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Representing:

STATE BOARD OF ADMINISTRATION

DIVISION OF BOND FINANCE

DEPARTMENT OF REVENUE

DEPARTMENT OF VETERANS' AFFAIRS

ADMINISTRATION COMMISSION

BOARD OF TRUSTEES, INTERNAL IMPROVEMENT TRUST FUND

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 22, 2011, commencing at 9:00 a.m.

Reported by:
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PAM BONDI
Attorney General

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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 9:15 a.m.)

GOVERNOR SCOTT: The first -- now we're going to the State Board of Administration. The first agenda is the State Board of Administration, presented by Ash Williams.

MR. WILLIAMS: Good morning, Governor, Trustees.

GOVERNOR SCOTT: Good morning.

MR. WILLIAMS: The first thing I want to do this morning is thank each of you for your generosity with your time last week. As you know, we conducted fiduciary training in all three offices. I think that's an impressive accomplishment, and it's the right foundation on which to build your leadership with the State Board.

Secondly, I wanted to report to you that as of the close of business on Friday -- yesterday was a market holiday -- the Florida Retirement System Trust Fund is up 19.96 percent, net of all costs, fiscal year to date, leaving our balance at $128.4 billion. And also we have with us this morning a couple of senior executives from Hewitt EnnisKnupp, Mr. Steve Cummings, chief executive, and

Rowland Davis, one of the senior consultants with whom we work regularly, just in case anyone has any questions.

Unless there are any questions or comments on any of those points, I'm happy to proceed with the agenda. The first item, request approval of two appointments to the Investment Advisory Council, Martin Garcia and Mr. Charles Newman. Mr. Garcia is with us this morning.

GOVERNOR SCOTT: Is there a motion to approve Item 1?

CFO ATWATER: So moved.

GOVERNOR SCOTT: 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 draft letter to the Joint Legislative Auditing Committee affirming that the SBA trustees have reviewed and approved the monthly Florida PRIME and Fund B management summary reports and actions taken, if any, to address material impacts. There have been no material impacts.

Just as background on this item, the Florida Legislature created the authority for the State

Board to manage a local government cash investment pool back in 1977. The pool has been through a number of iterations over the years, was restructured by the Legislature in 2008 and currently is a AAAm-rated full liquidity facility that offers very, very low-cost cash management services to governmental entities in Florida.

We provide very extensive transparency. We are overseen by a separate advisory council, similar to the Investment Advisory Council, called the Participant Local Government Advisory Council, which had a public meeting last week here in Tallahassee. They meet quarterly, as does the IAC.

We have a very extensive website for the pool. Currently the pool includes some 815 governmental participants, $7.3 billion in assets as of calendar yearend 2010, and 1,800 different accounts. And, again, we have pretty extensive audit oversight and other oversight.

GOVERNOR SCOTT: Mr. Williams, can you explain the benefit of the State in doing this and the risk -- if there's any risk to the State in doing this, having PRIME?

MR. WILLIAMS: I don't think there's any risk to the State in doing it, from the standpoint that the State is not guaranteeing any of the assets in PRIME, number one. Number two, the investment policies of the fund were completely rewritten and risk reduced significantly in the wake of the liquidity issues in the fourth quarter of 2007.

We run essentially -- the PRIME runs essentially in keeping with the SEC's 2a-7 regulations, which are money market fund regulations. So the statutory priorities for the way the fund is managed, I believe, are quite appropriate. And they are, in order of priority, number one, safety, number two, liquidity and number three, return. So the perspective is correct.

And the positive, I think, for having the PRIME is the amount of money it saves local governments. I'll be honest with you. When I came back to Florida at the end of '08, one of the first issues I had on my plate was should we be in this business at all, should we simply close this thing down and allow local banks or other institutions to handle these assets.

And I was somewhat surprised when I went around and spoke with local government officials, local government associations, et cetera, that, no, notwithstanding the issues that took place in

'07 and the subsequent actions to avoid their recurrence, that they really valued the PRIME vehicle.

And I think what has changed in investor thinking that is appropriate is that it's not seen as a place to put all of one's eggs. It has an appropriate place as a very, very low cost, of a high liquidity, very safe, but not particularly exciting yield vehicle, as a diversifier and a low cost service.

GOVERNOR SCOTT: Okay.

ATTORNEY GENERAL BONDI: May I ask a question, Governor? Mr. Williams, could you comment on the low fees that are charged to the local governments?

MR. WILLIAMS: Yes. The all-in cost of Florida PRIME is roughly 2.6 basis points. That's a little more than two and a half hundredths of one percent, which is quite inexpensive by any standard. To put that in context, the average of the competing alternatives that local governments have access to is about 20 basis points, or a significant multiple of our costs.

The reason those costs are so low is really two things. First, scale. Costs for managing assets commonly are on a declining scale. So the more money you're managing, the lower the fee is per dollar invested. That's the big thing we have going for us. The second factor is that we're not for profit. So that is a big tailwind.

The history of Florida PRIME is at one time it was the largest cash pool in the country. That distinction now belongs to the State of Texas, with an institution they run called TexPool. The Florida PRIME fund is -- we don't manage that money in-house. It's contracted out to Federated Investors. Because of our scale, again, our pricing is very advantageous. Federated also manages the assets of TexPool in Texas.

And at the rate -- growth has come back as confidence, I think, has returned to the fund. The fund bottomed at $4 billion at its low. It's now, as I said, back over seven. So the confidence has been earned back, I believe.

ATTORNEY GENERAL BONDI: Thank you.

GOVERNOR SCOTT: Anything else? Okay. So there's a request for approval of the draft letter; is that right?

MR. WILLIAMS: Yes.

GOVERNOR SCOTT: Is there a motion?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

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

MR. WILLIAMS: Thank you.

GOVERNOR SCOTT: Can we go back to Item 1?

MR. WILLIAMS: Yes, sir.

GOVERNOR SCOTT: So Attorney General Bondi, would you like to say something about your appointment?

ATTORNEY GENERAL BONDI: Thank you, Governor. Mr. Garcia is with us today. Not to embarrass him, will you just stand for a moment, Mr. Garcia? He is abundantly qualified. I'd like you all to know not only does he have an extensive financial background but exhibits the highest ethical standards, and I am so proud that he is now a member of our Advisory Council.

Mr. Garcia is one of the founding members of Hill, Ward & Henderson law firm, and his public service -- I could continue on all day. He's been on the Florida Board of Governors for the Florida Bar. He has been a trustee for Wake Forest University, and he's been on the Judicial Qualifications Commission, the Federal Nominating

Commission, and is currently on the Supreme Court Nominating Commission. And we are honored to have you. Thank you. And thank you, Governor.

GOVERNOR SCOTT: Thank you. And thanks for serving. Okay. I'd like to recognize CFO Atwater. I'm sure you'd like to say something.

CFO ATWATER: He'll be here Thursday, if we could meet again. I guess we will be. Charles Newman, Chuck Newman, has spent his entire professional life in the financial services industry. He served as the chief financial officer and controller of Barnett Banks, Incorporated, which at the time was about the 20th largest bank in the country, responsible for the company's accounting, financial reporting, management systems and investor relations. Additionally, he served as a trustee of the Barnett Bank's pension committee, with over 400 million in assets.

Prior to his banking career, he was a certified public accountant with Ernst & Ernst. He and his family have tremendous volunteer time in not-for-profit work, just an outstanding individual. We're going to benefit greatly from his participation. Thank you.

GOVERNOR SCOTT: Thank you very much. Mr.

Williams, if you could go on to Item 3, please.

MR. WILLIAMS: Thank you, Governor. Item 3, request approval of the SBA quarterly report required by the Protecting Florida's Investments Act. Now, again, by way of background on this one, since this is a matter of first impression for you, the Legislature in 2007 created the Protecting Florida's Investments Act, which focuses on Sudan and Iran and is designed to ensure that the SBA does not have investments in companies that are consorting with the governments of those countries, supporting their military activities or otherwise in any way aiding or abetting certain human rights conditions that have been prevalent and are disagreeable in those areas.

As a practical matter, the way we implement this is to use outside advisory firms to do the analysis on individual companies. And depending on what the degree of consensus is we can form among those advisory firms, we have two levels on which we can place companies, either scrutinized, which means they're on our list of companies that we will not own their shares, or continued examination, meaning they're on a watch list and they're under close scrutiny.

We also communicate with those companies, advise them of our concerns about their activities and their relationships, et cetera, and what our desired outcomes are, and make very clear that we will not own their shares if they indulge in certain prescribed behaviors.

Over time, a number of these companies have, in fact, responded to that sort of communication and have gone from being on the scrutinized list to the continued exam to no scrutiny at all because they've done what was asked of them. This has been part of an effort that's taken place around the United States, I believe has some federal support as well. So that's the history of it.

In this particular report with regard to Sudan, we've removed two companies from the scrutinized list, which is to say they've responded to requests. There have been no changes, no additions to that list. And on continued examination, there have been two companies added and none removed. With regard to Iran, there have been no changes in the scrutinized list and two companies added to the continued examination list.

Mr. Mike McCauley is with us this morning at the Board staff. Mike, among his other duties, manages this program and is very, very familiar with it, if there are any follow-up questions.

GOVERNOR SCOTT: Mr. Williams, does the federal government require the same thing? Is this something the federal government also does and then the State does it also?

MR. WILLIAMS: I don't know that the federal government has a requirement of this nature that would cover states. I believe the federal government, to the extent it has anything like this, it would cover commerce, that is, U.S. companies doing business with regimes of Iran, for example.

GOVERNOR SCOTT: And do you know what it costs us to do this?

MR. WILLIAMS: Yes. The cost to date is somewhere under three basis points. And the cost actually over time sometimes is negative, which is to say it's actually additive. Other times there is a cost. What we see is a correlation between the performance of energy companies, because that tends to be where this will come to bear, oil and energy companies.

So if energy companies generally are accreting value, then -- and we have lower exposure as a consequence of this, then it will tend to have a drag on our portfolio. If they're falling, it will tend perversely to seem to add value. But it's generally been de minimus either way.

GOVERNOR SCOTT: That makes sense. Okay. Is there a motion?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

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

MR. WILLIAMS: Thank you very much.

GOVERNOR SCOTT: Thank you, Mr. Williams.

GOVERNOR SCOTT: The next agenda is Division of Bond Finance presented by Ben Watkins.

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

ATTORNEY GENERAL BONDI: Good morning.

MR. WATKINS: Item Number 1 is approval of the minutes of the February 1st meeting.

GOVERNOR SCOTT: Is there a motion on the minutes?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

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

MR. WATKINS: Item Number 2 is a report of award on the competitive sale of $22.1 million in Board of Governor Revenue Bonds for Florida State University. The bonds were sold at competitive sale and awarded to the low bidder at a true interest cost rate of approximately 4.42 percent. The transaction consisted of both a new money piece, $15.2 million, for construction of a new parking facility at FSU, as well as a six -- $7 million refunding piece. The refunding transaction resulted in savings to the State of approximately 525,000 on a gross basis or 442,000 on a present value basis.

GOVERNOR SCOTT: So these are revenue bonds, so the only risk the university has is if the parking facility -- it's for parking, right?

MR. WATKINS: That's correct.

GOVERNOR SCOTT: So if the parking facility is not used. It's not a general obligation --

MR. WATKINS: That's correct.

GOVERNOR SCOTT: -- of the university.

MR. WATKINS: That's correct. It's secured specifically by a dedicated revenue stream. In this case it's the sale of parking decals as well as fines generated from illegal parking on campus, as well as a transportation access fee, which is a mandatory student fee assessed on a per-credit-hour basis. So those are the three revenue streams that are specifically pledged to these bonds. So the bonds are just secured by those revenue streams and not a general obligation of the university and no financial liability of the State.

GOVERNOR SCOTT: So no financial liability for the State, no financial liability for the university, other than these dedicated revenues, I guess, right?

MR. WATKINS: That's correct.

GOVERNOR SCOTT: Is there an implicit guarantee by the university?

MR. WATKINS: Clearly, investors would expect, if there were ever a shortfall in the revenue stream, that a university would make up that shortfall with other monies. There is no legal obligation.

GOVERNOR SCOTT: Do the documents state that there's no legal obligation by the university?

MR. WATKINS: Yes, sir. The security for these bonds is solely the revenues pledged to their repayment.

GOVERNOR SCOTT: So you probably don't know off the top of your head, but do you know the amount of debt the university has right now?

MR. WATKINS: It is -- the university has debt outstanding for various purposes, for dormitories, parking garages, food service, as well as direct support organizations, which are like wholly-owned subsidiaries, if you will, of the university. They're considered component units for financial accounting purposes but are separate legal entities.

And the -- I pulled that information together yesterday. Let me see if I can find it. Excuse me. It's a few hundred million dollars, to answer generally, Governor, but specifically -- specifically, FSU proper has $180 million of debt outstanding, and the DSOs have approximately $90 million of debt outstanding. So on a combined basis, $270 million of debt for Florida State University and its DSOs.

GOVERNOR SCOTT: Do you know what the interest coverage is on that debt?

MR. WATKINS: Not on the -- the way that the street evaluates, investors and analysts evaluate it is to look at each revenue stream specifically. In other words, parking is evaluated separately. The revenue securing the debt is evaluated. For dormitories, it would be the housing revenues are looked at in relation to the debt service payable. And for the parking facility transaction, if my memory serves me correctly, Governor -- excuse me -- I don't go from memory so well anymore for specific questions.

GOVERNOR SCOTT: I don't.

MR. WATKINS: But the coverage is about -- the max annual debt service on the parking facility bonds, about $5.6 million.

GOVERNOR SCOTT: Okay.

MR. WATKINS: The net revenues generated from operating the parking facilities, approximately $8.8 million. So 1.6 times cover.

GOVERNOR SCOTT: Is that what these things are generally, that's the max?

MR. WATKINS: You know, it depends on what the credit is, and so it's hard to generalize. The more secure the revenue stream, like a mandatory student fee, the lower the coverage can be without tremendous concern about it, there being a shortfall, because it's all based on the number of students and how many hours they take.

If it's based on a user fee, something optional, then there's much more risk with operational risk, if you will, in terms of generating sufficient revenues to cover the debt service. And so it varies across the board, depending on what the nature of the credit is.

GOVERNOR SCOTT: Okay. Does anybody have any questions? Okay. Is there a motion on Item 2?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

COMMISSIONER PUTNAM: Second.

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

MR. WATKINS: Item 3 is another report of award on the competitive sale of $38.9 million in refunding bonds. These bonds are refunding bonds issued to redeem State University System Revenue Bonds, which are secured by a capital improvement fee and building fee. The bonds were sold at competitive sale and awarded to the low bidder at a true interest cost of approximately 2.31 percent. The transaction generated gross debt service savings of $4.6 million, or on a present value basis, $4.2 million, or 9.9 percent of the refunding bonds.

GOVERNOR SCOTT: Okay. Any questions? Is there a motion on Item 3?

COMMISSIONER PUTNAM: So moved.

ATTORNEY GENERAL BONDI: Second.

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

MR. WATKINS: And, Governor, if I may, the last item on the agenda is a presentation, talking about the State's debt affordability study.

The debt affordability study is a report that we prepare annually in December -- thank you, Mary Alice -- that we prepare in December of every year. And the report is provided -- it's information provided to the Legislature. And the report is updated for updates in the revenue projections or the Revenue Estimating Conference numbers to reflect changes in the economic environment going forward.

The report provides detailed information regarding the State's debt, debt ratios, the level of reserves that the State has available to it, as well as an overview of the credit ratings and any developments that may have occurred over the course of the year. This presentation is intended to highlight the key elements of that more detailed report for your information.

First, the debt affordability study, what is it, what's the purpose of it and how does it work? What is it? It is, in effect, a quantitative analysis to evaluate the State's debt position on an ongoing basis. And the purpose of this debt affordability report is to provide a framework for measuring, monitoring and managing the State's debt position.

It provides information regarding the debt burden of the State to the Legislature. And so it provides a mechanism to integrate the legislative function that decides what we borrow for and how much we borrow with the executive branch function, this board, and the debt management function it provides for the State.

It is -- in effect, it's a financial model based on two key assumptions. One is debt burden measured by what is our annual payment required, what is our annual debt service obligation, and then secondly, what are the revenues that we have available to make the payments with.

And the Legislature has designated a level which we use as a benchmark to manage ourselves by. And that is, the debt ratio is debt service to the revenues available to pay, very simple. It is a six percent target and a seven percent cap. And those are the policy levels that the Legislature has adopted and that we use to measure and manage ourselves by.

And the debt affordability report and the information provided provide a framework for us to be able to look at our debt in the aggregate rather than looking at any specific debt program that the State may be engaged in.

This is an outline of the information included in this presentation and what we'll go over today. First we have calculated the total amount of direct State debt, and then we have identified and calculated the amount of indirect debt. We've evaluated the growth in debt over a ten-year period and a growth in the debt service requirements associated with that debt.

Then we've got projections included in here, embedded in the benchmark debt ratio, which takes into account future expected debt issuance, as well as the revenue projections promulgated by the Revenue Estimating Conference. And we look at where the benchmark debt ratio is relative to this six percent target and this seven percent cap and then provide that information to the Legislature so they have a long-term look about where we are currently based on the level of debt we have outstanding and the debt burden associated with that relative to the revenues that we expect to have available in the future. We also evaluate the levels of reserves available in the State, and we review the credit ratings.

This first graphic illustrates the amount of outstanding debt by programmatic area. It's just to provide a very high level view about what did we use debt for in the State. You can see that the aggregate amount of direct debt, this is debt issued directly by the State or debt secured by a revenue stream that's a traditional state revenue stream, is $28.2 billion at June 30, 2010.

And there's two components that make that up. One is net tax supported debt, which is debt secured by tax streams, and then there's self-supporting debt, which is debt secured by user fees. The best example of that is Florida's turnpike, where you -- the debt is secured by a user fee which is dependent on the user's use of the facilities being financed.

The largest investment in infrastructure is obviously education. $15.8 billion, or 56 percent of the total state debt outstanding is related to building schools and the university system. The second largest component is for transportation, seven and a half billion, or 26.6 percent, followed by environmental bonds, which is the third largest program, $3 billion used for acquiring conservation land. So no surprises in terms of where the proceeds of the borrowing has been used and the infrastructure that's been provided for.

But this is a fairly static picture, and it doesn't change much from year to year. Once you assimilate or aggregate $28 billion of debt, the incremental change is not significant. But what is important is to look at the level of debt that's over a much longer period of time. So ten years is the horizon that we look at here, and we see the growth in debt over a decade. And we see that over the last ten years the debt, direct debt outstanding at the state level has gone from 18 billion in 2000 to 28.2 billion in 2010.

And the increases in debt are a net number, so it's the amount of debt that we issue during a year less the amount of debt paid off during the year. We issued about $3.1 billion of debt in 2010, and the net increase for 2010 was 1.8 billion, significantly above the ten-year average, which is a reflection of issuance of debt that had previously been authorized.

The biggest single component of the net tax supported debt increase -- and this is information that's included in the Legislature to highlight what's being included in this number, and it's the addition of a public -- the execution of a public/private partnership agreement for the Port of Miami tunnel project, which added approximately $543 million to the outstanding debt of the State.

So this is a reflection -- when we do this analysis, we look at it from an economic standpoint. And what I mean by that is, if it's an encumbrance of a traditional state revenue, like a tax stream, then we include it in debt whether we issue it or not. And the point is, is it's encumbering on a long-term basis traditional state revenues, monies that otherwise could be used for another purpose.

So, for example, in the P3 context, that's not debt we issued, but there was a contract signed for a vendor providing for availability payments over the next 35 years that are payable for monies in the State Transportation Trust Fund. That operates the same as debt would, whether we issued it or not.

And so we ignore the legal boundaries, if you will, of which entity issues it and look solely at is this an encumbrance of a traditional state revenue stream, when we're evaluating the amount of debt that we have outstanding.

Next is indirect debt. This is another category of debt, indirect debt. And the distinction is important because this information is not included in the benchmark debt ratio. So I've included it here because this is debt that's issued by another legal entity, and it's not secured by revenues that flow through the State's budget, so it's not one of those things I just described.

But it is, if you look at it from a citizens' and taxpayers' standpoint, a potential future financial burden that they may have to bear. And so the best example of this or the largest example of this is the insurance entities that have been created in the state, Citizens and Cat Fund. And so you see the largest component of indirect debt is attributable to these insurance-related entities, followed by the Florida Housing Finance Corporation, with $3.8 billion, and university direct support organizations of $1.7 billion.

So these are -- this is debt that is associated with the State, not a direct debt of the State, not secured by traditional state revenues or revenues that flow through the State's budget. And it's $16.4 billion in the aggregate.

Then we look at the growth in indirect debt over the last five years. That's a significant -- or the growth has occurred during that period of time. It has increased from six and a half billion dollars in 2005 to $16.4 billion in 2010. So the bad news is that we've had a significant increase in the amount of indirect debt that's a potential contingent liability on the citizens, taxpayers of the state. The good news is, is most of the debt related to the insurance entities are liquidity financings.

And what I mean by liquidity financings is it's money borrowed to have cash in the bank. After the '04-'05 and '05-'06 storm season, the reserves that had been accumulated in those entities were used to satisfy their contractual obligations, and we actually incurred a deficit. And so the liquidity financings are designed specifically to put cash in the banks to pay claims after a storm, so that that payment of claims is not dependent on credit market access. So there's $7.1 billion in liquidity financings on a combined basis for both Citizens and Cat Fund currently outstanding. So the net debt, if you net out the liquidity because you've got the cash in the bank from an asset standpoint to liability, it's more like $9.3 billion.

GOVERNOR SCOTT: What does it cost us to have that 7.1 billion available?

MR. WATKINS: You know, I would have to look at that, Governor. That's not something that falls directly under my domain. But there is negative arb associated with that, I'm sure of that, just because of the current interest rate environment that we're in. If you move out the yield curve and you borrow three-, four- or five-year money and you turn around and you invest it in liquid assets, something safe and secure, maturing inside of a year, you're going to be under water on that trade. And there's going to be cost of carry associated with having that money, having that money available.

GOVERNOR SCOTT: Okay.

MR. WATKINS: The next slide simply aggregates the direct and the indirect debt to show you the aggregate amount of all debt outstanding, either by the State proper or associated with the State. And you see $44.6 billion in total debt outstanding for the State, with the largest single component being the net tax supported debt at $23.6 billion that we talked about, the indirect debt at 16.4 billion, and self-supporting debt at 4.6 billion.

The reason that I've included this slide for the first time is because the indirect debt is becoming an increasingly important component of the debt's overall liability profile, because it's grown so significantly over the last five years, and it represents a future financial burden on the citizens, taxpayers of the state.

And we had been successful in arguing that it shouldn't affect the State's overall credit rating, but the rating agencies have been less patient in not believing that Citizens and Cat Fund and costs associated with hurricanes could have an adverse impact on the State's overall financial position. And so they've started referring to the potential catastrophic losses as a potential contingent liability affecting the State proper rating, and so I wanted to bring that to the attention of the Legislature, while they're formulating their policies and their decisions regarding these two insurance-related entities.

Okay. Ten-year look at the growth in the annual debt service requirements. Debt service, no surprise here. The annual debt service requirements have increased, mirroring the increase in the debt that's been outstanding over the last ten years. And you see from this graph the annual debt service requirements have increased from $1.2 billion in 2000 to 2.1 billion in 2010.

GOVERNOR SCOTT: Is this all interest, only interest?

MR. WATKINS: This is principal and interest, so debt service requirements. The amount that we have to pay annually without regard to P or I.

The debt service on the existing obligations increases to $2.3 billion in 2013, and that's primarily because we don't have a full year's debt service costed in the latest issuance, as well as the delayed payment called for under the public/private partnership agreements for the debt that's been included in the overall State's debt ratio.

Those payments have been deferred or delayed until the projects are brought online in 2013 and 2014. And so we actually have increases in debt service on the amount of debt that we currently have outstanding that we wouldn't normally see because we normally adhere to a level debt scenario. So the debt service payments are the same in year one as they are in year 20 or year 30, and so you end up with a more level debt structure, and you don't normally have increasing debt service requirements.

This graphic is very important from a budgetary perspective because it represents the amount of payment, it represents the annual recurring payment that the State has to make for the debt that's outstanding currently, money that's been borrowed and spent before we turn the lights on. Before we do anything else, we've committed $2.3 billion on a recurring basis to pay for debt that's currently outstanding, it's been borrowed and spent to build the infrastructure in the state. And it's the numerator of the benchmark debt ratio, what is our annual debt service requirement. So $2.3 billion is the number.

Next we look at revenues available for debt service. This is the denominator of the equation on the calculation of the benchmark debt ratio. It's important to look at it over a longer period of time because the next slide that we go to is going to look at the benchmark debt ratio, how that's behaved and where we are. And this chart really explains it.

You see the historical revenue collections over the last ten years represented by the burgundy or the red bar chart, and the blue chart being the Revenue Estimating Conference projections. These revenues are general revenues, plus revenues that are dedicated to pay debt service on bonds.

So we add those two components together in calculating revenues available for debt service. And you can see by this chart the run-up in revenues in the boom years, from 2003 to 2006, and then you can see the flip side of that from 2006 through 2009, with the precipitous decline in revenues because of the economic weakness and financial crisis.

In 2010 revenues were 2.3 billion above 2009, but that revenue growth was really primarily attributable to adding another revenue stream to the base for a new financing program, not organic growth in revenues, and that affects the benchmark debt ratio. So -- and the blue really shows the projected growth in revenues if the Revenue Estimating Conference numbers are right, what the growth in revenues should be.

Now we combine those two components to produce the benchmark debt ratio, since this is the measure that we use to manage ourselves by. And the benchmark debt ratio is, as I said before, debt service as a percentage of revenues available for debt service.

And you can see that the benchmark debt ratio, what we have -- we have a green line, a horizontal green line, which is a target benchmark debt ratio, and a horizontal red line, which is the debt cap or the -- and you see the historical on the left-hand side of the chart, the historical evolution of that benchmark debt ratio over the last ten years. And then the blue line continuing to the right is the projected benchmark debt ratio based on including expected future issuance of approximately 7.2 billion on the State's existing bonding programs, as well as the revenue, estimated revenue growth produced by the Revenue Estimating Conference.

And you see a significant increase in the benchmark debt ratio from '06 through '09. And that really is attributable to the precipitous decline in revenues, obviously the benchmark debt ratio operating inversely related to the revenue collections. And then you see the improvement in the ratio over the last year because of the adding additional revenues to the base, and a projected improvement in the benchmark debt ratio over a longer term.

But I would caveat that by saying the improvement in the benchmark debt ratio is largely dependent on realizing the revenue growth projected by the Revenue Estimating Conference.

Next is the level of reserves that we have. This is a very important measure from a ratings perspective because it's what we have left at the end of a year, and it is a measure of financial flexibility should the State confront any financial issues, either on the spending side or for uncontrollable issues.

The numbers included on this chart include balances in the budget stabilization fund and unreserved, undesignated general fund balances. And you can see the tremendous increase in the level of reserves during the boom years, through -- '03 through '06, and then you see the substantial decline in revenues due to those monies being used as a component of the budget balancing and to mitigate spending cuts that would otherwise have been necessary to balance the budget during a period of declining revenues.

Of note is the -- on the right-hand side, you see a red line, and that's the projected reserves at the end of the current fiscal year and how that has changed. And the change is because the Revenue Estimating Conference promulgates lower estimated revenues, approximately $530 million in the current fiscal year. That has a direct impact on the money we expect to have available at the end of the year.

And so the combined balance now is approximately $530 million, or 2.4 percent of general revenues. That is a traditional measure used by the rating agencies and analysts to measure the level of reserves. And it's down substantially from its high, and it's expected to be down from the prior fiscal year.

And then we -- this is the same chart, only we include trust fund balances. A component of the budget balancing exercise over the last three years has been to redirect or to use trust fund balances that were otherwise unavailable by statute. Through the appropriations process, those monies have been redirected and used as a component of balancing the budget. And when we include the trust fund balances, $3.8 billion, or last year the reserve balances were $3.8 billion, or 17.9 percent of general revenues, and in the current fiscal year, again, a decline in the expected reserves available at the end of the year, because the budget contemplates a use of a portion of these reserves, and they declined to 2.1 billion on a combined basis, or 9.2 percent of general revenues.

Lastly, a review of credit ratings. These are simply the factors analyzed, that the rating agencies analyze in assigning the State's credit rating, governance framework, financial management, budgetary performance, debt liability profile, and the economy. And the two, there has been -- the rating analysis hasn't been static. There have been changes in the methodologies used by the rating agencies over the course of the last 18 months. In an effort to be more quantitative and more transparent, they have modified their analysis.

The feedback that we've gotten, we've been through Moody's new credit score card, and we rank in the top tier, tier one, top 20 percent of all states, and we recently completed Standard & Poor's, which announced a new rating methodology in January, has also completed their review. We end up with a quantitative score of 1.4, which is indicative of a AAA rating.

At the end of the day, at the bottom, the State enjoys very strong credit ratings, AAA by two, AA-1, one notch below, by Moody's. However, I would say the caveat is a negative outlook by both S & P and Fitch. What that means is you have three different outlooks. You have a positive, a negative and a stable. And an outlook is a -- just as the name implies, it says which way is your rating likely to go, based on all these five characteristics. And so that's why we have a negative outlook from S & P and Fitch.

This is simply an outline of the credit strengths and the challenges confronting the State. This is a way for me to articulate to the legislative leadership what we've done well and what we're challenged by. And if I had to distill this to its essence, the two biggest concerns, the two places that the State is most vulnerable, one are level of reserves, and second is maintaining structural budget balance.

And what that means is using recurring revenues for recurring expenditures and not using one shots. And the State has really distinguished itself in the past for not resorting to one shots to balance the budget.

So -- and the variable, the most important variable that we have absolutely no control over is the economy; what's the economy going to do going forward, what's the housing market going to do going forward, what's the unemployment going to do, is there going to be employment growth and what is it and how much is it. And those are the kinds of demographic factors and economic factors that will be integrated into the rating agency's analysis.

In conclusion, just to repeat the high points, total direct state debt of $28.2 billion and indirect debt of $16.4 billion. Indirect debt and the obligations related to public/private partnerships are becoming a more significant factor in the State's overall debt profile.

Recurring annual debt service requirements on existing obligations, 2.2 billion annually. A benchmark debt ratio of approximately 7.4 percent, in excess of the seven percent cap, and continues to be in excess of the seven percent cap. Projected improvement in the debt ratio is largely dependent on realizing the growth in revenues anticipated by the Revenue Estimating Conference, which may or may not happen. General fund reserves are down and expected to be down again at the end of the current fiscal year.

And the State enjoys very strong credit ratings and access to the credit markets, at very cost-effective, based on the two AAAs and the one AA-1. But we're vulnerable to economic conditions and budgetary challenges going forward.

So that's everything, Governor. That's the deep dive.

GOVERNOR SCOTT: All right. First off, thank you very much. Could you at the next Cabinet meeting give me the debt per capita, both the direct and the indirect?

MR. WATKINS: Sure. Not on the indirect, Governor. On the direct debt I can. And that's included in the -- the debt ratio is one of the elements. It's included in the report, which you've seen, obviously, and read. And it is -- and it's not focused on in the presentation. But $1,192.

GOVERNOR SCOTT: Yeah, 1,200.

MR. WATKINS: Per person.

GOVERNOR SCOTT: Okay. And that's the direct.

MR. WATKINS: That's the direct. It does not include the indirect.

GOVERNOR SCOTT: All right. And then let me know what the cost of the insurance debt is, the annual cost is. And then the last is -- I don't remember seeing in the report. In the report, does it have the projected principal and interest payments over the next ten years?

MR. WATKINS: It does.

GOVERNOR SCOTT: That's all I had.

CFO ATWATER: I have a question. Could you share with us the reaction you're getting by including the -- or elevating the conversation including our trust funds reserves as part of the debt ratio to the rating agencies. How are they responding to that, looking back historically at how the Legislature has managed that process and where they have utilized those dollars? Are they responding that that's making sense?

MR. WATKINS: Yes, sir, they are. We have to -- we've made headway. It's not part of the traditional state measure. The traditional state measure, as I referred to, was what are your general fund reserves.

CFO ATWATER: Right.

MR. WATKINS: Which is the budget stabilization fund and unreserved, undesignated general fund. And that was their traditional measure. And they're hard to change, but we've been hammering away on them for the past four years about, listen, we have this other source of financial flexibility, and we've used it.

And so they've now embedded within their rating reports and in their methodologies "and other monies that may be available." And so what they're referring to in their very oblique way -- because they don't talk directly, they signal -- is that, yes, there are states, because of their organic makeup, that have other sources of financial flexibility. And so they've started giving us credit for the embedded trust fund balances that we have, because we've demonstrated historically that's been a source of financial flexibility during difficult economic times to balance the budget, and so we are getting credit for that.

They haven't formalized any quantitative metrics around that. But I would say that's headway because they've recognized and acknowledged that there are other sources of financial flexibility besides general fund reserves.

CFO ATWATER: How about, if you could just maybe as well give us some other feedback at our next time, the question on liquidity financing, that when that took place, it seemed to be that everyone was concerned as to the ability to go to the market, and why don't we -- and I don't recall the wisdom of the entire decision -- why don't we go now and have some of that liquidity.

Is there any thought that the conditions today might provide for us paying down some of that and that caution is not as great a concern as it was at that time?

MR. WATKINS: Well, there were two things driving the decision at that point in time, and this isn't directly in my domain, but I can speak to it. And that is, when you don't have any money in the bank and you have contractual liabilities for multi-billion dollars that you have to pay out money on a real-time basis, it's not a prudent thing to do not to have any money in the bank. And so that was the fundamental concern in putting those in place.

But there are also credit market access issues. And, you know, we're talking about multi-billions of dollars. And those deals just don't -- they don't happen automatically. And during periods of volatile market conditions, and now we've seen it in spades with the financial crisis, there are periods of time when you can't access credit.

And so that was also a part of the decision. One other element of that is the tremendous increase in the liability that was being assumed by these entities or that was mandated legislatively that they write the coverage for.

So you have a tremendous increase in the exposure and no money in the bank to satisfy the contractual obligations. So that was the real thinking behind let's put some money in the bank. And it will run off. It's going to run off naturally. It's on the short end of the yield curve. And as balances have built, because we haven't had any storms -- we've been very, very fortunate, we've been lucky, and we haven't had any storms, and so reserves have been accumulating naturally because of the excess revenues that are generated by providing the coverages.

And so you're going to have a natural running off of the liquidity financings because they're short. At the same time you're getting an accumulation of assets to provide the liquidity that you need going forward.

CFO ATWATER: That's a good update. But I would be curious if you would -- you might take us through the exercise of analyzing, as that's happening, as we have built up our reserves, if the marketplace -- if it would be any more conducive to, knowing we may have to hit it at some point, if the tragic occurrence of the storms came and hit us hard, is there an opportunity and should it be part of all the things we're considering as to retiring some of that, as reserves have grown?

MR. WATKINS: Absolutely.

CFO ATWATER: We don't need an answer now. Just as part of that overall thought process, I understand that wisdom of why it was done, but if things improved and we've gotten some reserves, where that could be something we could take off our back. And I think it's to an important point for all of us here, I ask you to do a calculation as to what might be the risk of us dropping one rating and being able to compare ourselves to what a New York rating is today or what a California rating is if, God forbid, our behavior was such that we dropped two levels.

I would hope that you wouldn't mind sharing that with the group, you know, as well.

MR. WATKINS: Do you want me to do that now?

CFO ATWATER: Well, I just --

GOVERNOR SCOTT: Sure. Do you have it?

CFO ATWATER: I have it, yeah.

MR. WATKINS: So, you know, it's all caveated by -- it's all based on assumptions, right? But if you look at the credit spreads between a AAA and a AA and a AAA and a A, in today's markets -- and credit spreads change daily over time. We were using an estimate of 20 to 25 basis points, and that's one quarter of one percent, on a drop from AAA to AA.

And if you take that number and do the bond math and extrapolate 20 to 25 basis points to $7.2 billion in debt, which is what we included in our ten-year projection period based on the existing programs, on the best information we have available, the number is about a quarter of a billion dollars.

CFO ATWATER: That's just interest payment.

MR. WATKINS: That's just interest.

CFO ATWATER: We get nothing for that.

MR. WATKINS: That's just interest.

GOVERNOR SCOTT: And that's today's market. What would have been -- in the last -- you're not going to know the exact number, but if you were going to pick, in the last ten years what the biggest spread would be.

MR. WATKINS: Oh, off the charts.

GOVERNOR SCOTT: That's the risk, is when you have a problem, it's not today's market. Today's market is relatively stable.

MR. WATKINS: Correct, and very favorable and very receptive. Dropping two rating levels, down to the A category, which is inconceivable to me, takes my breath away, a billion.

CFO ATWATER: I just think that's the point of how careful we have to play this, that being the discipline that historically Florida has shown to get that rating, when you see the negative outlook, we have to do everything to avoid the direction that that could take us. And with the Legislature, that discussion as to Cat Fund, Citizens, indirect debt, all this weighs on us.

And that 250 million, in the best of times, or the billion dollars, that is a pure tax. There is nothing the citizens of Florida get for that interest payment, and they should be looking at those legislators and be looking at us, what did we get for the behavior of not being able to make the hard decisions. We've got greater debt and nothing for it, higher debt service and nothing for it. And I think, as we look at these next 60 days, more tough decisions.

MR. WATKINS: Right.

GOVERNOR SCOTT: I think the other thing that we ought to have is a presentation on, depending on the category of the hurricane, what -- how much liquidity we really need. That goes to the -- what we're talking about is how much cash do we need to have around in case that happens and what's the cost to all of us. And then in a bad market, those things could happen. What's the potential risk to us, on interest, just interest. Maybe at one of the next Cabinets meetings we'll have a presentation on that.

CFO ATWATER: And I didn't mean to suggest I wouldn't want the cash around when we needed the cash around. It's just that I wouldn't want to have more than was necessary, and we know the negative arbitrage on that. It's not helping.

MR. WATKINS: Well, your point is well made. There's a cost associated with that, and there should be a constant evaluation of where we need to be and can we get rid of some of this, or is it cost-effective to -- do we still continue to have a need. And that's something that hopefully Cat Fund and Citizens are evaluating on an ongoing basis. But I'll get the answers to the questions you asked.

GOVERNOR SCOTT: Commissioner.

COMMISSIONER PUTNAM: Thank you. We're talking about it takes your breath away to drop two ratings. But we're on the bubble of holding what we have. We have a negative economic outlook. We've pierced our debt ratio cap. We're at near all time highs. And we're potentially on the verge of near all time low cash reserves.

So if you had an '04-'05 style hurricane season in that climate, which is not out of the realm of possibility, it just happened six years ago, would that have potentially the -- would that be what it would take to push us down two ratings?

MR. WATKINS: I hate to speculate about that, but I will, to try to answer your question. And, you know, I would hope that we would manage that catastrophe in such a way as to minimize the impact on the overall State's rating. The federal -- you can't depend on it, but in those normal circumstances, the federal government has absorbed a lot of the cost.

But nevertheless it will -- it would be very disruptive to the economy. It would clearly put pressure on the State to come up with a lot of money.

GOVERNOR SCOTT: Or reduce spending, reduce a lot of spending.

MR. WATKINS: Correct.

GOVERNOR SCOTT: In a business, you'd just reduce spending on something else.

MR. WATKINS: Right.

GOVERNOR SCOTT: Would be the logical thing to do.

MR. WATKINS: Right. Well, you know, it's an anomaly of being in the business of being in the government, and food, water and ice and disaster services and all of that, but those are decisions that are fortunately made by people beyond me. But your point is well made, which is during a negative economic environment, you need to be controlling costs. And I don't see it taking us down two notches. They're fairly patient. But I see that being a full body blow. And if anything could take you down two, that would be it.

It's largely dependent on who's going to bear the cost of that storm. And, you know, we put ourselves in a position where, from a credit perspective, the entities we've created are fundamentally sound. But they have taxing power. I mean, that's -- to secure the debt. That's the reality of it. And that's an additional burden on the citizens and taxpayers of the state should that reality come to be.

And then there are other financial costs associated with dealing with storms and dealing with storm damage that we're ill-equipped to deal with at the present time, in our current budgetary situation.

COMMISSIONER PUTNAM: I would just suggest that that's not an outlier scenario. I think it's a very realistic portrayal of our situation, with the fundamental difference being that those hurricanes hit as we were approaching the peak of the trough of the housing market, booming economic times and everything else. And it's the opposite scenario today. And it's kind of been the rule of thumb that at the end of the day hurricanes make you money because of all the transfer payments from the federal government, the reconstruction payments, sales tax revenues and all those other things. I don't know that you could count on that phenomenon in this environment.

GOVERNOR SCOTT: Especially when we're the insurance company.

COMMISSIONER PUTNAM: In particular when we're the insurance company. So I just think it really draws a particular beat on the need for that structural insurance reform and for us to be prepared for that type of scenario.

MR. WATKINS: If I do my job successfully, we will try to insulate the State from that impact of that. But now that rating agencies have connected the dots and said, what happens over here can affect the State, that is more challenging.

GOVERNOR SCOTT: Thank you very much, Ben.

MR. WATKINS: You're welcome.

GOVERNOR SCOTT: All right.

GOVERNOR SCOTT: The next agenda is the Department of Revenue, presented by Lisa Vickers.

MS. VICKERS: Good morning.

GOVERNOR SCOTT: Good morning.

MS. VICKERS: Item 1 is to request approval of the minutes from the December 7, 2010 meeting.

GOVERNOR SCOTT: Is there a motion?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Second?

CFO ATWATER: Second.

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

MS. VICKERS: Item 2, request authority to publish notices of proposed rule-making for rules in four subject areas. The first area is the Florida Tax Credit Scholarship Program. In 2010 the Legislature expanded the types of taxes that could be eligible for credit to alcohol and beverage taxes, sales and use tax, for direct pay permits and severance taxes. And these rule amendments will reflect those updates to the rule.

The second area is the Manufacturing and Spaceport Investment Incentive Program. The 2010 Legislature implemented a program creating a refund of sales and use tax on eligible equipment implemented by manufacturers of tangible personal property, spaceport or mining businesses.

The third area is related to a -- to correct an issue in our rule related to germicides used for sewage treatment. An exemption for certain chemicals was unintentionally dropped from that rule.

And the final area is the red light camera penalties electronic remittance. This rule provides the remittance procedures for counties, municipalities and clerks of court to remit those fees for further distribution by the State. We would request authority to publish notices of proposed rule-making so that we can hold hearings on those rules and receive public input.

GOVERNOR SCOTT: Any questions? Is there a motion?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Second?

CFO ATWATER: Second.

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

MS. VICKERS: Thank you.

GOVERNOR SCOTT: Thank you.

GOVERNOR SCOTT: The next agenda is the Department of Veterans' Affairs, presented by General Bob Milligan.

MR. MILLIGAN: Good morning, Governor, Cabinet. I kind of feel like small potatoes after the SBA and Bond Finance, but our 1.6 million veterans are very important to us, and we've got to take care of them.

The first item is the approval of the minutes from the 7 December Cabinet meeting.

GOVERNOR SCOTT: Is there a motion?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded, show the minutes approved without objection.

MR. MILLIGAN: The second item is the quarterly report for 1 October to December 31, 2010. And significant in the report is a discussion on Nehmer claims. These are claims that have been previously declined or denied and are now being revisited. It's a result of a suit, and the U.S. Department of Veterans' Affairs is required to revisit all of the claims that were denied for Agent Orange diseases associated with Parkinson's and leukemia and a couple others.

What it means -- and it goes back as far as 1985. So it means that we're really looking at a huge number of claims that were denied years ago. As a result, our claims examiners are really under the gun, looking at the claims as the U.S. Department of Veterans' Affairs rules on them.

We normally handle about four -- each examiner handles about four claims a day. These claims, they're handling about 1.5 a day, primarily because of the magnitude of them. But we're on top of it, but it is a real strain on our benefits and assistance side and the claims examiners. And it's pretty well highlighted in the report. And request approval of the report.

GOVERNOR SCOTT: Is there a motion to approve Item 2?

COMMISSIONER PUTNAM: So moved.

GOVERNOR SCOTT: Second?

ATTORNEY GENERAL BONDI: Second.

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

MR. MILLIGAN: Item 3 is the Department of Veterans' Affairs corporate concept. We are seeking approval of the Governor and Cabinet to move forward with an evaluation of concepts for managing the

State Veterans Homes Program. I need to give a little background.

Six months ago I took over as the interim executive director after the tragic loss of Rear Admiral LeRoy Collins. And one of the very first things that I went about was visiting the nursing homes and our domiciliary. We have six nursing homes and one assisted living home. One of our homes is just recently opened last September and is just beginning to build up and go through its accreditation process.

Each of the homes that I visited I found to be run very well and providing excellent service and support to the veterans that are present. The average age in the nursing homes is 91 years old. So we're dealing with World War II veterans and Korean War and early Cold War veterans. But they are an aging population. They are predominantly men. There are very few women in our homes at this time. I expect that will change over time with what's going on now in terms of the services.

When I visited these homes, I was astounded to find out that basically the turnover rate of particularly CNAs and to a little lesser degree nurses was 37 to 39 percent. I found out about two weeks ago that really this past year we were bringing on board 58 new hires a month, which equates to really about a 50 to 60 percent turnover rate, which just is not a good business case, as far as I was concerned.

So we decided to look at how maybe we could better operate the nurses on a business basis, the nursing homes on a business basis. And we looked at business as usual, obviously. We also looked at forming a public corporation within the Department of Veterans' Affairs. We discussed that approach with several states, Maine and Tennessee, which do it that way. We have several public corporations here in the state of Florida, Housing Finance Corporation, Enterprise Florida, Ben Watkins, Bond Finance is a public corporation. And it looked like a good way of doing business.

We also looked at privatizing. We talked to a company that deals in that business. They gave us some very good insights on how they do business. We even visited one of the homes that they manage up in South Carolina, on a Sunday, unannounced, found it was in very good shape and being well run.

We did an internal financial analysis, and it indicated to us that the public corporation may be the most cost-effective and best serve our veterans. However, we recommended a two-phased approach and are recommending to you a two-phased approach.

Phase one is to conduct an independent financial and cost-benefit analysis of the three options, that is, business as usual, public corporation, privatizing; based on the results of that independent analysis, develop the business and implementation plans for submission for approval to the Governor and Cabinet not later than 1 February 2012.

Phase two then would be subject to the Governor, Cabinet and legislative approval, implement the decision 1 July 2012. Your approval today would allow us to move forward to seek funding from the Legislature for the cost-benefit analysis and plan development. And I recommend approval.

There are a number of people, I think, that might want to speak, but before that, I'll try to address any questions you may have.

GOVERNOR SCOTT: I don't have any. Anybody have any questions? No.

MR. MILLIGAN: I believe Bob Flanagan, who is with the Florida State Council, Vietnam Veterans of America, wants to speak, and he will be followed by

Frank Mirabella, who is a registered lobbyist with Geo Corp and Geo Group.

MR. FLANAGAN: Good morning, Governor, members of the Cabinet. As the General said, I am a representative of the Florida Veterans' Council for the Florida State Council of the Vietnam Veterans. At this point in time, my organization has no decision one way or the other as to whether or not we oppose the General's proposals, primarily because we do not have a lot of information on how this project is going to go forward or what the analysis is going to be comprised of, cost-benefit, stuff like that.

From what my organization understands, one of the proposals is to exempt this public organization from Administrative Procedures Act of the State and also exempt them from state procurement laws. We're not too sure of the merits of these exemptions.

One of the other proposals was aimed at, I guess, the CNAs or the nurses. Because of the apparent high turnover rate, they were looking at proposing that the corporation set payroll, fringe benefits and things of that nature, as opposed to following what the regular state agencies would do in this area.

We also had concerns about the number of beds for the veterans. As the General stated, there's 1.67 million veterans in the state of Florida. There are approximately 700 beds to take care of this population. Florida is number three in the country relating to the number of veterans in the particular states. We are also highest in the number of elderly vets.

And the General alluded to the World War II veterans, Cold War era veterans, Korean War veterans. Well, rolling into there is the Vietnam veterans. They are becoming of age where they're going to be utilizing these facilities. And we were wondering, would it not be a better idea to maybe increase the number of beds for these veterans?

At our last meeting of the Florida Veterans' Council, our chairman, Mike McDaniel, charged Jim Haynes of the Department of Veterans' Affairs to provide a position paper for all the members of the Veterans' Council so we could have a better idea of where they're going and how they want to get there, so we can in turn inform our organizations and let the organizations decide whether or not we want to support or not support this particular project.

At this particular point, because we lack comprehensive information, I can speak for the VVA Florida State Council and that we -- at this point in time, we cannot support this proposal. I am also aware that the Disabled American Veterans, the Brevard Veterans' Council, the Jewish War Veterans are of the same thought.

So, anyway, this concludes my remarks. I thank all of you for your attention to my remarks.

GOVERNOR SCOTT: Thank you very much.

MR. MILLIGAN: Frank, do you want to make a comment?

GOVERNOR SCOTT: Good morning.

MR. MIRABELLA: Good morning. Governor, members of the Cabinet, thank you for this opportunity. I really hate to have to open up my remarks to you today, as the agency head in your -- early in your administration by objecting. But I think what General Milligan did just now was absolutely wrong, in trying to poison the well and saying I am representing GEO Group here today.

He knows full well I represent the Disabled American Veterans of Florida. GEO Group, my firm has represented them for some 22 years. They are not in the nursing home business. They are not in the business of privatizing nursing homes. Yet he looked on my lobbyist registration, and instead of introducing me to you as representing the Disabled American Veterans, Department of Florida, he acted as if I had some special interest on behalf of GEO, who is not even in the nursing home business. So with that clarification.

I wish we could support the concept. We have some 1.6, 1.7 million veterans in Florida. Of those, there are some 600,000 that are disabled. My client, the Disabled American Veterans -- and let me say this. They're not a paying client. I am a life member myself. I serve on their state legislative committee, and all of my services to them are pro bono.

But we represent some 81,000 members in the state of Florida, all of them rated service-connected disabilities. The biggest user of these nursing home facilities are going to be, in the future and now, disabled veterans. We're not -- the question of nursing homes and what it is we ought to be looking at, since Jeb Bush left this office, not one single nursing bed has been put in the pipeline for the state of Florida.

And with the needs we have, the importance in what we believe that this board and the Legislature ought to be looking at is how to get more beds online. This is a federal obligation. The lion's share of these costs are done -- are paid for by the federal government, and the veterans specialty license tags and the retirement and pensions that, once a veteran is admitted to the nursing home, go to the State. They're allowed to keep about $35 a month. Proportionately, there's very little state monies going into this program to build these nursing homes or to operate these nursing homes.

Having said that, we're not opposed to change, provided that change will achieve the right outcomes and goals. Any changes should facilitate bringing up more nursing beds to help meet the needs of our veterans as fast and as economically as possible, guarantee that the quality and care of our veterans in nursing homes will be maintained and approved -- improved, provide for a mechanism of oversight and controls that ensure that the mission and objectives of the program are being properly carried out.

So far, nothing has been forthcoming from the Department and there is certainly nothing in the Senate bill that gives any assurances that the proposed changes will result in any real positive to veterans whatsoever. To the contrary, what's been presented by the Department as reported here in this news story -- I'll read the headline for you, "Change to veterans nursing homes would eliminate roughly 1,000 jobs" -- is that the public corporation proposal would result in an accounting change of 1,000 fewer positions on state agency payroll. We do not believe that these personnel reductions are real or constitute a good reason for change. Aren't all of these employees going to be transferred to the new public corporation? What guarantees that the savings from this will be put into more nursing beds to veterans?

We would urge you that before this body acts on the suggested concept, that the Cabinet gather more complete information so that any proposed change in the governance structure can be examined in the context of the total mission of the nursing home program. Better options may be available and might be missed in the rush to change. It's more important to get the right changes made than to hurry to make only the appearance of change.

GOVERNOR SCOTT: Thank you very much.

MR. MILLIGAN: Governor and Cabinet, I'll reiterate, the approval today allows us to move forward to seek funding from the Legislature for the cost-benefit analysis and plan development and to look at afore all three of the options to determine which is the best way to go, and to come back to you all not later than 1 February 2012.

GOVERNOR SCOTT: Are there any questions? Is there a motion?

CFO ATWATER: So move.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

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

MR. MILLIGAN: Thank you.

GOVERNOR SCOTT: Thank you very much. Thank everybody for speaking.

GOVERNOR SCOTT: The next agenda is the Administration Commission, and it will be presented by Phillip Miller.

MR. MILLER: Good morning, Governor, members of the Administration Commission. We have two items on the Administration Commission agenda this morning. Item 1 is the minutes of the December 7th, 2010 meeting.

GOVERNOR SCOTT: All right. Is there any question?

CFO ATWATER: So move.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

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

MR. MILLER: Thank you. Item 2 is a citizen's challenge of comprehensive plan amendments adopted by the City of Edgewater. The parties in the proceeding are Richard Burgess, the petitioner, the Department of Community Affairs, the City of Edgewater and Hammock Creek Green, LLC, the intervenor developer.

The proceeding is before the Commission for entry of a final order. Here is some brief background information on the plan amendments. In

2009, the City of Edgewater adopted amendments and later remedial amendments, making multiple changes to its comprehensive plan, including creating a new land use category, Restoration Sustainable Community Development District, or Restoration SCD. Additional amendments address a number of technical or housekeeping provisions.

The new land use category, Restoration SCD, is designed to facilitate the expansion of the urban areas of the city through an integration of a number of different land uses, including office, commercial, residential, governmental and housing components.

The Restoration SCD land use designation specifically applies to a development known as Restoration, which consists of 5,187 acres of land within the city of Edgewater on the west side of Interstate 95 in Volusia County. The legal process in this matter has been lengthy and involved. And the Commission's legal counsel, Carly Hermanson, will provide an overview of the proceeding and explain the draft final order presented for your consideration.

MS. HERMANSON: Good morning. As Phillip mentioned, my name is Carly Hermanson, and I'm legal counsel for the Commission. Before explaining the draft final order, I want to briefly address the process that has brought us to this place. After the City adopted its plan amendment, the Department of Community Affairs reviewed the amendment and issued a statement of intent to find it not in compliance as defined in statute.

Thereafter, the Department, the City and developer Hammock Creek entered into a settlement agreement, and the City adopted a remedial amendment pursuant to that agreement. The Department then issued a notice stating it intended to find the amendment, as remediated, in compliance.

Mr. Burgess then became the only remaining petitioner. The final hearing was held in May of 2010, and the administrative law judge entered a recommended order finding the plan amendment as remediated in compliance.

After receipt and review of the recommended order, the Department issued a determination of noncompliance in late December of last year. That determination of noncompliance recommended that the plan amendment as remediated be found by the Commission as not in compliance.

The draft final order you have before you today goes back and agrees with the administrative law judge's ultimate conclusion, which is that the amendment as remediated is in compliance. In closing, I would remind you that this proceeding is governed by the facts of the record.

GOVERNOR SCOTT: Thank you.

MR. MILLER: We have several individuals who would like to speak on this item today. We have asked the speakers to keep their remarks to 15 minutes per side. Our first speaker is Mr. Richard Burgess, the petitioner in the case.

GOVERNOR SCOTT: So each side has 15 minutes?

MR. MILLER: Yes, sir.

GOVERNOR SCOTT: Does everybody know how the timer works, so they'll know? You might explain it, just to make sure.

MR. MILLER: There will be a timer that will give you -- the 15-minute clock is here, and it will light up when your 15 minutes are concluded.

MR. BURGESS: Governor Scott, Cabinet members, I'm Richard Burgess. I'm a retired Coast Guard commissioned officer. I run a small high tech business in Edgewater. I own a home and another property there. I have -- my parents are buried there. I've got deep roots there. What the City does really matters to me. All my children have been educated there. I have a 15-year-old in the high school, local high school there. And it's just important to me and to my family that things are done right in this city.

Myself and there are many other residents, too -- I've walked the streets doing a height charter amendment and talked to people about it -- believe that you can't fight City Hall sometimes. And, you know, it's an old saying. There's a reason that people say it. But you have to try and do what you believe in, so -- and what you think is right.

We know, where there's money to be made, sometimes citizens believe that they can't do anything about it, that they're just in the way. The developers have high-priced lawyers, and they'll just tie you up forever. And then you get up against what would be a harsh standard of "fairly debatable." I mean, I guess almost anything is fairly debatable.

And now we get a last minute draft final order that's a flip-flop on another change that we got from what the administrative law judge says. I mean, rightly so, the former DCA Secretary Pelham determined that the amended plan was not in compliance because it used inconsistent long-term planning periods.

I mean, all through this plan there are different lengths of time specified, and it's very hard to see how that could possibly be uniform and consistent and how things can work together in the different sections.

The DCA and the City both agreed that we should be working with the uniform planning time frames of 2020, a long-term planning time frame, which was part of the stipulated settlement agreement. The City did not do that and put off the new 2020 population projections and the needs analysis based on information.

The plan, as amended by the so-called remedial amendments, have 2010, 2018, 2020 and 2025 spread all through this thing. It's not uniform or consistent at all. It's all over the place. The admin law judge stated that it was not required and that we didn't meet a new standard by showing how it specifically affected me, a standard pulled out of a hat, I guess. I mean, how does it affect me, poor planning, with 30 relatives in the city? I live there. I own property. Of course it affects me.

And then Secretary Pelham entered the order that agreed with me, and now the new person will come in, and then they flip-flop on it, based on what the admin law judge said on a standard that I didn't agree with to begin with. So that's why I'm standing here.

Now, it's 2010 now. The census data is out. The population data within the planning time frame was part of the things that I complained about. Well, the census data basically states exactly what I said. They were way off base on the projections, way off base. I mean, it's just unbelievable. They're showing a 32 percent growth rate in the population over the next ten years, when 32 percent, the last time we had that growth rate was in the eighties. We had 40, 30, 20, we're at 17. They project 12.5 for the next 10 years, and they're saying it's going to be 32? Something is wrong.

Now, it's not even close, you know. I don't care how many paid estimates you get to say so. The Census Bureau, I think, is probably the final deciding factor. They're the people that, you know, that should really set the standards.

Now, the real problem I had was the law of supply and demand. They're going to build a bunch of new units out there. I don't think they're going to fill them. They're still having auctions, 10, 15, 20 at a time for a place just six miles north that they can't sell all of them. I mean, I don't own a big place, but property values are important.

Taxes are another thing. Well, I don't even want to tell you, Volusia County is like second highest in the state. I mean, it depends who you talk to, either first or second. And it just -- it kind of irks me that they can't be more accurate in the planning of future population projections and at least keep all of these planning time -- all the time frames together within the different sections of the plan. It just doesn't make any sense, sir.

I guess, I mean, there are other fundamental problems with it. The mixed use rule, I'd like Mr. Burnaman to talk a few minutes just about the mixed use rule. And let's see, three million square feet of commercial space. We've got big box stores going in up the street eight miles. We've got -- then down the street ten miles. There can only be so many big box stores to fill commercial space. I don't see how they're going to do it. And I just think you're going to end up with just another big empty development on the down side of the largest bubble we've ever seen in this country on excess houses. It's kind of crazy.

I mean, I know they want to make money. I'm a businessman. I'm a "club for growth" member. I am. I'm a Republican. I'm a conservative. But foolish planning, it's a bad investment. If that was the last investment in the world, I wouldn't invest in it. It's insanity.

I mean, the city is named Edgewater. This thing isn't even by the edge of the water anymore. It's going to end up looking like the letter H. We should go back to the old name of the city, Hawks Park. It's probably more accurate. Thank you. Thank you very much.

GOVERNOR SCOTT: Thank you.

MR. MILLER: Next we'll have Ross Burnaman, representing the petitioner.

MR. BURNAMAN: Good morning, Governor, Cabinet members. Ross Burnaman here. Mr. Burgess didn't point out that he drove five hours this morning to be here, and this is his first time at the Cabinet. And he didn't mention that this is a quasi-judicial proceeding. I don't believe that you, as a new Cabinet, have been faced with this type of agenda item before. It's governed by the Administrative Procedures Act, and there was a record developed before the administrative law judge.

There are a number of problems with the staff recommendation, but we don't really have time to go into all of those. I will say that there's some serious due process issues associated with the way that this has arrived before you today. Chiefly among them is the citation to non-record materials in the draft final order. That is, some final orders were put into evidence to establish what the Administration Commission's precedents were. We did that. We know how to do it. That's what's required by the Administrative Procedure Act. But yet, out of whole cloth, never before discussed anywhere in the hearing or before any of the agents of this tribunal, now for the first time we see references to non-record purported final orders.

Another due process concern that we have is that we filed exceptions to the recommended order as required, with the requisite citations to the record. Secretary Pelham entered an agency order of the Department of Community Affairs that Ms. Hermanson referred to, which is the determination of noncompliance. As a matter of law, the Department of Community Affairs entered a final order, clerk -- by the agency clerk, signed by the secretary that recommended to you and found that this amendment is not in compliance, based upon these inconsistent planning time frames that Mr. Burgess mentioned.

Now, there's no legal authority for the Department of Community Affairs at the last minute to file a draft final order. We did move to strike that. There is a recommendation to deny that motion to strike. That's a gross procedural error that would be reversed on appeal, in my judgment. It's just not fair for the Department to flip-flop at the last minute, without any opportunity for Mr. Burgess or myself to make our case to the new agency head.

Going to the planning time frames issue, Mr. Burgess correctly pointed out that the original -- one of the original objections to the 2009 plan amendments, which don't only change the land use for this restoration project, but they apply citywide, the Department complained specifically that the planning time frames were inconsistent. And the Department's notice of intent said, quote, by utilizing a 2025 planning horizon for this amendment, even though the rest of the plan is based on a 2010 horizon, the City creates an internal inconsistency in violation of Section 163.3177(2), 163.3187(2) and Rule 9J-5.006(5), Florida Administrative Code.

So the agreement was that the City of Edgewater was going to go back in and do the required planning and fix this thing. Well, they didn't do it. So then at the administrative hearing, the administrative law judge concocted a new standard that said, oh, well, there's no express requirement in the law that you have consistent planning time frames.

Well, appropriately in the draft final order at page 12, your staff disagrees with that legal conclusion. And it goes on at great length about how planning time frames are the very foundation of comprehensive planning. A local government selects the time frames over which it wishes to plan, forecasts the anticipated population and growth over those periods, allocates sufficient suitable land to accommodate that forecast population and then plans for the infrastructure needed to support that growth.

As the testimony at the final hearing stated, these time frames are, quote, the basis for forecasting growth, identifying land use areas needed to accommodate the growth and the infrastructure elements to provide for the transportation, the water, the sewer and the other facilities. Coordination of the several elements of the local comprehensive plan shall be a major objective of the planning process.

That's right from the statute. Nevertheless, as Mr. Burgess pointed out, the various elements of this plan have drastically different time frames. And, in fact, the City never went through that process that your own draft final order recommends is so very important.

The draft final order proposes at page 14 to add a new sentence here, petitioner failed to prove that the different time frames result in a lack of coordination among the elements. Well, that's hardly the truth. Comprehensive plans are ordinances. To interpret them involves a legal conclusion, a judicial function. Here, we put the plan into evidence, and any idiot can read the various elements and see that they're not consistent. This is a ridiculous recommendation, and you should reject it.

Now, going on to the mixed use rule, originally the 2009 plan amendment had a master development plan that was Exhibit H. Give me a moment, please. While she's queuing that up, the mixed use rule requires that you show how much commercial, how much industrial, how much residential, the various land use types.

Here, basically what you have is 3.3 million of commercial or industrial, not differentiated in any real way, and then a total of 8,500 or so residential units. But there's no specificity within this approximate four-square-mile area where those features will be. It's not working. Great.

Okay. Well, what you've got is essentially a blank check. What they've got is what's called the build envelope, which is out by the interstate. It's the brown area out by the interstate. And it can vary by two-thirds of a square mile, according to the plan.

It's about 1,700 acres maximum. And the plan itself says that the build envelope is, quote, flexible and not precisely defined. But there's simply no provision or policies to guide fundamental issues about how much industrial and how much commercial are we going to have in this development.

All you know is that there's a cap of 3.3 million square feet of nonresidential use. It simply doesn't comply with the planning act and the requirement for some specificity of the minimum time frames. And you can see what I'm talking about if you look at the future land use map that was in the 2010 comprehensive plan. The City here has all these different colors to show the different types of land uses, where the restoration is just a big blob. Okay. That doesn't comply with the act.

And I see that I'm running out of time here. We would just ask respectfully that you disregard the staff recommendation, that you find the plan amendment not in compliance for the reasons stated in our exceptions to the recommended order and those of the Department of Community Affairs. Thank you.

GOVERNOR SCOTT: Thank you very much, both of you.

MR. BURNAMAN: Are there any questions?

GOVERNOR SCOTT: Does anybody have any questions? Thank you very much.

MR. BURNAMAN: Thank you, Governor.

MR. MILLER: Thank you. Our next speaker is Secretary William Buzzett of the Department of Community Affairs.

GOVERNOR SCOTT: Good morning.

MR. BUZZETT: Good morning. Thank y'all very much. I appreciate the opportunity to be here, and I'll be very brief. I am the new secretary of the

Department of Community Affairs. As you've heard, this case has gone on for several years. I went and did go back and look at the record and look at the case, and I was amazed at the quality of the decision-making and actually the quality of the proposed plan.

And before you -- and you probably haven't heard this yet, but this is a plan that has gone through a lot of changes and manipulation, if you will, because of the challenge. And ultimately I think a plan came forward that's very good, around 5,000 acres. Most of the development is being pushed right next to I-95, the interstate. And about 75 percent of the entire site of 5,000 acres is going to be put into preservation. So it's an incredible plan.

And specific to the work product of the Department, the Department did find this plan to be in compliance. It did go to hearing. It was ratified by an administrative law judge who also found it to be in compliance. In December of last year it was found not to be in compliance based on these planning time frames that you've heard a little bit about. I've gone back and looked at that with my staff, and we believe that that is not correct, that in fact it should be found to be in compliance, that you have an order before you that we would recommend that you consider to bring this case to conclusion.

And, again, I think that the merits of this case are pretty amazing. This is the type of planning I think that we need to see a lot more of in Florida. So I'm here, my staff is here to answer any questions you may have. And I'll defer my time to the remaining folks.

GOVERNOR SCOTT: Thank you.

ATTORNEY GENERAL BONDI: Question. Was this dramatically scaled back from the original plan?

MR. BUZZETT: Yes, ma'am. It was made a lot more compact, the development itself, the conservation plan a lot larger. But that happened back -- when the Department initially found it to be not in compliance, negotiations were had between all the parties. Remedial amendments were advanced. And after those were advanced and adopted, the Department looked back at those and said, yes, they are now in compliance with law. And that was the basis of the challenge. But it's a new urbanism form and design. It's a very compact development.

ATTORNEY GENERAL BONDI: Thank you.

MR. BUZZETT: Thank you.

GOVERNOR SCOTT: Thank you.

MR. MILLER: Next we have Senator Lynn here, I believe, to speak.

GOVERNOR SCOTT: Good morning.

MS. LYNN: Good morning, Governor and members of the Cabinet. It's a pleasure to be with you on behalf of Edgewater. Edgewater is a city in the southern portion of Volusia County. It has a wonderful community. It is just south of New Smyrna Beach. It has several boat makers, and that's about all the business that it really has, commercial, that would draw jobs.

This development started five years ago. The initiation of working toward being here today started five years ago. It's been ongoing, with careful planning, with a group of people who've worked very hard to jump through every single hoop we have, fill out every form we need, meet and meet and meet and had hearings so the public could have all sorts of opportunity to speak to it.

And with all of that, they got through the process five years later, and it was approved. That was May or June. Suddenly in December it becomes unapproved, which I must say is the kind of thing that we find very difficult here in the Legislature. Whether we're starting a business or we're starting a development, what we have to jump through.

I started up here 16 years ago working on a permitting bill because I was so upset with what was going on in my own city of Ormond Beach. People are still working on permitting bills. It's endless. And so I'm here today on this City's behalf, because they've worked very hard to meet every possible requirement, and the people in the area are comfortable with this. I don't speak for the gentleman here today.

But I would suggest that this is worthy of your consideration for approval, and I hope that you will see fit to do so. Thank you for allowing me to speak.

GOVERNOR SCOTT: Thank you very much.

MR. MILLER: Next we have Tracey Barlow, the Edgewater city manager.

MR. BARLOW: Good morning, Governor and members of the Cabinet. I thank you for the opportunity. To start out with, for the record, my name is Tracey Barlow, the city manager for the City of Edgewater. I have actually had the opportunity to grow up in the area since coming there as a kid in 1976 and have been fortunate to have been able to raise -- currently now raise my family in the area as well.

I've been with the City of Edgewater for 26 years in various capacities throughout. Once again, like I say, I was one of the fortunate ones that was able to stay within the community, find -- you know, pursue my professional career there within Edgewater. Unfortunately, many of my friends and high school classmates have had to leave the area to find that professional workforce.

And I tell you this because this is another one of the amenities that this project, I believe, will bring to the community. I must also, you know, recognize a group of business leaders and residents that, along with Mr. Burgess, has made the travel this morning, pushed through the fog to come in support of this project as well. Can you guys raise your hand? Thank you. So those are equally business leaders and community residents that support the project.

As you'll hear throughout some of the other speakers today and confirming some of the respondent's concerns as well, is has this project changed from its inception many years ago before we started this very convoluted process. It certainly has. And you'll see that. Where originally it spanned over the entire 5,100 acres, and we have actually compacted that, adjacent to I-95 and 442. It is only a 25 percent build envelope that you'll hear.

But through that process, how did we get there, was there was many hands on that project to help, you know, massage in what I call a cooperative planning process. And just to name a few that have participated in bringing the project where it is today was the Central Florida Regional Planning Council, the Volusia County Council and staff, the Volusia Growth Management Commission, Volusia County School Board, Department of Transportation, neighboring city of New Smyrna Beach, St. Johns Water Management District and the Department of Community Affairs. And here we are today before you because one resident out of over 21,000 residents has intervened and brought us here today.

At the conclusion, one of the most important amenities as well that is now currently part of the development order and the comprehensive plan is the jobs-to-housing ratio and those thresholds. Throughout this very lengthy build time envelope, there are five different thresholds that associate jobs to housing. And when I say that is, if they don't have the jobs or the commercial built, as they reach a certain threshold with the residential properties, they don't move on and go to any more residential properties. So that's one of the things that certainly has, you know, as well encouraged the support by the city council.

Once again, I thank you for your time and hope you'll find this plan amendment in compliance as recommended again by DCA, the administrative law judge and your Administration Commission. And I'll be here if you have any additional questions.

GOVERNOR SCOTT: Does anybody have any questions? Thank you very much.

MR. BARLOW: Thank you.

MR. MILLER: Our next speaker is Ted Brown, representing the intervenor, Hammock Creek Green.

MR. BROWN: Governor, members of the Cabinet, my name is Ted Brown. I'm an attorney with the firm of Baker Hostetler in Orlando and have been involved with this project since it was -- the acquisition of the land, even before we began the process. It's been a long and difficult and very, very expensive process to get here today. We're satisfied that this will be the last and the end of it. And we're pleased that the new secretary of DCA has seen fit to reverse course and to move this back into a posture where it came out of the agency initially.

It's interesting that the change that's perceived by the petitioner is not the change that we see. What we see is a return back to where the original secretary had been in the process before. You can imagine trying to sustain our equity and debt partners in this deal through a situation in which for the better part of a year we were involved with the Department in negotiating refinements to this plan, to a point where the Department accepted that outcome, signed a settlement agreement, asked the City to adopt remedial amendments to conform to that settlement agreement, which they did do, then litigated the matter for two and a half days in the administrative law system before an administrative law judge, to be found totally in compliance, and then sat for another six months waiting on the order to come out of the Department, only to find on December 22nd that Secretary Pelham again reversed course.

So this is not a reversal from Pelham's order. This is a reversal back to where the agency was after many years and many millions of dollars of effort to get here.

There was a suggestion by the petitioner that this particular comprehensive plan lacked a level of detail. This is 40 pages of single-spaced text that contains enough detail to qualify it as a development of regional impact development order. And you only have to glance at it randomly to discern that within the framework of that document is more detail about what we can do and what we might be able to do than any comprehensive plan that's ever been approved in this state, to my knowledge.

And there's a suggestion that the economy won't tolerate it. Well, that's a risk that entrepreneurial capital takes, and it's a risk that we believe we can take if we can stay in the game and move forward from this point. Will it be successful? We believe it will be. Will it have to start next year? No. There's a window of time to do that.

But in the final analysis, this group of investors and people that have bought this land and have worked this process to this point in time believe that we are at the right edge of what's turning around in the state of Florida and that we have an opportunity to be very successful, not only for the city of Edgewater but for the state.

And we'd very much appreciate your support of the amended and restated order that came back to you from the secretary. I'd answer any questions you might have, should you have some. Thank you.

GOVERNOR SCOTT: Thank you. Are there any questions?

MR. MILLER: Thank you. That concludes the speakers on both sides. In the way of public comment, we have Charles Lee, representing Audubon of Florida, who would like to make a few comments.

MR. LEE: Governor, Charles Lee representing Audubon of Florida. Let's see one more time if the ELMO might work.

GOVERNOR SCOTT: Which map is it? Can you show me real quick? Because we might have it also.

MR. LEE: This is the final plan map, part of the record. We're here today to support the position that Secretary Buzzett has brought to you and recommend that you move forward to find the plan in compliance in the same way the administrative law judge recommended. In the absence of the ELMO, I'll do two things. The first thing I'd like to do is to ask a member of the staff if they would pass these two maps, and you can share them and pass among them. This is the final plan that is represented by that document that Mr. Brown referred to, which is the adopted plan amendment. This is the early plan, essentially the way it came in the door.

And I'd just like you to take a look at those two documents and compare them. And then for the sake of the rest, I'll see if I can prop this up. This is the final plan. Our interest in this matter, Governor and members of the Cabinet, is that we like to see developments, when they occur, protect wildlife, provide for conservation and actually establish the conservation of land.

And in the case of this project, as it is now the product of a tremendous amount of good work by the Department of Community Affairs up through the period when this was in front of the administrative law judge, by the Regional Planning Council in Central Florida, the East Central Florida Regional Planning Council, a conservation plan has been crafted in which, out of the 5,187 acres that is the total size of this project, 3,880 acres will go into a permanent conservation easement at no public cost either for acquisition and management, preserving and restoring the best habitat on this property.

The map in front of you shows some dark green color and some light green color. The dark green represents wetlands. The light green represents uplands. And in the center of that light green, if you look at the early plan, you will see that the conservation lands of this property were originally to have been largely cut up, largely paved over, and now, as a result of the design that has been reached, they are almost entirely conserved; again, at no public expense. If we were to calculate the potential of public expense to acquire and preserve these lands, you're easily looking in the 20 to 30 million dollar range.

The reason that I wanted to speak to you today was not to deal with the arcane issues that this came down to in the end in terms of what happened in December, but rather to point to this kind of planning as a model and to point out that in the case of this developer and in the case of this process, as it operated up through the time of the administrative hearing and the production of a recommended order, there was a lot of value added.

I have to thank both the ingenuity of the developer and their consultants and also to thank the Department of Community Affairs and the Regional

Planning Council. As we move forward to look at these kind of large-scale developments in Florida, I would hope that you would keep this picture firmly in mind, because it represents the benefits that can come out of good planning, out of good growth management decisions and out of the right kind of interplay between government agencies and those proposing to develop.

I wouldn't say what happened right there at the end in December was the right kind of interplay, but up to the point this went to the Division of Administrative Hearings and produced that recommended order, it did. It is good conservation. It is conservation at no cost. It is conservation under easements. And it represents, I think, a wave of the future with regard to large-scale development projects that we can hope to see in Florida. Thank you.

GOVERNOR SCOTT: Thank you very much. Any questions?

MR. MILLER: That concludes our speakers. In conclusion, staff requests approval of the recommendation authorizing the Commission's secretary to enter the draft final order finding that the plan amendment adopted by the City of

Edgewater, by ordinance number 2008-0-10, as remediated by ordinance number 2010-0-01, is in compliance. The draft final order also denies the motion for remand and the motion to strike.

GOVERNOR SCOTT: Any questions? Is there a motion?

CFO ATWATER: So move.

GOVERNOR SCOTT: Second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Show Item 2 approved without objection. Thank you very much for everybody coming here today.

MR. MILLER: Thank you, Governor.

GOVERNOR SCOTT: The next agenda is the Board of Trustees presented by Herschel Vinyard. Thank you, everybody, for coming. Good morning.

MR. VINYARD: Good morning. It's almost afternoon. Good morning, members of the Cabinet.

GOVERNOR SCOTT: It's not yet, 11:15.

MR. VINYARD: We've got five items today for you. The first one is we've submitted for your --

GOVERNOR SCOTT: Could everybody quiet down a little, please? Okay. Go ahead.

MR. VINYARD: We've submitted for your review and approval the minutes from the November 9 and December 7 Cabinet meetings.

GOVERNOR SCOTT: Is there a motion?

CFO ATWATER: So move.

GOVERNOR SCOTT: Second?

ATTORNEY GENERAL BONDI: Second.

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

MR. VINYARD: The second item is the consideration of exchange agreement to convey 37 acres of state-owned land in exchange for 60 acres owned by the University of West Florida Foundation, Inc. This is a value-for-value exchange. The primary purpose, what it will do is allow the foundation to create a corporate technology park. And the staff recommends approval.

GOVERNOR SCOTT: Are there any questions? Is there a motion?

COMMISSIONER PUTNAM: Motion.

GOVERNOR SCOTT: Second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. The motion -- Item 2 is approved without objection.

MR. VINYARD: Item 3 is the Jensen Beach Mooring Field. It's at the request of local government, Martin County. This is consideration of a 25-year sovereign submerged land lease for a proposed 51-buoy managed mooring field and associated dinghy dock. At this time the area in question is essentially being used as an unregulated anchoring area.

The State for years has been trying to encourage these mooring fields. It improves the environment and navigation. The staff recommends approval at this time.

GOVERNOR SCOTT: Any questions? Is there a motion?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Second?

CFO ATWATER: Second.

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

MR. VINYARD: Item 4 is an item known as Blue Water. This item was withdrawn from the agenda on January 19th. This is a consideration of a ten-year sovereign submerged land lease. The proposed lease would include a 156-slip commercial docking facility. It would be open to the public and located on the Halifax River in Volusia County. The consideration in year one of this lease is a payment of over $55,000 to the State, and the staff recommends approval on this as well.

GOVERNOR SCOTT: Is there a motion?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded, show Item 3 approved without objection.

MR. VINYARD: Thank you so much.

GOVERNOR SCOTT: Thank you very much.

ATTORNEY GENERAL BONDI: Item 4, Governor.

MR. VINYARD: The last item.

GOVERNOR SCOTT: Are you ready to leave?

MR. VINYARD: I know you've got media

availability right now. Let's see, Item 5, HCI Marina, the staff is recommending deferral of Item 5.

GOVERNOR SCOTT: Did you do -- did you have a question?

ATTORNEY GENERAL BONDI: No, Governor. I was just going to clarify the previous item was 4.

GOVERNOR SCOTT: Okay. I said the wrong number. I'm sorry. Four. Moving too fast. Okay. You're deferring?

MR. VINYARD: Yes, sir.

GOVERNOR SCOTT: Is there a motion?

COMMISSIONER PUTNAM: Move to defer.

GOVERNOR SCOTT: Second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded. Show Item 5 deferred without objection.

Thank you. This concludes our meeting. We're adjourned. Thanks, everybody, today.

(Whereupon, the meeting was concluded at 11:20 a.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, Jo Langston, Registered Professional Reporter, do hereby certify that the foregoing pages 5 through 100, 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 14th day of March 2011.

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JO LANGSTON
Registered Professional Reporter