

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:

STATE BOARD OF ADMINISTRATION

DIVISION OF BOND FINANCE

FINANCIAL SERVICES COMMISSION, OFFICE OF
FINANCIAL REGULATION

The above agencies came to be heard before
THE FLORIDA CABINET, Honorable Governor Scott
presiding, in the Cabinet Meeting Room, LL-03,
The Capitol, Tallahassee, Florida, on Tuesday,
February 1, 2011, commencing at 9:00 a.m.

Reported by:
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Registered Professional Reporter
Notary Public

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APPEARANCES:

Representing the Florida Cabinet:

RICK SCOTT
Governor

ADAM H. PUTNAM
Commissioner of Agriculture

PAM BONDI
Attorney General

JEFF ATWATER
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 9:05 a.m.)

GOVERNOR SCOTT: The first agenda is the State Board of Administration presented by Ash Williams. So, Ash, good morning.

MR. WILLIAMS: Good morning, Governor, Trustees. Before we get started this morning, I just wanted to let you know, as of last evening's close, January 31, the balance of the Florida Retirement System Trust Fund stood at \$125.1 billion fiscal year to date. We're up 16.99 percent net of all costs.

GOVERNOR SCOTT: That's great.

MR. WILLIAMS: Thank you. Item 1, request approval of the minutes from the November 9 and December 7, 2010 meetings.

GOVERNOR SCOTT: Is there a motion to approve?

CFO ATWATER: So move.

GOVERNOR SCOTT: And is there a second?

ATTORNEY GENERAL BONDI: Second.

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

MR. WILLIAMS: Thank you. Item 2, request approval of a fiscal determination of an amount not

1 exceeding \$650 million Florida Housing Finance
2 Corporation Homeowner Mortgage Revenue Bonds.

3 GOVERNOR SCOTT: Is there a motion to approve?

4 ATTORNEY GENERAL BONDI: Motion to approve.

5 GOVERNOR SCOTT: And second?

6 CFO ATWATER: Second.

7 GOVERNOR SCOTT: Moved and seconded. Show Item
8 2 approved without objection.

9 MR. WILLIAMS: Thank you. Item 3, request
10 approval of a fiscal sufficiency of an amount not
11 exceeding \$380 million State of Florida, Full Faith
12 and Credit, State Board of Education Public
13 Education Capital Outlay Refunding Bonds.

14 GOVERNOR SCOTT: Is there a motion on Item 3?

15 ATTORNEY GENERAL BONDI: Motion to approve.

16 (Seconded by Governor Scott.)

17 GOVERNOR SCOTT: Moved and seconded. Show Item
18 3 approved without objection.

19 MR. WILLIAMS: Thank you. Item 4, request
20 approval of a fiscal sufficiency of an amount not
21 exceeding \$33 million State of Florida, Board of
22 Governors, University of Florida Clinical
23 Translational Research Building Revenue Bonds.

24 GOVERNOR SCOTT: Mr. Williams, can you explain
25 how this is used on this one? Can you explain what

1 it's going to be used for?

2 MR. WILLIAMS: The fiscal sufficiency function
3 or the actual programmatic use of the
4 Translational --

5 GOVERNOR SCOTT: The use.

6 MR. WILLIAMS: That I don't know. Our job here
7 is solely limited to looking at the revenues
8 dedicated to a project and assuring that they're
9 adequate to cover the principal and interest of the
10 related financing.

11 GOVERNOR SCOTT: Okay. All right. Is there a
12 motion?

13 ATTORNEY GENERAL BONDI: Motion to approve.

14 (Seconded by Governor Scott.)

15 GOVERNOR SCOTT: Moved and seconded, show Item
16 4 approved without objection.

17 MR. WILLIAMS: Thank you. Item 5, request
18 approval of a fiscal determination of an amount not
19 exceeding \$11,650,000 Florida Housing Finance
20 Corporation Multifamily Mortgage Revenue Bonds.

21 GOVERNOR SCOTT: Is there a motion on Item 5?

22 CFO ATWATER: So moved.

23 (Seconded by Governor Scott.)

24 GOVERNOR SCOTT: Moved and seconded. Show Item
25 5 approved without objection.

1 MR. WILLIAMS: Thank you. Item 6, request
2 approval of a fiscal determination of an amount not
3 exceeding \$10,400,000 Florida Housing Finance
4 Corporation Multifamily Mortgage Revenue Bonds.

5 GOVERNOR SCOTT: Is there a motion on Item 6?

6 ATTORNEY GENERAL BONDI: So moved.

7 (Seconded by Governor Scott.)

8 GOVERNOR SCOTT: Moved and seconded. Show Item
9 6 approved without objection.

10 MR. WILLIAMS: Thank you. Item 7, request
11 approval of a fiscal determination of an amount not
12 exceeding \$7 million Florida Housing Finance
13 Corporation Multifamily Mortgage Revenue Bonds.

14 GOVERNOR SCOTT: Is there a motion on Item 7?

15 ATTORNEY GENERAL BONDI: Motion to approve.

16 (Seconded by Governor Scott.)

17 GOVERNOR SCOTT: Moved and seconded. Show Item
18 7 approved without objection.

19 MR. WILLIAMS: Thank you. Last item, request
20 approval for certification to the Joint Legislative
21 Auditing Committee that the Auditor General's Annual
22 Financial Audit Report of the Local Government
23 Surplus Funds Trust Fund, Florida PRIME, has been
24 received and there are no reported material
25 differences -- deficiencies in internal controls and

1 no reported instances of noncompliance, a clean
2 audit.

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

4 ATTORNEY GENERAL BONDI: Motion to approve.

5 GOVERNOR SCOTT: And second?

6 CFO ATWATER: Second.

7 GOVERNOR SCOTT: Moved and seconded. Show Item
8 8 approved without objection.

9 MR. WILLIAMS: Thank you very much.

10 ATTORNEY GENERAL BONDI: Governor, may I ask
11 Mr. Williams a question?

12 GOVERNOR SCOTT: Sure.

13 ATTORNEY GENERAL BONDI: Mr. Williams, I know
14 that we've expanded recently the Investment Advisory
15 Council, and we're ready, in the Office of the
16 Attorney General, with a highly qualified
17 individual. Do you know what time frame that's
18 going to take place and when fellow Cabinet members
19 can make their appointments as well?

20 MR. WILLIAMS: I think we have flexibility.
21 The IAC, as you know, is a very important advisory
22 body for the State Board, appointed by the Trustees,
23 confirmed by the Senate, composed of individuals
24 with significant personal investment expertise.
25 They've been a tremendous sounding board, oversight

1 body and sort of guidance group over the years.

2 The law was changed last year to expand that
3 group from six to three (sic) effective today. I
4 believe it's today. And there's not a hard time
5 frame within which appointments can be made. I
6 think at any point we're ready to go forward with
7 individuals. We'd certainly love to have them and
8 get the process in motion.

9 ATTORNEY GENERAL BONDI: Okay. Thank you.

10 MR. WILLIAMS: Thank you.

11 GOVERNOR SCOTT: Okay. The next -- thank you,
12 Attorney General Bondi.

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1 GOVERNOR SCOTT: The next agenda is Division of
2 Bond Finance, presentation by Ben Watkins.

3 Thank you, Mr. Williams.

4 MR. WATKINS: Good morning, Governor, Cabinet
5 members.

6 GOVERNOR SCOTT: Good morning.

7 MR. WATKINS: Item Number 1 is approval of the
8 minutes of the December 7th meeting.

9 GOVERNOR SCOTT: Is there a motion on the
10 minutes?

11 COMMISSIONER PUTNAM: I'll move.

12 GOVERNOR SCOTT: Is there a second?

13 CFO ATWATER: Second.

14 GOVERNOR SCOTT: Moved and seconded. Show Item
15 1 approved without objection.

16 MR. WATKINS: Item Number 2 are resolutions
17 authorizing the issuance and competitive sale of
18 \$380 million of Public Education Capital Outlay
19 Refunding Bonds. These bonds will be issued to
20 refund current outstanding indebtedness and lower
21 the interest rate in order to achieve a debt service
22 savings for the PECO program.

23 GOVERNOR SCOTT: What's the anticipated
24 savings?

25 MR. WATKINS: Approximately 30 million on a

1 gross basis, approximately 25 million on a present
2 value basis. We're looking at taking bonds that are
3 outstanding between 5 percent and 5.15 percent and
4 lowering the interest rate to probably about
5 3.6 percent. And these obviously are estimates, and
6 the actual results will depend on the interest rates
7 we get at the time we sell the bonds.

8 GOVERNOR SCOTT: And you'll give us an update
9 after they're sold?

10 MR. WATKINS: Absolutely. As soon as we sell
11 the bonds, I'll send you a report and let you know
12 what the results are, all of you.

13 GOVERNOR SCOTT: Is there a motion on Item 2?

14 CFO ATWATER: So moved.

15 GOVERNOR SCOTT: And a second?

16 ATTORNEY GENERAL BONDI: Second.

17 GOVERNOR SCOTT: Moved and seconded. Show Item
18 2 approved without objection.

19 MR. WATKINS: Item 3 are resolutions
20 authorizing the issuance and competitive sale of
21 \$33 million in Revenue Bonds for the College of
22 Medicine at the University of Florida for a
23 translational research facility.

24 GOVERNOR SCOTT: Okay. And what's backing up
25 the bonds?

1 MR. WATKINS: This is secured by the indirect
2 cost component of grants and contracts for the
3 College of Medicine. So a portion of the revenues
4 received from grants is for -- to reimburse the
5 university for administrative costs of administering
6 the grants. And it's that component of the grants
7 that is securing these bonds.

8 GOVERNOR SCOTT: And so the State is not
9 backing the bonds?

10 MR. WATKINS: No, sir. This is secured by
11 revenues of the university, generated from grants
12 for the College of Medicine. And so it's not
13 included within the State's debt cap. It's a debt
14 of the university, not of the State of Florida. But
15 we're administering the financing, so that's why it
16 comes before you.

17 GOVERNOR SCOTT: And there's no way it ever
18 becomes an obligation of the State.

19 MR. WATKINS: Not a legal obligation of the
20 State. Of course, if it were to go south, you can
21 rest assured that investors would show up knocking
22 on the legislature's door asking for an
23 appropriation, and hence the interest of the State,
24 but it is not a legal obligation of the state.

25 And I do not have any reservations about the

1 fiscal solvency, about whether this is going to pay
2 or not. The university has a long history of
3 generating grant revenues far beyond what would be
4 necessary to pay this debt.

5 GOVERNOR SCOTT: So are there any other
6 questions?

7 CFO ATWATER: Governor, just one. So I take
8 it, Mr. Watkins, that the marketplace has long seen
9 that future grant revenues has been a stable source
10 and a comfortable source for them purchasing the
11 bonds.

12 MR. WATKINS: It's not a conventional credit in
13 the sense that it's pledging a tax revenue stream,
14 which is mandatory. It is dependent on the
15 university's ability to generate a flow of grants
16 through the duration of the financing. So it is not
17 something that the municipal market is used to
18 seeing.

19 However, given the diligence that we've done on
20 the university, the revenue flow from the university
21 and grants, there is extraordinary coverage relative
22 to the amount of debt service that would be required
23 to be paid with this.

24 GOVERNOR SCOTT: Commissioner Putnam, did you
25 have a question?

1 COMMISSIONER PUTNAM: Atwater covered it for
2 me.

3 GOVERNOR SCOTT: Okay.

4 ATTORNEY GENERAL BONDI: Can I just clarify?
5 Can I clarify? I just want to clarify. So the
6 indirect portion of these bonds will cover the debt
7 service.

8 MR. WATKINS: Yes, ma'am.

9 ATTORNEY GENERAL BONDI: Okay.

10 MR. WATKINS: We are actually -- because of the
11 nature of the credit, which is an indirect component
12 of grants and contracts, we're actually offering
13 this competitively to financial institutions only
14 and not retail investors. And so the execution is
15 limited to sophisticated investors who can assess
16 the creditworthiness. But I don't have any
17 reservations about the creditworthiness, or I
18 wouldn't be asking you-all for approval.

19 COMMISSIONER PUTNAM: Governor?

20 GOVERNOR SCOTT: Yes.

21 COMMISSIONER PUTNAM: I don't think any of us
22 have any question that the University of Florida is
23 creditworthy. I'm just shocked that, given the
24 political risk in both Tallahassee and in
25 Washington, that you can secure a bond to such an

1 unstable revenue stream as the projection of future
2 federal grants or future state grants.

3 That is surprising to me that the markets
4 accept that. I don't have any doubt that the
5 University of Florida is creditworthy and can cover
6 a \$33 million bond issuance. It's just the
7 securitization of those bonds that's pretty, I
8 think, surprising to us all.

9 MR. WATKINS: Well, my reaction to that would
10 be that the street will loan you more money than you
11 could ever possibly afford to repay.

12 COMMISSIONER PUTNAM: They'll always give you
13 all the rope you need to hang yourself with.

14 MR. WATKINS: Exactly. And so our job is to
15 make sure that we are comfortable with
16 creditworthiness of what we're putting into the
17 market, because it obviously affects the State's
18 reputation in the credit market, which is critically
19 important to ongoing access to credit.

20 GOVERNOR SCOTT: Do you think that the buyer is
21 relying on the State's credit, though, in -- I know
22 they're not, based on contract, but do you think
23 they're relying on it in the fact that we're going
24 to bail them out if they ever have a problem?

25 MR. WATKINS: No, I don't think so. We make it

1 eminently clear that the pledged revenues are
2 limited to, and by the nature of the obligation, it
3 being a revenue bond, they understand that. And
4 these are -- the people who operate in our market
5 understand the differences in what they're buying
6 into.

7 And so it is -- I think there's a clear
8 understanding of exactly what their security is and
9 what they can rely on.

10 GOVERNOR SCOTT: Any other questions?

11 CFO ATWATER: Just one last one, Governor.
12 Thank you. Do you have a sense of the size or the
13 magnitude of the dollars presently outstanding under
14 this type of an arrangement?

15 MR. WATKINS: Nationally or for the University
16 of Florida?

17 CFO ATWATER: For the University of Florida.

18 MR. WATKINS: There's one prior obligation
19 outstanding secured by this revenue stream, and
20 it's -- let me look and see exactly how much it is.
21 I can tell you what the annual repayment obligation
22 is.

23 CFO ATWATER: And I take it your recollection
24 is the market picked up on that fast and
25 purchased --

1 MR. WATKINS: Yes. It was \$2.3 million a year,
2 is the annual debt service requirement on the
3 outstanding debt. We will be adding debt service of
4 about another \$3 million a year. And the indirect
5 cost component covering that is \$25 million a year,
6 has been historically for the last year 25 million a
7 year. So there's five times more revenues from the
8 indirect cost component than the annual debt service
9 requirements.

10 So that -- basically what that means is the
11 grants would have to drop to 20 percent of what they
12 are currently for there to be an issue with respect
13 to repaying the debt.

14 CFO ATWATER: And that would be something for
15 the market to consider at some point, I suspect.
16 I'll move it, if there's no --

17 MR. WATKINS: Absolutely.

18 GOVERNOR SCOTT: There's a motion?

19 CFO ATWATER: Yes. So move.

20 GOVERNOR SCOTT: Okay.

21 ATTORNEY GENERAL BONDI: Second.

22 GOVERNOR SCOTT: Moved and seconded. Show Item
23 3 approved without objection.

24 MR. WATKINS: Item Number 4 is a report of
25 award on a competitive sale of \$15,635,000 of

1 Revenue Bonds for the University of North Florida
2 that were sold to finance a student health and
3 wellness center, secured by the health fee imposed
4 on the student's tuition bill.

5 The bonds were split into two separate series.
6 They were the first -- the early bonds were sold as
7 Tax-Exempt Bonds, \$2,575,000 Tax-Exempt Bonds, and
8 \$13,060,000 of Build America Bonds, which are
9 taxable bonds. And we are reimbursed for 35 percent
10 of the interest cost associated with that.

11 The Tax-Exempt Bonds were sold at a competitive
12 sale to the low bidder at a true interest cost of
13 2.45 percent, and the Taxable Build America Bonds
14 were sold to the low bidder at a true interest, a
15 net true interest cost, that is, net of the federal
16 subsidy for interest cost is 4.55 percent. When you
17 combine those two transactions, the true interest
18 cost on the overall financing is 4.44 percent.

19 GOVERNOR SCOTT: And, again, there's no
20 obligation of the State?

21 MR. WATKINS: No, sir. This is secured solely
22 by the revenues generated from the mandatory student
23 fee on the students at the University of North
24 Florida.

25 GOVERNOR SCOTT: Is the university responsible

1 other than the student fee?

2 MR. WATKINS: No, sir. It's limited to the
3 student fees pledged. Actually, statutorily it
4 is -- there are certain revenue streams that are
5 authorized to be pledged and a multitude of other
6 revenue streams that are prohibited from being
7 pledged. And this is one that the Legislature has
8 authorized and we have used previously to secure
9 these kinds of obligations.

10 GOVERNOR SCOTT: Any other questions?

11 ATTORNEY GENERAL BONDI: No.

12 GOVERNOR SCOTT: Is there a motion?

13 CFO ATWATER: So moved.

14 GOVERNOR SCOTT: Okay. A second?

15 ATTORNEY GENERAL BONDI: Second.

16 GOVERNOR SCOTT: Moved and seconded. Show Item
17 4 approved without objection.

18 MR. WATKINS: And, lastly, Item 5 is a report
19 of award on the competitive sale of \$154.8 million
20 of Public Education Capital Outlay Bonds. This is
21 half of the appropriation for the current fiscal
22 year, roughly half of the appropriation for the
23 current fiscal year for the PECO Bond program. The
24 bonds were awarded to the low bidder at a true
25 interest cost of approximately 4.84 percent.

1 GOVERNOR SCOTT: And is the State obligated on
2 these?

3 MR. WATKINS: These are state general
4 obligation bonds. So the primary security is gross
5 receipts taxes, but then it is additionally secured
6 by the State's full faith and credit.

7 GOVERNOR SCOTT: Okay. Any questions on this
8 one?

9 CFO ATWATER: So move.

10 GOVERNOR SCOTT: Second?

11 ATTORNEY GENERAL BONDI: Second.

12 GOVERNOR SCOTT: Moved and seconded. Show Item
13 5 approved without objection. Thank you.

14 MR. WATKINS: Thank you.

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1 GOVERNOR SCOTT: The next agenda is the
2 Financial Services Commission, Office of Financial
3 Regulation, presented by Tom Cardwell.

4 Thank you, Mr. Watkins.

5 MR. WATKINS: Thank you.

6 MR. CARDWELL: Good morning, Governor Scott,
7 members of the Cabinet, members of the Financial
8 Services Commission. Two items. First is the
9 approval of the minutes of the October 12th, 2010
10 meeting.

11 GOVERNOR SCOTT: Is there a motion on the
12 minutes?

13 CFO ATWATER: So moved.

14 GOVERNOR SCOTT: Second?

15 ATTORNEY GENERAL BONDI: Second.

16 GOVERNOR SCOTT: Moved and seconded, show Item
17 1 approved without objection.

18 MR. CARDWELL: Thank you. The second item is a
19 request for the final adoption of a rule amending
20 Rule Chapters 69V-85, 160 and 560. This is an
21 amendment to an existing set of rules. The Florida
22 Statutes authorize the agency to require applicants
23 who fill out applications and pay fees to do so
24 electronically. This electronic payment has been a
25 significant efficiency, both for businesses and for

1 the agency.

2 There are, however, a few cases in which the
3 licensees do not have bank accounts or computer
4 access. And the existing rules deal with this by
5 permitting such persons to seek a waiver of the
6 electronic filing by sending a letter, which they
7 must compose, or in one case by actually filing a
8 petition. Last year we had two requests for waiver.

9 It was recommended and we agreed to simplify
10 this process to assist people and to make it easier
11 particularly for small businesses. And we have
12 developed a very simple waiver form. The Small
13 Business Regulatory Council has reviewed the
14 amendment and is supportive of it. This amendment
15 has been in process for some time and I think will
16 be of benefit to the business community and to the
17 agency. And I would request approval for final
18 adoption.

19 GOVERNOR SCOTT: Any questions?

20 CFO ATWATER: So moved.

21 GOVERNOR SCOTT: Second?

22 ATTORNEY GENERAL BONDI: Second.

23 GOVERNOR SCOTT: Moved and seconded. Show Item
24 2 approved without objection. Thank you,
25 Mr. Cardwell.

1 MR. CARDWELL: Thank you.

2 GOVERNOR SCOTT: This concludes our meeting.

3 We are adjourned. Thank you very much.

4 (Whereupon, the meeting was concluded at 9:25
5 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 23,
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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 14th day of February, 2010.

JO LANGSTON
Registered Professional Reporter