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Representing:

STATE BOARD OF ADMINISTRATION

FLORIDA HURRICANE CATASTROPHE
FUND FINANCE CORPORATION

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, July 2, 2008, commencing at 9:20 a.m.

Reported by:
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(Appearing via telephone)

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Chief Financial Officer

* * *

INDEX

STATE BOARD OF ADMINISTRATION
(Presented by BOB MILLIGAN)

FLORIDA HURRICANE CATASTROPHE FUND FINANCE CORPORATION
(Presented by JACK E. NICHOLSON)

P R O C E E D I N G S

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GOVERNOR CRIST: State Board of Administration. General Milligan.

MR. MILLIGAN: Yes, sir. Item 1 is request approval for the Florida Hurricane Catastrophe Fund to purchase financial products in order to enhance the ability of the hurricane fund to respond to participating insurers' losses for the 2008-2009 reimbursement contract year.

I would like to turn the mike over to John Forney, who will discuss the two options.

GOVERNOR CRIST: Thank you. Good morning, John.

MR. FORNEY: Thank you, General Milligan. Governor Crist, CFO Sink, General McCollum, good morning.

CFO SINK: Good morning.

MR. FORNEY: For the record, my name is John Forney. I work for Raymond James & Associates, and we are the financial advisor to the Florida Hurricane Catastrophe Fund. It is my pleasure and privilege to be here with you today to present to you a summary of the cat fund's analysis of its funding options for the 2008 hurricane season.

I think it's an objective fact that the cat fund has served the people of Florida well over the years, acting as a buffer from what we've all observed to be the volatility of the private reinsurance markets and, along the way, saves consumers in the State of Florida literally billions of dollars every year in premiums and, when called on after the 2004 and 2005 hurricane season, paid out well over $8 billion in a timely manner.

This year, one month into the hurricane season, by many measures the cat fund is in the best financial condition that it's ever been in. With over $8 billion of usable cash on top of an industry retention that's over $6 billion, it would take a hurricane larger than any in modern American history, other than Andrew and Katrina, before the cat fund was required to do a single dollar of bonding.

If bonding were required, the cat fund enjoys strong AA category ratings from each of the three major rating agencies and proven investor acceptance, as evidenced by three successful bond issues in the past two years.

Despite these manifest strengths, however, this year there is reason for concern about the funding

capabilities of the cat fund. That's partly because of the increased size of the cat fund and partly because of the situation in the global financial markets.

The cat fund has always relied on access to the capital markets to fund its losses in the event of a very large storm or series of storms. This year, if the maximum obligations of the cat fund were triggered by a very large storm, the amount of bonding that could be required could be in excess of $20 billion.

In past years, while access to amounts of this size were by no means guaranteed, the financial professionals associated with the cat fund felt generally comfortable that given an appropriate period of time, the cat fund could access those monies.

This year, however, financial markets find themselves mired in the midst of a year-long crisis that I used to refer to as historic but which really now can only be termed epic. I think when the financial history books are written, there won't have been a comparable episode in the financial markets since the bank panic of 1907 that led to the creation of the Federal Reserve banking system in

the United States.

Over $300 billion of write-downs have ravaged balance sheets of institutions across the globe and made access to capital markets an uncertain and perilous prospect for all sorts of institutions, including the cat fund.

And so it is prudent that this year the cat fund consider its options for bolstering its funding certainty after an event. And that is exactly what has been done.

Via a very public and transparent ITN process, the cat fund assembled a financial services team that consists of commercial banks, investment banks, reinsurance intermediaries and attorneys, all with the mission over the last couple of months of evaluating the level of uncertainty that the cat fund faces and bringing forward solutions of how to bridge any perceived funding gap.

Our role has been to shepherd that process, adding our insights that we have earned the hard way over the past few years by our experience in the market and bring forward to you today the results and products for your consideration. And that's what I intend to do.

Before I do that, I'd like to briefly talk

about the process that we went through and the types of products that were considered.

First the process. One of the first things that the group was tasked to do was try to home in on how much uncertainty there was. This was primarily the dominion of the investment banking firms on the team. And the four senior managers, I think as you know, are Goldman Sachs, Citi, Lehman and J.P. Morgan.

We had extended discussions with them over a long period of time and as recently as yesterday to try to make sure that this target of what the level of certainty or uncertainty was was known.

The general feeling, to summarize many, many discussions, was that there was fairly good confidence, although no guarantees, that the cat fund will be able to fund itself through the mandatory layer, given an appropriate period of time, and that the greatest uncertainty was clearly in the level of the tickle layer, which would occur after a storm that produced industry-wide losses, residential industry-wide losses of roughly $25 billion.

So that's the area that we focused on when we were trying to find products to bridge a gap. Now,

if the products could also provide funding in the mandatory layer, given that there is a gap down there, that would be a bonus. But we focused really on the tickle layer in terms of products.

So what products were considered? First of all, everything was on the table. Financial services members were encouraged to bring forward their most creative, most compelling ideas or their most plain vanilla ideas, whatever worked. Every product was subject to four criteria, though. And they were as follows: One, fit. Did it solve the problem that the capital was trying to solve, bolstering funding certainty.

Two, capacity. Given that we're talking about a potential area that we're trying to bolster that is more than $10 billion, it didn't make a lot of sense to consider products that provided $50 million, $100 million, $200 million.

You just wouldn't get very far and you would end up trying to execute an overly complicated plan with lots of different products. So we said, let's look at products that we feel comfortable can provide a billion dollars or more in capacity.

Third, executability. A product that looked great on paper but which couldn't get executed in

today's markets would do none of us any good and in fact would do everybody reputational damage.

Execution risk is a very real consideration, given the state of the markets today. So we wanted to make sure that products that were brought forward and that I brought forward to you today were products that we felt could get done.

And finally price. I think it goes without saying that in an era when objectively speaking uncertainty is high, that purchasing certainty, which is what you're trying to do here, purchase some certainty, is expensive. When certainty is scarce, it's going to be expensive.

And we definitely have found that, but there still has to be a price measure and a price barometer, given the nature of the cat fund. It's not certainty at any price. It's certainty at a price that, given all the circumstances, are deemed reasonable.

So we looked at those four things rigorously; fit, capacity, execution and price. There were two general product categories that were brought forward. One is risk transfer. Risk transfer solves the funding certainty problem by eliminating the need for funding. It essentially says, you pay

somebody now. And if there's a storm that produces a certain level of losses, those losses are their responsibility, not yours, so you don't have to worry about funding them after an event.

There are several different types of risk transfer products, traditional reinsurance, which we're all familiar with, and then some alternative products, like cat bonds, ILWs and sidecars, which are more capital markets type of reinsurance, but they all do essentially the same thing, and we looked at all of them.

I will say that in general, risk transfer suffers a little bit of a competitive disadvantage compared to some of the other products that we're looking at for the cat fund because it really does a little bit more than solve the problem at hand.

It doesn't just solve funding certainty. It eliminates the need for funding, which has benefits in and of itself. But because it eliminates the need for funding and you're not going to pay back those monies, it's significantly more expensive. And we'll talk about the parameters of cost in just a minute.

The second general category of products is liquidity products. What those do are provide you

money after an event if certain things occur. To get that money, you pay somebody a fee now via some sort of mechanism, but you also promise that after the event, when you get that money, that you will pay it back via some sort of mechanism over a period of time. Because there is that payback mechanism, it's less expensive to get liquidity than it is risk transfer.

Liquidity products are the type that have been done by the cat fund, and Citizens for that matter, over the past several years, very successfully. The cat fund has done two pre-event bond issues in the past couple of years of over $6 billion in total, money sitting in the bank for a rainy day, no pun intended, and it's there if you need it for any purpose.

There's also bank lines of credit. That's other types of contingent capital and liquidity products that we looked at. We looked at the whole panoply of products that are available on the liquidity side.

I will say that there were not very many products that met all the criteria this year because of the state of the capital markets. Capacity, executability, price and fit were tough things to

come up with.

But I'm pleased to report that there are products which do meet your needs in each one of the categories. I want to summarize the main ones for you now, and then I'll wrap it all up and am happy to answer questions.

In the risk transfer category, clearly the best product that was put forward is traditional reinsurance. The reinsurance brokers were very successful in finding what they believe to be capacity for up to $5 billion in traditional reinsurance in that tickle layer, at prices which range from roughly 17 percent rate online to roughly 24 percent rate online.

For rounding purposes, let's call it 20 percent rate online, meaning for every billion dollars of risk transfer that you purchase, you will be required to pay $200 million now.

So that economic trade-off is a difficult one for the cat fund, when you think about for that same level of coverage the cat fund charges roughly $20 million. So the cat fund charges its participants 20, would be buying reinsurance that's ten times or more that cost. That's fundamentally a difficult economic trade-off. But reinsurance does

provide you the benefit of transferring that risk in the event of a big storm out of the state of Florida, and it's available in large capacity.

In the liquidity category there's one product that clearly fit your needs better than any other, and in fact it fit your needs better than any other in any category. And this is a customized product that I'll call the tax-exempt bond put option product.

This is a product where you pay somebody, a third party, a fee now. In exchange for that fee, they guarantee you that after a storm of a certain size, if you need to sell bonds, they will buy those bonds at a rate and on terms that are negotiated now and known upfront.

That product was proposed and is available in two different sizes, $5 billion and $4 billion.

GOVERNOR CRIST: Could you pardon my interruption?

MR. FORNEY: Yes, sir.

GOVERNOR CRIST: What would you call that product?

MR. FORNEY: Tax-exempt bond put option.

GOVERNOR CRIST: Thank you. Sorry.

MR. FORNEY: The counter-party for that product

that we have been negotiating indirectly with through the investment banking firm that brought it forward, which is Goldman Sachs, the counter-party for that would be Berkshire Hathaway, which is one of only a handful of AAA-rated entities in the United States, corporations. And they would be the one that would agree after an event to buy either $4 billion or $5 billion of bonds from you depending on which option you chose.

The price for that would be a cost of 5.6 percent of the par amount, which if you purchase it in the $5 billion increment is $280 million for $5 billion, or for $4 billion, it would be an upfront cost of $224 million.

What do you get for that? You get a promise by that entity to provide you a purchaser of bonds no matter what the state of the markets, no matter where interest rates are, no matter how difficult it is to access the markets, that guaranteed access to the markets, if a storm reaches the level of the tickle layer. You could use the proceeds to pay losses in the mandatory layer if you got there.

So the product qualitatively-speaking provides very real value to the cat fund. It's not a perfect product. There are circumstances under which, for

example, if a storm doesn't get to the tickle layer, you can't use the product at all. There are other features of the product that we've negotiated hard for the last two months that didn't get to the level of what we would call ideal.

The cost is certainly slightly higher than we had hoped that it would be. But with all that said, it clearly qualitatively fits what you're trying to do better than any other product. It provides genuine value to the cat fund. I just want to make sure you understand that although it's a good product, it's certainly not an ideal product.

The last product that I'll mention to you and then I'll wrap up is traditional pre-event bonds, which have been done several times in the past few years, as I mentioned, by Citizens and the cat fund.

Accessing the short-term taxable markets, which is where the cat fund would be accessing them, is very difficult right now. And I think that the best thinking of us and the financial services team is that you could possibly get one to two billion dollars. It's possible you could not, given the state of the markets.

It's important to note, though, that inability to get a couple of billion dollars in the taxable

short-term markets is not a commentary on the cat fund's ability to access long-term tax-exempt markets after an event. It's the wrong extrapolation to say, if you can't get one or two billion in the short-term taxable markets, then how do you think you can get eight billion in the long-term tax-exempt markets.

Suffice it to say they're completely different markets with different characteristics and different investor bases. So while it is true that it would be exceedingly difficult to get that one to two billion dollars in the taxable pre-event markets, it's possible, and we have reason to think that that's something that could possibly get executed as well, at a cost of roughly 30 basis points or, excuse me, 300 basis points -- I wish it was 30 -- or $30 million per billion dollars access.

In terms of execution time, reinsurance I think could be executed very quickly, probably a two- to three-week time frame. Same thing with the put option, two- to three-week time frame. A pre-event bond issue with higher execution risk than either of the others would be four to five weeks, I believe.

So to summarize, the cat fund is in very good financial condition. However, circumstances dictate

that it is prudent to consider ways to bolster financial funding certainty for the cat fund after a storm.

There are two general categories of products, risk transfer and liquidity. In the risk transfer space, there is reinsurance that's available at good capacity, albeit at a high price.

In the liquidity space, the tax-exempt bond put option qualitatively meets your criteria better than any others. It's available in either 4 billion or 5 billion. And there also is some pre-event that has execution risk but is potentially available as well.

At this point, I will conclude my presentation. I'd be happy to answer any questions that you have.

GOVERNOR CRIST: General, do you have any questions?

ATTORNEY GENERAL McCOLLUM: I don't have any questions. I think I understand this very well. I do have a couple of comments at the appropriate time.

GOVERNOR CRIST: Well, it's appropriate now, if you wish.

ATTORNEY GENERAL McCOLLUM: Well, I would like to -- first of all, Governor, I think that however reluctant I am -- and I'm very reluctant -- I'm

prepared this morning to support a $4 billion tax-exempt bond, the type of thing that he's talking about, a put option, this morning, Mr. Forney.

And I say very reluctant, and I want to explain why. I think that we are in a very tight position on liquidity in this state with regard to the cat fund, but I think this is not a good deal overall. It is a very bad deal in the sense that we're putting out 220 million, or if we did 5 billion, we'd be putting out $280 million, that's highly unlikely that we'll ever get any real benefit from, other than we're buying a put option and it will go away and Berkshire Hathaway will wind up pocketing the money.

The reason I say that is that I'm told and I believe I'm right that this is a three to four percent likelihood of occurring, that this would be triggered where we'd use it. We're talking, as I understand it, about a storm or a collection of storms with total losses of $25 billion or greater over the next year, this hurricane season, just for this hurricane season.

And in today's present dollars, Hurricane Andrew, I am told, would be worth in losses about $25 billion. So we'd have to have a storm of that

size or multiple storms ever to reach that.

In 2004 the total losses were roughly $16 billion in all those storms in that big hurricane year. So that wouldn't reach it. In 2005 the total losses were about $11 billion.

If we have a very major catastrophe, a storm larger than Hurricane Andrew to trigger this, I'm personally of the opinion that the federal government would easily be available to provide us with low interest loans to cover this liquidity situation we'd be in at that time.

I know they're not going to commit to that. Having been a congressman, having worked around it, having seen what happened with Katrina, I personally am convinced that they would do that. So I don't think this is all that good a deal.

And I'm more interested in and very concerned about and hopefully would today also encourage Mr. Forney and others to go look at how we could buy some more or provide some more pre-event money and liquidity to bolster where we are in this in-between, in the mandatory category that we don't have today, that we can actually get money and put it in the bank and have it available for the more likely money that we would need before this period

of time.

And my personal view would be it would have been far better, although I understand that we were not able to negotiate this, to spend no more than $3 billion of -- or no more than what it would take to buy $3 billion of this particular category of put option and, instead, spend as much of this remaining money, several millions of dollars we're talking about here on the put option, to buy the pre-event, more pre-event protection.

But I know that's not possible, but I would encourage us to look at buying some more pre-event protection with the limited amount of money now, because that's more -- in my opinion, more likely.

The last thing I want to say is that I'm disturbed, Governor and CFO Sink. I'm concerned about where we are with this entire insurance situation we're in today. If we have the need to go make these bondings and go use this money or, for that matter, any of the others that we might have to borrow in the case of the storms, we all know there are going to be assessments that will be required on the taxpayers of Florida.

It is not a happy situation when that occurs. And it's also true, I'm sure you all know as well as

I do, that the people living in the interior of the state of Florida are going to pay a disproportionate amount of the premium. They're going to be subsidizing the people who are at greater risk. And in a totally free market system of buying insurance, the people on the coast would be paying much more than the people in the interior for their hurricane windstorm insurance.

So I think the situation we're in today for the people in Florida is not good at all in terms of the structure we have with Citizens or with this cat fund. And I hope that in the coming weeks that you and I and CFO Sink can work on establishing a commission or a committee or somebody responsible outside of the insurance industry itself, although with their advice obviously needed, to look at other alternatives.

I know we looked at going out and trying to see what we could do for a federal backstop, which I'm all for. But there have got to be better ways for us to structure this more fairly and not have the kind of situation we're facing with this vote today in the future.

This is just not a good thing, in my opinion. But I'm going to support it because I believe that

it's the only responsible choice at the moment. But it's not a good position to be in. It's not the right position to be in. And I'm reluctant, for the reason I said, because I truly believe the federal government would come in and give us maybe three percent or less on a loan if we got to the point where we would be in the case of a need for the use of this put option, this tax-exempt bond for whatever amount it is.

Four billion, I would prefer it over the five. Anything lower that we can get, the lowest amount is what I would favor, and then use any of the additional money that we have, that we have in reserve to buy down the additional money we need for pre-event protection.

So that's my view of it. I don't know what you and CFO Sink think. But I'm prepared to support it. I understand you're going to make the motion, or you're thinking about it, Governor. I'm prepared to second it, if that need be, if it's for $4 billion today.

GOVERNOR CRIST: Thank you, General. CFO?

CFO SINK: Thank you, Governor. Thank you, John. Good job of explaining the position we're in. I think it's really important for us to understand

that we are not fixing the problem today.

In fact, in many respects -- I'm going to talk a little bit about the gap that we have in a second. But it's very frustrating to me that here we are on July the -- whatever today is -- July the 2nd.

GOVERNOR CRIST: It's going fast.

CFO SINK: It is going fast. And that's kind of the point, of here we are on July the 2nd, hurricane season. We're already 30 days into hurricane season. And we got ourselves into a fix of being in a panic, realizing that we do have a large amount of exposure here, and we waited until the last minute. We're not thinking ahead.

This is not the way to run policy. I agree with the Attorney General. Today we're just beginning to face our policy that we've established of basing this risk policy on what I say publicly is a four letter word, which is hope, H-O-P-E.

And we just -- we just need to get real about the fact that just like somebody in Minnesota has got to worry about snow events, we have hurricanes in Florida. We've just been incredibly fortunate in the last two years not to have had any storms.

And that's not a way to manage our financial risk, because we know we are going to have

hurricanes. And I built my whole professional career on thinking about risk and have been worrying for a year and a half, since I got here, about our financial position in the event of a big storm.

We've got Citizens Insurance Company, the fourth largest insurance company in the country, which is owned solely by Florida's taxpayers and citizens. And we had the special session last January in which the Legislature increased the cat fund exposure to $28 billion because that was the way to -- that was the way to reduce the rates and stabilize rates, and that's been accomplished.

But at the time, I had a number of conversations with our financial advisor, John Forney, and others that we thought that there was a really good chance that it wouldn't be a problem over a period of time to issue that additional $12 billion in bonds that we would have to take on.

And a lot of things have changed, as John has mentioned to us. And the biggest thing that's changed is -- well, there are two big things. One is that the credit markets are in terrible shape, and so it does cause us concern about how we would build the liquidity in in order to pay the claims for Floridians who had their roofs blown off.

And I'm concerned about those hundreds of thousands of Floridians who potentially would have losses in a storm of this magnitude. And the other thing, of course, that changed was that the local reinsurers have a lot of liquidity. There are billions of dollars. They have been hungry to do business with our state and to take on some of that risk that they -- that they themselves took off the table after two years of storms.

So, as you know, Governor and Attorney General, I worked really hard on developing a proposal that was presented to the Legislature to, in effect, reduce our exposure by billions of dollars, which the majority of insurers told me would have no impact upon insurance premiums for Floridians.

And so we missed an enormous opportunity to do kind of what we're doing today, which is trying to take some -- well, we're not taking any risk off the table. We're just building liquidity. But we missed an enormous opportunity.

And, Attorney General McCollum, I agree with you. I think the three of us, we're kind of sitting here paying part of the price here for the Legislature's inaction. And I think the three of us have got to sit down this fall and figure out what

we're going to do in the future, because I am not going to sit here next July the 1st and be held hostage by just one provider.

And that's what has happened. We are being held hostage by only one product. And for the public's knowledge, this company that's agreeing to do this put, Berkshire Hathaway, is Warren Buffett's company. And Warren Buffett did not become a multibillionaire by not doing good deals for himself.

And so we've got both hands tied behind our back, and we don't have a lot of -- we don't have a lot of options here.

Now, I want to -- I just want to point out that it's important for us to build in liquidity so we have money available to pay claims. And like the Attorney General, we had some indications in the past couple of days that we think we may get, as John said -- I think it's imperative that we go out and see whether we can get some more pre-event financing, just like we did last year, and we were very successful, and that deal looks golden now, according to what you said.

But that's a much, much cheaper, less expensive way for us to go because we actually have the money

in the bank.

But, Governor, this is not solving the problem, which is we still have -- this $5 billion doesn't even kick in until we have either a $25 billion storm or -- so we are in effect paying 200 and -- pick a number -- $220 million for insurance that we will have money coming in, that we still have to bond out for 30 years. If you think you get letters now from citizens about assessments, just wait.

And so it does build in liquidity, gives us access to cash. But if we have a -- we've still got an $8 billion gap of storm event before we get to that $25 billion level that's not covered.

So we're going to be, as the General said, we're going to be in Washington. We're going to be other places. I think we ought to explore the use -- the possibility that money could be borrowed from the pension fund. We've got to be planning ahead here.

And this is very expensive and it's inflexible, but it's the only thing that's on the table. And I do not like not having choices. And this is not a good choice. And I agree with General McCollum that it looks like the best thing that's on the table. And we've done a lot of negotiating to get to this

point to improve the initial proposal that was made.

And I think one of the most important features is the aggregate feature. And, John, if you would just explain, and then I'll wrap up, Governor. But if you -- two things. Talk to me about what happens if we have a $20 billion storm. Okay? Walk us through that. And then the second thing is the -- is explaining to the people this notion about how -- the aggregation feature.

But if we have a $20 billion storm, what happens, and does this four or five billion dollars that we're doing even play into that?

MR. FORNEY: A $20 billion storm, just to make sure we're clear on the assumptions, I'm assuming you mean $20 billion total residential losses in the state.

CFO SINK: Yes. In other words, we're not hitting the $25 billion --

MR. FORNEY: Right. Okay. We're not getting to the tickle layer.

CFO SINK: Right.

MR. FORNEY: In that case, the total cat fund losses are going to be, roughly speaking, $13 billion. That's not an exact number, but that's in the ballpark. As I said earlier, the cat fund has

on hand usable cash of over $8 billion.

So in that case the cat fund would be required to access the post-event fixed rate tax-exempt markets to try to come up with the additional $5 billion in proceeds to pay claims.

It is the -- there are no guarantees that that money can be had. Certainly, capital markets are as disrupted as they've ever been. It is the feeling of the senior manager team, after extended discussions, that that kind of a financing, even in the markets that we're facing now, is achievable and that the cat fund would be able to bond for amounts in that level.

But if you can't, you don't have access to this put option product, which is not available until you get to an aggregate level of losses of $25 billion, which is why your suggestion that additional pre-event money, which is just sitting in the bank and could be used at any time with no trigger, is helpful in that instance that you're talking about, if for example it takes longer to get into the markets than everyone had hoped or there's not access for some period of time.

CFO SINK: Thank you. And then explain the aggregate feature, please.

MR. FORNEY: The aggregate feature was one of the things we negotiated on the put option product. The initial proposal was it was for one storm and one storm only, the big one.

Recent history tells us that having multiple storms in a single year is possible. In fact, that's exactly what happened in 2004 and 2005. So as originally proposed, it would not have protected the State of Florida against that circumstance.

We negotiated. It's one of the many features, as you've said, CFO Sink, that we did negotiate successfully to make it a better product, although not a perfect product. And one of the things we did negotiate was the total losses were aggregate, for however many storms there were that got to the tickle layer, not just one storm. So that definitely was a helpful feature of the product.

CFO SINK: Thank you. And just finally, it's important for all of us to understand that this $250 million is cash that will not be available to pay claims. And, therefore, by hook or crook it's going to end up in an assessment, if we get into an assessment scenario, because it's cash that we don't have to pay claims. And we've seen what the impact of the assessments could be.

So just to summarize, I don't like being in a panic. I think it's bad policy to wait until July the 2nd to be having these conversations. And I think that, Governor, we have got to have a more considerate conversation about -- before we get into next year's storm season, about what we want our policy to be and take this risk off the backs of Florida citizens and taxpayers.

GOVERNOR CRIST: Thank you. Thank you, John, for your presentation as well. Just a few comments. I'm not panicked, but I am concerned. And that's why back on March 6th, not July 2nd, we began talking about this and trying to find a way, because I didn't know if your well-intended legislation would pass or not. We can't predict what the Legislature is going to do.

So as a result, I felt a duty and an obligation as a trustee of this board to see if there were alternatives and choices for us to explore in order to be able to protect the people of Florida in the event of a catastrophic storm.

I agree with the General also that there always is the opportunity that the federal government would be helpful to us. And his experience in Congress is very important in that regard, but I'm not sure how

long it would take the federal government to sort of come to the rescue, if you will.

I am told that under this tax-exempt put proposal it would be as little as 15 days to be able to secure some capital. And I think that at this time I'll go ahead and make the motion.

MR. MILLIGAN: Governor?

GOVERNOR CRIST: Yes.

MR. MILLIGAN: If I may, we had a request from one individual to speak.

GOVERNOR CRIST: Of course, forgive me.

MR. MILLIGAN: Would you like to entertain that now?

GOVERNOR CRIST: Sure, sure, of course.

MR. MILLIGAN: It's Craig Bissell from AON.

GOVERNOR CRIST: From what?

MR. MILLIGAN: AON, A-O-N, Reinsurance.

GOVERNOR CRIST: Morning, sir. Sorry about that. Forgive me.

MR. BISSELL: That's quite all right. Good morning and thank you for the opportunity to speak. My name is Craig Bissell. I'm a reinsurance broker and a vice-president of AON Re. My office is here in Tallahassee, and I've worked in the Florida residential insurance market for almost ten years.

I'll keep my comments brief and trust they will be to the point. I'm here this morning representing my firm and two other reinsurance brokers selected as members of the FHCF's financial services team, Guy Carpenter and U.S. RE.

Collectively, we've devoted a tremendous amount of time and effort over the past six weeks, incurring significant expense to determine the most viable, cost-efficient options available to the FHCF.

We provided our final recommendations to the FHCF, its financial advisors and staff members of the Cabinet. Our recommendations include a combination of traditional reinsurance, with a put option on post-event bonds at favorable terms and bond insurance to help assure the FHCF's bonding capacity.

Each of these options also has value on a stand-alone basis, and we firmly believe traditional reinsurance can effectively complement any financial product under consideration by the FHCF.

As a result of our meetings with reinsurers, AON Re and Guy Carpenter concluded individual Florida residential insurers would find between seven and ten billion dollars of capacity at prices

ranging from 10 to 15 percent rate online for the 2009 hurricane season, assuming no significant hurricanes this year; that is, if they were to approach reinsurers for traditional occurrence coverage to replace the tickle layers.

In the meetings reinsurers also stressed the more advanced notice provided, the higher the likelihood they will have additional capacity.

Traditional reinsurance is more expensive upfront, but it eliminates assessments at a cost of five to eight cents on the dollar. No other available option to the FHCF offers that benefit.

We believe the FHCF can benefit substantially by purchasing up to one and a half billion dollars of reinsurance in combination with one or more other financial products. This combination will keep the total cost at a reasonable level, and we think it represents the best approach to achieving the FHCF's objective of assuring its bonding capacity.

With that, I'll conclude. And, again, thank you. And if you have any questions, I'll be glad to answer them.

GOVERNOR CRIST: Thank you. Any questions, General?

ATTORNEY GENERAL McCOLLUM: I have no

questions. Thank you.

GOVERNOR CRIST: CFO?

CFO SINK: Well, I'm interested in knowing whether our financial advisors have had an opportunity to review this proposal.

MR. FORNEY: Certainly. John Forney from Raymond James again. As I said earlier, we believe the reinsurance brokers did a terrific job in uncovering capacity in the reinsurance markets at the most competitive price that was available. I described those options to you earlier in my presentation.

The other products that were put forward were just one of many products put forward by other members of the financial services team that didn't meet one or more of the criteria that we talked about earlier.

So the reinsurance was certainly a viable option. I presented that to you. The others really were not something that we thought was -- that made the cut.

CFO SINK: Well, can we just clarify that -- I guess I was just handed the correspondence from AON that said that the rate online would be 15 percent, and you're now saying 10 to 15 percent. Are the

comments that you made consistent with what was presented originally that was evaluated, or is this something new that's coming up at the last minute?

MR. BISSELL: This is not something new. The comments I just made were with regard to the residential insurers here in Florida looking for capacity next year to replace the tickle layers.

CFO SINK: Next year, you mean --

MR. BISSELL: In 2009.

CFO SINK: Oh, okay. All right. I'm sorry.

MR. BISSELL: The correspondence that you're looking at has to do with the pricing on the reinsurance --

CFO SINK: For this year.

MR. BISSELL: -- options that we presented. And just to be clear, to summarize our final recommendations, we presented a combination of a put option with favorable terms, $500 million of capacity, a billion dollars of reinsurance and one to one and a half billion dollars of bond insurance to assure that after an event the FHCF bonds could be issued as AAA bonds.

The purpose in combining those three options together was to produce meaningful capacity, reduce post-event assessments and keep the total cost

within 225 to 300 million dollars. That is why we combined the reinsurance with the other two financial products.

And as Mr. Forney pointed out, on a stand-alone basis, only the bond insurance and the traditional reinsurance would meet the capacity criteria that he mentioned earlier of at least providing a billion dollars of capacity.

But I would reiterate the fact that a billion dollars of reinsurance capacity would cost the FHCF something like $170 million and, in combination with other financial products, would be very effective in absolutely assuring the bonding capacity and the coverage that the FHCF offers to its participating insurers.

CFO SINK: Okay. Thank you.

GOVERNOR CRIST: Thank you. To continue, I think he said the total would be 225 to 300 million dollars. Is that right, Craig?

MR. BISSELL: That's correct.

GOVERNOR CRIST: Thank you. Given that, I will make the motion that we authorize the Florida Hurricane Catastrophe Fund Finance Corporation to develop specific proposals to secure funding for the catastrophe fund that will permit the cat fund to

secure at least four billion in bonds through a put option as outlined by Mr. Forney and also look at the available options for obtaining additional funds through the pre-event financing.

ATTORNEY GENERAL McCOLLUM: I would second that motion.

GOVERNOR CRIST: Thank you. Any comment? All in favor, please say aye. Aye.

CFO SINK: Aye.

ATTORNEY GENERAL McCOLLUM: Aye.

GOVERNOR CRIST: Opposed, like sign. Passes unanimously. Thank you very much.

MR. MILLIGAN: Governor, moving on then to Item 1, paragraph C, request approval to revise the 2008-2009 Florida Hurricane Catastrophe Fund premium formula and the 2008 rates to reflect the cost of financial products B above, which is the put option.

ATTORNEY GENERAL McCOLLUM: I would move to do that, Governor.

CFO SINK: I'll second it. But just to clarify, General. So these extra -- I just want to make it clear. These extra expenses that we are incurring today to buy this put option will go back into the premium formula calculation for --

MR. MILLIGAN: Yes, they will.

CFO SINK: And will be ultimately then passed on to the participating insurers and eligible for consideration if they do a filing for a rate increase.

MR. MILLIGAN: Yes, they will.

CFO SINK: Thank you.

GOVERNOR CRIST: Let me ask you to repeat what you just said, please.

MR. MILLIGAN: That the additional cost that we will incur as a result of the put option, additional cost upfront, will be put into the premium formula and will result in some cost to insurers -- insureds.

GOVERNOR CRIST: So you're talking about raising rates.

MR. MILLIGAN: There will be an increase in rates, yes.

GOVERNOR CRIST: Okay. There's been a motion and a second. I understand this requires a unanimous vote?

MR. MILLIGAN: That I am not sure of. I don't think it does. It does?

GOVERNOR CRIST: Apparently it does. All in favor say aye.

CFO SINK: Excuse me. I need to get a

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clarification here.

GOVERNOR CRIST: Sure.

CFO SINK: My staff person says that this is not -- that this item does not require a unanimous vote.

GOVERNOR CRIST: Well, we better check it then before we vote. General, thank you for your patience. We're coming in for a landing, I think.

ATTORNEY GENERAL McCOLLUM: Okay. Well, I've got about five minutes and I've got to go. Come in for a quick landing here.

CFO SINK: Governor, at your pleasure, if we get in a time crunch, I would -- while we're waiting for their opinion, we have been through extensive interview processes for the SBA director's position, and all of our offices, I believe, have had an opportunity to identify the three candidates that were presented to us by the committee that did the more extensive interviewing.

We have another month before the Cabinet is going to -- I understand you're going to be out of the country. We're not going to be here. Our candidates are kind of flying away on us because they're not -- they've waited a long time.

I would like to put forth a recommendation that

we enter into negotiations with Ash Williams and instruct the General to negotiate a compensation package with him --

GOVERNOR CRIST: General Milligan.

CFO SINK: -- which would be approved by -- so that we know that we have a candidate who is on the way, and then we can finalize the vote when we all get back in our next meeting in July and hopefully have Ash Williams ready to go to work immediately.

ATTORNEY GENERAL McCOLLUM: I'd like to comment that I agree with you, CFO Sink. I think Ash Williams is an outstanding candidate to take this post, and I think it would be a shame if we lost him in some way. So I encourage whatever we need to do to make this happen.

GOVERNOR CRIST: I would agree. Do we need a -- do you want to make that a motion, CFO Sink?

CFO SINK: Okay. I move that we enter into negotiations with Ash Williams for the position of director of the SBA and instruct General Milligan to conduct those negotiations around benefits and compensation and be ready for us to give approval at the July the 29th meeting.

GOVERNOR CRIST: I would second.

ATTORNEY GENERAL McCOLLUM: I second that.

GOVERNOR CRIST: All in favor say aye. Aye.

ATTORNEY GENERAL McCOLLUM: Aye.

CFO SINK: Aye. Thank you, Governor.

GOVERNOR CRIST: Thank you.

CFO SINK: We'll say more about Ash later but --

GOVERNOR CRIST: I was very impressed.

CFO SINK: -- he was the former director of the SBA here, and it's just our good fortune that he's available and interested in coming back to Tallahassee.

GOVERNOR CRIST: I agree.

ATTORNEY GENERAL McCOLLUM: I've got a question, Governor, for General Milligan, about the resolution that he just asked and I just offered. If we didn't pass it -- and I know there's some debate about whether it needs to be unanimous or not. What would be the consequences if we don't pass this particular resolution, in light of the previous one we just passed?

MR. MILLIGAN: Well, I guess it would actually violate the statute, in making sure that the premium that we're charging is consistent with the costs that are being incurred by the hurricane fund.

ATTORNEY GENERAL McCOLLUM: So we need to pass

this resolution I made in order to comply with the state statute, the law that's in place right now.

MR. MILLIGAN: That is my understanding.

ATTORNEY GENERAL McCOLLUM: Thank you.

GOVERNOR CRIST: Well, I have an idea.

CFO SINK: The issue is that he's got to revise it and then bring it back and let us look at it at that point in time.

GOVERNOR CRIST: I have a thought. General, were you done with your conversation with General Milligan?

ATTORNEY GENERAL McCOLLUM: I am.

GOVERNOR CRIST: Back to the motion that's on the table, that is, to have the tax-exempt put voted upon, which has been moved and seconded -- or no, excuse me, we're on the other item, forgive me, item C.

CFO SINK: The formula.

GOVERNOR CRIST: The rate increase motion.

MR. MILLIGAN: Yes, the fund premium formula.

GOVERNOR CRIST: I've been handed -- this is Florida Statute 215.555(5)(b), and it talks about some formula. Formula must be approved by unanimous vote of the board. I think in the interest of the General's schedule and time, we can go ahead and

vote on this and have the Attorney General's Office perhaps reach a final conclusion.

I'm informed that they have the opinion that unanimity is required, but we might as well be sure. We can go ahead and vote, register what our vote is. If unanimity is required -- I'm going to vote no -- then it will fail. If unanimity is not required, then it will pass. Is that acceptable to my colleagues?

CFO SINK: Yes.

GOVERNOR CRIST: General, is that all right?

ATTORNEY GENERAL McCOLLUM: Yes, that's acceptable.

GOVERNOR CRIST: Okay. All in favor of, I guess, General Milligan, it was Item 1-C?

MR. MILLIGAN: Item 1-C, yes, sir.

GOVERNOR CRIST: Please signify by saying aye.

CFO SINK: Aye.

ATTORNEY GENERAL McCOLLUM: Aye.

GOVERNOR CRIST: All opposed? No.

MR. MILLIGAN: And then Item 1-D is request authority to amend the Florida Hurricane Catastrophe Fund budget for the purpose of including the cost of the financial products in the put option.

GOVERNOR CRIST: Is there a motion on D?

CFO SINK: Yes, I move it.

GOVERNOR CRIST: Is there a second?

ATTORNEY GENERAL McCOLLUM: Second.

GOVERNOR CRIST: All in favor say aye. Aye.

ATTORNEY GENERAL McCOLLUM: Aye.

CFO SINK: Yes, aye.

MR. MILLIGAN: That completes the State Board of Administration agenda, Governor. We do need to have a special meeting of the Florida Hurricane Catastrophe Fund Finance Corporation.

GOVERNOR CRIST: You have one item, you said?

MR. MILLIGAN: One item, yes, sir.

GOVERNOR CRIST: We'll now convene the meeting of the Florida Hurricane Catastrophe Fund Finance Corporation Board. This board is composed of the members of the State Board of Administration and also Ben Watkins and Jack Nicholson. Attorney General McCollum is participating, as you know, by telephone. Morning, Jack.

MR. NICHOLSON: Morning, sir.

GOVERNOR CRIST: You have the floor.

MR. NICHOLSON: We have one item on the agenda, and that item is direct the development of a resolution authorizing the corporation to engage in financial transactions to provide additional funding to the Florida Hurricane Catastrophe Fund.

CFO SINK: I move it.

GOVERNOR CRIST: Is there a second?

ATTORNEY GENERAL McCOLLUM: Second.

GOVERNOR CRIST: Moved and seconded. Show it approved without objection. Thank you very much. We stand adjourned.

(Whereupon, the meeting was concluded at 10:15 a.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, Jo Langston, Registered Professional Reporter, do hereby certify that the foregoing pages 4 through 47, 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 22nd day of July 2008.

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JO LANGSTON
Registered Professional Reporter