNEY GENERAL McCOLLUM: So if I get it  
5 right -- if I might, Governor.

6 GOVERNOR CRIST: Of course.

7 ATTORNEY GENERAL McCOLLUM: Then if we -- we  
8 haven't seen these, but the process of passing on this  
9 cost to the consumer, if you will, out here, has been  
10 going on as long as those interest rates were below the  
11 set amount that didn't need an exception. That's been  
12 going on for a long time and there's been a lot of  
13 those, right?

14 MR. WATKINS: Yes, sir.

15 ATTORNEY GENERAL McCOLLUM: So all we're being  
16 asked to do today is to allow a waiver so the interest  
17 can be above a certain amount, which requires us to  
18 act, as opposed to initiating some new process or  
19 confirming something that hasn't been traditionally  
20 done, as far as the pass-on is concerned and the manner  
21 of financing. Is that right?

22 MR. WATKINS: Yes, sir, that's correct.

23 ATTORNEY GENERAL McCOLLUM: Thank you.

24 GOVERNOR CRIST: To follow up, the waiver would  
25 allow it to increase how much? Is there a cap?

1           MR. WATKINS: Each one is different, Governor, in  
2 terms of the interest rate that is being requested.  
3 And they range from eight and one-eighth percent up to  
4 nine percent.

5           GOVERNOR CRIST: You mean total or additional?

6           MR. WATKINS: Sir?

7           GOVERNOR CRIST: Total or additional?

8           MR. WATKINS: In total, in total. And the current  
9 rate that is provided by law, the Bond Buyer Index plus  
10 the 300 basis points, is 7.44 percent. And because of  
11 the volatility in the market resulting from the  
12 subprime mortgage crisis, the underwriting -- the  
13 underwriters for these transactions -- this interest  
14 rate waiver is good for six months. So it's not like  
15 the transaction may be sold in the next week or two.  
16 It could be.

17           But it's in anticipation of further deterioration  
18 in the market, and they're not sure whether the  
19 transaction could be sold at less than the maximum rate  
20 established by law or whether the interest rate would  
21 have to exceed that.

22           So we've set a -- they have requested a maximum  
23 rate here. If at the time they sell the bonds it  
24 requires an interest rate less than that, that's  
25 certainly what they would be sold at. They would be

1           trying to get the lowest interest rate possible given  
2           the market conditions at the time, because it's in  
3           their best interest to do that.

4           GOVERNOR CRIST:  If I might.

5           MR. WATKINS:  Yes, sir.

6           GOVERNOR CRIST:  Is there any correlation between  
7           what the Fed is doing currently in sort of dropping  
8           rates almost every other day?  I mean, is this coming  
9           in a little late in response to what's happening at the  
10          federal level, where it's sort of going in the other  
11          direction, or is there not a correlation here?  I don't  
12          know.  I'm just asking.

13          MR. WATKINS:  It would be hard to -- interest  
14          rates --

15          GOVERNOR CRIST:  You know what I'm talking about?  
16          I mean, the Fed is dropping the rate really almost  
17          daily.

18          MR. WATKINS:  Right.

19          GOVERNOR CRIST:  And yet we're being asked to  
20          recognize and allow for an increase.  It seems  
21          counterintuitive to me, unless I'm missing something,  
22          which is possible.

23          MR. WATKINS:  No, sir.  It is counterintuitive,  
24          and I can't tell you --

25          GOVERNOR CRIST:  Do you still recommend this,

1 given the market conditions that are happening right  
2 now?

3 MR. WATKINS: We have -- we've done what we need  
4 to do relative, in my judgment, relative to providing  
5 information and reviewing the projects and looking at  
6 other comparable transactions in the market. And based  
7 on the advice of the independent financial advisor that  
8 reviewed these for reasonableness, given existing  
9 market conditions, and the projects themselves, the  
10 other thing, the other standard in the statute is that  
11 the intent and objectives of the financing can be  
12 realized. In other words, the developer can do what it  
13 is, build the infrastructure that they're trying to  
14 finance.

15 With respect to those two standards and those two  
16 criteria, we've reviewed it and provided the  
17 information and believe a recommendation is  
18 appropriate.

19 ATTORNEY GENERAL McCOLLUM: If I might interject,  
20 Governor.

21 GOVERNOR CRIST: Sure, General.

22 ATTORNEY GENERAL McCOLLUM: In this arena, as I  
23 understand it, and I think all three of us deal a  
24 little bit with this, the interest rates aren't  
25 directly determined by what the Fed does, and the

1 marketplace is determining those.

2 So with the struggle and the reason the Fed is  
3 lowering the rates all the time right now, trying to  
4 dramatically stimulate the economy and get more money  
5 out and get the banks loaning more, it's lowering the  
6 rates for the banks to get the money.

7 But it might not mean that we or the people  
8 involved here could get the lower rates that you hope  
9 would come about as a result of that. I think that's  
10 really what Ben is telling us, because the marketplace,  
11 the private marketplace is determining those, the risk  
12 in the private marketplace. I think that's the issue.

13 And I would recommend we go ahead and approve  
14 this, give them the flexibility. That's really all  
15 we're doing, and let them hopefully be able to market  
16 this at lower rates.

17 Otherwise, we're going to defer for months  
18 possibly the improvements that they want to have, and  
19 that's probably not in the best interest of the  
20 communities involved.

21 CFO SINK: You're right, General. I think if we  
22 don't approve it, then these communities are not going  
23 to be able to put their infrastructure in. They'll  
24 have to wait until they're sure that the markets are in  
25 such a condition that they can get the interest -- the



1 lower interest rate.

2 So there really is a trade-off here. And I think  
3 something that gives me a little comfort is that we're  
4 setting these caps here, but for sure they're going to  
5 go out into the market and get the cheapest rate. I  
6 assume there's going to be some kind of auction  
7 process, there's going to be competitive bidding.

8 And so it's not like anybody is sticking it to the  
9 final -- the ultimate payor, the homeowner or the  
10 commercial business. It's just something that's  
11 totally reflective of what the market condition happens  
12 to be at that -- at the particular time that they get  
13 ready to go out.

14 And they may very well decide on their own to  
15 delay their bond issuance a little bit, thinking,  
16 according to what their advisors say, that the markets  
17 are going to stabilize a little bit. Did I say  
18 anything wrong?

19 MR. WATKINS: No, ma'am. That's correct.

20 GOVERNOR CRIST: You concur.

21 MR. WATKINS: Governor, one other thing in terms  
22 of one other for your consideration. In connection  
23 with doing our due diligence and reviewing these  
24 transactions and trying to address, anticipate and  
25 address concerns, we have representations from the

1 developers that the assessments that would secure these  
2 bonds will not be levied on existing homeowners but  
3 only on future homeowners and that those assessments  
4 will be fully disclosed to potential purchasers before  
5 the lots are sold, in the case of residential  
6 developments.

7 The other thing we did was with respect to  
8 commercial and industrial development, was to get a  
9 representation from the existing landowners within the  
10 district that they have been notified of the proposed  
11 financing and that they have no objection to the  
12 financing being proposed. So --

13 GOVERNOR CRIST: That's of the current owner?

14 MR. WATKINS: Yes, sir.

15 GOVERNOR CRIST: Well, it doesn't -- it wouldn't  
16 hit them, is what I think you just said, just the new  
17 buyer.

18 MR. WATKINS: For residential developments.

19 GOVERNOR CRIST: Right.

20 MR. WATKINS: But in --

21 GOVERNOR CRIST: So why would they object if they  
22 don't have to pay any more?

23 CFO SINK: I think you were talking about the  
24 commercial developments, right?

25 MR. WATKINS: Yes.

1           GOVERNOR CRIST: He's talking about both.

2           MR. WATKINS: In one instance, it's the -- one  
3 project in Palm Beach County, it's called the Beeline  
4 Community Development District. It's Martin Marietta,  
5 and Martin Marietta owns 94 percent of the property  
6 within the district, and it's United Technologies and  
7 it's a jet engine testing site.

8           And they are turning over the utilities to Palm  
9 Beach County. Right now they have to provide the  
10 utility services within the district. And the  
11 financing is being done in connection with Palm Beach  
12 County taking over the provision of utility services  
13 for the district.

14           In order for that to occur, Palm Beach County is  
15 requiring infrastructure and system upgrades to that  
16 community development district before they will assume  
17 responsibility for providing services.

18           So in that case there has already been a  
19 financing. There are existing landowners within that  
20 commercial development. They would like the County to  
21 take over the provision of utility services. The  
22 County has said, we will do that conditioned upon  
23 additional improvements being made.

24           And so the landowners within the district have --  
25 the developer or the community development district has

1 represented to us that the landowners within the  
2 district in that circumstance agree that -- or had been  
3 notified of the financing and the improvements and do  
4 not object to the assessments related to the financing  
5 being done.

6 So each project is a little different, Governor.  
7 But these are the things we have done to review the  
8 projects and provide information and assurance that  
9 everyone has been notified of what is happening here  
10 and the proposed financing is being done.

11 GOVERNOR CRIST: General.

12 ATTORNEY GENERAL McCOLLUM: I have no more  
13 questions. I move Item 7 if that's appropriate,  
14 Governor.

15 GOVERNOR CRIST: I'm sure it is. I have a  
16 question. Since 7 through 12 are of a similar nature,  
17 can we do them all?

18 MR. WATKINS: Yes, sir.

19 ATTORNEY GENERAL McCOLLUM: I move Item 7 through  
20 12.

21 CFO SINK: Second.

22 GOVERNOR CRIST: Moved and seconded. I just had  
23 one further question. Who is the independent financial  
24 advisor on this?

25 MR. WATKINS: Public Resources Advisory Group,

1 Marianne Edmonds with Public Resources Advisory Group.

2 GOVERNOR CRIST: And how was she selected?

3 MR. WATKINS: We have --

4 GOVERNOR CRIST: I'm sure she's great. I'm just  
5 curious of the process.

6 MR. WATKINS: We have financial advisors under  
7 contract at the Division of Bond Finance. We did an  
8 RFP, and we do an RFP periodically, and we engage  
9 financial advisors. And they were already under  
10 contract, and so we pay them on an hourly basis. And  
11 rather than go hire someone different on this case, we  
12 used someone that we already had selected pursuant to  
13 an RFP process to review these.

14 GOVERNOR CRIST: Okay. And I think a simple  
15 majority is the vote required on this?

16 MR. WATKINS: Yes, sir.

17 GOVERNOR CRIST: All in favor say "aye."

18 CFO SINK: Aye.

19 ATTORNEY GENERAL McCOLLUM: Aye.

20 GOVERNOR CRIST: Opposed? No. Thank you very  
21 much. On to Item 13.

22 MR. POPPELL: Item 13 is request authority to file  
23 notice of proposed rulemaking for five Hurricane  
24 Catastrophe Fund rules. Rule 19-8.010, reimbursement  
25 contract; 19-8.012, procedures to determine

1           ineligibility for participation in the Florida  
2           Hurricane Catastrophe Fund and to determine exemption  
3           from participation in the Florida Hurricane Catastrophe  
4           Fund due to limited exposure; Rule 19-8.013, revenue  
5           bonds issued pursuant to Section 215.555(6); Rule  
6           19-8.029, insurer reporting requirements; and Rule  
7           19-8.030, insurer responsibilities. Jack is here if  
8           you have questions on those.

9           GOVERNOR CRIST: I have a question. Good morning,  
10          Jack. How are you?

11          MR. NICHOLSON: Good morning.

12          GOVERNOR CRIST: I notice one of the things in  
13          this rule talks about an increase in resubmission fees  
14          from 1,000 to \$2,000. Can you explain that, please?

15          MR. NICHOLSON: Yes, sir.

16          GOVERNOR CRIST: And who would pay it and the  
17          impact?

18          MR. NICHOLSON: The insurance companies would pay  
19          this fee, but what happens is that with the Florida  
20          Hurricane Catastrophe Fund, insurance companies are  
21          required by law to submit their exposure data annually  
22          to the Cat Fund. It's a free submission. They submit  
23          it. We review the data.

24          If they have made errors in that data, then they  
25          have to resubmit the data. It's always because they

1           have made the error. And then we charge them  
2           routinely -- historically, we've charged them \$1,000 to  
3           make that resubmission. And we will continue to charge  
4           them that.

5                     However, what we're proposing here is that once  
6           the exam report is issued and we find that these errors  
7           have not been corrected, we would charge them a \$2,000  
8           resubmission fee because the time involved then is much  
9           more.

10                    What happens is we may say that -- we may find  
11           that they did not report their appurtenant structures.  
12           They resubmit the data, but they only resubmit the data  
13           correcting the errors that we found, the ten or so  
14           appurtenant structure problems. Then when we do the  
15           exam report, we find that that wasn't the -- they  
16           didn't correct it for all the universe of errors that  
17           they made.

18                    So we find that when we are involved in that type  
19           of review, it probably takes about 40 hours to review  
20           that resubmission, and that doesn't even count the time  
21           that I may have to be involved with resolving those  
22           problems with the company and other people in  
23           management at the Cat Fund.

24                    GOVERNOR CRIST: I'm curious, just to get an idea  
25           of what kind of dollars we're talking about. How many

1           resubmissions were required in the past year,  
2           approximately?

3           MR. NICHOLSON: I've got that right here. The  
4           last two completed years -- we're still in the process  
5           of '06 and '07, wrapping up some documents. But for  
6           '04 there were 176 exams, 75 resubmissions, 23  
7           companies had to resubmit more than once. In 2005  
8           there were 163 exams, 73 resubmissions and 10 companies  
9           had to submit more than once.

10           And another issue here is that it's very critical  
11           to their recovery. If they have not submitted their  
12           data properly, it may hold up their Cat Fund recovery,  
13           which could obviously affect policyholders down the  
14           road.

15           GOVERNOR CRIST: And you think by charging them  
16           twice as much, your people are going to work twice as  
17           hard and get the information back to them twice as fast  
18           so that the consumer is helped twice as much?

19           MR. NICHOLSON: I think it will be beneficial to  
20           recover our costs.

21           GOVERNOR CRIST: Or do you plan to hire more  
22           people with the additional revenue?

23           MR. NICHOLSON: No, no.

24           GOVERNOR CRIST: You don't?

25           MR. NICHOLSON: It's become an overburdening



1           problem. We would rather spend our time on reviewing  
2           the exams as opposed to reviewing resubmissions and  
3           finding -- those are kind of like --

4           GOVERNOR CRIST: Well, then I'm not sure I  
5           understand how the additional money makes the office  
6           more efficient if you don't hire more people to review  
7           the stuff and get it back quicker.

8           MR. NICHOLSON: Well, what it does is it  
9           discourages the companies from making errors, and over  
10          the long-term --

11          GOVERNOR CRIST: So this is a penalty fee, in  
12          essence.

13          MR. NICHOLSON: It's a combination. I mean, I  
14          think it helps recover our costs because we are  
15          spending a lot of time. We can put the people that we  
16          have working now on reviewing resubmissions looking at  
17          the exam closer to find other errors and resolving  
18          those problems.

19          But I think at the same time it does serve as a  
20          deterrent because if they have to do it right the first  
21          time and they know there's a bigger penalty, then I  
22          think they will do it right the first time. That  
23          benefits everybody.

24          GOVERNOR CRIST: Any other questions?

25          ATTORNEY GENERAL McCOLLUM: No.

1 GOVERNOR CRIST: Is there a motion on this?

2 CFO SINK: Yeah. I move Item 13.

3 ATTORNEY GENERAL McCOLLUM: I second it.

4 GOVERNOR CRIST: Moved and seconded. Show it  
5 approved without objection. Thank you, Jack.

6 MR. POPPELL: Item 14 is an update on the  
7 executive director search and also on the Local  
8 Government Investment Pool. I'll start with the Local  
9 Government Investment Pool. We went out with an ITN.  
10 We got 15 responses to the ITN. Ten of those met the  
11 minimum requirements. The team scored the ITNs. The  
12 top three --

13 GOVERNOR CRIST: Can you describe the acronym?

14 MR. POPPELL: Excuse me?

15 GOVERNOR CRIST: Can you describe the acronym,  
16 ITN?

17 MR. POPPELL: Oh, invitation to negotiate. I'm  
18 sorry.

19 GOVERNOR CRIST: Thank you.

20 MR. POPPELL: They scored each of the ten. The  
21 top three were selected. They were BlackRock, Melon  
22 and Federated. Interviews were conducted Monday and  
23 Tuesday of this week. Of all three, the team met late  
24 yesterday and they unanimously selected Federated.

25 The recommendation has gone to General Milligan

1 for his review. The recommendation memo is being sent  
2 to your staff today so you can see the details of that  
3 recommendation from staff to the General.

4 Assuming that he were to approve the selection,  
5 then the plan would be that we would transition at the  
6 end of February to Federated. It's my understanding  
7 from talking to a couple of people who were on the team  
8 that it ultimately came down to fees, and Federated was  
9 going to be somewhere under three basis points in fees.  
10 That's to be negotiated a little bit as well. So it  
11 should be someplace under three basis points, is what  
12 I'm being told.

13 GOVERNOR CRIST: Does that mean they were the low  
14 bidder?

15 MR. POPPELL: From a fee perspective, yes, sir.

16 GOVERNOR CRIST: From a what perspective?

17 MR. POPPELL: From a fee perspective, they were  
18 low bidder.

19 GOVERNOR CRIST: Is there something else?

20 MR. POPPELL: From an ability to do the work, they  
21 were all very even, from what I've been told by staff.  
22 And it just came down to the fees, who had the better  
23 fee structure. Federated also, as I understand, has  
24 staff in Florida on the ground that ultimately we could  
25 use if we needed to use them for whatever purposes.

1           And that would be discussed, I'm sure, as part of the  
2           contract negotiations.

3           CFO SINK:   Governor.

4           GOVERNOR CRIST:   CFO.

5           CFO SINK:   This was just brought to my attention  
6           this morning.  And am I correct in assuming this is  
7           just for information?

8           MR. POPPELL:   Yes.

9           CFO SINK:   Because I think that it's really  
10          important that our staffs get involved in reviewing the  
11          work of the interview team, and we've just got to be  
12          sure that we get this right.

13          And so I'm happy to hear that we're moving ahead,  
14          but we don't want to move ahead and make a mistake.  
15          And I know that our staffs will want to be engaged.  
16          And I understand that General Milligan was not really  
17          aware of the final recommendation either because he's  
18          been sick.

19          So we need to get him back involved in ensuring  
20          that we get all the I's dotted and the T's crossed and  
21          that we are looking -- fees are critically important,  
22          but given the loss of confidence we've had among the  
23          investor group, I personally want to be sure that the  
24          investors are satisfied with the ultimate decision,  
25          because a few basis points in fees may or may not

1 offset better performance.

2 So we've got to weigh out performance with fees as  
3 well. So I just wanted to mention that this is not  
4 the -- to me, it's not the final until we have a little  
5 bit more due diligence.

6 ATTORNEY GENERAL McCOLLUM: I would concur in that  
7 as well. I want to raise something, while we're coming  
8 to a conclusion of all this, too, because this reminds  
9 me, this is the investment pool where all the subprime  
10 issues came up and so forth.

11 And I know you asked earlier, CFO Sink, about what  
12 we were doing in our area about the mortgage issue and  
13 all the mortgage fraud possibilities that are out  
14 there.

15 One thing I didn't clarify during that discussion  
16 with Don Saxon, and perhaps we all at least should be  
17 aware of, what the attorney general in New York is  
18 doing is going after securities fraud. What we're  
19 doing is going after unfair and deceptive trade  
20 practice, misleading advertising, because, as the  
21 Governor undoubtedly knows from his tenure as attorney  
22 general, the Legislature has never given the attorney  
23 general in Florida the authority that the attorney  
24 general in New York has to go after securities fraud.

25 And I believe that, Alex, your predecessor didn't

1 particularly want to see that happen at that time. If  
2 there is a desire or we as a group feel that we ought  
3 to be seeing more activity on the State's part in  
4 securities fraud, our office is certainly willing to do  
5 that, but it doesn't have the authority, and maybe  
6 staff ought to be talking about whether you want us to  
7 join together and ask the Legislature to give us that  
8 authority. It may be that now we need to really have  
9 that authority.

10 I just want to make that point because some of  
11 you -- there's probably an absence of understanding  
12 that our laws are very different in Florida.

13 GOVERNOR CRIST: That's a good point.

14 CFO SINK: Governor, I think we are finding  
15 that -- we are finding that we have very strong  
16 provisions for prosecuting insurance fraud in the  
17 state, and of course the Department of Financial  
18 Services manages the Division of Insurance Fraud. And  
19 with all of these abuses, the mortgage fraud abuses,  
20 the securities fraud abuses, I think we're identifying  
21 a gap.

22 I know that we -- even the legislation you and I  
23 are working on provides for civil penalties, but we  
24 have criminals out there taking advantage --

25 ATTORNEY GENERAL McCOLLUM: That's right.

1 CFO SINK: -- in these markets. And I would love  
2 to work with you on figuring out how we can get some  
3 tougher criminal penalties to go after these mortgage  
4 related and securities related frauds. We have to do  
5 this.

6 ATTORNEY GENERAL McCOLLUM: We'll get our staffs  
7 to work together. I'm glad that you triggered my  
8 bringing this up today. Even though it's a tag-on to  
9 this discussion, it's very relevant to the investment  
10 pool because we may have had some fraud committed in  
11 connection with it. We don't know right now. Thank  
12 you.

13 I think that what we're dealing with here is  
14 all -- is this short-term? I've got one last question  
15 on what we're dealing with right here. What is the --  
16 what's the relationship of what Federated would be  
17 doing or whoever we give this to? Is it just the  
18 investment pool that they would be managing? Are they  
19 going to be managing more than the investment pool?

20 MR. POPPELL: Potentially more.

21 ATTORNEY GENERAL McCOLLUM: Potentially more.

22 MR. POPPELL: That decision has not been made.  
23 Potentially, it's either the investment pool, we're  
24 also looking at all short-term and seeing does it make  
25 sense to give them all short-term as well. And that

1 decision will be made in the next week or so.

2 ATTORNEY GENERAL McCOLLUM: Thank you for that  
3 clarification. That's all I have, Governor.

4 GOVERNOR CRIST: Great. Any other discussion on  
5 Item 14?

6 CFO SINK: I believe, were you going to -- excuse  
7 me, Governor.

8 GOVERNOR CRIST: Sure.

9 CFO SINK: I think the issue of the executive  
10 search is --

11 MR. POPPELL: That was the next thing I was going  
12 to talk about, was the executive search for the new  
13 executive director. We went out, SBA staff went out  
14 and talked to all of our consultants that we have, to  
15 get names from them of firms that they had dealt with,  
16 firms that they knew were in the market that were  
17 reputable firms.

18 We took those. We went to the Council of  
19 Institutional Investors and asked them of firms that  
20 they had dealt with. We sent out an invitation to  
21 negotiate to the list that we got back. We got seven  
22 responses.

23 The team, which is internal staff at the SBA, five  
24 people plus John Jaeb, who is the chair of the IAC,  
25 they scored, they selected Hudepohl & Associates out of



1           Worthington, Ohio, as the candidate, the winning  
2           candidate.

3           We're in the process, I think, if we haven't  
4           already, of signing a contract with them. What they're  
5           saying, at least what I'm hearing, is that within 60  
6           days we should have up to five names. Internally, we  
7           will have a review team. That review team consists of  
8           General Milligan. It consists of John Jaeb, who is the  
9           current chair of the Investment Advisory Council. It  
10          consists of Tom Herndon, who is the former executive  
11          director. It consists of Sarabeth Snuggs, who is the  
12          director of the Division of Retirement. And it finally  
13          consists of Don Nast, who is a former member of the  
14          Investment Advisory Council and a retiree from the  
15          Florida Retirement System.

16          They will review, score, narrow to two or three  
17          names that we will bring to you and your staffs for you  
18          to interview or hopefully interview and then make a  
19          decision from there.

20          Hopefully, everything goes according to plan,  
21          you're looking at probably a four- to five-month  
22          process to the finish.

23          CFO SINK: Governor, I do want to -- if you would  
24          pass the word back, Ron, that as this firm Hudepohl  
25          comes in here to interview the evaluation committee

1 members, that I think it's critically important that  
2 they come in to interview us or our staffs, to just  
3 assure that we're all on the same page in terms of -- I  
4 know I have some ideas of what kind of person I think  
5 we ought to be looking for, and I'm sure, Governor and  
6 Attorney General, you do as well.

7 We've gone through a tough experience here. And  
8 we've got to be sure that we get it right. And I just  
9 don't want to get to the place where these people who  
10 have agreed to be on the interview committee and the  
11 search firm come up with a group of candidates that  
12 doesn't satisfy the three of us because we weren't  
13 engaged in the process really from the very beginning.  
14 It's very, very important.

15 MR. POPPELL: It's their intent, they're coming to  
16 town next week. They're going to interview the key  
17 staff within the SBA next week. They're going to  
18 interview the review committee members next week to get  
19 their opinion of what an executive director should be.

20 Week after next we're trying to set up interviews  
21 for each of you, for them to spend up to 30 minutes  
22 with each of you for the same reason, to get your  
23 input. So we're doing that.

24 CFO SINK: Thank you.

25 GOVERNOR CRIST: Thank you very much.

1           MR. POPPELL: The last item, Item 15, is a good  
2           cause item, and it's a status report by the audit  
3           committee, and Melinda is here for that.

4           GOVERNOR CRIST: Morning, Melinda.

5           MS. MIGUEL: Pardon?

6           CFO SINK: Good morning.

7           MS. MIGUEL: Good morning, Governor. Good  
8           morning, CFO. Good morning, General. It's a real  
9           privilege to be here to talk to you today about this  
10          very important issue. I wanted to apologize for my  
11          voice. I think using the words of General Milligan  
12          about having a cold, I think after following his  
13          presentations on a couple of instances, I've shared a  
14          microphone with him immediately, and I think I must  
15          have caught it from him.

16          As you know, my name is Melinda Miguel, and I'm  
17          the current chair of the SBA Audit Committee. And I  
18          would like to recognize my other members of the SBA  
19          Audit Committee. Doug Darling. Doug Darling is CFO  
20          Sink's appointee to the committee, and Kimberly  
21          Ferrell, she is Attorney General McCollum's appointee  
22          to the committee.

23          I want to thank y'all for your leadership and your  
24          appointments to this committee. They are just  
25          fantastic long-time colleagues of mine, and I have just

1 the utmost respect for them. So I really appreciate  
2 that.

3 The CFO requested today that the committee provide  
4 you with a briefing on a couple of things, and those  
5 dealing with the recent activities of the audit  
6 committee and to provide an update on the audit  
7 conducted by the internal auditor of the State Board of  
8 Administration.

9 Some of the recent activities of the audit  
10 committee have included the beginning of a procurement  
11 for an actual audit that will be conducted of specific  
12 issues at the request of CFO Sink based upon her letter  
13 dated December the 10th.

14 And she has asked the audit committee to address  
15 several specific questions regarding investments made  
16 by the SBA and its holdings. And the request was based  
17 on, as you know, recent events in the market related to  
18 the Local Government Investment Pool and downgrades by  
19 the rating companies below what investment guidelines  
20 were for the SBA.

21 The committee has also discussed certain issues as  
22 it relates to the Florida Retirement System and pension  
23 fund with Linda South. And so those discussions were  
24 factored into this audit that we will be conducting.

25 We began the process to contract with an

1 independent accounting or auditing firm. The final  
2 report and the result of this audit will be a report  
3 and analysis of significant events in the past year.

4 The report will address findings and  
5 recommendations and will also provide details about the  
6 information known by SBA officials and information  
7 disclosed when investments that were of recent interest  
8 were made.

9 The audit will consider significant information,  
10 such as investment guidelines, market conditions  
11 compared to investment decisions, and relative  
12 communications with SBA officials and investment firms.

13 The report will also analyze whether the actions  
14 of the SBA were appropriate. As I've said in other  
15 meetings, I've said that the audit will find out  
16 basically who knew what when. And I think that I  
17 shared the leadership of CFO Sink in getting to the  
18 bottom of this, so I really appreciate that.

19 The scope of our review or the review by this  
20 audit firm will include the Local Government Investment  
21 Pool, the pension fund, the hurricane fund, Citizens  
22 Property Insurance Fund, the money market and/or  
23 commingled assets fund.

24 Initially, we were unable to find bidders that the  
25 committee deemed responsive. We had originally issued

1 an RFQ, or a request for quote, on December the 27th  
2 that was later withdrawn. And then we issued a second  
3 request for quote on January the 17th. The responses  
4 for that request are February the 14th.

5 The audit committee anticipates receiving those  
6 responses, evaluating them and scoring them and rating  
7 those firms and then identify a short list of possible  
8 firms, awarding the contract shortly thereafter.

9 Regarding outside independent legal counsel, with  
10 the leadership of the Governor and the CFO, there was a  
11 recommendation that the audit committee consider having  
12 outside independent legal counsel, and we want to thank  
13 you for your leadership.

14 We have issued a request for qualifications to  
15 hire outside independent legal counsel to advise the  
16 audit committee, and the firm will be available to  
17 advise the committee as needed during the course of  
18 this audit.

19 We issued that request on January the 28th, and  
20 the responses are due February the 11th at noon. We  
21 will interview selected firms in public meetings. And  
22 we look forward to reporting our selection results with  
23 you very soon.

24 The final topic that I would like to discuss is  
25 the fixed income audit. As you know, the chief

1 internal auditor for the SBA recently issued an audit  
2 report. It was dated March the 27th of 2007. The  
3 audit primarily covered the internal controls over the  
4 fixed income trading activities related to the  
5 internally managed funds at the SBA.

6 The auditor also performed a high level review of  
7 investment performance monitoring and reporting  
8 processes. The audit recommended the implementation of  
9 a risk management strategy, the setting of risk limits,  
10 a new product policy, including an internal evaluation  
11 of risk, independent benchmarks that would be approved  
12 by senior management, independent validation of  
13 performance numbers, consistent signing of trust  
14 agreements for all the funds, and identify that the  
15 trade concentration would continually be evaluated,  
16 including a periodic review of trade volume by broker  
17 to ensure that the SBA is not exposed to unacceptable  
18 credit exposures.

19 The chief internal auditor issued a draft report  
20 initially in December of 2005 and received responses  
21 from management shortly thereafter, on March 17th of  
22 2006. The final report was in fact issued in 2007, an  
23 entire year later, and the chief internal auditor has  
24 reported that there were a series of ongoing  
25 discussions with management due to the complexity of

1 the nature of specifically two findings. One of those  
2 findings were in fact withdrawn initially, and those  
3 discussions and ongoing discussions were the reason for  
4 the delay.

5 Based upon the leadership of Doug Darling in our  
6 meeting, that delay was evaluated, and we have  
7 implemented controls to ensure that we address that  
8 going forward in the future.

9 There were 20 recommendations in the report.  
10 According to that recent report that we received from  
11 management as a follow-up activity of the internal  
12 auditor, 12 of the recommendations have been fully  
13 addressed.

14 Part of one finding and six other findings are  
15 still in progress. Two findings, management's original  
16 response remains unchanged. The most noteworthy of  
17 what management has claimed is that they have begun  
18 implementing an enterprise risk management function  
19 that has undergone several changes going back to the  
20 period the audit was actually conducted. Progress was  
21 reported since 2006 to implement that enterprise risk  
22 management program.

23 Under the leadership of General Milligan, the  
24 expected completion for all of those remaining  
25 findings, those six findings and part of the other one,



1 will be implemented by March the 21st, excuse me, 31st  
2 of this year. So it's right around the corner.

3 So I would anticipate that we would be able to use  
4 the performance audit that we have entered into or will  
5 enter into to go through and evaluate and validate  
6 management's responses to this audit and make sure that  
7 the risk issues that you raised, CFO, are properly and  
8 thoroughly addressed.

9 I believe that's all I have to report at this  
10 time. I'm certainly able to entertain any questions,  
11 but I want to thank you so much for the opportunity to  
12 serve. And we do stand ready to serve and answer  
13 whatever questions you might have.

14 GOVERNOR CRIST: Any questions? CFO?

15 CFO SINK: Yeah, just one quick one. Melinda, are  
16 you encouraged that we will, in fact, receive some good  
17 responses back from the various auditing firms?

18 MS. MIGUEL: I have received word just as recent  
19 as last night that one of the firms that had been  
20 entertaining the submission of a request will not, in  
21 fact, be submitted. That particular information causes  
22 me some pause as to what the final outcome will be.

23 But what we did was we wanted to ensure that our  
24 short time frame was not what was the factor that  
25 dissuaded others from participating. So the second

1           time for the request for quote we built in a little bit  
2           more flexibility in terms of time frames, in hopes that  
3           we would, in fact, draw more participants.

4           CFO SINK:   Okay.  Well, I'm sure you'll keep us  
5           informed.

6           MS. MIGUEL:  Yes, ma'am.

7           CFO SINK:  We need to get on with it.

8           MS. MIGUEL:  Yes, ma'am.  Thank you.

9           GOVERNOR CRIST:  Thank you, Melinda.

10          MS. MIGUEL:  Appreciate it, Governor.

11          GOVERNOR CRIST:  Appreciate it.  We stand  
12          adjourned.

13          (Whereupon, the meeting was concluded at 10:20  
14          a.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA )  
COUNTY OF LEON )

I, Jo Langston, Registered Professional Reporter,  
do hereby certify that the foregoing pages 5 through 66,  
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that I am not a relative or employee or attorney or counsel  
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outcome.

IN WITNESS WHEREOF, I have hereunto set my hand  
this 18th day of February 2008.

\_\_\_\_\_

JO LANGSTON  
Registered Professional Reporter

