

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:

DIVISION OF BOND FINANCE

FINANCIAL SERVICES COMMISSION, OFFICE OF
FINANCIAL REGULATION

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 Wednesday, May 28,
2008, commencing at 9:10 a.m.

Reported by:
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Registered Professional Reporter
Notary Public

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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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(Presented by BEN WATKINS)

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P R O C E E D I N G S

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(Agenda items commenced at 9:25 a.m.)

GOVERNOR CRIST: 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 April 29th meeting.

CFO SINK: Move it.

ATTORNEY GENERAL McCOLLUM: Second.

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

MR. WATKINS: And Item Number 2 is the report of award on the competitive sale of 200 million in Lottery Revenue Bonds, which were sold to fund continued implementation of the class size initiative. The bonds were awarded to the low bidder at a true interest cost of approximately 4.51 percent.

ATTORNEY GENERAL McCOLLUM: Move Item 2.

COMMISSIONER BRONSON: Second.

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

MR. WATKINS: Item Number 3 is the report of award on the competitive sale of 144,525,000 of

1 Florida Forever Revenue Bonds for the continued
2 implementation and funding of conservation land
3 acquisition. And these bonds were awarded to the
4 low bidder at a true interest cost of approximately
5 4.43 percent.

6 CFO SINK: Move it.

7 ATTORNEY GENERAL McCOLLUM: Second.

8 GOVERNOR CRIST: Moved and seconded. Show Item
9 3 approved without objection.

10 MR. WATKINS: Thank you, sir.

11 GOVERNOR CRIST: Yes, sir. Thank you.

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1 GOVERNOR CRIST: Office of Financial
2 Regulation, Commissioner Don Saxon. Good morning,
3 Don.

4 MR. SAXON: Good morning, Governor, members of
5 the Cabinet. Item 1, the Office is requesting
6 approval to publish a Notice of Proposed Rulemaking
7 for Rule Chapter 69V-40, Florida Administrative
8 Code. The proposed rules are part of the electronic
9 filing of forms and fees for mortgage brokers and
10 mortgage lenders.

11 GOVERNOR CRIST: Is there a motion on Item 1?

12 CFO SINK: Move it.

13 COMMISSIONER BRONSON: Second.

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

16 MR. SAXON: Item Number 2, we're requesting
17 that be withdrawn at this time.

18 GOVERNOR CRIST: Is there a motion to withdraw?

19 ATTORNEY GENERAL McCOLLUM: I move --

20 CFO SINK: Move it.

21 ATTORNEY GENERAL McCOLLUM: Second.

22 GOVERNOR CRIST: Show it withdrawn without
23 objection. Thanks, Don.

24 MR. SAXON: Thank you.

25

1 GOVERNOR CRIST: State Board of Administration.
2 General Milligan, good morning, sir.

3 MR. MILLIGAN: Good morning, sir. You know, I
4 might just make an offhand comment. I was on the
5 road this weekend on I-10, and I noticed,
6 Commissioner, that the trucks have slowed down
7 considerably. They are not doing 70, 75, 80 miles
8 an hour. There are many of them at about 65, and I
9 know to conserve fuel. So there is always a good
10 side to some of these things.

11 GOVERNOR CRIST: Conservation.

12 MR. MILLIGAN: Conservation, exactly. The
13 agenda, Item 1, request approval of the minutes of
14 the May 13, 2008, Cabinet meeting.

15 CFO SINK: Move it.

16 ATTORNEY GENERAL McCOLLUM: Second.

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

19 MR. MILLIGAN: Item 2, the Florida Hurricane
20 Catastrophe Fund requests approval to file Emergency
21 Rule 19ER08-1, the reimbursement contract, upon
22 approval of Senate Bill 2860.

23 ATTORNEY GENERAL McCOLLUM: I move Item 2.

24 CFO SINK: Second.

25 GOVERNOR CRIST: Moved and seconded. Show Item

1 2 approved without objection.

2 MR. MILLIGAN: The Florida Hurricane
3 Catastrophe Fund requests approval to file a Notice
4 of Proposed Rulemaking to amend Rule 18-8.010,
5 reimbursement contract, to incorporate those changes
6 made in the Emergency Rule 19ER08-1, which you just
7 approved.

8 GOVERNOR CRIST: Is there a motion on Item 3?

9 CFO SINK: Move it.

10 ATTORNEY GENERAL McCOLLUM: Second.

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

13 MR. MILLIGAN: Item 4, request approval of the
14 State Board of Administration proposed budgets for
15 fiscal year 2008-2009. The budget presented is in
16 really three parts. The budget represents no
17 increase in cost to any participant. There's a Bond
18 Finance part, a Florida Prepaid College Board
19 portion, and the rest of the State Board of
20 Administration, consisting of basically the defined
21 benefit retirement program, FRS pension fund, the
22 defined contribution retirement program, the
23 FRS investment plan, Florida Hurricane Catastrophe
24 Fund, four SBA investment pools and 15 separately
25 managed funds.

1 The budget that has been developed is really
2 not my budget. I'm presenting the budget, but the
3 budget will be executed by a new executive director.
4 And to whatever extent possible, I've tried to
5 ensure that that executive director will have the
6 flexibility to do the things that are necessary to
7 move the State Board of Administration forward over
8 the next year.

9 It's designed to meet the challenges of last
10 fall and those identified in three subsequent audits
11 that we've had, those challenges that have been
12 identified. The focus is on addressing compliance,
13 risk management, training, communications and
14 personnel issues. And that should be no surprise to
15 any of you after you have seen all of the
16 information that has flowed on the compliance issues
17 and other issues that have surfaced.

18 I might mention on the personnel side, this
19 year we anticipate -- we have a potential for 17
20 employees to retire, although we are assuming that
21 there will only be seven, and we're basing the
22 budget on that basis. We're sure that we will have
23 seven.

24 And so, in addition to the 11 positions that we
25 have requested to increase our compliance and risk

1 management capabilities as well as our training
2 capabilities, we're going to have a real challenge
3 recruiting, or the new executive director is going
4 to have a real challenge recruiting and also
5 retaining people that we have right now.

6 An example, our corporate governance individual
7 was offered a 75 percent increase in salary and a 75
8 percent bonus opportunity to go be a corporate
9 governance person for another public pension fund.
10 That's the type of competition that we have. We
11 just lost two weeks ago an auditor, and he left
12 because of a 16 percent increase in salary.

13 And we don't have the flexibility, without some
14 retention and retirement -- or retention and
15 recruiting capabilities, to really keep good people
16 and get good people and really have a first class
17 SBA operation.

18 So that's what this budget reflects. Bond
19 Finance is here, Ben Watkins, if you have any
20 questions on his portion. Florida Prepaid College
21 Board, Tom Wallace is here if you have any questions
22 on his portion. And, of course, I'll try to address
23 the overall SBA.

24 ATTORNEY GENERAL McCOLLUM: I would move Item
25 4, the budget, Governor.

1 GOVERNOR CRIST: Okay. Show it moved.

2 CFO SINK: Second.

3 GOVERNOR CRIST: And seconded. Any questions
4 on the budget? I just have a couple. Am I correct
5 in my notes that this reflects, General, a 12.95
6 percent increase over last year's budget?

7 MR. MILLIGAN: That is correct.

8 GOVERNOR CRIST: Representing \$3.35 million in
9 increase?

10 MR. MILLIGAN: That's correct.

11 GOVERNOR CRIST: Okay. It's been moved and
12 seconded. All in favor say aye.

13 ATTORNEY GENERAL McCOLLUM: Aye.

14 CFO SINK: Aye.

15 GOVERNOR CRIST: All opposed say no. No. Show
16 the motion carrying.

17 ATTORNEY GENERAL McCOLLUM: Governor, I'd like
18 to ask the General a question, unrelated to these
19 items, if I could.

20 GOVERNOR CRIST: Of course, certainly, General.

21 ATTORNEY GENERAL McCOLLUM: In the last few
22 days I've noticed some commentary in the state
23 papers about the FRS pension funds and the fact that
24 we had a great year last year, fiscal year, 18
25 percent return, but as you know from the report in

1 the first quarter and the market is not doing as
2 well, we had a down period, modestly so, in terms of
3 the result.

4 And there was some concern being expressed that
5 we would have to see employer contributions
6 increased, assessments, if you will, to fill in for
7 this.

8 It was my impression we have a surplus in this
9 fund right now. We have had several really good
10 years for our pension fund, and that it would take
11 more than what we're seeing at the present time to
12 cause a need for employer contribution assessments
13 to come back into play.

14 But could you explain that to us or elaborate
15 or illuminate those who might not understand that as
16 well?

17 MR. MILLIGAN: Well, let me try. We have had a
18 surplus since 1998. In fact, when I came in as the
19 controller in the state, we had an unfunded
20 liability of about \$12 billion. And by 1998, four
21 years later, we began to be in the positive surplus.
22 And in about 2000 we were up about 12 billion. And
23 we have maintained a very healthy surplus since
24 then.

25 Last year, at the end of July, we had a 7

1 percent surplus, \$8.2 billion. As of yesterday, we
2 had a \$7.6 billion surplus, a 6.5 percent surplus.
3 We have seen a slight drop in the surplus. But
4 really, when you look at what the market conditions
5 have been, it's a real credit to the folks out there
6 that are working the investments and so forth to
7 maintain a really healthy surplus.

8 So the report is a little misleading in terms
9 of the threat to the contributors to the retirement
10 fund. In fact, the surplus lowers the cost of the
11 DB plan below that of the DC plan, or the defined
12 contribution plan.

13 This year, for example, coming up, the DB, the
14 defined benefit plan, the cost to the payroll is
15 10.3 percent. For DC it's 10.79 percent. And that
16 49 basis point difference means about \$12.5 million
17 a year that the contributors, that the governments
18 that are contributing to the retirement fund save.
19 And it's all because of that surplus. It's all
20 because of the fact that we've had this surplus and
21 we've had healthy years, and I think we will
22 continue to have healthy years.

23 And this really goes back to making sure,
24 again, that we have quality people, we're able to
25 bring on board quality people, we're able to retain

1 quality people. It pays big dividends, huge
2 dividends in savings to governments that participate
3 in the retirement fund.

4 So the DC plan, while it's advertised as a good
5 deal, is actually costing less, excuse me, more than
6 the DB plan. So don't believe everything you read.

7 ATTORNEY GENERAL McCOLLUM: The bottom line is
8 some of the people writing that didn't understand
9 probably what you just said. That's why I'm glad
10 you've explained it, because we're not in any threat
11 in the near, foreseeable --

12 MR. MILLIGAN: Absolutely not. And I've been
13 really quite astounded in some respects that we have
14 been able to maintain the surplus that we have been
15 able to maintain during this very, very tumultuous
16 period in the marketplace.

17 ATTORNEY GENERAL McCOLLUM: Thank you very
18 much, General, for explaining that.

19 MR. MILLIGAN: Item 5 -- any other comments or
20 questions?

21 Item 5 then is kind of an update. And the
22 first thing I'd like to address is the status of the
23 engagement of Mike Pucillo. As you know,
24 approximately 30 days ago, the SBA contracted with
25 Mike Pucillo to undertake an investigation and

1 provide recommendations regarding the sale to the
2 SBA by various broker-dealers of secured notes
3 issued by KKR, Ottimo and Axon.

4 Based on the information obtained to date,
5 Mr. Pucillo has concluded that the SBA has a claim
6 against the broker-dealers for sale of unregistered
7 securities in a transaction that is not exempt from
8 registration.

9 Mr. Pucillo's immediate recommendation is to
10 obtain a tolling agreement from the broker-dealers,
11 which I have authorized him to do. The tolling
12 agreement is necessary because certain applicable
13 statute of limitations will run in July. And a
14 tolling agreement will enable the parties to
15 continue to exchange documents and engage in
16 appropriate dialogue and analysis about resolution
17 of this matter. It preserves our rights. Simply
18 put, it preserves our rights.

19 The SBA and the broker-dealers know that
20 litigation may be imminent. If the SBA is unable to
21 secure the necessary tolling agreement and the
22 continued cooperation of the dealers, suit can and
23 will immediately be filed.

24 That's where we are in reference to the Mike
25 Pucillo effort. Any questions, comments?

1 ATTORNEY GENERAL McCOLLUM: I just have one,
2 General. I gather that you anticipate the
3 probability that the tolling agreement will be --
4 will come about.

5 MR. MILLIGAN: The indications that I have from
6 Mike Pucillo as of -- even before yesterday, but as
7 of yesterday, was he was pretty confident that they
8 would be cooperative, the broker-dealers would be
9 cooperative.

10 ATTORNEY GENERAL McCOLLUM: And if they're not,
11 we would have to file suit.

12 MR. MILLIGAN: We would have to file suit, yes,
13 sir.

14 ATTORNEY GENERAL McCOLLUM: Thank you.

15 MR. MILLIGAN: And we would.

16 CFO SINK: Governor.

17 GOVERNOR CRIST: CFO.

18 CFO SINK: How many broker-dealers are involved
19 in this?

20 MR. MILLIGAN: Three.

21 CFO SINK: Three. And would you just recall
22 for us -- I know two of them -- but who the three
23 are, please?

24 MR. MILLIGAN: The three are Lehman,
25 J.P. Morgan and Credit Suisse.

1 CFO SINK: Thank you. And when will we know,
2 General, about whether or not they signed the
3 agreements and -- you said the end of -- we have
4 until --

5 MR. MILLIGAN: I would certainly know -- I
6 would assume we'll know by the 10th, by the next
7 Cabinet meeting, if not earlier.

8 CFO SINK: Okay, by the 10th of June, all
9 right.

10 MR. MILLIGAN: If not earlier. I did not pin
11 Mike Pucillo down to how fast he was going to move,
12 but he's moving rapidly. So I would assume he's
13 probably already contacted them. I think he
14 contacted them yesterday.

15 CFO SINK: Well, that's certainly encouraging
16 news. Thanks, thanks for staying on top of it.

17 GOVERNOR CRIST: If I might. I thought you
18 mentioned KKR also.

19 MR. MILLIGAN: KKR is a security. They are the
20 security itself. They are not the ones that sold it
21 to us. Someone else sold KKR to us. It's just
22 like --

23 GOVERNOR CRIST: So we don't look at them?

24 MR. MILLIGAN: No, we don't look at them.
25 They -- we, in fact, have already taken over those

1 securities. We own those securities now. And they
2 are good securities. They will pay eventually. The
3 problem is we don't know when. And that's what this
4 whole effort will be about.

5 GOVERNOR CRIST: Thank you, General.

6 CFO SINK: Governor, just one more question
7 about the Local Government Pool. I did get some
8 inquiries. I haven't been able to follow up. Are
9 you working -- all these governments are coming up
10 to their own June 30th year end.

11 Is someone working with them in terms of their
12 accounting and their reporting and whether or not
13 they're going to have to put a mark-to-market
14 valuation particularly on the funds in Pool B? I'm
15 sorry I'm asking this out of the blue.

16 MR. MILLIGAN: We are working with all of them
17 on the end of the year. And, of course, the
18 legislation that was put into place was specifically
19 designed to separate Pool B into a separate trust
20 fund to enable appropriate auditing, or accounting
21 and then appropriate auditing.

22 So, yes, we are working with them, as to what
23 interest they have to show or what losses they may
24 not record yet but potential losses, yes, we're
25 working with them.

1 GOVERNOR CRIST: And that legislation is now
2 law. I signed it last --

3 MR. MILLIGAN: Yes, sir, I know you did. Thank
4 you.

5 GOVERNOR CRIST: Sure.

6 MR. MILLIGAN: That was an important piece of
7 legislation, in fact. Thank you very much.

8 GOVERNOR CRIST: Of course.

9 MR. MILLIGAN: One other quick item, and that's
10 on the executive director search. I anticipate
11 getting the names of the people today and details on
12 them. And we are having a screening session on the
13 3rd and 4th, and we anticipate forwarding to you two
14 or three of the highest qualified individuals for
15 your interviews on, I believe, the evening of the
16 4th or late afternoon of the 4th and on the 5th.
17 And so we should have something by the 10th, I would
18 hope, to determine a new executive director.

19 Any questions on that item? Thank you very
20 much. That's it, sir.

21 GOVERNOR CRIST: We stand adjourned. Thank
22 you.

23 (Whereupon, the meeting was concluded at 9:45
24 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 4 through 19,
both inclusive, comprise a true and correct transcript of
the proceeding; that said proceeding was taken by me
stenographically and transcribed by me as it now appears;
that I am not a relative or employee or attorney or counsel
of the parties, or a relative or employee of such attorney
or counsel, nor am I interested in this proceeding or its
outcome.

IN WITNESS WHEREOF, I have hereunto set my hand
this 10th day of June 2008.

JO LANGSTON

Registered Professional Reporter