

T H E C A B I N E T  
S T A T E O F F L O R I D A

Representing:

DIVISION OF BOND FINANCE  
BOARD OF TRUSTEES OF THE  
INTERNAL IMPROVEMENT TRUST FUND  
CITIZENS PROPERTY INSURANCE CORPORATION  
DEPARTMENT OF VETERANS AFFAIRS

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,  
March 19, 2013, commencing at 10:22 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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DIVISION OF BOND FINANCE  
(Presented by DIRECTOR BEN WATKINS)

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BOARD OF TRUSTEES OF THE IITF  
(Presented by SECRETARY HERSCHEL VINYARD)

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CITIZENS PROPERTY INSURANCE CORPORATION  
(Presented by CEO BARRY GILWAY)

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DEPARTMENT OF VETERANS AFFAIRS  
(Presented by MIKE PRENDERGAST)

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## P R O C E E D I N G S

(Agenda items commenced at 10:22 a.m.)

GOVERNOR SCOTT: All right. Now I would like to recognize Director Ben Watkins and the Division of Bond Finance to present their agenda. Good morning.

DIRECTOR WATKINS: Good morning, Governor, Cabinet Members. Item number 1 are minutes -- approval of the minutes of the December 11th, 2012, meeting and the January 23rd, 2013, meeting.

GOVERNOR SCOTT: Is there a motion to approve?

COMMISSIONER PUTNAM: So moved.

GOVERNOR SCOTT: Is there a second?

(No response.)

GOVERNOR SCOTT: Any comments or objections?

(No response.)

GOVERNOR SCOTT: Hearing none, the motion carries.

DIRECTOR WATKINS: Item number 2 is a multipart item. There are three different reports of award. Item 2A is a report of award on the competitive sale of \$324.6 million in

1 Public Education Capital Outlay Refunding  
2 Bonds. The bonds were awarded to the low  
3 bidder at a true interest cost of  
4 1.64 percent. That allows us to reduce the  
5 interest rate on outstanding PECO Bonds from  
6 4.86 percent to 1.64 percent, generating gross  
7 debt service savings of \$76.3 million; or on a  
8 present value basis, \$69.3 million; or  
9 18.1 percent of the principal amount of the  
10 refunded bonds.

11 Item 2B is also a report of award on the  
12 competitive bond sale of \$21-and-a-half million  
13 for Florida Atlantic University. This was a  
14 combined new money and refunding issue. The  
15 bonds were awarded to the low bidder at a true  
16 interest cost of approximately 2.61 percent.  
17 Of the new money bonds is approximately  
18 13.2 million, that's being used to build the  
19 new parking facility on the campus of Florida  
20 Atlantic University.

21 The refunding piece was \$8.3 million. The  
22 refunding piece was sold at -- the interest  
23 rate attributable to the refunding piece was  
24 1.85 percent. That allows us to reduce the  
25 interest rate on outstanding bonds of

1 4.36 percent to the 1.85 percent, generating  
2 gross debt service savings of 1.2 million;  
3 present value savings of 1.1 million; or  
4 12.1 percent of the principal amount of the  
5 refunded bonds.

6 And then lastly, Item 2C is a report of  
7 award on the competitive sale of \$263.5 million  
8 in Public Education Capital Outlay Refunding  
9 Bonds. The bonds resulted in a competitive  
10 sale and awarded to the low bidder at a true  
11 interest cost of 2.57 percent. This allows us  
12 to reduce the interest rate on outstanding  
13 PECO Bonds from 4.58 percent to 2.57 percent,  
14 generating gross debt service savings of  
15 \$65-and-a-half million; present value savings  
16 of \$51-and-a-half million; or 17.3 percent of  
17 the principal amount of the refunded bonds.

18 That brings the total refunding activity  
19 for the first quarter of 2013 to \$790 million;  
20 gross debt service savings in the aggregate of  
21 \$193 million; or on a present value basis,  
22 \$157 million. So we continue to take advantage  
23 of historically low interest rates given every  
24 opportunity to save the state money by reducing  
25 interest rates on outstanding bonds.

1           And in that vein, I would like to move to  
2           Item number 3 which is a request for  
3           authorizing the issuance and competitive sale  
4           of up to \$490 million in turnpike refunding  
5           bonds for the Department of Transportation.  
6           The refunding is being done for -- to lower the  
7           interest rate on outstanding debts for debt  
8           service savings.

9           GOVERNOR SCOTT: Is there a motion to  
10          approve?

11          ATTORNEY GENERAL BONDI: So move.

12          GOVERNOR SCOTT: Is there a second?

13          CFO ATWATER: Second.

14          GOVERNOR SCOTT: Any comments or  
15          objections?

16          (No response.)

17          GOVERNOR SCOTT: Hearing none, the motion  
18          carries.

19          DIRECTOR WATKINS: Thank you, sir.

20          GOVERNOR SCOTT: Thank you, Ben.

21          COMMISSIONER PUTNAM: Governor, I just  
22          have one quick question.

23          GOVERNOR SCOTT: I'm sorry.

24          COMMISSIONER PUTNAM: In a few minutes,  
25          you guys acting as the SBA are going to review

1 the scrutinized companies list, and I was just  
2 curious if those same business practices were  
3 applied to the bonding side of the house; and  
4 if not, if there's a way to have that same  
5 disclosure language.

6 DIRECTOR WATKINS: It doesn't currently  
7 apply by law, it's just for the investment side  
8 of the house. So it's investments made by the  
9 pension system are prohibited if it's a  
10 scrutinized company doing business with Iran.  
11 It doesn't apply to underwriting, but we could  
12 either as a matter of policy or a matter of law  
13 in negotiated bond underwritings where we do a  
14 solicitation process and put together a  
15 negotiated underwriting syndicate and could  
16 make sure in connection with that process that  
17 the financial services firms or the  
18 underwriters that we would be doing business  
19 with are not scrutinized companies doing  
20 business in Iran.

21 We, of course, sell by competitive sale  
22 the vast majority of our transactions.  
23 Anything that we would do on a negotiated basis  
24 has to be specifically approved by this Board,  
25 supported by an analysis. So we would bring



1           that to you if we were to embed that policy or  
2           that requirement, bring that to you, and that's  
3           probably the way we would do that.

4                    COMMISSIONER PUTNAM: Thank you.

5                    DIRECTOR WATKINS: Sure.

6                    ATTORNEY GENERAL BONDI: And,  
7           Commissioner, I think that's a good idea. I'd  
8           like to put you in touch with the  
9           Counsel General to Florida from Israel who can  
10          help you in that regard.

11                   DIRECTOR WATKINS: Okay.

12                   ATTORNEY GENERAL BONDI: Thank you.

13                   GOVERNOR SCOTT: Sure, right. Thank you,  
14          Ben.

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1 GOVERNOR SCOTT: All right. Now I  
2 recognize Secretary Herschel Vinyard with the  
3 Department of Environmental Protection.

4 SECRETARY VINYARD: Good morning,  
5 Governor Scott --

6 GOVERNOR SCOTT: Good morning.

7 SECRETARY VINYARD: -- General Bondi,  
8 CFO Atwater, and Commissioner Putnam. We have  
9 two items for you today on the Board of  
10 Trustees' agenda. Item 1 is the Marina Manor  
11 Condominium Association Exchange Agreement.  
12 This was withdrawn at your last Cabinet  
13 meeting. This is an attempt to resolve a long-  
14 running disagreement about a certain ownership  
15 in Naples Bay, submerged land ownership in  
16 Naples Bay.

17 This was a marina that was built decades  
18 ago on submerged lands that we believe the  
19 state owns. To resolve the dispute though, the  
20 state will convey its interest in the 0.34  
21 acres that the marina is built on. In  
22 exchange, the state will receive 0.44 acres of  
23 submerged land owned by the marina, and the  
24 marina will pay the state \$90,200.

25 The Board of Trustees' ownership of the

1           0.44 acres will -- we'll make sure that there  
2           won't be dock structures built that will impede  
3           navigation in that area, and, of course, the  
4           exchange will resolve potential litigation  
5           between the state and the marina.

6           Russell Schropp is here today representing  
7           the Naples Bay Dock Association if you have any  
8           questions. But the Department does recommend  
9           approval.

10           GOVERNOR SCOTT: Is there a motion to  
11           approve?

12           ATTORNEY GENERAL BONDI: So move.

13           GOVERNOR SCOTT: Is there a second?

14           CFO ATWATER: Second.

15           GOVERNOR SCOTT: Any comments or  
16           objections?

17           (No response.)

18           GOVERNOR SCOTT: Hearing none, the motion  
19           carries.

20           SECRETARY VINYARD: Item number 2 is the  
21           Demascus Peanut Company Option Agreement for  
22           Florida First Magnitude Springs Forever  
23           Project. With this acquisition, we continue  
24           your focus on springs protection. This  
25           property is almost 600 acres, it's 1.6 miles

1 along the Suwannee River.

2 It will work to provide for groundwater  
3 recharge, aid in the protection of the  
4 springs. In fact, divers have found that  
5 there's a cave that extends from this property  
6 underneath the Suwannee River over to  
7 Anderson Spring. So it's a fantastic piece of  
8 property. The purchase price is 2,153,000.  
9 The Department recommends approval. We do have  
10 a speaker, Eric Draper, with Audubon who would  
11 like to speak on the item.

12 GOVERNOR SCOTT: Okay. Thank you. Good  
13 morning, Eric.

14 MR. DRAPER: Good morning, Governor.  
15 Eric Draper, Audubon Florida. And I'm here to  
16 ask your favorable considerations for this  
17 project. This is a beautiful piece of land.  
18 I've had the opportunity to hike the public  
19 lands that are right around it. The 30-foot-  
20 high cliffs right above the Suwannee River  
21 just -- you can't even imagine you're in  
22 Florida when you see this.

23 The adjacent land has been very well  
24 managed by the Division of Forestry, the  
25 Suwannee River Water Management District, and

1 the Florida Fish and Wildlife Conservation  
2 Commission. This closes a gap in the ownership  
3 along the water management -- along the  
4 Suwannee River and, as the Secretary noted, it  
5 helps to protect that spring shed in there and  
6 also protects the Suwannee River itself. I  
7 just can't think of a project under the  
8 Florida Forever list that deserves more  
9 favorable consideration than this one. I  
10 encourage you to vote for it and get that deal  
11 done. And thank you very much.

12 GOVERNOR SCOTT: Thanks, Eric. Any  
13 questions for Eric?

14 (No response.)

15 GOVERNOR SCOTT: Is there a motion to  
16 approve the item?

17 ATTORNEY GENERAL BONDI: So moved.

18 GOVERNOR SCOTT: Is there a second?

19 COMMISSIONER PUTNAM: Second.

20 GOVERNOR SCOTT: Any comments or  
21 objections?

22 (No response.)

23 GOVERNOR SCOTT: Hearing none, the motion  
24 carries.

25 SECRETARY VINYARD: Thank you all very

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much.

GOVERNOR SCOTT: Thanks, Herschel.

1 GOVERNOR SCOTT: All right. Now, let's  
2 recognize Barry Gilway with Citizens' Property  
3 Insurance. Good morning.

4 CEO GILWAY: Good morning, Governor and  
5 members of the Cabinet. And I'd just like to  
6 say, I sincerely appreciate the opportunity to  
7 present today. I do have a brief report on  
8 Perr&Knight and the implementation. But it's  
9 also been suggested that there are questions  
10 relative to Citizens that have been brought  
11 forth by Cabinet members, and with your  
12 indulgence following the Perr&Knight report,  
13 I'll address some of those key questions.

14 GOVERNOR SCOTT: Okay.

15 CEO GILWAY: Thank you. In 2011 the  
16 Florida Legislature passed 408, which included  
17 a requirement that Citizens commission an  
18 independent study on the costs and benefits of  
19 outsourcing and present a plan for  
20 implementation of the report's recommendations  
21 by January 2013. Citizens issued that  
22 competitive solicitation, Perr&Knight was  
23 selected. Under a state contract, we ended up  
24 paying Perr&Knight \$212,700 to conduct that  
25 solicitation.

1           Perr&Knight submitted its report to  
2           Citizens on May 31st, 2012, and the Citizens  
3           Board of Governors received the final report on  
4           June 13th, 2012. Overall this is the  
5           conclusion of the report: "Citizens has an  
6           acute awareness of its operating challenges and  
7           is taking steps to identify and remedy  
8           them. . . . Compared to its industry  
9           counterparts, Citizens appears to maintain a  
10          lean internal organization while properly  
11          leveraging the advantages of outsourcing."

12           The report was especially complimentary of  
13          Citizens' vendor management capabilities and  
14          their call center capabilities. The reason  
15          that's important is that Citizens has in force  
16          over \$600 million of vendor contracts at any  
17          point in time. So the compliments regarding  
18          the vendor management capabilities was  
19          particularly important.

20           Before I move forward, just a brief look  
21          at Citizens. We are a very, very unique  
22          organization. Today we have 1,250 employees  
23          but that doesn't tell the story. We hire at  
24          any point in time 1,500 contingent or temporary  
25          employees. In addition to that, we have



1 service contracts with companies like MacNeill  
2 who do a significant amount of outsourcing for  
3 us.

4 In fact, today 90 percent of our personal  
5 lines is outsourced, 90 percent of our claims  
6 adjusting is outsourced today, the vast  
7 majority of litigation management is  
8 outsourced, tier one claims as a result of  
9 Perr&Knight is now outsourced, first notice of  
10 loss is now outsourced.

11 So the bottom line is that even before  
12 Perr&Knight, we were a significant company  
13 focused on outsourcing, and since the  
14 Perr&Knight report, we're increasing that  
15 outsourcing consistent with the recommendations  
16 of Perr&Knight.

17 The plan for implementation of the  
18 report's recommendations was developed and  
19 presented to our Board in November of 2012.  
20 The one change relative to the implementation  
21 plan is the Board challenged us this year and  
22 insisted that the budget for Citizens for the  
23 first time in five years go down, not up. We  
24 were successful in that endeavor.

25 What it did do, however, is delay -- and I

1 mean delay -- the implementation of the  
2 commercial process outsourcing because we had  
3 gotten approval for additional vendors under  
4 that contract, we delayed the implementation.

5 The key behind that, by the way, just so  
6 everyone understands where we're coming from,  
7 ultimately we wanted to do that, but today our  
8 commercial processing systems are horrible.  
9 They are just terrible. And outsourcing  
10 commercial processing before the implementation  
11 of the Core program that focuses on the  
12 development of much more sophisticated  
13 commercial processing systems did not seem to  
14 make sense. So that's delayed. Once Core  
15 implements the commercial segment, we'll move  
16 forward with that business processing  
17 outsourcing also.

18 The implementation plan calls for a  
19 timeline that really starts in 2013 and ends up  
20 in 2014. The key behind that timeline again is  
21 the implementation of the Core initiative. And  
22 multiple times during that report, the comments  
23 were made by Perr&Knight that we should really  
24 hold off until Core is implemented. And for  
25 those who are not aware, Core is a -- basically

1 a claims, underwriting, billing, complete  
2 redesign of the system -- the Citizens system.

3 We're excited to achieve the additional  
4 efficiencies through some of the  
5 recommendations in this report, as well as  
6 those we expect to see come out of a complete  
7 organizational review being conducted by KPMG  
8 as we speak. We're into the first month of  
9 that review. And it's important to discover  
10 entities to continue to find efficiencies in  
11 our operations and ensure that our expense  
12 ratios remain lower than those in the private  
13 market.

14 I want to share a number with you because  
15 it comes out of the first basic KPMG benchmark  
16 study that they came up with prior to the  
17 implementation of their review. If you stand  
18 back and you take a look at the expense ratio  
19 of companies -- insurance companies doing  
20 business in Florida -- and I'm including all of  
21 our primary competitors in Florida:  
22 State Farm, Allstate, Universal -- and by the  
23 way that includes some assigned risk plans  
24 where public information is available like  
25 Louisiana Citizens -- the average expense ratio

1 for a Florida company, the average comparative  
2 expense ratio is 34.7 percent, 34.7. That  
3 means 34.7 cents of every gross premium dollar  
4 goes to expenses.

5 Citizens' expense ratio is 22.7 percent.  
6 So we enjoy a 12 -- a full 12-point advantage  
7 over the private market relative to our expense  
8 ratio currently. If you apply that 12 percent,  
9 by the way, to the state average and you  
10 consider that we are writing today \$2.7 billion  
11 in premium, that would mean that we were  
12 operating at the state expense level, we would  
13 be spending in excess of an additional  
14 \$300 million.

15 GOVERNOR SCOTT: Why is it less  
16 expensive?

17 CEO GILWAY: Excuse me?

18 GOVERNOR SCOTT: Why is yours cheaper?  
19 Because of the size?

20 CEO GILWAY: There's obviously many  
21 components, obviously scale, there's a huge  
22 issue associated with that, Governor. The  
23 other issue, of course, is there are certain  
24 segments where by statute we're lower.  
25 For example, we charge 6.7 percent, you know,

1 in commissions overall, and the overall  
2 industry in Florida charges around 12 percent.  
3 So we do enjoy, you know, a significant  
4 advantage in terms of the overall commission  
5 that's paid.

6 But there are -- excuse me -- there are a  
7 significant number of areas also, Governor,  
8 that, you know, where we benefit. For example,  
9 we come under fire significantly because of  
10 legal expenses. Well, in the area of legal  
11 expenses -- and I'm including in this a  
12 combination of all claims expenses, allocated  
13 and unallocated claims expenses, that means  
14 general claims expense plus costs applied  
15 specifically to a file. You compare that, we  
16 enjoy a one-point advantage. So the industry  
17 basically operates at nine percent, we operate  
18 at eight percent.

19 So we do enjoy some advantages by statute,  
20 but as indicated in the Perr&Knight report, we  
21 are relatively lean compared with our  
22 competitors. By the way, the KPMG report,  
23 which I'll focus on in a moment, we believe  
24 there is significantly more efficiency to come  
25 relative to overall expenses as a result in the

1 KPMG report.

2 So with that, Governor, we would ask that  
3 the -- for approval by the Commission of the  
4 Perr&Knight report and the implementation  
5 plan.

6 GOVERNOR SCOTT: Thank you very much. Is  
7 there a motion to approve?

8 ATTORNEY GENERAL BONDI: So moved.

9 CFO ATWATER: Second.

10 GOVERNOR SCOTT: Any comments or  
11 objections?

12 (No response.)

13 GOVERNOR SCOTT: Hearing none, the motion  
14 carries.

15 CEO GILWAY: With that, Governor and  
16 Cabinet members, I'd like to just take a moment  
17 and address -- excuse me -- and address some of  
18 the key questions that are here surrounding  
19 Citizens. The first one, of course, is: What  
20 are you doing to make Citizens smaller?

21 When I took office last June, Citizens'  
22 portfolio had peaked at 1.5 million policies;  
23 and at that point in time we were writing 9,500  
24 new policies every single week. That clearly  
25 was unsustainable for the organization and

1 imposed an unacceptable risk to Floridians.

2 I met with you, Governor, during our first  
3 week, as I did with the other members of the  
4 Cabinet or their aides, I met with legislative  
5 leaders, and I heard one very specific message,  
6 and that was reducing the size of Citizens was  
7 absolutely my top priority.

8 I took the message to heart and directed  
9 the staff to look for innovative ways to  
10 increase depopulation and return the policies  
11 to the private market. They didn't fail me in  
12 any way. Using a combination of depopulation,  
13 risk transfer, revised eligibility -- and this  
14 is a million dollar limitation that was placed  
15 that had a significant impact -- the results  
16 over the past nine months have been nothing  
17 short of absolutely astounding.

18 In 2012, Citizens concluded one of our  
19 most successful takeout years ever, thanks to  
20 the efforts of our hardworking depop staff  
21 under the direction of Chief Financial Officer,  
22 Sharon Binnun, in her new role, we returned  
23 nearly 300,000 policies to the private market,  
24 reducing our total exposure to just shy of  
25 \$76 billion. We also decreased the number of

1 new policies added weekly by roughly 4500  
2 policies per week.

3 Governor Scott, I want to thank you  
4 personally for the letter of recommendation you  
5 sent to Sharon. That was motivational for  
6 Sharon, but I will tell you, it literally was  
7 fantastic for her team. Because they had done  
8 such an exceptional job, I think to hear from  
9 you directly in terms of that accomplishment I  
10 think was pretty amazing. So thank you so much  
11 for reaching out to them.

12 Citizens followed up this success by  
13 securing a groundbreaking wind-only takeout  
14 weapon. Under this agreement, Weston will  
15 remove approximately 31,000 personal  
16 residential, commercial/residential, and  
17 commercial/nonresidential wind-only policies,  
18 reducing exposure to Citizens' coastal account  
19 prior to wind season by an additional  
20 \$30 billion.

21 In addition, as a result of the  
22 agreement's innovative reinsurance component,  
23 Citizens was able to defer the need to obtain  
24 additional pre-event liquidity, in the coastal  
25 account, that saved alone \$22.4 million in



1 budget expenses for 2013. Add those up, in  
2 addition to the additional activity that we're  
3 anticipating before wind season, it adds up to  
4 \$115 billion in exposure reduction within a  
5 12-month period wind season to wind season, and  
6 I can't help but compliment my staff for,  
7 you know, just an extraordinary job.

8 As a result of the successes, we estimate  
9 that by July 1st, policy count will be closing  
10 in on 1.2 million. What this means for the  
11 bottom line is that 2013 assessment risk for  
12 all Floridians will be \$2.7 billion less than  
13 it was in 2012. That is a 37 percent decrease  
14 from the 2013 -- excuse me -- 2012 storm  
15 season. It's actually a 57 percent reduction  
16 in the PLA account, somewhat less in the  
17 coastal account.

18 As you're aware, under the direction of  
19 CFO Sharon Binnun, we also aggressively pursued  
20 reinsurance and other risk transfer  
21 mechanisms. This year we will increase our  
22 risk transfer portfolio from 1.5 billion to  
23 1.75 billion, provides a dollar for dollar  
24 assessment protection for all Floridians.

25 This included, by the way -- and I can't

1           overemphasize this -- an absolutely  
2           groundbreaking reinsurance cat bond transaction  
3           that truly has fundamentally changed, not only  
4           the national but the international marketplace  
5           because it creates competition between the cat  
6           bond market and the traditional reinsurance  
7           market, and it's having a profound impact. And  
8           that \$750 million placement, by the way, was  
9           the largest cat bond ever placed  
10          internationally.

11                 With that, I'll go to question number 2  
12           and that's the -- please provide an update on  
13           the inspection and outreach program. Obviously  
14           it's known as the reinspection program.

15                 Another area where we made great strides  
16           in our inspection and outreach program, which  
17           was established to ensure that policyholders  
18           received credit for the mitigation features  
19           present on their homes. Citizens is currently  
20           winding down the program, and it's well ahead  
21           of schedule.

22                 At the end of 2010 -- this is a key number  
23           because this is a very, very misunderstood  
24           metric. At the end of 2010, Citizens had  
25           awarded \$675 million in wind mitigation

1 credits. By the end of 2012, Citizens had  
2 increased that number to \$1.2 billion in  
3 mitigation credits.

4 And by the way, if you compare the policy  
5 count at the end of 2010 with the policy count  
6 in 2012, it's relatively flat. So obviously  
7 that's a huge increase in the overall  
8 mitigation credits.

9 But basically if you compare it to our  
10 \$2.7 billion in premiums, it's about 40 percent  
11 of our total premium. So the increase in  
12 mitigation credits that we have provided during  
13 this period obviously is significant.

14 With the processing of 17,000 residential  
15 wind mitigation inspections in December, we  
16 closed down the program that -- we added up  
17 basically the 425 residential wind mitigation  
18 inspections. This program has not been without  
19 negative press and negative implications. I  
20 really came in, and during that period,  
21 you know, we were under fire because of the way  
22 the mechanism was working at the time.

23 We immediately -- myself and  
24 Chairman Lacasa -- immediately implemented  
25 changes last August actually to address

1 concerns about the implementation of fairness  
2 of the program.

3 The reforms offered policyholders one free  
4 follow-up inspection if they believed the first  
5 inspection was incorrect or they made  
6 mitigation improvements to their homes  
7 following an inspection. So far we have  
8 roughly 11,000 policyholders who have taken  
9 advantage of that opportunity.

10 We also simplified the dispute process and  
11 clarified that policyholders may also submit  
12 additional documentation to verify that  
13 mitigation features not noted on the inspection  
14 forms were present.

15 I want to be cautious relative to going  
16 into too much detail here because we're  
17 currently a defendant in a class-action  
18 lawsuit, as I'm sure you're aware, on behalf of  
19 homeowners whose mitigation credits were  
20 changed following an inspection. The case is  
21 in its early, very early stages. Unless you  
22 have questions that I can answer in this one  
23 area, then I'll move on.

24 Reducing new policies. Concluding risk  
25 transfer arrangements, working with carriers to

1 return existing policies to the market, it's  
2 had an impact. As I've mentioned, you know, at  
3 the end of the year we were really looking at  
4 close to 8,000 policies in the November-  
5 December time frame, now we're looking at  
6 4500 policies. But the bottom line here is  
7 there is so much more can be done. There's no  
8 question about it.

9 And Locke Burt has thrown out a number  
10 that we agree with. There's probably 200,  
11 250,000 policies that really should not be  
12 within Citizens today but are within striking  
13 distance of being competitive. The bottom line  
14 is Florida is faced with a distribution  
15 dilemma. The reality is, in order to enforce  
16 the 15-percent eligibility criteria, you need a  
17 competitive quote. Obviously you can't enforce  
18 a criteria unless you have a competitive  
19 quote.

20 So how do we come up with a methodology to  
21 get a competitive quote so we can enforce that  
22 eligibility criteria? The answer is the  
23 clearinghouse. That initiative -- I won't go  
24 into great deal -- that initiative is going  
25 through the -- both sides of the aisle at this

1 point, but it is so positive, and it ensures  
2 the policies that are only statutorily  
3 eligible -- eligible come to Citizens, it  
4 ensures that only applicants for coverage have  
5 access to all available private markets, and it  
6 shows that all renewal customers currently in  
7 Citizens have expanded access to every possible  
8 insurance option that's available in the state,  
9 and provides all Citizens' agents with  
10 expansive market access, while providing  
11 carriers with greater market distribution.

12 In my opinion this is a win-win-win. And  
13 by the way, the way I described it, this is a  
14 positive, this is a way to reduce the size of  
15 Citizens in a very, very positive manner  
16 providing huge benefits to our -- to Floridians  
17 who are looking for insurance, huge benefits  
18 because they get the lowest rate, by the way,  
19 and the best coverage on the state -- on the  
20 street.

21 Next question: What are you doing for  
22 assessment education? Another area where we  
23 undoubtedly needed improvement is policyholder  
24 education. A survey was conducted last summer  
25 at your request, Governor Scott, and that

1 revealed the majority of Citizens'  
2 policyholders -- well over, by the way,  
3 80 percent -- really do not understand the  
4 financial risks associated with assessments.  
5 They do not understand, for example, as  
6 Citizens' policyholders, 89 percent of  
7 Citizens' policyholders did not understand that  
8 they had a 45 percent assessment risk in the  
9 event of a major storm.

10 The results of this survey made it clear  
11 that doing a better job of educating Citizens'  
12 policyholders about their assessment risk had  
13 to be a major component of any effort to reduce  
14 Citizens' policy count and exposure. To do  
15 this, we're implementing a multipronged  
16 approach.

17 We've already instituted takeout letters  
18 that basically make sure -- a letter from me  
19 personally -- to any takeout candidate that  
20 specifically lays out the assessment risks  
21 associated with staying in Citizens, and  
22 obviously advising them that OIR's review of  
23 the finances associated with these companies is  
24 strong.

25 We're finalizing an assessment educational

1 letter that will be sent to all policyholders  
2 75 days before their renewals. To hit the  
3 renewal side of this business, this letter  
4 clearly and succinctly lays out the potential  
5 assessment liability for Citizens and shows  
6 that clearly that it can decrease their  
7 assessment risk by up to 43 percent.

8 We've developed and will be introducing  
9 this week a true cost estimator on our Web  
10 site. It's an innovative approach. The  
11 estimator will allow homeowners to enter quotes  
12 from Citizens and private carriers side-by-side  
13 and see an instant calculation based upon their  
14 premium of their potential assessment following  
15 a major hurricane. This tool will clearly  
16 demonstrate that even though Citizens' risks  
17 may be lower in some areas, as we know they  
18 are, Citizens' policyholders face potential  
19 financial losses that will far exceed their  
20 premium savings when the next major catastrophe  
21 hits.

22 We plan to complement our policyholder  
23 education with an outreach aimed at encouraging  
24 our agents to use tools like the true cost  
25 calculator and other future products such as



1 coverage comparison sheets, the wider array of  
2 coverages available in the private marketplace,  
3 and the assessment disclosure form that must be  
4 signed by new and renewing policyholders to  
5 educate our customers about their assessment  
6 risk and help encourage agents to encourage  
7 consumers to think beyond the bottom line.

8 It's obviously my hope that increasing  
9 policyholder and agent education, you know,  
10 will further improve our ability, you know, to  
11 convince folks to move into the private market.

12 GOVERNOR SCOTT: So, Barry, when will you  
13 do a survey to see if it's working, to see if  
14 the education program is working?

15 CEO GILWAY: I would -- my suggestion,  
16 Governor, is that we -- you know, we hold off I  
17 would say at least another six months. Because  
18 most of these programs are going to be  
19 implemented; some of them are implemented  
20 today; some of them, as I mentioned, will be a  
21 75-day implementation. So I would say as soon  
22 as the -- maybe two months after we --  
23 you know, we -- you know, we launch the overall  
24 policy letters would be my recommendation.

25 GOVERNOR SCOTT: Then can we do one --

1           that will be what, September 15th, does that  
2           sound right?

3           CEO GILWAY:   Excuse me, Governor?

4           GOVERNOR SCOTT:   Would that be  
5           September 15th then would be the best time to  
6           do it?

7           CEO GILWAY:   That sounds logical to me.

8           GOVERNOR SCOTT:   So can you do that and  
9           let us know what the results would be?

10          CEO GILWAY:   Yes, sir.

11          GOVERNOR SCOTT:   With regard to that, do  
12          you have a goal where you would like it to be  
13          on September 15th?

14          CEO GILWAY:   Goal as far as total?

15          GOVERNOR SCOTT:   What percentage of the  
16          policyholders you would like to -- that have  
17          Citizens know that -- that -- what the  
18          hurricane assessment risk is?

19          CEO GILWAY:   We have -- we have not set  
20          that goal.   I think the suggestion that we do  
21          set a goal is a good one, so we'll make sure we  
22          incorporate that in our program.

23          GOVERNOR SCOTT:   Yeah.   If you can set a  
24          goal and then also let us know -- do an  
25          assessment on the 15th of September and let us

1 know how that comes out.

2 CEO GILWAY: Yes, sir. Thank you. Next  
3 question: What is being done to get travel  
4 expenses under control? Obviously this has  
5 been a very, very visible area within  
6 Citizens. So I'll turn now to what Citizens is  
7 doing internally to reduce costs, improve  
8 efficiencies, address concerns about our  
9 internal cost structures and procedures.

10 First I want to address the misconception  
11 is that Citizens' overall expense ratio is out  
12 of line, I mentioned it previously. There's a  
13 lot of improvement that can occur at Citizens,  
14 but we do enjoy that 12-point advantage from  
15 the expense ratio relative to the private  
16 market.

17 That said, my first order of business when  
18 I came on board last summer was to address  
19 concerns over questionable and inappropriate  
20 expense. And I ordered a revision of travel  
21 and expense policies. By the way, the last  
22 time travel and expense policies prior to this  
23 adjustment last October 24 were made in 2005.

24 And the fundamental issue is this: We had  
25 a standard in place. That standard was, quote,

1 reasonable and appropriate. And reasonable and  
2 appropriate, as we know, is different for all  
3 of us, but that was the standard.

4 And as was specified, by the way, in the  
5 Office of the Inspector General's report, it  
6 was very clear in that report -- it was made at  
7 least four or five times -- that while  
8 Citizens' employees did not violate the  
9 standards in place, we had a bad standard that  
10 was in place.

11 So what we implemented basically in  
12 October of last year, five months ago, for the  
13 first time I moved very, very close to the  
14 state program, and this was five months ago.  
15 We put a cap: Per diem meal expense at \$60,  
16 and we put lodging costs at the current state  
17 standard of \$150. And we implemented the  
18 federal, state department standards at that  
19 time for international travel that are used by  
20 most of the folks, you know, within  
21 government.

22 Later this week we take the next step. I  
23 presented to the Citizens Board of Governors  
24 even stricter travel requirements that were  
25 more closely aligned to the travel policies for

1 state agency travel.

2 At this point we're -- there's only two  
3 major elements, other than some internal  
4 control differences, there's only two major  
5 elements: The one is we go from \$60 a day to  
6 \$36 a day, which tracks with the state meal  
7 per diem; and the second area is we're lowering  
8 mileage reimbursements in many cases to the  
9 state level versus the federal level. As you  
10 know, the federal level is 54 cents, the state  
11 level is 44 cents. So we're moving to the  
12 state -- the state standard.

13 GOVERNOR SCOTT: Hey, Barry, can I ask you  
14 a question?

15 CEO GILWAY: Sure.

16 GOVERNOR SCOTT: If two people -- on that  
17 mileage reimbursement, if two people are in the  
18 car, do they both get reimbursed?

19 CEO GILWAY: No. Just the driver of the  
20 car.

21 GOVERNOR SCOTT: Is that clear?

22 CEO GILWAY: Yes. That is most definitely  
23 controlled. We're only -- we're only  
24 recovering specific costs relative to the usage  
25 of that vehicle. And the challenge we're

1           having right now frankly is we have a number --  
2           right now we have a lot of folks traveling. So  
3           the challenge we have right now is we're  
4           looking at the costs associated with the  
5           increasing fleet size if we would lower that  
6           mileage reimbursement. The mileage  
7           reimbursement, you know, would not be adequate  
8           for people using that car a significant period  
9           of time. So weighing the advantages and  
10          disadvantages associated with increasing the  
11          fleet to --

12                   GOVERNOR SCOTT: And to reduce it to what  
13                   we pay at the state level.

14                   CEO GILWAY: Yes, right. Another  
15                   clarification: Citizens' policy has always  
16                   been that corporate cards cannot be used for  
17                   alcohol purposes. It doesn't mean that's what  
18                   happened. We require reimbursement and have  
19                   required reimbursement in the rare instance  
20                   where alcohol has been inadvertently charged on  
21                   the corporate card.

22                   So Citizens has never paid for alcohol for  
23                   employees. The fundamental issue is that when  
24                   you charge -- when you pay for an overall bill  
25                   that includes alcohol, then the requirement is

1           within a specified number of days, you have to  
2           reimburse the company. And I think the  
3           criticism basically is that -- you know, that  
4           time frame associated with reimbursement and  
5           sometimes was not met, and that was one of the  
6           issues in the OIG report.

7           GOVERNOR SCOTT: Barry, why do you all  
8           have -- I mean, how many people have corporate  
9           cards? I mean, do you know the number? And  
10          why do you even have them?

11          CEO GILWAY: We are conducting a study  
12          which was a recommendation that came out of the  
13          OIG report, we're conducting a study right  
14          now. We have our SMT group, which is a middle  
15          management group, really looking at every  
16          single use of the card, how we're using it.  
17          We're looking at the possibility in all --  
18          some, if not all areas of using -- going to the  
19          PCard in our system. So basically without  
20          question, it's an area that we need to look  
21          hard at.

22          We have a big issue relative to cat, in  
23          the cat management arena. Obviously we have,  
24          you know, 3,300 certified individuals that  
25          could potentially, you know, be involved during

1 that period. But we're looking harder,  
2 Governor, I know that's an area of focus, and  
3 we definitely need to look at it to see if we  
4 can come up with a better approach.

5 GOVERNOR SCOTT: I know in our office a  
6 lot of times they rent cars rather than -- then  
7 you get the mileage because it's cheaper.

8 CEO GILWAY: Right, we do. And we're  
9 actually implementing a new renegotiated  
10 approach as we speak with Avis, so we have a  
11 new, you know, vendor contract with Avis, we  
12 renegotiated lower rates. And by the way, our  
13 folks do today have that ability to either rent  
14 through the Avis contract, I believe that's a  
15 state contract; and then -- or utilize their  
16 own, you know, vehicle. So that is an option.

17 The next question brings us to --

18 ATTORNEY GENERAL BONDI: Governor, I have  
19 another question. Barry, I don't understand  
20 how -- this isn't a fraternity, these are  
21 professionals -- what part of reasonable and  
22 appropriate didn't they understand? And part  
23 two: Are you doing anything to discipline  
24 these people who didn't understand what  
25 reasonable and appropriate meant?



1           CEO GILWAY: Well, I think my answer to  
2           that is: I can only focus on what is going  
3           forward. You know, and within -- literally  
4           within three months -- within three months I  
5           implemented standards that established  
6           per diem, established those costs.

7           If the question is, do I agree with the  
8           definition of reasonable and appropriate in the  
9           past, no. I don't agree that it was an  
10          appropriate definition of reasonable and  
11          appropriate. It may be in the private sector;  
12          it most definitely is not in the government  
13          sector.

14          So I would suggest that I can't do  
15          anything relative to what occurred in the past  
16          because that was the standard in place.  
17          However, you know, going forward, most  
18          definitely.

19          One of the things that we'll be  
20          introducing by the way at the Board meeting,  
21          which I will get into in the internal oversight  
22          question, is basically new disciplinary  
23          standards in place, new severance policy  
24          standards in place. The bottom line is the new  
25          head of Internal Audit, Joe Martins, basically

1           says, look, you have several issues at  
2           Citizens: One of them is policies and  
3           procedures, and standards simply aren't there  
4           where they should be.

5                    So there is significant opportunity -- was  
6           significant opportunity, I brought in a brand  
7           new head of HR, a real world-class individual,  
8           and one of his first priorities was really to  
9           establish new policies and procedures within  
10          Citizens that significantly tighten the reins.

11                   So my focus -- that's a great question.  
12          My focus is, you know, make sure it doesn't  
13          happen, you know, on my watch going forward.

14                   GOVERNOR SCOTT: It still scares you as a  
15          manager if you know somebody that took  
16          advantage of the system and they -- and you're  
17          going to allow them to continue. I mean, that  
18          would taint your judgment is their ability to  
19          manage.

20                   CEO GILWAY: Well, I know you understand  
21          where I'm coming from on this one, because  
22          you've been in a similar but much greater  
23          position. I mean, the issue basically for me  
24          is, you know, I am not judging my predecessor.  
25          I don't believe it does me any good to opine

1 on, you know, the actions that my predecessors  
2 took.

3 So, you know, I'll just focus, sir, on  
4 what I can do to make Citizens a better  
5 organization going forward, I am committed to  
6 that. I'm doing everything in my power to  
7 tighten up the standards from an expense  
8 standpoint and move this organization forward.  
9 But the past is the past, and I have to look  
10 ahead to see what I can do to improve the  
11 situation.

12 ATTORNEY GENERAL BONDI: But many of these  
13 employees are current employees, correct?

14 CEO GILWAY: There is no question that --  
15 you know, we have employees that -- you know,  
16 that had -- that were operating under a  
17 reasonable and appropriate standard; we have  
18 Board members operating under a reasonable and  
19 appropriate standard; and we have prior CEOs  
20 operating under, you know, reasonable and  
21 appropriate standards, all of whom frankly were  
22 living by that standard.

23 So if the question specifically is, do I  
24 believe it's appropriate to go back and, quote,  
25 take disciplinary action on individuals that

1 utilized the standard in place at the time,  
2 even though you and I know it was  
3 inappropriate, my answer would be no, I don't  
4 believe that's appropriate.

5 My focus -- in my opinion, my focus as CEO  
6 would be to fix this organization going  
7 forward, that's what I'll do.

8 ATTORNEY GENERAL BONDI: I guess we  
9 disagree on what reasonable and appropriate  
10 means so...

11 CEO GILWAY: Well, we all have --  
12 you know, that's why it's not an appropriate  
13 standard, you know, reasonable and appropriate  
14 is not a standard. It's subject to our own  
15 individual judgment, so that's why the state  
16 plan makes sense.

17 GOVERNOR SCOTT: I think you did the right  
18 thing by getting into the state plan. I  
19 think -- I think in my case, if I knew  
20 somebody -- if I felt like somebody had taken  
21 advantage of something, I'd have a hard time to  
22 continue to work with them.

23 CEO GILWAY: I understand.

24 GOVERNOR SCOTT: And I understand you're  
25 in the same position.

1           CEO GILWAY: The next question -- if I  
2           could move on, the next question is: What are  
3           you doing to improve internal oversight? To  
4           better ensure the money is well spent, last  
5           year we restructured the Office of Internal  
6           Audit to include the former Office of Corporate  
7           Integrity. The new entity reports directly to  
8           the Citizens' Board of Governors to ensure the  
9           unfettered ability to investigate all areas of  
10          the company, including senior officers.

11          Joe Martins basically came up with a  
12          number of recommendations and observations  
13          regarding the allegations of misconduct that  
14          took place. The two primary ones basically is  
15          that again we don't have policies and  
16          procedures in place that are appropriate for a  
17          company, particularly as sophisticated as ours,  
18          and we had underqualified individuals that we  
19          needed to improve their overall quality.

20          I've mentioned previously that we got  
21          \$600 million in vendor contracts, and we did  
22          not have an auditor on staff with any forensic  
23          accounting capability. So you would have to  
24          agree that, you know, we need that capability.  
25          You follow the money when it comes to fraud.

1           The Chief Internal Auditor has hired a  
2 forensic audit manager, forensic auditors to  
3 conduct internal investigations to be  
4 responsible for rooting out fraud. I encourage  
5 you to take a look at the qualifications of the  
6 new forensic team. It's managed by a former  
7 Big Four accounting firm auditor and includes a  
8 former audit manager of the Jacksonville-based  
9 EverBank. So we're looking for high quality  
10 forensic auditors; solid backgrounds; and,  
11 you know, these people represent the kind of  
12 quality we're trying to attract at Citizens.

13           I further directed the Ethics and  
14 Compliance officers to triage all complaints  
15 coming from *Tell Citizens*, and the officer will  
16 direct complaints to the appropriate supervisor  
17 and provide checks on complaint resolution.

18           I made a decision, as I think most of you  
19 know, that created some issue, and that is  
20 basically I went back to 2008, which is  
21 basically the start of the *Tell Citizens* hot  
22 line system. There were 474 reports, they  
23 ranged from the benign to the serious. And  
24 frankly I thought, you know, I've got to get  
25 this behind me. I cannot have 20 more items

1 appearing in the press every single day.

2 So I asked Joe Martins, the audit team, to  
3 go back, look at every single one of those  
4 474 cases; and I needed them to review them  
5 with me. I made sure that in their opinion  
6 each one of those cases was adequately and  
7 appropriately addressed. And then I released a  
8 composite of those cases, and they're now on  
9 the Citizens Web site.

10 So why did I do that? Because Citizens  
11 employees need to understand, they're not the  
12 same as their neighbor, they're held to a  
13 higher standard, they're a government employee,  
14 they're held to a higher standard. If they go  
15 into a bar, their neighbor and their friend is  
16 not the one on the front page, the Citizens'  
17 employee is.

18 So in my opinion, it was an appropriate  
19 approach to get that behind us, make it as  
20 transparent as possible, and make sure folks  
21 know going forward that in addition to much  
22 stronger disciplinary actions that we will take  
23 when appropriate, that they -- they'll be on  
24 the Web site. So it's a tough approach, but I  
25 think we're trying to enforce, you know, very,

1 very strong disciplinary standards, and we will  
2 hold our people to the highest ethical  
3 standards as we should as a government  
4 employer.

5 My last topic is salary. Since taking  
6 over last summer, I made major revisions to  
7 streamline executive oversight and reduce  
8 costs. I also deemed it imperative that  
9 Citizens address the issue of sal -- of parity  
10 relative to salaries. And as you're aware, we  
11 reached out to Towers-Perrin and Mercer and had  
12 them conduct a complete industry study and  
13 Florida study associated with how people are  
14 paid in the insurance sector. It was my hope  
15 that we could resolve the issue in parity  
16 because it is becoming increasingly difficult  
17 for Citizens to attract top-notch talent in the  
18 very specialized fields of property and  
19 casualty insurance.

20 In response to concerns raised last month  
21 about a handful of salary increases -- and I'm  
22 not downplaying that by the way, I  
23 understand -- I sincerely do understand the  
24 perception that caused -- I forwarded a very  
25 detailed letter to you, Governor Scott, on



1 February 22nd outlining the specific reasons  
2 for each raise. I went into great depth so I  
3 hadn't intended to go over, you know, each one  
4 of those issues. I really wanted to focus  
5 basically today on the key issues surrounding  
6 the decision. I'm trying to get you into my  
7 head and give you an idea in terms of what my  
8 thinking is.

9 The key issue is where Citizens stands on  
10 overall compensation relative to the private  
11 market. A compensation study that was  
12 presented to the Board of Governors in  
13 September showed that Citizens is well below  
14 market. We're close at what we call salary  
15 grades 1 through 13, we're close.

16 And by the way, we start at the low end of  
17 the Mercer and Towers-Perrin market. They show  
18 25 percentile, you know, second, third, fourth,  
19 all the way up. Our target as a government  
20 employee is the lowest 25 percentile. That's  
21 our target. So if we reach that, we're  
22 basically paying at parity in our mind even  
23 though we're behind, you know, the overall  
24 marketplace.

25 An updated compensation analysis will be

1 presented to the Board on Friday. It presents  
2 a pretty disturbing picture. Overall turnover  
3 has increased across the entire organization  
4 from 7.9 percent in 2011 to 12 percent in the  
5 past year. Executive and middle management  
6 turnover has nearly doubled from four percent  
7 in 2011 to seven percent in 2012, and is  
8 currently running in excess of 10 percent.

9 Bottom line is I am losing good people. I  
10 won't go into great detail on what we're losing  
11 them for because some of the numbers, by the  
12 way, are pretty absurd. I mean, we're losing  
13 people in some cases for 150 percent,  
14 200 percent, you know, total compensation.

15 Now, part of it's good news, by the way,  
16 because industry is coming to Florida, they  
17 need talent. And the bottom line is Citizens,  
18 you know, has some incredibly high quality  
19 people and we're feeding, you know, the  
20 industry as they come in. But it is creating a  
21 competitive issue for us relative to the  
22 market, recognizing as I mentioned that we're  
23 not for profit and we target the lower -- the  
24 25th percentile.

25 This is a key issue and fundamental to my

1 decision making, Governor Scott. Our executive  
2 comp is currently at 60 percent of the bottom  
3 25th percentile. So we're not at the  
4 25th percentile, we're 60 percent of the bottom  
5 25th percentile. And that is well below  
6 market.

7 As a result, we're having difficulty  
8 filling specialized positions that requires you  
9 to compete directly, in many cases claims,  
10 underwriting, reinsurance, *et cetera*, with the  
11 private marketplace. And, you know, I think I  
12 started out intentionally showing you how  
13 critical it is that we have that level of  
14 talent, you know, in the organization, because  
15 look at the results, you know, that top-notch  
16 people can generate.

17 So the past several months alone we've  
18 lost five of the top people, their expertise is  
19 the most difficult and expensive to replace.  
20 When I do replace some of them, by the way, as  
21 was the case of Joe Martins or Charles Johnson,  
22 I replaced them at market. That's the only way  
23 we can attract them. When we lose someone with  
24 60 percent at market, I replace them at  
25 market. And that's the only way we can attract

1 the quality people that we really need to run  
2 the show.

3 The second issue that affects the recent  
4 salary decisions is allegations of misconduct.  
5 How does that connect? As a result of those  
6 investigations, I made a number of senior  
7 management changes. In August I eliminated the  
8 position of Chief of Administration. That  
9 saved me about 200 -- this was an ongoing -- it  
10 saved me about \$250,000 in savings and  
11 benefits. I divided the duties of that office  
12 among four existing senior executives, as I  
13 outlined, Governor.

14 In addition, I increased salaries for a  
15 pair of executives whose compensations was  
16 below that 60 percent level. And overall,  
17 those increases totaled \$175,000, garnered me a  
18 savings of \$75,000 in total relative to that  
19 overall decision.

20 Additional savings will be realized by the  
21 restructuring of our HR division, which was  
22 really led, you know, by Charles Johnson. I  
23 will present that to the Board this week. This  
24 will enhance -- it will actually enhance our  
25 human capital management capabilities by

1 bringing in some strong people, while at the  
2 same time eliminating 19 positions: Four open  
3 slots, 15 positions, and with approximately  
4 \$250,000 a year in savings.

5 And finally, of course, I've mentioned  
6 we're launching the organizational review by  
7 KPMG. This will complete a top-to-bottom  
8 review of the operation to ensure Citizens is  
9 operating at top efficiency and spending our  
10 money as wisely as we possibly can. And I'm  
11 confident that this review will -- in addition  
12 to the pre-solutions review -- result in  
13 significant additional savings.

14 In summation, these initiatives are  
15 intended to enable Citizens to operate as  
16 efficiently as possible while rewarding top  
17 talent and motivating people to do more. I  
18 remain convinced that these are solid decisions  
19 that will have a positive impact on expenses  
20 going forward.

21 I regret the -- not the decision -- but I  
22 do regret the perception that it causes in the  
23 marketplace, and frankly that's a perception  
24 that all of us, you know, have to deal with,  
25 particularly in the environment where everyone

1 is focused on cutting costs. I'll be happy to  
2 answer some questions, sir.

3 GOVERNOR SCOTT: Sure. A couple of them.  
4 What are your thoughts about having an  
5 inspector general?

6 CEO GILWAY: I think that is great.  
7 You know, we've been very, very open to the  
8 inspector general concept. It really  
9 enhances it. You know, obviously we have a  
10 significant OIA, Office of Internal Audit,  
11 capability with about 15 people in that group;  
12 we do the OIR market conduct exam; we have the  
13 Attorney General, you know, report; you know,  
14 obviously we have annual auditors coming in.

15 But I think if it's structured correctly,  
16 Governor Scott, then I think it would  
17 complement very well the OIA report focused on  
18 the insurance side. So I'm very supportive of  
19 that legislation.

20 GOVERNOR SCOTT: And lastly, what about  
21 corporate procurement process, one thing we've  
22 been looking at a lot in the government  
23 agencies.

24 CEO GILWAY: We will be presenting to the  
25 Board on Friday a proposal that we adopt the

1 state procurement process standard.

2 GOVERNOR SCOTT: Okay. All right. Does  
3 anybody have any questions or comments?

4 CFO ATWATER: Governor, just a quick one.  
5 I -- Barry, thank you for the time. Would you  
6 just one last time share with us the reduction  
7 and risk that is upon the rest of the people of  
8 Florida due to the success of the marketplace  
9 taking back those policies in the private  
10 marketplace. What are those numbers one more  
11 time?

12 CEO GILWAY: Well, I hear you. The  
13 numbers, CFO Atwater, are staggering. The  
14 bottom line you will save, the assessment is  
15 reduced by \$2.7 billion, that's \$115 billion  
16 worth of exposure reduction, but the number  
17 you're really looking for is the \$2.7 billion.

18 Within one year, that's close to  
19 40 percent of the assessment risk on  
20 Floridians, 40 percent that existed a year ago  
21 that is no longer on the books. So that  
22 number -- the bottom line is that number will  
23 impact every single Floridian. Not just  
24 Citizens but every single Floridian in the  
25 event of a storm.

1           The focus that I received from the Cabinet  
2           and the Governor, you know, a year ago is the  
3           right one, we had to get that number down. I  
4           compliment Sharon Binnun, who is -- basically  
5           that is part of her new responsibilities -- I  
6           compliment her, her staff, you know, and all  
7           the cooperation we have received for being  
8           successful in that regard.

9           CFO ATWATER: And did all of those depart  
10          with a commitment from the private market to  
11          maintain rates at the Citizens' rates?

12          CEO GILWAY: No, sir. The Weston program,  
13          the latest program, it was a very unique  
14          program, as you know, and we were able to  
15          incorporate in that program a commitment from  
16          Weston that they would maintain a glide path  
17          for three years. The standard program  
18          unfortunately does not include -- the standard  
19          depop program does not include that provision,  
20          it doesn't have any teeth frankly to enforce  
21          that provision should it do so.

22          CFO ATWATER: Governor, I just thank you  
23          that you had Mr. Gilway come back and spend the  
24          time and give us an update on frankly some  
25          tremendous successes in the past year for



1 getting the risk off the backs of the people of  
2 Florida.

3 CEO GILWAY: Well, I compliment my staff,  
4 sir, I'm incredibly proud of them, and they do  
5 a really fine job for the state.

6 GOVERNOR SCOTT: Barry, thanks for being  
7 responsive to all those questions, thanks for  
8 your efforts to educate Floridians about the  
9 risk of Citizens and the risk if they're a  
10 Citizens policyholder. And I wish you the best  
11 of luck in the next six months, and hopefully  
12 when you come back, we might be back for that,  
13 you can come back and show us that everybody  
14 understands the risk they're taking if they  
15 have a Citizens policy.

16 CEO GILWAY: Thank you, Governor. On  
17 behalf of all the Citizens' employees, we thank  
18 you for the opportunity.

19 GOVERNOR SCOTT: All right. Thank you.  
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1           GOVERNOR SCOTT: Now, I would like to  
2 recognize Executive Director Mike Prendergast  
3 with the Department of Veterans Affairs. Good  
4 morning.

5           EXECUTIVE DIRECTOR PRENDERGAST: Good  
6 morning, Governor Scott; good morning  
7 General Bondi; CFO Atwater; and  
8 Commissioner Putnam. Before beginning my  
9 formal remarks, I have two late-breaking  
10 updates that I'd like to invite you all that I  
11 didn't have a chance to incorporate in my  
12 formal remarks.

13           First of all, I just received an email  
14 message from Mr. Dan Davis who I introduced to  
15 you several months ago at one of the Cabinet  
16 presentations. Once again, the agency has  
17 100 percent occupancy in all six of its skilled  
18 state veterans nursing homes, all 120 beds in  
19 each of the homes are filled today. And we're  
20 real proud of that achievement and the hard  
21 work by our team that's out there making sure  
22 that our veterans get that world-class care.

23           Number two -- and it was an opportunity to  
24 listen to Jesse Panuccio's presentation to you  
25 all earlier. I did not get to hear the entire

1 presentation because I was upstairs in the  
2 Senate floor for the Welcome Home Vietnam  
3 Veterans Day celebration hosted by Senate  
4 President Gaetz.

5 But one highlight that I would like to  
6 point out as of this Monday, 7,291 veterans,  
7 thanks to the hard work of our Department of  
8 Economic Opportunity, our Regional Workforce  
9 Boards, Workforce Florida have entered  
10 Florida's employment in the private sector, and  
11 we are real proud of our partners out there who  
12 are helping take care of our veterans and get  
13 them into the businesses all across the  
14 Sunshine State.

15 The Florida Department of Veterans Affairs  
16 has two agenda items for your consideration  
17 today. Item 1 consists of the minutes of the  
18 December 11 Cabinet meeting. We respectfully  
19 request approval of those minutes.

20 GOVERNOR SCOTT: Is there a motion to  
21 approve?

22 CFO ATWATER: So move.

23 GOVERNOR SCOTT: Is there a second?

24 ATTORNEY GENERAL BONDI: Second.

25 GOVERNOR SCOTT: Any comments or

1 objections?

2 (No response.)

3 GOVERNOR SCOTT: Hearing none, the motion  
4 carries.

5 EXECUTIVE DIRECTOR PRENDERGAST:

6 Thank you, Governor. Item 2 consists of the  
7 agency's quarterly report for the period ending  
8 December 31st, 2012. A printed copy of this  
9 report was forwarded to your Cabinet offices  
10 back in January.

11 In summary, the report details both our  
12 statutory program areas, which are the  
13 Veterans' Benefits and Assistance Division and  
14 the Veterans' Homes Program Division that I  
15 just mentioned previously.

16 In the Benefits and Assistance Division,  
17 which is led by Alene Tarter, the lead veterans  
18 claims examiners, which were authorized by the  
19 Cabinet last year and in the last legislative  
20 budget cycle and signed into law by the  
21 Governor back in the spring of last year, we've  
22 hired all those claims examiners and put them  
23 into the field serving in Tampa, Miami,  
24 West Palm Beach, The Villages, Broward County,  
25 and Panama City. They're helping to extend our

1 outreach and services to Florida veterans who  
2 are applying for federal benefits that they  
3 have earned while wearing the uniform.

4 Another significant highlight to point out  
5 to you is the superior achievements by this  
6 Division's state agency that does approval of  
7 all the colleges, universities, and technical  
8 schools across the Sunshine State. This Bureau  
9 is led by Ms. Betsy Whitcomb.

10 During the most recently completed federal  
11 fiscal year, FDVA state-approved agency bureau  
12 obtained the highest rating possible by the  
13 U.S. Department of Veterans Affairs Joint Peer  
14 Review Group. They're regarded as the best in  
15 the nation and delivered outstanding results  
16 throughout the implementation of the new  
17 procedural model that the federal VA fielded in  
18 the very latter part of the previous federal  
19 fiscal year. They're doing outstanding work  
20 each and every day to take care of our veterans  
21 who leveraged the post 9/11 GI bill and the old  
22 Montgomery GI bill for their educational  
23 benefit following their separation from the  
24 service.

25 In the Veterans' Homes Program, a

1       \$2 million HVAC renovation project is underway  
2       in a Daytona Beach home. Completion for that  
3       project is scheduled for June of this year.

4               Also a \$2.8 million recertification  
5       project to harden the facility against natural  
6       disasters such as hurricanes that we've just  
7       talked about recently, is underway at the  
8       Land O' Lakes home in Pasco County. The  
9       expected completion date of that project is  
10      August 1st.

11              In both instances, the federal VA paid  
12      65 percent of the project's costs, and the  
13      state's share is 35 percent. The state's share  
14      is paid by our Operations and Maintenance Trust  
15      Fund, which means that no general revenue  
16      appropriation dollars are used to pay for these  
17      projects.

18              As I mentioned earlier, the census at our  
19      state's skilled nursing homes remains  
20      historically high. We've averaged better than  
21      99 percent in the previous 90 days, and once  
22      again today we've hit a hundred percent  
23      occupancy in all six of our homes.

24              As you may recall, the statewide average  
25      for nursing homes across the state average is

1           about 85 percent on a daily basis, so we're  
2           well eclipsing the private sector average for  
3           provision of that type of care for our  
4           veterans.

5           Of primary importance, the quality of care  
6           in our homes remains exceptionally high, thanks  
7           to Dan Davis leadership and the leadership of  
8           all the team members in his Division who  
9           expertly lead our agency through those  
10          challenges of not only complying with our state  
11          requirements through the Agency for Health Care  
12          Administration, but also the U.S. Department of  
13          Veterans Affairs requirements. And both of  
14          those entities come out and inspect our homes  
15          on an annual basis. So we get inspected at  
16          least 12 times per year in each one of our  
17          homes.

18          Our homes average less than 4.6  
19          deficiencies for items of note per facility,  
20          when the average across the state is greater  
21          than 9.4. In the federal VA surveys of  
22          inspections, our homes average just one-half of  
23          one deficiency per inspection. When you  
24          compare that to the nationwide average to the  
25          50 states and territories, they normally would

1 see an average of 2.8 deficiencies for each  
2 veterans home that they inspect. So we're  
3 doing outstanding work out there in  
4 implementing the proper training and the  
5 accountability models that are needed to make  
6 sure that our veterans receive world-class  
7 care.

8 I've placed before all members of the  
9 Cabinet and you, Governor, a copy of the  
10 recently released video for a new women's  
11 veterans' public service announcement. We just  
12 aired that on the Senate floor today, and  
13 that's been posted on the agency YouTube  
14 Channel, and we look forward to the media out  
15 there to give us an opportunity to play that as  
16 a public service announcement all throughout  
17 the state.

18 This is the second in our series of  
19 outreach initiatives to ensure that our  
20 veterans, including the Vietnam era veterans,  
21 which number one out of every four you meet on  
22 the streets; or more than 140,000 women  
23 veterans; and the more than 230,000 veterans  
24 who have already served in Iraqi Freedom,  
25 Enduring Freedom understand that the Florida



1 Department of Veterans Affairs is their  
2 world-class point of entry to get the earned  
3 benefits that they so richly have paid for by  
4 their service to this great nation.

5 Finally, before I close, on behalf of our  
6 state, nearly 450,000 Vietnam veterans, we want  
7 to thank you again for kicking off with this  
8 Cabinet meeting for the Welcome Home Veterans  
9 Day -- Welcome Home Vietnam Veterans Day  
10 proclamation. It meant a lot to them to  
11 receive that recognition. And this March 30th  
12 marks a significant event for all of our  
13 veterans across the state, and we really do  
14 appreciate it.

15 Subject to your questions, we respectfully  
16 request approval of our quarterly report for  
17 the last quarter.

18 GOVERNOR SCOTT: Is there a motion to  
19 approve?

20 ATTORNEY GENERAL BONDI: So move.

21 GOVERNOR SCOTT: Is there a second?

22 CFO ATWATER: Second.

23 GOVERNOR SCOTT: Any comments or  
24 objections?

25 (No response.)

1           GOVERNOR SCOTT: Hearing none, the motion  
2 carries. Thank you very much. Thank you for  
3 your hard work.

4           EXECUTIVE DIRECTOR PRENDERGAST: Thank  
5 you.

6           ATTORNEY GENERAL BONDI: Thank you so  
7 much.

8           (Cabinet meeting concluded at 11:28 a.m.)  
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