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Representing:

STATE BOARD OF ADMINISTRATION

DIVISION OF BOND FINANCE

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, April 5, 2011, commencing at 10:00 a.m.

Reported by:
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APPEARANCES:

Representing the Florida Cabinet:

RICK SCOTT
Governor

ADAM H. PUTNAM
Commissioner of Agriculture

PAM BONDI
Attorney General

JEFF ATWATER
Chief Financial Officer

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P R O C E E D I N G S

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(Agenda items commenced at 10:15 a.m.)

GOVERNOR SCOTT: Now we're going to the State Board of Administration. The first agenda is presented by Ash Williams. Good morning.

MR. WILLIAMS: Thank you, Governor, good morning, Trustees. First, by way of an update this morning, as of last night's close, the Florida Retirement System Trust Fund stood at a balance level of $128.4 billion. We're up 20.9 percent net of costs fiscal year to date.

Item 1, request approval of the minutes of our February 1 and February 22 meetings.

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. WILLIAMS: Thank you. Item 2, request approval of a fiscal determination of an amount not exceeding $25,780,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds for the Monterra Apartments in Broward County.

GOVERNOR SCOTT: Is there a motion to approve?

CFO ATWATER: So move.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: All in favor say aye. Aye.

CFO ATWATER: Aye.

ATTORNEY GENERAL BONDI: Aye.

GOVERNOR SCOTT: Opposed? The item is approved.

MR. WILLIAMS: Thank you. Item 3, request approval of a fiscal determination of an amount not exceeding $25,100,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds. It's for the Sorrento at Miramar Apartments, also in Broward County.

GOVERNOR SCOTT: Is there a motion to approve Item 3?

CFO ATWATER: So move.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: All in favor say aye. Aye.

ATTORNEY GENERAL BONDI: Aye.

CFO ATWATER: Aye.

GOVERNOR SCOTT: Those opposed say no. Okay. This item is approved.

MR. WILLIAMS: Thank you. Item 4, request approval of a fiscal determination of an amount not exceeding $5,760,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds. This is the Griffin Heights Apartments in Tallahassee.

GOVERNOR SCOTT: Is there a motion to approve Item 4?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: All in favor say aye. Aye.

CFO ATWATER: Aye.

ATTORNEY GENERAL BONDI: Aye.

GOVERNOR SCOTT: Those opposed, no. Okay. The item is approved.

MR. WILLIAMS: Thank you. Item 5, request approval of the appointment of Mr. Les Daniels to the Investment Advisory Council.

GOVERNOR SCOTT: Is there a motion to approve Item 5?

CFO ATWATER: So move.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

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

MR. WILLIAMS: Thank you. Item 6, request permission to file for notice three rule amendments pertaining to the Florida Retirement System Investment Plan. These proposed rules have been through the requisite approval processes. They are essentially updating, clarifying and conforming statutory changes in the rules.

GOVERNOR SCOTT: Is there a motion to approve Item 6?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

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

MR. WILLIAMS: Thank you.

GOVERNOR SCOTT: Thank you.

GOVERNOR SCOTT: Now, the next agenda is the Division of Bond Finance, presented by Ben Watkins. Good morning.

MR. WATKINS: Good morning, Governor, Cabinet members. Item Number 1 is approval of the minutes of the February 22nd meeting.

GOVERNOR SCOTT: Is there a motion on the minutes?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

COMMISSIONER PUTNAM: 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 336.75 million in PECO Refunding Bonds. The bonds were sold at competitive sale and awarded to the low bidder at a true interest cost of 3.265 percent. The refunding transaction enabled us to reduce the interest rate on outstanding PECO bonds from 4.87 percent to 3.27 percent, resulting in gross debt service savings of approximately $39.9 million, annual savings of 3.3 million, the present value savings of 33.3 million, or 9.23 percent of the principal amount refunded.

GOVERNOR SCOTT: That's great. Is there a motion on Item 2?
CFO ATWATER: So move.
GOVERNOR SCOTT: Is there a second?
ATTORNEY GENERAL BONDI: Second.
GOVERNOR SCOTT: Moved and seconded. Show Item 2 approved without objection.
MR. WATKINS: And the last item, Governor, is an update of the debt affordability report for 2011, which we presented in January the debt affordability study overall, and we did a review of various -- thank you, Mary Alice.
This report updates the information that was provided in January relative to the State's debt position and also contains an overview of the PECO bonding program.
The first slide is -- one aspect of the review that we did in January was to evaluate the State's benchmark debt ratio, and the benchmark debt ratio is our annual debt service requirements, divided by the revenues available to pay, and it's expressed as a percentage.
And the Legislature has established a policy target of six percent and a policy cap of seven percent. And so what we -- this probably

looks familiar to you. It's the ten-year history of the benchmark debt ratio, as well as a ten-year projection based on the revised revenue estimates from the March estimating conference, as well as updated projections on expected future debt issuance.

And what we see, we now have -- whenever we have an update of the -- from the Revenue Estimating Conference, we reshoot the projections to freshen up the information and then provide that to legislative leadership so that they have the most current information available to them when making the important decisions regarding debt and projects to be financed.

And so what we see here, with the updated projection of the benchmark debt ratio, is there has been no material change, based on the update for the new revenue estimates and the update for future expected debt issuance. However, the projected benchmark debt ratio remains above the seven percent policy cap established by the Legislature.

This next slide is to simply show --

GOVERNOR SCOTT: Excuse me. CFO Atwater, did you want to say something?

CFO ATWATER: Just a quick question.

MR. WATKINS: Yes, sir.

CFO ATWATER: Mr. Watkins, was there, in that slide, was there a projected -- and I'm sorry if I'm just missing the obvious. Was there a projected amount of new debt over that horizon that you have in front of you, the red line that you're working?

MR. WATKINS: Yes. The total estimated debt issuance is approximately $7.6 billion over the next 10 years.

CFO ATWATER: So that is built into this graph, along with the projections of revenue estimates?

MR. WATKINS: That's correct.

CFO ATWATER: Okay. Thank you.

GOVERNOR SCOTT: Is that net debt or just new debt?

MR. WATKINS: It's new debt, but it includes the amortization of the existing outstanding indebtedness that we currently have on the books. So it's a net number. It takes into account both the addition of the new as well as the repayment of debt that's currently outstanding.

GOVERNOR SCOTT: Anything else?

CFO ATWATER: That's it.

MR. WATKINS: The next slide simply shows the change in the revenues resulting from the December revenue estimates versus the March revenue estimates, which are the most current. And the new revenue estimates have been revised down modestly. And these two lines, comparing the prior revenue estimate in the blue to the new revenue estimates which are shown in red, are in effect on top of each other.

So it basically shows that there has been no material change in the revenue projections, unlike prior years where we had precipitous declines in revenues, and the change in revenues had a negative impact on the benchmark debt ratio. That's not the case this time.

So we feel like the revenues, we've touched bottom now, and we're dealing with a lower revenue base, and -- but we don't have a precipitous decline in revenues resulting from the new revenue estimates.

This next slide is simply to show the other side of the equation, which is the change in future expected debt issuance. And the blue line, again, are the January numbers, and the red line are the March numbers. And the projected debt issuance is down over the next two years, and then above what the expected issuance had been in 2014.

And the downward revisions are due primarily to a change in the estimated PECO debt issuance. There is an estimating conference, there's a PECO estimating conference that takes into account the projections of gross receipts taxes as well as the debt that's currently outstanding and compares the two and makes an estimate for the Legislature in terms of the amount of PECO capacity that's available.

This next slide you're probably familiar with. It just shows the overall State debt outstanding, the direct debt of the State. And I put this in there just so you can see the relative -- that education makes up over half of all of the State debt that's currently outstanding.

And within the debt issued for education purposes, PECO again is the largest single component of State debt outstanding. So 71 percent of the debt that's outstanding for education purposes specifically relates to PECO bonds, with the remainder being Lottery revenue bonds and debt issued for universities.

And PECO bonds are State full faith and credit bonds, secured primarily by gross receipts taxes. And I say primarily because it's a State G.O.

backup. It's what we refer to in the business as a double-barrel security. It's secured first by gross receipts taxes, with a State general obligation backup. The State has never had to use the general obligation backup. In other words, gross receipts have been the revenue source that is dedicated constitutionally towards repaying this debt. And that's how the PECO bonds are secured.

The next slide simply shows the PECO bonds, the growth in the PECO bonds outstanding over the last ten years. And you see that debt -- this is merely a snapshot at the end of the year of the amount of debt outstanding, as distinguished from, and we will get to, the amount of funding provided in the budget for PECO projects. So PECO bonds outstanding have increased by $4 billion, from $7.3 billion in 2001 to $11.3 billion at the end of 2010. And PECO bonds are issued to finance educational facilities approved by the Legislature.

So embedded within the Appropriations Act every year, or the budget, there is a list of PECO projects that are specifically approved by the Legislature through the appropriations process, and that's what's being financed by the issuance of PECO bonds.

GOVERNOR SCOTT: Can you stop for just one second on this one?

MR. WATKINS: Sure, absolutely.

GOVERNOR SCOTT: In the future, could you put in this slide -- down here you have the percentage, percent growth.

MR. WATKINS: Yes, sir.

GOVERNOR SCOTT: Could you put another line below that, the enrollment growth?

MR. WATKINS: Sure, absolutely.

GOVERNOR SCOTT: To see -- because are we -- I don't know the numbers, but are we growing faster than enrollment growth.

MR. WATKINS: And I obviously don't know the answer to that question. And I'll be happy to do that, Governor, and I understand the metric and the value in looking at how many new kids do we have and is there a connection to how we financed educational facilities and how many schools we built.

GOVERNOR SCOTT: Thank you.

MR. WATKINS: The next slide is intended to show what are the annual debt service requirements that are used to pay PECO bonds. And this chart is intended to reflect -- the blue is principal repayments, and the orange is the interest component. And you see the ten-year historical, the amount of annual debt service that's required to service the PECO indebtedness.

And the annual debt service requirements have increased over the last 10 years, mirroring the increase in the PECO debt that's outstanding, from 400 million in 2001 to 955 million in 2011. And then on a projected basis, this does not include any projected new issuance.

This is just the annual debt service requirement on the PECO bonds that are currently outstanding. And it reflects our policy of 30-year level debt scenario. So you see that our annual debt service requirements going forward are essentially level at about $955 million.

GOVERNOR SCOTT: Could you next time on this slide do the same percent on what the growth rate has been and is projected to be?

MR. WATKINS: Yes, sir.

GOVERNOR SCOTT: And with enrollment growth and projected growth?

MR. WATKINS: Yes, sir.

GOVERNOR SCOTT: And then have the same slide with the projected increase in debt? Because I guess on the prior slide -- I guess two slides back, we're projected to continue to borrow, right, increased amounts?

MR. WATKINS: Yes, sir. The empirical quantitative data behind that is not actually in the presentation. That information was provided to the Legislature. But it's a spreadsheet and a detailed chart, and I'll be happy to provide that information and put that metric on here as well.

GOVERNOR SCOTT: And then do we have a -- do we have a rationale that this is why this is growing faster than enrollment growth?

MR. WATKINS: That is an evaluation that the Legislature does. We actually don't get involved in that aspect of evaluating what the needs are, where the needs are, how they get funded, what the justification is for those. It's a very relevant question, but I simply don't have the answer to it.

GOVERNOR SCOTT: Okay. Commissioner Putnam?

COMMISSIONER PUTNAM: Wouldn't the class size amendment be a huge driver?

MR. WATKINS: It could be, but that was primarily funded with the issuance of Lottery revenue bonds.

COMMISSIONER PUTNAM: So Lottery is what's covering that piece of it?

MR. WATKINS: Correct. There was about 455 million in increase in indebtedness specifically devoted to class size. It doesn't mean that the construction of the facilities didn't satisfy that need. But in terms of a new bonding program or bonds specifically directed to address class size, that is not how it was framed legislatively.

But clearly, if you're building K through 12 schools, you've got more classrooms. If you've got more classrooms, then you can move towards compliance. But there wasn't a direct connection, where this amount of PECO went for class size reduction.

COMMISSIONER PUTNAM: No, no. I'm not saying that the Legislature framed it and labeled it as such.

MR. WATKINS: Right.

COMMISSIONER PUTNAM: You might have -- your enrollment growth a decade ago would have resulted in X number of new facilities. The same enrollment growth post-class-size-amendment would be X-plus new facilities because you've got fewer kids per classroom. By definition, you'd have to be building additional facilities to be in compliance with that.

MR. WATKINS: Correct.

COMMISSIONER PUTNAM: Whether they labeled it as such or not, right?

MR. WATKINS: Correct, as long as you had student population growth.

COMMISSIONER PUTNAM: I would think that that would be a huge driver.

MR. WATKINS: Right. It clearly was a driver of need for additional facilities, K through 12, no doubt about it, assuming if you have student population growth or to satisfy the existing population. So I understand, and you're correct.

Not all of the PECO funding goes to K through 12. It goes to community colleges and universities as well. And although you don't have it on your chart there, I can look at -- you know, I'm sitting here looking at a five-year history of, you know, where did the funding go, where did the appropriation go, where was it directed to?

And I have to say that -- and when we get to it later in the slide, you'll see the amount of appropriation -- a significant amount of the funding, over a third, was devoted to universities. So it didn't go just to K through 12. It went to universities as well.

Once we look at, okay, well, what are our long-term recurring obligations to pay debt service on the debt that we've got currently outstanding, then I turn to, well, how do we pay that. Let's look at gross receipts. Let's look at the revenue stream that secures this indebtedness. And that's what this chart is intended to illustrate.

And it's historical gross receipts tax collections for the last 10 years. And the blue component is debt service, and the green component is cash. So gross receipts taxes is used in two ways. One, it's constitutionally dedicated to repay debt, and then there is an amount of gross receipts tax in excess of debt service that we call cash that's the coverage amount that is appropriated as cash for education facilities as well.

So that's how gross receipts are used. That's what they're required to be used for constitutionally. And these are the relative proportions of how gross receipts taxes are used.

And the issuance of PECO bonds is limited by the amount of gross receipts taxes that are expected to be collected. So there's what we refer to in the business as an ABT, an additional bonds test. And it's embedded in the constitution, and then it's embedded in law, and it says the existing debt service on debt outstanding plus the debt service on bonds we expect to issue can be no more than 90 percent of the expected gross receipts tax collections.

And that test frames or establishes the framework for determining how much PECO bonding capacity is available. And that's the test that the PECO estimating conference uses in generating a number for the Legislature to use in appropriating or authorizing the issuance of PECO bonds embedded in the Appropriations Act.

GOVERNOR SCOTT: So basically all that gives us is a ten -- if we do the max, each year it gives us a -- assuming interest rates don't go up, gross receipts stay where they are, we only have a 10 percent cushion.

MR. WATKINS: Correct.

GOVERNOR SCOTT: So do you think private companies would do that, a 10 percent cushion?

MR. WATKINS: Municipal entities are -- that would be fully leveraged, Governor.

GOVERNOR SCOTT: Yeah.

MR. WATKINS: I have to say, that would be fully leveraged. Well, and that's what we see here today when we get to the end of the story, is gross receipts tax are fully leveraged relative to the limitations that are embedded constitutionally.

And that's why we have the State G.O. backup. Right? I mean, to the extent that gross receipts are not sufficient, the State has pledged its full faith and credit to make payments on these bonds. And, fortunately, we've never been confronted with a circumstance that required the State to appropriate general revenues to make the debt service payments. But, of course, we've always grown. We've never seen the flip side of that until recently.

The conference process maintains that discipline in terms of making sure that the projections are going to be sufficient to satisfy the test. But that doesn't protect you from unanticipated reductions in that revenue stream that would require the State to make payments from other sources.

GOVERNOR SCOTT: And is the interest rate fixed on all the debt?

MR. WATKINS: Yes, sir. We have a very plain vanilla credit structure, very conservative long-term fixed-rate debt. So we have no residual risk on our balance sheet for either changes in interest rates or refi risk for -- that you would normally see in the corporate world with bullet maturities, where you've got to roll it. This is all 30-year amortizing, long-term fixed-rate debt.

So we've at least protected ourself on that side of the equation. You can't control what the revenues are going to do. But from a debt standpoint, we won't have an accident, no unanticipated problems on that front.

The next thing that we look at, after looking at how gross receipts taxes are used, is to look at the ten-year history of gross receipts tax collections as well as a ten-year projection generated by the Revenue Estimating Conference of what gross receipts tax collections are expected to be.

And what we see is from 2008 to 2009, basically flat, at 1,126,000,000 in gross receipts tax collections. And then we experienced a slight decline in 2010. And we expect to remain flat in 2011, at a billion -- 1.1 billion in each year and then again in 2012 of about 1.1 billion.

So what that means is, is once you fully leverage a revenue stream, if you don't have growth in that revenue stream, then you do not have any capacity for additional indebtedness. And that is the circumstance in which we find ourselves today, and that is, no PECO bonding capacity until that revenue stream resumes growth, assuming that these estimates are accurate.

ATTORNEY GENERAL BONDI: How do you assume such growth by -- let me put my glasses on. How do you assume such growth by 2020?

MR. WATKINS: I leave that to brighter minds than mine to figure that out. I deal in the world of certainty. But there's an estimating conference process. So the House has a conferree. The Senate has a conferree. The director of Office of Economic and Demographic Research has a conferree, and the governor has a representative. And they're the economist types who do estimates for everything, student population, prison population, Medicaid, all of the revenue streams. And so that's where these revenue projections come from.

So I'm taking the institutional processes within the State and extracting that data and then just using it for purposes of framing the issue and illustrating how all of this works.

GOVERNOR SCOTT: So basically you're assuming we're going to start -- the state will start growing again.

MR. WATKINS: The last thing I wanted to look at in terms of illuminating sort of what's going on is to evaluate the funding provided by PECO on an annual basis. So this is the amount that historically has been included in the Appropriations Act for authorized PECO projects. And the blue is the funding provided from debt from PECO bonds, and the green is the cash appropriation used to fund school construction.

And you can see that historically there have been significant fluctuations in the amount of funding provided by PECO. And you also see that there is no PECO bonding capacity available in 2012. The only thing that's available for next fiscal year is the coverage amount or the cash from the excess gross receipts taxes over the required debt service payments to be made.

And but for -- for 2011, which is the current fiscal year, but for a recharacterization of communications services taxes as gross receipts taxes, which then allows it constitutionally to be leveraged, but for that recharacterization, there would have been no capacity in 2011. So we are out of capacity.

GOVERNOR SCOTT: Can you explain that again, how that works?

MR. WATKINS: So constitutionally the State cannot pledge taxes to repay debt, without a referendum or a vote of the people. So when the PECO program was established, they authorized two things. One was a pledge of gross receipts taxes, and the other was to authorize the issuance of full faith and credit bonds.

So the only way we can issue debt is if it is secured by gross receipts taxes. So when gross receipts taxes leveled off and there was no capacity, the Legislature recharacterized a portion of communications services taxes as gross receipts taxes. They shifted money that would otherwise go to state general revenues and they made it -- recharacterized it as gross receipts taxes.

So now I've increased the revenue stream by the amount I shifted and recharacterized. So there's no tax increase. There's no increase in the amount that we're collecting, but there's an increase in the amount that we're calling gross receipts. And then that creates capacity because the leverage factor is, say, 12 to 1.

So if I shift 10 million over on a recurring basis, then I generate 120 million in funding available through bonding. And that's what was done for the current fiscal year.

GOVERNOR SCOTT: So how do you do that without going to get approval from -- there has to be a referendum?

MR. WATKINS: No. That change is included in law. The program itself was established by a vote of the people. It's the only way you can pledge taxes in the state. Once that's done, then it's up to the Legislature to decide what the rate should be and how much money is collected from that. So there's no limitation on that aspect, once it's authorized by the voters.

And in this case, there wasn't a tax increase. There's just a redirection of revenues in order to characterize them as gross receipts in order to create bonding capacity.

GOVERNOR SCOTT: So are there more taxes that the Legislature can do this, so we just continue to -- seems like we just continue to leverage ourselves up.

MR. WATKINS: The Legislature has the prerogative on taxes and revenues and spending, yes, sir.

ATTORNEY GENERAL BONDI: So I'm sorry. I just don't understand. So how do we anticipate such a growth from 2012 to 2014?

MR. WATKINS: That is the natural recovery of the gross receipts taxes, back to this slide, where it flattens out and starts to grow again. And then you take that incremental piece and multiply it by 12, and that gives you the amount of funding that could be -- potential bonding that could be authorized by the Legislature.

So it's the organic growth in revenues anticipated that drives that expected increase in capacity in 2015. And it's really all because of the multiplier effect.

GOVERNOR SCOTT: So the Legislature can basically take any taxes they want and dedicate it to this?

MR. WATKINS: Not any taxes. It depends on what they're called. But therein lies the --

GOVERNOR SCOTT: So which ones can they dedicate?

MR. WATKINS: The only -- currently, under the current constitutional framework, the only taxes that can be dedicated are gross receipts taxes for PECO bonds, motor fuel taxes for right-of-way and bridge construction bonds, which is another state general obligation program, and a portion of motor vehicle license tag revenues that are used to support capital outlay bonds also for education spending.

So those are really the three general obligation bond programs. Away from that authorization, they can't dedicate taxes, but the Legislature can decide what is taxed and then what they call a tax. So you could take a portion of state sales tax and recharacterize it as gross receipts taxes. And you haven't increased taxes, but the revenue source takes on a different character, and that character is authorized constitutionally to be leveraged. And they can do that by a change in law, which is what was done last year by changing the law.

GOVERNOR SCOTT: And then leverage it up 12 to 1.

MR. WATKINS: Correct. So --

GOVERNOR SCOTT: But basically what this slide says is right now there is, for 2012, we have no opportunity to borrow any more money.

MR. WATKINS: For PECO, yes, sir.

GOVERNOR SCOTT: For PECO.

MR. WATKINS: So, in other words, the

Legislature, when they're looking at balancing the budget, there's no PECO bonding available.

GOVERNOR SCOTT: And we wouldn't have had any for 2011 but for the recharacterization of the communications tax.

MR. WATKINS: That's correct. And that's all because of the flattening out of the -- well, actually, the reduction in gross receipts tax collections in the current year, over what had previously been collected.

One other point, one other observation -- well, we'll go to the conclusion.

GOVERNOR SCOTT: Could I ask, Ben, could I -- so does everybody understand that there's -- because I guess this money goes for, what, K through 12, universities, community colleges?

MR. WATKINS: Correct.

GOVERNOR SCOTT: Everybody understands there's no money? I mean, is that common knowledge?

MR. WATKINS: Yes, sir.

GOVERNOR SCOTT: Okay.

MR. WATKINS: And there has been a wringing of hands and gnashing of teeth over that issue, yes, sir.

ATTORNEY GENERAL BONDI: And you said a third of it is universities, goes to universities? What was the division there?

MR. WATKINS: You know, it changes every year. It's the Legislature's prerogative, because each project is specifically approved and set forth in the Appropriations Act, and so it moves around. There's no fixed amount that, you know, universities get this, community colleges get this and K through 12 get this. So it's a legislative prerogative in terms of what gets funded.

And there's a process for PECO, in reviewing and ranking and submitting and evaluating and all of that. So it moves around over time. For example, just by way of example -- and I'm happy to send this information to you. In 2011, the current fiscal year, universities got 308 million. The total appropriation for PECO in the current fiscal year is 731 million. Universities got 308 million of the 731. Community colleges got 210 million, because of the huge explosion in growth in community college students. School districts got 139 million, and charter schools got 56 million. Okay?

Now, contrast that with -- let's just use 2008 -- a billion eight in appropriation for PECO in 2008. That's reflected, you know, on this chart.

So you see the fluctuation in the amount that can be funded. And I'll comment on that momentarily.

Of a billion eight, universities got 660 million, school districts -- or community colleges, half a billion, and school districts, half a billion. So it's roughly a third, a third and a third. So it moves around over time. But my point would be there's significant volatility, fluctuations in the amount of funding provided by PECO.

And my observation is that's due to, institutionally the process is set up -- when I say the process, I'm talking about the PECO estimating conference process -- to produce a maximum number. And then they hand that to the Legislature and say, well, here's the max -- because they're told by law, generate the maximum, calculate the maximum amount that can be leveraged with gross receipts taxes available for PECO. And they produce a number. And then there's a very short view of the world, and that is one year at a time.

And so they grab that number, and that gets embedded in the Appropriations Act, because what the Legislature cares about is how much money is available in PECO. They don't think, well, over the next five years, we're going to run out of capacity, or over the next three years, we're going to run out of capacity. That's not part of the discussion that takes place.

So there's not adequate long-term planning in terms of the -- from my perspective, from a financial management perspective, just an observation, is the long-term planning aspect of the need for capital outlay for schools simply doesn't exist. And there's a very short-term view, and there's a propensity to just grab the number and go with it. But then what you do is you hit the wall when you don't have those revenues.

GOVERNOR SCOTT: CFO Atwater?

CFO ATWATER: Yeah. To add to the conversation with Mr. Watkins, the boards of our universities will designate five-year building plans for those institutions that come to the Legislature and are laid out over a period of time. It's not as if -- I won't speak to all decisions made. It is not as if they just are wanting to grab the highest numbers.

Often those five-year plans or three-years are pushed back because the support to build a chemistry lab, which is not inexpensive for a university, or when prior decisions have been made to build a law school or a medical school or an entirely new university comes online, that you're making -- you're trying to anticipate those five-year forecasts for those universities and, as was mentioned by the commissioner, obligations to a class size amendment.

So I think it's -- I think, Governor, it's been very healthy, the conversation you've just had. And to try to meet some of those obligations, a past Legislature did recharacterize to meet some obligations that were there. And at least an observation would be that they were seeing the signs and you can see the decreases that they were trying to make.

And I also think it's been made crystal clear to those universities and community colleges, state colleges, that it's time for us to buckle down. We will not have the luxury of trying to recharacterize future revenues or having those kinds of receipts available to be bonding as we have in the past. So I just want to add that it is not as if historically they had tried to grab every dollar available. They've been trying to work with the institutions that were also coming with certain leverage, that these are their five-year obligations and we've committed to these universities these plans under the boards of trustees. So I think it's very healthy, the conversation you're directing us through, Governor, very healthy. Thank you.

GOVERNOR SCOTT: Would you --

COMMISSIONER PUTNAM: I said, and the chancellor affects those also.

CFO ATWATER: Yes, yeah, not the Legislature, right.

MR. WATKINS: Clearly there is a process, and I didn't mean to overstate. But it becomes -- it becomes -- in retrospect, it becomes crystal clear. I mean, hindsight is easy, right? And nobody anticipated a drop in gross receipts revenues. This never happened in 30 years. I mean, after all, we live in Florida. Even the grass grows in the winter. So it's just a place we've never been before; that is, having less revenues than we ever had before.

So in fairness to the legislative process -- and the CFO is uniquely qualified because he's the one who -- the Legislature is the one who owns that process. They're the ones who have to make the difficult decisions about what the critical needs of the State are, what are the merits of any particular project and in allocating the scarce resources.

So the list is always longer than the resources that are available to fund them. I have been in government long enough to know that. And it doesn't matter how much you spend, it's never enough. So I do appreciate the difficult decisions and didn't mean to characterize it as an arbitrary decision, because there is a process. I'm just not part of it.

So the benchmark debt ratio -- so the changes in the revenue estimates and the change in the estimated debt issuance did not have a material impact, as they have in prior years. However, the benchmark debt ratio remains above the seven percent policy cap established by the Legislature. Expected debt issuance is down because PECO issuance is down.

Most importantly, gross receipts taxes are fully leveraged. I think that's the takeaway. And, lastly, there's no PECO bonding capacity available for fiscal year 2012, the upcoming budgetary year, because there has been no growth in gross receipts taxes. And so with that, I will conclude.

GOVERNOR SCOTT: Does anybody have any questions?

CFO ATWATER: No comments.

GOVERNOR SCOTT: Thank you very much.

MR. WATKINS: Thank you, Governor. Thank you, Cabinet.

GOVERNOR SCOTT: All right. Thank you very much. The next agenda is the Board of Trustees, presented by Herschel Vinyard. Herschel, you're here every meeting.

MR. VINYARD: I hope that's going to change. Governor and Cabinet, there are three items on the agenda today for your consideration. The first item is consideration of revision to the delegations granted to DEP by the Board of Trustees and a request to enter into rule development. I think Commissioner Putnam raised this issue at our last meeting. These recommended changes will allow this body to review things that typical board of directors review and eliminate some of the more minor items that y'all have had to endure and previous governors and cabinets have endured.

It should improve permitting efficiency. We estimate that it will cut the permitting time by about 45 days by bringing some of this stuff in-house to DEP. And, of course, we will continue to notify your staff of the projects that we're working on. And at any time, if a single member of the Cabinet wants to agenda and vote on an item, they have that prerogative.

The Department recommends approval. We do have

Janet Bowman of The Nature Conservancy that would like to speak on the issue.

GOVERNOR SCOTT: Does anybody have any questions before --

ATTORNEY GENERAL BONDI: No.

GOVERNOR SCOTT: Okay. Thank you. Good morning.

MS. BOWMAN: Hi. Good morning. I'm Janet Bowman with The Nature Conservancy. And since you all are new to the Cabinet, one of the things I just wanted to raise to your attention as you consider this is Murphy Act lands. And Murphy Act lands are lands that the State came into title for nonpayment of taxes. Most of them are small lots scattered all over the state. Most of them really have little value to the State, and they're candidates, frequent candidates for surplus.

But some of the Murphy Act lands are in marsh areas and areas adjacent to Florida Forever projects and other conservation projects. We have a preserve in Northeast Florida, Machaba Balu, where there are a number of Murphy Act parcels sort of in the vicinity.

So we just want to point to y'all's attention that there's still -- there's some conservation value. I think we're okay with the delegation, but we want to be sure that you all are aware that not all Murphy Act lands are suitable for sale and that DEP has a screening process for looking at how they fit in with conservation lands, both local and state. And we'll continue to sort of monitor and work with them on those pieces. Thank you.

GOVERNOR SCOTT: All right. Thank you very much.

MR. VINYARD: Governor, just so you know, it's not been the Department's practice to sell Murphy Act lands with conservation value.

GOVERNOR SCOTT: Okay. All right. Anything else?

MR. VINYARD: Well, I think you need to vote.

GOVERNOR SCOTT: Is there a motion on Item 1?

CFO ATWATER: So move.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

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

MR. VINYARD: The second item is Babcock Ranch Preserve Management Agreement. And the staff is recommending withdrawal of Item 2.

GOVERNOR SCOTT: Okay. Is there a motion for withdrawal for Item 2?

CFO ATWATER: So move.

GOVERNOR SCOTT: Second?

COMMISSIONER PUTNAM: Second.

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

MR. VINYARD: The final item, Item 3, is the Watson Island amended and restated partial modification. Staff is recommending withdrawal of Item 3.

GOVERNOR SCOTT: Is there a motion to withdraw Item 3?

COMMISSIONER PUTNAM: So move.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Show Item 3 withdrawn without objection. Is there anyone that wanted to speak?

MR. VINYARD: No, sir.

GOVERNOR SCOTT: Okay. All right.

MR. VINYARD: Thank you.

GOVERNOR SCOTT: Thank you, Secretary Vinyard. This concludes our Cabinet meeting. We are adjourned. Thanks, everybody, for coming today.

(Whereupon, the meeting was concluded at 11:05 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA )
COUNTY OF LEON )

I, Jo Langston, Registered Professional Reporter, do hereby certify that the foregoing pages 4 through 41, 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 18th day of April 2011.

JO LANGSTON
Registered Professional Reporter