

MEETING OF THE STATE BOARD OF ADMINISTRATION

**GOVERNOR SCOTT AS CHAIRMAN
CHIEF FINANCIAL OFFICER ATWATER AS TREASURER
ATTORNEY GENERAL BONDI AS SECRETARY**

MAY 17, 2011

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AGENDA

ITEM 1. Request approval of the minutes of the March 9, 2011, meeting.

(See Attachment 1)

ACTION REQUIRED

ITEM 2. Request approval of a fiscal sufficiency of an amount not exceeding \$125,000,000 State of Florida, Department of Transportation Turnpike Revenue Bonds, Series 2011A.

(See Attachment 2)

ACTION REQUIRED

ITEM 3. Request approval of a fiscal sufficiency of an amount not exceeding \$85,000,000 State of Florida, Full Faith and Credit, State Board of Education Public Education Capital Outlay Refunding Bonds, 2011 Series (To Be Determined).

(See Attachment 3)

ACTION REQUIRED

ITEM 4. Request approval of a fiscal sufficiency of an amount not exceeding \$77,000,000 State Of Florida, Department Of Transportation Turnpike Revenue Refunding Bonds, 2011 Series (To Be Determined).

(See Attachment 4)

ACTION REQUIRED

ITEM 5. Request approval of a fiscal sufficiency of an amount not exceeding \$74,200,000 State Of Florida, Full Faith and Credit, State Board of Education Public Education Capital Outlay Bonds, 2008 Series (To Be Determined).

(See Attachment 5)

ACTION REQUIRED

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- ITEM 6.** Request approval of, and authority to file, a Notice of Proposed Rule for the two rules listed below and to file these rules, along with the incorporated forms, for adoption if no member of the public timely requests a rule hearing.

19-8.029 Insurer Reporting Requirements.

19-8.030 Insurer Responsibilities.

See Jack Nicholson's Memo Detailing FHFC Items 6 and 7 (Attachment 6)
(See Attachments 6-A through 6-J)

ACTION REQUIRED

- ITEM 7.** Request approval of, and authority to file. emergency rule 19ER11-1, F.A.C., Extraordinary Circumstances for Alternative Method of Finalizing 2005 Losses, for adoption.

ACTION REQUIRED

(See Attachments 7 and 7-A)

- ITEM 8.** Scope of Work/Update Review of Compliance Program Assessment.

ACTION REQUIRED

(See Attachment 8) – **BACK-UP TO FOLLOW**

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

Representing:

STATE BOARD OF ADMINISTRATION

The above agencies came to be heard before
THE FLORIDA CABINET, Honorable Rick Scott presiding, in
the Cabinet Meeting Room, LL-03, The Capitol,
Tallahassee, Florida, on Wednesday, March 9, 2011,
commencing at approximately 1:08 p.m.

Reported by:

MARY ALLEN NEEL
Registered Professional Reporter
Florida Professional Reporter
Notary Public

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APPEARANCES:

Representing the Florida Cabinet:

RICK SCOTT
Governor

PAM BONDI
Attorney General

JEFF ATWATER
Chief Financial Officer

* * *

I N D E X

STATE BOARD OF ADMINISTRATION
(Presented by ASH WILLIAMS)

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P R O C E E D I N G S

GOVERNOR SCOTT: Good afternoon, everybody.
Ash, are you ready to begin?

MR. WILLIAMS: I am, sir.

We're going to do several things today. Just by way of introduction, first of all, I wanted to thank the Trustees for the generosity you've shown with your time and that of your professional staff in taking time to prepare for today's meeting, starting with our fiduciary training with outside fiduciary counsel, which everybody was tremendously generous with their time, highly attentive, et cetera.

And per the direction that we received from the Governor's Office, we were very careful to craft our agendas going forward to address the six points that the Groom Law Group identified as the key tests that you as Trustees need to meet to ensure that you've followed your fiduciary duty.

So everything that you are seeing here today is designed around those points, and we have, for lack of a better term, value engineered the agenda so that to the extent we have prior components of the agenda that were standing areas that did not necessarily go directly to those points, rather

1 than allocating our time to those, we simply placed
2 written reports in the book, which no doubt your
3 staffs and you have had an opportunity to look at.
4 We have the principals here for every one of those
5 reports, and you can question them directly at your
6 pleasure.

7 But to save time, we're going to follow the
8 80/20 rule and focus 80 percent of our time on the
9 20 percent of the things that we do that are most
10 important and most germane to your fiduciary
11 responsibility. So that is the premise that has
12 guided everything you will see today.

13 What I would offer overall is several things.
14 First, I would like to recognize a number of
15 members of our external advisory and oversight
16 bodies who were kind enough to spend time with us
17 today. They're all citizen volunteers, highly
18 talented people with plenty of things to do with
19 their time.

20 We have John Hill, who is chairman of the IAC;
21 Rob Gidel, who is the incoming chairman of the IAC;
22 Chuck Newman, a new member of the IAC. Yesterday
23 we also had with us for the IAC meeting Martin
24 Garcia, another one of the new members. We have
25 the chairman of the Participant Local Government

1 Advisory Council, Patsy Heffner, and Roger Wishner,
2 who serves with distinction on that body as well.
3 We also have Bill Sweeney, who is -- there he is --
4 who is chairman our Audit Committee. These are all
5 terrific people who have done a lot for the Board.
6 They're a tremendous resource for us, and we thank
7 them for being here.

8 GOVERNOR SCOTT: Thank you very much for
9 coming and for all your service.

10 MR. WILLIAMS: And as always, as you know, any
11 of you have direct access to them at any time and
12 have an unfettered source of information
13 independent of the staff of the SBA at your
14 disposal.

15 GOVERNOR SCOTT: Ash, should we do like in the
16 -- I'm sure you've thought about this before, like
17 in a publicly traded company, you sit down without
18 the management, you know, at the end of a meeting
19 for 15 minutes or anything like that. I guess you
20 can't do that anyway with an open record law,
21 sunshine law.

22 MR. WILLIAMS: Yes. That is actually a very
23 good question. And there are other public funds
24 around the country that have an executive session
25 capability.

1 GOVERNOR SCOTT: But we don't.

2 MR. WILLIAMS: And it's not uncommon for audit
3 committees to have those, and compensation
4 committees, of course, in the corporate world.

5 In the Florida environment, the emphasis has
6 always been that the value of sunshine outweighs
7 the contribution of those other areas. I'll
8 withhold judgment on that.

9 GOVERNOR SCOTT: But we just can't do it.

10 MR. WILLIAMS: I guess you could, but you
11 would always have somebody question you, so --

12 GOVERNOR SCOTT: Okay.

13 CFO ATWATER: Governor, could I jump in there
14 on that? I think there may very well, though, be a
15 place where in the fiduciary training process --
16 and I appreciated that and the team that you made
17 available to us. And the conversation that we had
18 was, "Well, just read and listen and make your best
19 judgment on what has been handed to you."

20 As we went further into that conversation,
21 even those trainers acknowledged that there should
22 be at some point an external set of eyes that
23 speaks directly to us as to our risk management
24 processes. And that independent voice could
25 provide us with a comfort level that everything

1 that was provided to us to read wasn't filtered for
2 a particular purpose, wasn't biased in any way, but
3 that someone could take a look at that process and
4 be able to share with us from time to time, "This
5 is where your risks are greatest, this is the
6 management process. It's solidly in place to catch
7 those, and you all are on the right target." And I
8 would still like, Governor, if there wasn't any
9 real objection to continuing that conversation and
10 seeing if there is at some point a practice that we
11 might put into place that could provide at least me
12 a little bit greater comfort, that we have that.

13 GOVERNOR SCOTT: I guess the way I would think
14 about it, I would love to see, you know, what we
15 want to accomplish, and then I would like to get
16 your feedback on that and then understand what the
17 cost is. But I think having -- you know, we all
18 want to do a good job. I mean, you want to do a
19 good job, and everybody involved in the SBA does,
20 and I know the three of us want to do a good job.
21 So I would love to hear what would be the purpose,
22 what would be the structure, and what would be the
23 cost, and look at it.

24 CFO ATWATER: And if there is no objection,
25 Governor, I would love to bring back to the

1 Trustees a concept that we could consider whether
2 the value of the -- of what could be learned would
3 be worth the cost.

4 GOVERNOR SCOTT: Okay. Can we do it this way?
5 Give us something and -- do you want us to look at
6 it first, or do you want to go ahead and send it --

7 CFO ATWATER: I would like to build it in
8 conversation with Ash, and he may be able to say,
9 "Look, we already have those processes and that
10 information in place, so that wouldn't be
11 necessary, but if we were to do something like
12 that, sure, this would be the window and the area
13 where we should aim to accomplish that." And if
14 you wouldn't mind, that along with talking with our
15 external advisory members, what they're seeing and
16 getting access to, and bring that back to us.

17 GOVERNOR SCOTT: Does that make sense?

18 MR. WILLIAMS: Absolutely. And I think one of
19 the things to keep in mind is when we have -- and
20 we have a couple of them with us today, Hewitt
21 EnnisKnupp & Associates, the general consultants,
22 and Cambridge Associates, who is particularly
23 helpful in the alternative investment area,
24 particularly hedge funds. They are both named
25 fiduciaries to us, as are all of our outside

1 advisors. And we do have an independent Audit
2 Committee that reports to you. Members are
3 appointed by you. They in turn employ our internal
4 audit staff. Three of our internal auditors are
5 here today, et cetera.

6 So there are many, many independent checks and
7 balances already, including the IAC. But this is
8 certainly an area where the question of how much is
9 enough is not ever an unreasonable question to ask
10 when it comes to --

11 CFO ATWATER: Maybe just seeing that, then,
12 seeing all that laid it and access points and the
13 timeliness of those visits, information provided
14 ahead of those visits, frequency.

15 MR. WILLIAMS: We're already working with your
16 staff on codifying all that. We've done it in a
17 narrative form, and we're getting it now in a
18 scheduled format so that you can basically see an
19 abstract that says, here is the frequency, here's
20 the source, here's the content of various reports,
21 so you can see quite clearly what you have.

22 But it's a very reasonable line of inquiry.

23 GOVERNOR SCOTT: Okay. Thank you.

24 CFO ATWATER: Thank you, Governor.

25 GOVERNOR SCOTT: Thanks.

1 MR. WILLIAMS: Okay. I think the other thing
2 that's of interest is, we're at kind of an
3 interesting date today. Today is the 9th of March.

4 Now, what might be significant about the
5 9th of March? The answer is, two years ago, the
6 9th of March marked the bottom of the trough in the
7 U.S. equity market, in the financial crisis. And
8 it might be interesting to note what has happened
9 since that time.

10 And you probably -- you may not have seen it,
11 because it just came out on the 7th of this month,
12 but in the most recent monthly report we sent
13 around to the Trustees -- this is the most recent
14 official data we have on our portfolio through 31
15 January 2011. On the Pension Plan, we have a
16 return of 17.48 percent, which is 98 basis points
17 ahead of target. If we roll that number to last
18 night's close, then you see that we're actually up
19 for the fiscal year-to-date 19.31 percent. And the
20 fund balance stood at \$127.3 billion at yesterday's
21 close.

22 Now, if you compare that to 83.3 billion,
23 where we were March 9, 2009, that's a nominal
24 difference of \$44 billion, which sounds pretty
25 good. But then you have to say, "But, wait. You

1 actually had -- as they say on late night TV, "But
2 wait, there's more." We've actually had net
3 benefit flows of \$8 billion negative because we've
4 paid out more than we've taken in in contributions.
5 So if you add that back in, you have a gain of
6 \$52 billion net of the distributions we've made
7 from the bottom of the market, so that's a good
8 thing, and I wanted to share that.

9 It in no way, I believe, however, it in no way
10 stands in the way of the very appropriate policy
11 initiative of looking at affordability and
12 sustainability of the Florida Retirement System or
13 any components thereof. They're two very different
14 things, and I would not constrain one with the
15 other. But I do want you to know about that.

16 So with that information -- and part of reason
17 I started with that is to give you a sense of where
18 we've been and where we are, but also to set up the
19 real function of -- I think the most fundamental
20 function of today's meeting other than simply
21 helping get you on the curve on what we're doing
22 and what we can do better, and that is, we did an
23 asset/liability study starting at the tail end of
24 2009, completed it in the first half of 2010 in the
25 wake of the financial downturn, and from that made

1 some minor -- some adjustments for some incremental
2 evolutions in our investment policy. Those changes
3 were adopted by the prior group of Trustees in June
4 of 2010, and we were incrementally proceeding along
5 that path.

6 But as you know, if you have changes, and
7 significant changes in assets or liabilities or
8 both, then that set the decisions on investment
9 policy should be revisited and recalibrated to
10 reflect the difference in the environment. So I
11 bring up the change in assets because that's one
12 change that's out there.

13 The other change that's out there is a high
14 probability of legislative actions on structural
15 changes to the pension plan itself and potentially
16 the benefits within the plan, both of which would
17 have ramifications on the liability side that are,
18 I think, unambiguously positive.

19 So that's a long way of saying where I suspect
20 we may end up today is to have an understanding of
21 where we are now, that we have some changes -- we
22 want to review with you the work that was done last
23 year so you get a sense of what we did and why. We
24 have the outside folks here who advised us on that
25 effort to answer questions directly and do the

1 presentation.

2 And then our view is that the environment will
3 almost certainly change a bit more during the
4 coming -- well, the legislative session we're now
5 it. It's no longer coming. And that at the end of
6 the session, with the benefit of what the
7 Legislature has done, we can go back and do a
8 readjustment on the liability side, fine tune the
9 investment policy recommendations, and come back to
10 you in the June meeting when everybody has had a
11 chance to really dig into this information as
12 deeply as they need to to have a personal
13 conviction on the correctness of our course, and we
14 can adopt a strategy.

15 And our suggestion at the outset would be that
16 we proceed incrementally, prudently, thoughtfully,
17 slowly, in a disciplined manner, as we have been.
18 But that's your judgment. You set the risk
19 envelope, we get that, and that's fine.

20 So that's the broad outline for today's
21 meeting. And we will have presentations starting
22 out from Hewitt EnnisKnupp covering the
23 performance, absolute and relative, for the Florida
24 Retirement System DB Plan, the DC Plan, Florida
25 PRIME, Fund B, and the CAT Fund. Then we'll have

1 standing reports from the Investment Advisory
2 Council, PLGAC, and the Audit Committee, all of
3 which are statutorily required.

4 As I mentioned, the SBA staff reports are in
5 the brochure. Rather than take time to go through
6 all those, you've got them. If you have questions,
7 we'll respond to them. Then we'll go directly into
8 the review of the investment policy and talk a
9 little bit more about alternatives and how to think
10 about those in terms of risk, et cetera.

11 And that will be a more than full day,
12 particularly given what you've already been
13 through. We have made every effort to streamline
14 the four-plus hours that we did in the IAC
15 yesterday by about 50 percent today so we don't to
16 inflict cruel and unusual punishment on you.

17 So that's where we are, and perhaps we should
18 go ahead then and, unless there are questions, hit
19 Item 1, which is a request for a motion on the
20 minutes of the last meeting.

21 GOVERNOR SCOTT: All right. Is there a motion
22 on the minutes?

23 CFO ATWATER: So move.

24 GOVERNOR SCOTT: Is there a second?

25 ATTORNEY GENERAL BONDI: Second.

1 GOVERNOR SCOTT: Moved and seconded. The
2 minutes are approved without objection.

3 MR. WILLIAMS: Thank you. Let me introduce
4 Mike Sebastian of Hewitt EnnisKnupp, and we will go
5 through the performance reports.

6 MR. SEBASTIAN: Thanks very much.

7 GOVERNOR SCOTT: Good morning, or good
8 afternoon. I've said that too much, I guess.

9 MR. SEBASTIAN: Good afternoon. I'm Mike
10 Sebastian with Hewitt EnnisKnupp, the generalist
11 consultant for the Florida SBA. And what I have
12 here is our standard quarterly performance report
13 on the funds, the major funds overseen by the SBA,
14 which would be the FRS Pension Fund, the DC Plan,
15 Florida PRIME, and the CAT Fund.

16 I'll start out without the executive summary
17 regarding -- I'm sorry. A summary of the DB Plan's
18 investment performance. What we try and look at on
19 a quarterly basis is, first of all, performance
20 relative to a number of different competitive
21 measures, but also just some general thoughts about
22 the structure of the plan and how well it's managed
23 currently and in recent history.

24 And I would start out with the first couple of
25 bullet points here talking about performance

1 relative to a number of different competitive
2 measures, one being the performance benchmark,
3 which represents the investment policy of the DB
4 Pension Plan, in other words, the target asset
5 allocation that's appropriate for the risk and
6 return associated with the plan, combined with the
7 asset class representations of each of the
8 investment types that are included in the
9 portfolio, and also a comparison of performance
10 relative to the long-term target, which is
11 inflation plus 5 percent per year, which is
12 intended to be in line with the 7.75 percent
13 actuarial rate of return target. Performance
14 relative to both of those measures has been strong
15 over the short- and long-term time periods.

16 We also compare performance with peers, other
17 large public pension funds. We believe that peer
18 comparisons need to be taken with a grain of salt
19 to a certain extent, because other plans have
20 different objectives and circumstances. However,
21 it's interesting to know in a public environment
22 how the plan stacks up to others, and in general,
23 the pension fund has been competitive with the
24 returns of peers.

25 We make a note on --

1 GOVERNOR SCOTT: So the goal is inflation plus
2 5 percent?

3 MR. SEBASTIAN: That's correct. That's one of
4 the measures.

5 GOVERNOR SCOTT: And right now inflation is
6 running 1.2, 1.5?

7 MR. SEBASTIAN: That's about right. It's
8 meant to be a long-term target, so over a 10- or
9 20-year time horizon. So over time, we expect that
10 to be -- our investment policy suggests that it
11 will be in line with the 7.75.

12 We note that the pension plan is well
13 diversified across asset classes. There are six
14 broad ones that are included in the plan, global
15 equity, fixed income, private equity, real estate,
16 what's called strategic investments, which is a
17 more opportunistic investment category, and cash
18 investments.

19 We believe that's good diversification across
20 a broad set of investment opportunities that are
21 available. Within each asset class, there are not
22 significant deviations of the plan's investments
23 from the representation of that asset class, in
24 other words, diversification across sectors,
25 security, size, region, credit quality, duration,

1 and so on. Where there are deviations from those
2 broad asset class benchmarks, it's done in a risk
3 controlled way with the intention of adding value
4 over those asset class benchmarks through active
5 management.

6 Within the private market asset classes, real
7 estate and private equity, and to an extent,
8 strategic investments, the investments are also
9 well diversified across vintage year, across
10 geography, property type, and other measures of
11 different forms of those sorts of investments,
12 again, pretty strong diversification of that
13 portion of the portfolio.

14 A very important measure of risk control is
15 adherence to the long-term investment policy. So
16 asset allocation on a daily basis relative to that
17 policy is monitored by staff very closely to ensure
18 that there are not unacceptable deviations from
19 that long-term policy, and to the extent there are
20 deviations caused by market movements, that trades
21 are made to move back in line with long-term
22 policy.

23 We revisit the plan's design, the plan's
24 investment policy on an annual basis, both
25 informally and formally. As Ash had suggested in

1 June, we along with staff completed the most recent
2 asset-liability and asset allocation study to
3 analyze the long-term investment policy of the fund
4 relative to its financial objectives and
5 circumstances, and we'll have some more detail on
6 that on a later agenda item.

7 And then lastly, we believe that adequate
8 liquidity exists within the asset allocation of the
9 fund to pay its monthly obligations.

10 I will skip --

11 GOVERNOR SCOTT: Can your liquidity change?
12 Can your liquidity needs change very fast?

13 MR. SEBASTIAN: I'm sorry. Say that again.

14 GOVERNOR SCOTT: Can your liquidity needs
15 change very fast? What would cause your liquidity
16 to change quickly, rapidly? Anything?

17 MR. SEBASTIAN: I would imagine changes in the
18 plan design could do that. Provision of liquidity
19 would depend on the investment policy and the
20 nature of the investments in it. But as far as
21 rapid, very rapid changes in liquidity needs,
22 nothing immediately comes to mind. I'm not seeing
23 any from my help back here.

24 MR. WILLIAMS: Generally speaking, the sort of
25 things that in the very near term will affect

1 liquidity demands are simply distributions, and the
2 primary variable there would be DROP claims. And
3 they move around a little bit, and they tend to
4 cluster around fiscal year-end, and I believe to
5 some degree calendar year-end.

6 The other thing would be capital calls, and
7 what will drive capital calls -- this is when you
8 have a committed capital investment structure where
9 the investment manager will call capital when the
10 investment environment is compelling for putting
11 money to work.

12 So we're seeing, for example, an increasing
13 rate of capital calls now, but those are very
14 constrainable and estimable, because we know how
15 much committed capital we have out there. It's not
16 limitless. So we model it out very carefully. And
17 basically, what we have done is created a cash
18 position that we think gives us ample liquidity
19 coverage. We're very focused on it. The Audit
20 Committee has been particularly focused,
21 particularly focused on that area and had us do a
22 study and present it to them for that purpose.

23 GOVERNOR SCOTT: But you don't have lot of
24 assets that are tied to capital calls, do you? You
25 don't have that many?

1 MR. WILLIAMS: The private equity asset class
2 is what? 75 percent? And currently, if we did
3 give occasional positions in the strategic class,
4 distressed debt funds, for example, those are
5 commonly in a committed structure, or they
6 certainly could be. So, no, it's not a lion's
7 share of the portfolio.

8 GOVERNOR SCOTT: Okay. Thank you.

9 MR. SEBASTIAN: Just briefly, on this slide, I
10 review graphically the market environment over the
11 past year. These lines indicate growth of a dollar
12 invested December 31, 2009, to the year ending
13 December 31, 2010.

14 Just to note that the risk oriented or equity
15 type asset classes, domestic and foreign equity,
16 had strong performance over the year after a
17 difficult July, earning \$1.17 for domestic equity
18 and \$1.13 in terms of the growth of one dollar
19 invested over that time period. Fixed income also
20 earned a positive return over the lesser so than
21 more risky type assets.

22 On liquidity, this is a regular part of our
23 analysis of quarterly performance and portfolio
24 positioning. This is just a summary of cash flows
25 starting with the beginning market value of the DB

1 Plan, withdrawals either for benefit payments or
2 transfers into the DC Plan, contributions into the
3 plan or transfers over from the DC Plan, netting
4 out to net cash flows, and then comparing that with
5 net investment change over the past one quarter,
6 the fourth quarter, and the one-year period. And
7 we see that the fund continues to grow in market
8 value as positive investment results have offset
9 net negative cash flow.

10 I had mentioned rebalancing as a risk control
11 method relative to long-term investment policy.
12 That long-term investment policy is shown here in
13 the beige bars with the white tops compared with
14 the green bars, which are the actual asset
15 allocation of the DB Plan as of the end of 2010.
16 You essentially want to compare the green bars with
17 the middle of the white boxes or white bars. That
18 would represent a full alignment of actual
19 allocations with the long-term policy allocations.

20 And we see that that is the case in every
21 asset class of the six major ones in which the FRS
22 invests. And also, the white boxes represent
23 allowable ranges around those long-term policy
24 targets. The FRS, like virtually all large
25 institutional investors, has allowable bands around

1 their targets within which a deviation is
2 acceptable and beyond which allocations are moved
3 back to the target.

4 And in each case, actual allocations were in
5 line with those ranges, and therefore, we're in
6 compliance with the investment policy, which we
7 think is an important measure of risk control.

8 Performance on slide 14. We show the total
9 FRS results over a number of trailing time periods
10 relative to two performance comparisons. One is
11 the performance benchmark, which is a reflection of
12 the investment policy, the way in which the FRS
13 invests, and then also the absolute nominal target
14 rate of return, which as I mentioned before, is
15 inflation plus 5 percent, which is expected over
16 the long term to be reasonably consistent with the
17 7.75 percent actuarial rate of return rate.

18 I want to note that all returns for the FRS
19 are net of all management fees, which we believe is
20 the right way to compare performance to the
21 benchmark, the real actual returns that were
22 earned.

23 I would note first the beige bars representing
24 the actual FRS relative to the performance
25 benchmark, the green, that in each time period

1 shown here, the FRS outperformed the performance
2 benchmark, so positive results relative to the
3 investment policy.

4 Relative to the absolute nominal target rate
5 of return, this is meant to be a long-term return
6 target. It's expected that the plan design and the
7 plan's investment policy will outperform its target
8 over periods of 10, 15, 20 years. We see that's
9 the case in this slide here.

10 Performance over shorter periods, such as one
11 year, three years, and five years, will be more
12 driven by shorter term fluctuations in the equity
13 markets. So again, this is meant to be a long-term
14 comparison. Fifteen-year performance is positive,
15 7.4 percent shown in the beige bar, relative to 6.9
16 for the target rate of return. And over longer
17 time periods, 15 through 30 years, the fund has
18 earned a return greater than that of the target
19 over every time period shown.

20 GOVERNOR SCOTT: I just hope you keep doing
21 it.

22 MR. SEBASTIAN: So do we. We'll do our best.

23 Performance on this slide is essentially a
24 ratio of the growth of a dollar invested in the
25 Pension Plan, the DB Plan, versus the target, the

1 performance benchmark. What's indicated here is
2 that the Pension Plan earned \$1.03 for every dollar
3 represented by its investment policy over the
4 period of roughly the last 10 years, a policy
5 result. But importantly, that line doesn't have an
6 enormous amount of volatility and always stays
7 above that baseline, indicating that outperformance
8 has been consistent and fairly steady over time.

9 GOVERNOR SCOTT: That's great.

10 MR. SEBASTIAN: Thank you.

11 This attribution analysis shows the margin of
12 outperformance of the fund over the one-year and
13 five-year periods. Let's look at the bar at the
14 foot, the sort of bluish bar. The total fund
15 indicates the difference between the actual fund's
16 performance relative to the policy benchmarks, so
17 64 basis points, 6/10 of a percent for the one-year
18 period, 21 basis point for the five-year period.

19 Those bars, the colored bars above that add up
20 to those bottom figures, the intention being to
21 separate the value added, either positive or
22 negative, to the various asset classes of the six
23 in which the FRS invests. We see in both cases
24 performance relative to the benchmark has been
25 positive, indicating outperformance.

1 Some standouts over the one-year period are
2 foreign equity, where in particular some good
3 investment choices among active management and
4 emerging markets added value. And in fixed income,
5 where we're overweight of -- still investment
6 grade, but non-Treasury lower credit quality bond
7 sectors continue to add value as those securities
8 continue to come back from the events of 2008 and
9 2009.

10 Over the five-year period, a similar standout
11 for foreign equity and also real estate, where some
12 direct owned properties, which make up about 60
13 percent of that asset class, produced particularly
14 good results.

15 Peer comparisons, as I mentioned, need to be
16 to an extent taken with a grain of salt, given the
17 caveats about different financial objectives and
18 circumstances across plans. It's worthwhile to
19 look at them, however.

20 The comparison that we do in this particular
21 case is what's called a TUCS peer group, Trust
22 Universe Comparison System, and it's the top ten
23 defined benefit plans, so this is corporate and
24 public defined benefit plans, the largest available
25 in that pretty broad database, \$1 trillion in total

1 assets in this peer group, with median and average
2 fund sizes of 105 and \$109 billion, so very, very
3 large, comparable to the size of the FRS DB Plan,
4 and also not particular skewed by participants that
5 are extremely larger than others. You can see that
6 the median and the average being pretty close.

7 GOVERNOR SCOTT: What number are we as far as
8 size?

9 MR. SEBASTIAN: You are -- I don't have the
10 answer off the top of my head, but you would be in
11 the top half of that top ten.

12 One comparison of interest is asset allocation
13 of the DB Plan versus the top ten that I mentioned
14 as shown on these piecharts here across the asset
15 classes either that the DB Plan invests in or that
16 are tracked by the peer group.

17 A couple of things to note are the greater
18 than peers allocation to global equity. You see
19 roughly 62 percent versus 52.7 percent for the top
20 ten and a lower than peers allocation to
21 alternative asset classes. In the case of the DB
22 Plan, that would be real estate, private equity,
23 and strategic investments. In the case of the top
24 ten, that would be real estate and alternatives.
25 And that's just a classification that includes

1 private equity and also investments like hedge
2 funds and other more difficult to classify --

3 GOVERNOR SCOTT: The top ten includes us? The
4 top ten includes our numbers? It's not the other
5 nine?

6 MR. SEBASTIAN: That's correct.

7 Performance is shown on slide 20. We show
8 periods from one quarter through ten years. What
9 we see is that -- so this is the returns of the DB
10 Pension Plan versus the average of the top ten
11 pension plans. We see results for the DB Plan that
12 are competitive with peers, outperforming the
13 quarter and one-year, and returns that are more
14 similar to peer groups over the longer time
15 periods. We believe that shows the DB Plan is
16 competitive.

17 I would also note that these returns are gross
18 of fees. Normally we show returns net of fees. In
19 this case, these returns for the peer group were
20 only available gross. I would make the note that
21 analyses of the fees and costs paid by the DB
22 Pension Plan suggests that it operates at a lower
23 cost than its peers, while still delivering above
24 benchmark performance. So were we to analyze these
25 same results net of fees, we would probably see an

1 even stronger showing for the DB Plan. So we
2 believe these results look good relative to the top
3 ten plans.

4 If there are no further questions on DB, I'll
5 step relatively quickly through the other smaller
6 plans that are overseen by the SBA, one being the
7 Investment Plan, the DC Plan.

8 The executive summary, this is notes about
9 performance. As you'll see on the following
10 slides, the Investment Plan outperformed its
11 aggregate benchmark over the periods that we
12 analyze and track, indicating good design of the
13 investment options and favorable selection of those
14 options by the participants.

15 The total plan's expense ratio for the
16 Investment Plan is lower than peers, both for the
17 total fund category and relative to other DC plans,
18 but also other DB alternatives. Management fees
19 are lower for each investment category, each type
20 of option. The Investment Plan we believe offers
21 an appropriate number of options that span the risk
22 and return spectrum, giving participants reasonable
23 choices as to how to plan for their retirement and
24 structure a portfolio appropriate for their risk
25 tolerance and other factors.

1 And then lastly, the investment policy and the
2 investment policy statement that codifies it are
3 reviewed on a regular basis by Hewitt EnnisKnupp,
4 your generalist consultant, and also staff, to
5 indicate that it continues to be appropriate given
6 the plans, goals, and objectives.

7 Slide 25 shows results for the Investment
8 Plan. This has aggregated all the options included
9 in the DC Plan up to one total fund return over
10 one, three, and five years. And we do two
11 comparisons. One is the average DC Plan, and the
12 other is the total plan aggregate benchmark, which
13 is a representation of the way the DC Plan is
14 invested.

15 To dig a little deeper into these comparisons,
16 we see the performance relative to the average DC
17 plan trails a bit over the one-year and three-year
18 periods and then is spot on over the five-year
19 period, 4 percent.

20 We believe, as with the peer analysis we saw
21 for the DB Plan, that in some cases the DC Plan
22 universe comparisons need to be taken with a grain
23 of salt. Your plan has its own objectives and its
24 own participants, but it's worthwhile at least
25 knowing how it stacks up to others.

1 What is a big driver of performance relative
2 to the average DC Plan is that average has the
3 inclusion of company stock as a significant
4 investment option. Obviously, the SBA's Investment
5 Plan cannot have company stock as an option, so
6 it's not a significant component. It's not a
7 component at all.

8 When equity markets are up, the inclusion of
9 company stock in the average DC plan, which
10 includes corporates, will drive those comparisons,
11 so that's why we see a bit of trailing over the
12 one- and three-year periods and matching for the
13 five-year period. A more important performance
14 comparison we believe is relative to the aggregate
15 benchmark, which takes each option's benchmark in
16 stocks, bonds, and other asset classes and rolls
17 them up to the total plan. That's a representation
18 of how well those options have done relative to
19 their asset class representations, essentially
20 their policy. And in each case, the total plan has
21 achieved a return greater than the benchmark over
22 each of the time periods shown here.

23 As I mentioned, fees are low relative to the
24 peers. At the top we show the Investment Plan's
25 expense ratio of 23 basis points, 0.23 percent

1 relative to the peer corporate DC plan expense
2 ratio that's the best DC peer group we have, lower
3 than average fees, which we believe is a positive,
4 since we know that dollars in fees paid reduce
5 returns dollar for dollar.

6 It's interesting to compare the plan also
7 relative to DB plans, and we do that in the bottom
8 panel relative to average corporate funds and
9 average public funds. And there we see the
10 Investment Plan comes out looking good relative to
11 both of those by even a larger margin, so lower
12 than peers' costs in managing the plan.

13 CFO ATWATER: Governor, could I --

14 GOVERNOR SCOTT: Yes.

15 CFO ATWATER: So what is it about how we
16 manage our plan that we have this kind of a better
17 ratio?

18 MR. SEBASTIAN: It's a number of different
19 factors. One is size and the ability to have
20 economies of scale in that way. Another is using
21 in some cases passive investment options that track
22 benchmarking nexus and give assured market returns
23 at low costs where it's appropriate to take -- to
24 allocate that way as opposed to taking active risks
25 with investment options that attempt to beat

1 benchmarks.

2 So to the extent that you can minimize costs
3 by assuring market returns where markets might be
4 more efficient, but allow for the opportunity to
5 beat the markets where they might be less
6 efficient, that can lead to lower costs in the
7 plan, and I think that's on thing that's happening
8 here.

9 CFO ATWATER: It would seem like at some point
10 if the rest of the globe was looking at the
11 performance, which has been very satisfactory, that
12 others might -- outside of our scale being of no
13 value to us, why wouldn't others be following that
14 same strategy?

15 MR. SEBASTIAN: They very well might. I think
16 that these results, both in terms of fees and also
17 performance over the benchmarks, represents the
18 fact that the plan is designed very well and it's
19 administered very well by the folks that you have
20 on staff. So I would hope that others would
21 attempt to imitate your success.

22 GOVERNOR SCOTT: Anything else?

23 CFO ATWATER: No, I believe that's it.

24 MR. SEBASTIAN: I'll round out the discussion
25 of fees just on slide 27. We break down those same

1 fee comparisons by option type, from large-cap
2 equities through different equity types,
3 international, bonds, balanced, and money market.
4 In each case, the Investment Plan's fee is lower
5 than the median available in the peer group, the
6 median mutual fund, essentially, so again, a
7 positive result.

8 GOVERNOR SCOTT: And that's tied to same size?

9 MR. SEBASTIAN: I think that's a driver of it,
10 yes.

11 And the last two slides in this section show
12 growth of the plan both in terms of plan size,
13 assets under management, and also membership and
14 growth has been pretty steady in the plan under
15 both measures.

16 If there are not questions on DC, I'll move to
17 Florida PRIME. Performance of the Florida PRIME
18 short-term investment pool has been positive on an
19 absolute basis and on a relative basis over short-
20 and long-term time periods. We believe the PRIME
21 is adequately diversified across issuers within the
22 bond market. Its policy constrains the fund to
23 invest in bonds that are appropriate, in other
24 words, that are short term and have a low amount of
25 interest rate risk and high quality and have a low

1 amount of credit risk. We believe adequate
2 liquidity exists within the PRIME to address the
3 cash flow obligations.

4 And every year, as well as on an ongoing
5 informal basis, Hewitt EnnisKnupp, in conjunction
6 with staff, does an annual best practices report.
7 We'll deliver our next one in June of this year
8 that is really a soup to nuts review of everything
9 regarding the policy and operations of the fund.
10 And we believe that it is managed and administered
11 in a way that's consistent with the best available
12 practices.

13 GOVERNOR SCOTT: On PRIME, no one has the
14 right to ask for their funds faster than you have
15 the ability to liquidate? Like you're not
16 investing longer than you're giving somebody the
17 right to get their money back?

18 MR. SEBASTIAN: That's essentially true.
19 Adequate liquidity exists with Fund A, the main
20 fund for Florida PRIME. Within Fund B, you'll see
21 an analysis later on that shows how the securities,
22 some of which experienced difficulties in 2008, how
23 those are paying out as they approach maturity.
24 And those are paid out -- those funds are paid out
25 to investors as available. But overall -- I'm

1 sorry. Go ahead.

2 GOVERNOR SCOTT: It's just the ones that
3 weren't liquid back then, right? So basically,
4 you're not telling people they can get their money
5 overnight when you're investing in 30-day paper?

6 MR. WILLIAMS: No, we're not, Governor. And
7 in fact, the Legislature recognized the importance
8 of that very point in 2008 when the legislation was
9 redone reinventing the pool, if you will, because
10 it set forth three very clear statutory priorities,
11 which in rank order are safety, liquidity, and
12 return, because if there was one lesson taken away
13 unmistakably from 2007, it is that liquidity
14 mismatches are a very bad thing. So we have redone
15 the guidelines, the investment policy guidelines
16 for the pool to reflect those of 2a-7-like funds
17 under the SEC guidelines, extremely liquidity
18 oriented, extremely high quality oriented,
19 et cetera.

20 GOVERNOR SCOTT: So how long do people -- how
21 long does -- like a municipality think they have
22 their money, how long do they have to wait for
23 their -- if they decide tomorrow -- they have a big
24 blowup and they need money, what's your obligation
25 to give them the money, how fast?

1 MR. WILLIAMS: We basically offer same day
2 liquidity, which is pretty unique where we are.
3 And there's a natural cyclical to flows. It's
4 not quite like commercial banking where you have a
5 deposit base and there's a certain amount of daily
6 churn and that's constant. This is seasonal.

7 At the tail end of the year when property tax
8 revenues come in, that's when local treasuries
9 swell. There tend to be heavy asset inflows at the
10 very tail end of the year in November, December,
11 for that reason. And then you start a runoff
12 somewhere around the first quarter that gradually
13 runs the balances down as they spin through money
14 and then come in on the property tax cycle again.

15 Again, we have two Local Government Advisory
16 Council members who know way more about local
17 government finances than I do.

18 GOVERNOR SCOTT: Okay. But you don't have an
19 issue that somebody could tomorrow and say, "I need
20 money," and you don't have liquidity, and they have
21 a right?

22 MR. WILLIAMS: No. We have a large number of
23 accounts, a very large number of clients, and the
24 daily transaction liquidity is quite small compared
25 to what we're capable of handling.

1 GOVERNOR SCOTT: Okay. Thanks.

2 MR. SEBASTIAN: This slide shows a review of
3 performance of Florida PRIME over a variety of time
4 periods relative to a benchmark which is
5 essentially a pool or a group of similar investment
6 pools, and performance has been favorable over
7 every time period shown here.

8 Liquidity, I'll add, or perhaps end with slide
9 34. We show here opening balance, deposits,
10 transfers from Fund B, which I mentioned before
11 which holds some securities that experienced
12 difficulty in 2008, investment earnings and
13 withdrawals, all netting out to an increase quarter
14 over every quarter in the size of the fund. So the
15 the flow into the fund from investment that results
16 in deposits is positive.

17 Actually, I'll end with one other. Slide 37
18 is the tail end of a table which shows Fund B
19 distributions to participants. Again, as
20 securities mature within that fund, they're
21 transferred into Fund A and transferred out to the
22 participants in the pool. 81.9 percent as of
23 December 22, 2010, of that market value has been
24 paid out.

25 And then lastly, the CAT Fund, the Hurricane

1 Catastrophe Fund. The executive summary, again,
2 performance of the CAT Fund has been strong over
3 the periods we analyzed on an absolute basis and a
4 relative basis relative to the benchmark. We
5 believe the CAT Fund is adequately diversified
6 across issuers. As with PRIME, the investment
7 policy constrains the Fund to appropriate types of
8 bonds, short term and high quality. We believe
9 adequate liquidity exists in the fund. And as with
10 the other funds, the investment policy is revisited
11 on an informal and formal basis on a regular basis
12 to ensure that its guidelines are appropriate,
13 given consideration of its goals and objectives.

14 Flow into the fund is positive. This is slide
15 42. Here we show net contributions and withdrawals
16 and investment change. The fund has increased in
17 size over the quarter and one-year period by the
18 amount of about 870 million and 1.4 billion.

19 And I will end with a summary of performance,
20 which is that performance has been positive
21 relative to the performance benchmark over the
22 quarter and one-year period, trailed on a modest
23 basis over the three- and five-year, but over the
24 ten-year, over the long-term time period, has
25 achieved its goal of beating its performance

1 benchmark.

2 That concludes our materials, and if -- I'll
3 take any further questions you may have, pleased.

4 GOVERNOR SCOTT: Does anybody have any
5 questions?

6 Thank you very much.

7 MR. WILLIAMS: Thank you, Mike.

8 Why don't we then move ahead, if we may, with
9 the standing reports. I would like to recognize
10 John Hill from the Investment Advisory Council.

11 MR. HILL: Good afternoon. I'm John Hill, and
12 I'm the outgoing chairman of the IAC. Thank for
13 your time today, Trustees.

14 So I'm going to deliver a brief report on our
15 meeting yesterday. So we had a meeting yesterday,
16 March 8th, with our CIO, Mr. Ash Williams, and his
17 team at the SBA. There were -- as Mr. Williams
18 indicated, there were two new IAC members who were
19 introduced, and that was Martin Garcia and Chuck
20 Newman. And we also elected new officers for this
21 next year, so Rob Gidel is now the incoming
22 chairman and David Grain is our vice chairman.

23 GOVERNOR SCOTT: Congratulations.

24 MR. HILL: The meeting included the following:
25 We started off with a detailed review by Kevin

1 SigRist, who is our deputy executive director, on
2 the financial performance of the State Pension
3 Fund. And the performance has been good, and
4 particularly very good most recently, as Ash
5 indicated. An update on recent investments and
6 capital calls and distributions, which are all
7 consistent with the approved asset allocation and
8 investment strategy was overviewed for us.

9 We then moved to a discussion with Hewitt
10 EnnisKnupp, some of which Mike just went through
11 with you, where they reviewed the Fund's current
12 asset allocation relative to different peer groups,
13 which generally supported the current asset
14 allocation plan. They also reviewed the relative
15 financial performance of the fund, analyzing the
16 risk versus return models, which also illustrated
17 that the SBA fund was performing well and in line
18 with its peers while attempting to prudently manage
19 risk.

20 And finally, what you didn't hear yet is that
21 they presented information regarding determining
22 actuarially the soundness of the plan and the
23 process involved in estimating future liabilities
24 and other pension plan assumptions, so we had a
25 good discussion from the actuarial point of view.

1 The next thing we did was that Cambridge
2 Associates gave us a detailed presentation
3 regarding hedge fund investing, including the
4 different types of hedge funds and their historical
5 returns and their relative risk. And Cambridge
6 highlighted the use of hedge funds by other pension
7 funds to improve overall returns, mitigate
8 volatility, and provide diversification. And I
9 think they're going to summarize that presentation
10 for you today.

11 And then our meeting concluded with a
12 discussion regarding the currently approved asset
13 allocation strategy, with the IAC agreeing that it
14 remains supportive of the plan approved last year,
15 subject to the new Trustees' perspective and
16 potential systemic changes that might occur to the
17 plan after this legislative session and how that
18 will affect future liabilities of the plan.

19 So that concludes my report. I'm happy to
20 answer any questions.

21 GOVERNOR SCOTT: Do you feel comfortable you
22 always get -- you have access to all the
23 information you need and access to every employee
24 you need?

25 MR. HILL: Yes. We've been -- I've been

1 comfortable with complete disclosure and access to
2 anything that I needed. I would say that, you
3 know, I'm going on my fourth year on the IAC, and
4 we've been very favorably impressed with Ash and
5 the team and the management of the fund and the
6 professional approach they take to it.

7 GOVERNOR SCOTT: Thank you.

8 ATTORNEY GENERAL BONDI: Thank you for your
9 service.

10 MR. HILL: Thank you very much.

11 GOVERNOR SCOTT: John, maybe if you wanted to
12 pass the question. Do we have a sense now -- I saw
13 the -- I guess June or July was the last time we
14 had certified our funded ratio in our pension plan.
15 Do we have --

16 MR. WILLIAMS: It's actually done -- excuse
17 me. It's actually done in the fourth quarter of
18 each year using fiscal year-end numbers.

19 GOVERNOR SCOTT: Okay. Given where we're at
20 today on our balances, would you care to venture as
21 to where you think we would be at?

22 MR. WILLIAMS: We touched on that yesterday,
23 and we're going to be coming into that area in just
24 a minute.

25 GOVERNOR SCOTT: Okay. I'll wait for that.

1 MR. WILLIAMS: So you might want to hold that
2 thought.

3 CFO ATWATER: Sure.

4 MR. WILLIAMS: The short answer is, given the
5 smoothing conventions, et cetera, probably not too
6 much change. But Mr. Davis is going to revisit a
7 number of variables that will affect it one way or
8 another and could pass through to the investment
9 policy, which is exactly the meat of today's
10 meeting, and that's coming up in just a moment.

11 GOVERNOR SCOTT: Thank you. Thank you, John.

12 MR. WILLIAMS: Thank you, Mr. Hill.

13 Why don't we then move ahead, if we may, and
14 ask the chairman of the Participant Local
15 Government Advisory Council, Ms. Patsy Heffner.

16 GOVERNOR SCOTT: Good afternoon.

17 MS. HEFFNER: Good afternoon. Thank you for
18 the opportunity to present to you today.

19 Since your last meeting of the Trustees on
20 December the 7th, we've had one meeting of our
21 advisory council on February the 16th, and our next
22 quarterly meeting is scheduled for June the 15th at
23 the SBA office here in Tallahassee.

24 The council continues to work on several
25 issues designed to improve the operations and

1 client services and investment and management of
2 Florida PRIME. And if you'll forgive me, I'm going
3 to read this report, because I don't want to
4 misquote any of the figures in it.

5 Most recently, over the quarter ending
6 December 31, 2010, participant deposits totaled
7 6.01 billion. Participant withdrawals totaled
8 4.12 billion, for a net increase of approximately
9 1.94 billion, or 36 percent. During the fourth
10 quarter, Florida PRIME delivered an aggregate of
11 4.35 million in investment earnings for its
12 investors.

13 Strong cash flows continued into 2011 with
14 Florida PRIME's assets piercing 7.5 billion in late
15 January, the first time the pool has closed above
16 that level since April of 2008. Florida PRIME was
17 valued at 7.385 billion as of February the 12th,
18 2011.

19 For the period ending December 31, 2011,
20 Florida PRIME has performed exceptionally well in
21 the current interest rate environment,
22 outperforming its investment benchmark over all
23 time periods. For pool investors, Florida PRIME
24 generated excess returns of approximately 14 basis
25 points over the last three months, 12 basis point

1 over the last 12 months, and 8 basis points over
2 the last three years. Florida PRIME's seven-day
3 SEC yield was .27 percent as of February 21, 2011.

4 On December 21, 2010, the Auditor General
5 distributed the fiscal year 2010 financial audit to
6 all PRIME and Fund B participants with no instances
7 of noncompliance or material deficiencies in
8 internal controls. On February the 9th, the
9 council distributed its 2011 biennial report.

10 Fund B has continued to pay principal and
11 interest, with cumulative distributions to
12 participants of 1.656375 as of February the 8th of
13 2011. As a proportion of their original principal
14 amount, 82.4 percent has been returned to Fund B
15 investors.

16 GOVERNOR SCOTT: Thank you. Do you feel
17 comfortable you're getting access to all the
18 information and people you need?

19 MS. HEFFNER: Yes, we do. We were actually
20 put together as the voice and the eyes and the ears
21 of the participants of the local governments, and
22 we've had absolute transparency and complete
23 cooperation from the SBA staff.

24 GOVERNOR SCOTT: Thank you.

25 ATTORNEY GENERAL BONDI: Thank you.

1 CFO ATWATER: Thank you.

2 MR. WILLIAMS: Thank you, Ms. Heffner.

3 Mr. Bill Sweeney, Chairman of the Audit
4 Committee.

5 GOVERNOR SCOTT: The easiest job, right, the
6 Audit Committee. Never any criticism.

7 MR. SWEENEY: The Audit Committee was formed
8 in '03, late '03, so it's relatively new. And
9 since the unpleasantness of, say, '07, '08, the
10 Audit Committee was meeting quarterly and now we
11 meet monthly or more frequently, and sometimes it's
12 scintillating and interesting for our meetings, and
13 so we have furnished you with those minutes.

14 But since the Trustees has started meeting in
15 this forum, that is, a special forum to this, we
16 have devised certain things, because we are your
17 committee. We are your Audit Committee, and we
18 were given directions and we consulted with the
19 Board, and we had three priorities which we have I
20 think substantiality completed.

21 One of them -- the first one was troublesome
22 to me when I first came to the Board was that we
23 had about 218 outstanding recommendations from our
24 external auditors, the Auditor General, and our
25 internal auditors. These recommendations were the

1 result of audits from the preceding four years and
2 had little or no resolution. And so we have been
3 working through this. This has been a priority to
4 implement these recommendations. And so we've gone
5 from 218 as of January 1, '09, and I think we have
6 14 left, and they'll be done at the end of June.

7 Now, obviously, when you have continuing
8 audits like we do and internal audits, you're going
9 to have more recommendations. But these were very
10 stale recommendations and I think would subject the
11 Board to criticism had they not been addressed.

12 And now I would say that in the last two
13 years, I think management has rigorously attended
14 this. And, of course, we go over this every month
15 and make sure that we're curing the problems.

16 CFO ATWATER: Governor, could I ask --

17 GOVERNOR SCOTT: Yes.

18 CFO ATWATER: Thank you, sir. I appreciate
19 that. Let me just be sure I have that right.
20 Where did the 218 findings come from?

21 MR. SWEENEY: They came from three different
22 external audits. They came from OPPAGA, and they
23 came from the Auditor General, and they came from
24 the internal audit. And they were accumulated over
25 -- these preceded -- I think the oldest one, the

1 ones that I can remember were from '04. And so
2 that was something that was very concerning.

3 CFO ATWATER: Yes. So when was the last
4 external audit performed?

5 MR. SWEENEY: That's my next item. The next
6 direction that we had from the Trustees was to
7 consider hiring an external auditor to do an audit
8 on the DC and the DB Plans. We had never had a
9 financial statement for either fund. And so as of
10 last June 30th, we had financial statements for
11 each Fund, and as of December, we had -- through a
12 competitive selection process, we had EY audit
13 those funds. And so each of those funds now have a
14 financial statement and an audit by an independent
15 outside auditor for the first time.

16 Now, that's not to say that some of the funds
17 were not audited as a part of the statewide audit
18 through the Auditor General, but this is the first
19 time we've had an independent audit of the two
20 pension funds.

21 We do have other audits -- and this is another
22 point that we have tried to do. We have now asked
23 that all the audits, the CAT Fund and -- we have
24 all kinds of real estate audits that we own, the
25 fund owns, and we have independent audits there.

1 And we have directed that all the audits come
2 through the Audit Committee. And some of these
3 funds, the financial advisor was picking his own
4 auditor. So we're trying to increase the
5 independence and have, in effect, a direct report
6 to this board.

7 CFO ATWATER: Did the external audits audit
8 the performance of the fund staying within the
9 allocations, or did they also the audit management
10 practices or risk management practices?

11 MR. SWEENEY: Well, of course, they were
12 auditing financial statements, but in the
13 preparation and the assistance with the financial
14 statements, they have been advising on procedures.
15 And we have had various parts of the fund audited
16 for various procedures. And if you have questions
17 about, say, private equity or something, we would
18 be happy to have our internal or external auditors
19 address your questions and look into the fund as
20 you see fit.

21 CFO ATWATER: Well, I appreciate that, because
22 I've been asking for about two months when was our
23 last external audit done, and did it look at our
24 management practices and our risk management
25 practices and could someone show it to me. So

1 you're saying one was done.

2 MR. SWEENEY: One was done, but it was an
3 audit of our financial statements. And I can have
4 them at the next meeting and we will talk to them
5 about what you would like.

6 GOVERNOR SCOTT: Okay. So let me make sure I
7 get this right. The fund itself, the balance sheet
8 of the fund, have they been audited over the years?
9 They have; right?

10 MR. SWEENEY: They've been -- the Auditor
11 General audited them.

12 GOVERNOR SCOTT: Not a third party, not like
13 E&Y?

14 MR. SWEENEY: Not an independent third party.

15 GOVERNOR SCOTT: That's interesting. I'm
16 surprised.

17 MR. WILLIAMS: If I may add some clarification
18 a little bit, the Auditor General historically has
19 provided general oversight for the State Board in
20 preparing and as it contributes to the State's
21 capital. The direction we've taken recently was
22 that a more private sector oriented -- the more
23 appropriate approach would be to generate our own
24 financials and subject them to third party
25 commercial audit, which we've now done. And it's

1 actually in the statute. That was adopted last
2 June.

3 GOVERNOR SCOTT: Okay. And that was for June
4 30th?

5 MR. WILLIAMS: Correct. And the audits came
6 out in December '10, and they've been distributed
7 to all three of your offices.

8 GOVERNOR SCOTT: Right.

9 MR. WILLIAMS: To your other point, other
10 controls, et cetera, we have numerous
11 certifications that come from numerous places,
12 which is exactly what we're cataloging, CFO, for
13 your benefit. For example, you heard earlier in
14 EnnisKnupp's comments objective perspective on
15 controls, performance, et cetera, more performance
16 than anything else in that particular thing.

17 But we also have asset class specific advisory
18 reports at different times of the year brought up
19 in the quarterly IAC meetings and brought to you in
20 areas like private equity, real estate, et cetera,
21 et cetera, where we have specialty consultants, as
22 Cambridge is in the hedge fund area.

23 GOVERNOR SCOTT: Is there like a standard for
24 the industry with what people do?

25 MR. SWEENEY: With what respect, Governor?

1 GOVERNOR SCOTT: Well, with regard to what the
2 CFO was saying with regard to risk controls, things
3 like that. Is there a standard for what the other
4 funds do?

5 MR. SWEENEY: Well, we have -- there was a --
6 I guess Gunderson was talking about risk control
7 and whether they should be reported directly to
8 this Board or to the Audit Committee. We do have a
9 gentleman in charge of the risk part of fund come
10 and speak us. He doesn't work for us or doesn't
11 report to us directly, but he speaks at our
12 meetings every week.

13 You know, risk assessment, I know that is an
14 important thing that people talk about and you read
15 about in the journal all the time, but I would say
16 it's a lot more difficult to implement, because
17 what was a risk yesterday is not -- tomorrow
18 there's some new risk. You're always constantly
19 fighting the imagination of mankind, which I for
20 one am going to come out a loser on that, but, I
21 mean, you keep trying to create these prophylactic
22 procedures, but -- it would be a fool's errand to
23 think that you were ever going to perfect that
24 system.

25 GOVERNOR SCOTT: It's always easy to be a

1 Monday morning quarterback on something that you
2 couldn't anticipate.

3 MR. SWEENEY: We do enjoy a lot of those.

4 MR. WILLIAMS: To the point, though, there is
5 one good point on the subject of is there a
6 standard, is there a benchmark. The Board actually
7 retained Deloitte to answer exactly that question
8 and to say, please give us a best practice
9 benchmark, a private sector registered investment
10 advisor regulated by the SEC, number one; number
11 two, analyze our current risk control mechanisms;
12 number three, provide a gap analysis; and number
13 four, please advise us on how to set up an
14 independent risk management and compliance
15 structure to eliminate that gap.

16 That risk management and compliance structure
17 was initiated in December or November, the fourth
18 quarter of 2009. It's under the leadership of
19 Mr. Nelson, who is right back there with the red
20 tie and is available to report to any of you
21 directly, privately or publicly, at your pleasure.

22 We have in fact fully implemented his team.
23 He has a team of people who provide compliance on
24 the asset class level independent of each asset
25 class reporting directly to him. He in turn

1 reports directly to me. We have documented,
2 written escalation procedures, so if there's ever a
3 compliance issue with any asset class, we can be on
4 it and address it immediately, I mean, within a
5 trading day or two. And if there's not agreement
6 at the asset class level on what compliance sees as
7 an appropriate resolution, it can escalate up
8 through a series of groups, senior investment
9 group, operating group, to me individually.

10 We also have -- at each of the monthly Audit
11 Committee meetings, I'm present, as is Mr. Nelson,
12 who will report directly to the Audit Committee and
13 will satisfy the chair and the committee members
14 that whatever we do will make sense.

15 CFO ATWATER: How often will you do the
16 Deloitte report? How often do we do that?

17 MR. WILLIAMS: Well, the Deloitte report is
18 not --

19 GOVERNOR SCOTT: He has told you what you
20 should do.

21 MR. WILLIAMS: That was a design effort. That
22 was a one-on.

23 GOVERNOR SCOTT: So you don't need to do that
24 once a year.

25 MR. WILLIAMS: Now what we're doing is,

1 whenever we do audits, we can audit compliance with
2 our own compliance procedures. The Auditor General
3 can do that, OPPAGA can do it, E&Y can do it.
4 There are any number of folks that can do it.

5 GOVERNOR SCOTT: Do you all have a hot line
6 that goes to the Inspector General?

7 MR. WILLIAMS: We have -- not only do we have
8 a hot line; we have a hot line that all our vendors
9 are made aware of so that if anybody anywhere has
10 any knowledge -- we have a third-party contractor
11 externally, so there's an 800 number. Every
12 contractor we hire signs a form that says, "I know
13 this number exists. I realize that if there's ever
14 any indication of fraud or double-dealing, I can
15 call this number and independently report it, and
16 it will be addressed."

17 GOVERNOR SCOTT: And all of our assets that
18 are controlled by a third party, we have outside
19 independent auditors from there, from those
20 companies?

21 MR. WILLIAMS: We don't necessarily have a
22 separate independent auditor for each external
23 asset manager, but they are named fiduciaries to
24 us. And in some circumstances where, for example,
25 directly owned real estate, if we have a holding

1 company that holds the title to a piece of real
2 estate, that's what Mr. Sweeney was just referring
3 to, where we now put all of those on a cycle of
4 independent commercial external audit under an
5 auditor selected by our Audit Committee, with a
6 scope established by our Audit Committee, and audit
7 results reported to our Audit Committee.

8 ATTORNEY GENERAL BONDI: May I ask a question?

9 GOVERNOR SCOTT: Yes.

10 ATTORNEY GENERAL BONDI: And that's based on
11 the statute that came about requiring --

12 MR. WILLIAMS: It's really --

13 ATTORNEY GENERAL BONDI: Can you explain that,
14 the history? Last year they changed the statute
15 requiring an independent auditor?

16 MR. WILLIAMS: The background on that, General
17 Bondi, is that not too long after I got here, we
18 began talking about how we were audited and how to
19 deal with that. And there had been some issues
20 raised in the media about has the SBA been
21 submitted to appropriate external audit, et cetera.

22 There was some question as to whether the
23 State Auditor General should be considered an
24 independent auditor. I think any of you whose
25 organizations have been audited by the Auditor

1 General would affirm that, yes, they are. And not
2 only that, the AICPA that recognizes the Florida
3 Auditor General as an independent auditor.

4 But nonetheless, perceptions matter in our
5 business. So we discussed -- I discussed with the
6 Trustees and Audit Committee members, IAC members,
7 et cetera, the notion of why don't we create our
8 own financials and go to commercial audit. That's
9 the standard the world is on. Why would we put
10 ourselves on a different and lower standard, or
11 arguably lower standard? Let's get with the
12 program and adopt best practice.

13 Everyone thought that was a good idea. The
14 Audit Committee enthusiastically bought into it, as
15 did the IAC. And we went with the idea, and in
16 part, with the good graces of the former Senate
17 president's leadership, we did get legislation
18 adopted last year that put the requirement for the
19 external financial statements in the statute,
20 together with external third-party audit.

21 And we also put the Audit Committee itself in
22 the statute as a requirement, because the Audit
23 Committee was created, as Mr. Sweeney suggested,
24 back in '03 not by legislative mandate, but by
25 leadership of the Trustees and the staff who

1 together said this would be a good thing to have.

2 ATTORNEY GENERAL BONDI: That's what I meant
3 by -- that's what I didn't understand. That's
4 great. Thank you.

5 MR. WILLIAMS: Sorry for the long answer.

6 MR. SWEENEY: And the independent outside
7 audit, and it happens to be EY, that was requested
8 by this Board before actually the legislation
9 passed. And by the time the legislation passed, we
10 had them on board and were working on the financial
11 statements, and so it was just a confirming piece
12 of legislation.

13 The final thing that we had worked on last
14 time, I think if we have an opportunity, it would
15 be -- I find it extremely interesting, and I think
16 this Board would too, and that is the process of
17 continuing education that we have undertaken for
18 the Board.

19 There were computer generated programs that
20 other firms, other national firms, people in New
21 York train their employees with. And it's very
22 difficult, especially when you're out in the sticks
23 like we are -- there are some advantages to being
24 out in the sticks. You don't hear all the rumors,
25 and you can think for yourself, but there are some

1 educational aspects. So we have encouraged the
2 Board, and they have hired a person who is in
3 charge of doing continuing education for our Board
4 employees.

5 Of course, this helps in terms of the lawyers
6 and their continuing education, the accountants,
7 and some financial professional organizations to
8 get their continuing education. But it also allows
9 some of our younger people to grow within the
10 organization by taking these courses.

11 And I think if you'll look at it, you'll be
12 surprised -- I know I was -- as to the quality and
13 the scope of these courses. And there are over 100
14 of them, and you can take them on the computer,
15 take them at your own pace. I think this beats the
16 old method of sending people out to some beach town
17 to try to get a little continuing education between
18 golf games.

19 I think that I've taken up more time than I
20 expected. I hope that we will have your ideas or
21 your suggestions for the Audit Committee the next
22 time we meet. You can call me and we'll be happy
23 to execute whatever you need to find out about.
24 Thank you.

25 GOVERNOR SCOTT: Thank you. Could I ask a

1 couple of questions?

2 MR. SWEENEY: Yes.

3 GOVERNOR SCOTT: First, do you feel
4 comfortable you have access to the people and
5 information you need?

6 MR. SWEENEY: Yes, sir, I think so.

7 GOVERNOR SCOTT: And do you feel comfortable
8 that you're on the right path to the outside
9 auditors' recommendations for changes? You feel
10 comfortable you're on the path to get those
11 implemented?

12 MR. SWEENEY: Yes. I think that was our
13 principal grunt work that we spent two years
14 grinding through each of these recommendations.
15 Management has been cooperative on some of them,
16 and some of them we've had a little tussle to get
17 through, but I think we've worked through a lot of
18 these.

19 And if you're only working on, let's say, last
20 year's audit criticisms, you're in good shape. So
21 we've whittle down the embarrassing 219 or whatever
22 they were, and those -- all the pre-'09 audit
23 criticisms will be erased by this June.

24 GOVERNOR SCOTT: Thank you very much.

25 CFO ATWATER: Governor, could I just ask

1 another question?

2 GOVERNOR SCOTT: Yes.

3 CFO ATWATER: I want to say thank you as well,
4 and I look forward to visiting maybe in the next
5 few days or the next week, you now, with you and
6 whoever else was pointed to in the back as the red
7 tie. I didn't get the name, but I'm looking
8 forward to that opportunity.

9 MR. SWEENEY: I'll find the red tie.

10 CFO ATWATER: Great. And Mr. Williams as
11 well. But the point is, that was just the example
12 that was shared, Governor, is that we have issues
13 where we're finding -- and this is going to happen
14 in any organization -- the fund manager picking out
15 the auditor. And if we have processes in place
16 that allow us to find that on a regular basis and
17 we don't wait till the seventh year to have
18 somebody blow a gasket and call for an external
19 audit, that's what we just need to know sitting
20 here, is what processes are we following.

21 It's very easy to show us the results on the
22 performance of each fund, but we also have a
23 responsibility on how the process works and how
24 well it's managed and managing the risk that's
25 involved, and knowing that there are the tools in

1 place to see it, spot it, find it, and address it,
2 and that it comes to us.

3 So I look forward, Governor, to having some
4 time with the team and coming back, as I'm sure
5 every Trustee would, and offering whatever
6 suggestions might be valuable to us to have a
7 greater level of comfort.

8 MR. SWEENEY: Thank you.

9 GOVERNOR SCOTT: Thank you very much.

10 MR. WILLIAMS: Thank you, Mr. Chairman.
11 Trustees, with your indulgence, I think I would
12 like to go ahead and jump into the meat of what
13 we're here to talk about today, which is the redo,
14 the revisitation of the asset-liability study from
15 last year and the ramifications it had for
16 investment policy. So I would like to ask
17 Mr. Rowland Davis of Hewitt EnnisKnupp to come
18 forward and provide that background for you.

19 We're mindful of your time, so we're going to
20 try to keep it moving as quickly as we can.

21 MR. DAVIS: Thank you. Good afternoon.

22 GOVERNOR SCOTT: Good afternoon.

23 MR. DAVIS: I am a bit of a specialist with
24 the Hewitt EnnisKnupp team. I'm an actuary by
25 training, and so my role is to focus on

1 asset-liability studies. And the primary purpose
2 of an asset-liability study is to address the one
3 overarching question of how much overall portfolio
4 risk is appropriate for the fund.

5 GOVERNOR SCOTT: Could I stop you just for a
6 second?

7 MR. DAVIS: Yes.

8 GOVERNOR SCOTT: Can we take a 10-minute break
9 and -- we'll take a 10-minute break and get
10 restarted. I'm sorry.

11 (Recess from 2:23 p.m. to 2:59 p.m.)

12 GOVERNOR SCOTT: I apologize that we took such
13 a long break and you all had to wait around. I
14 hate the part when people have to wait on me. But
15 thank you very much.

16 MR. DAVIS: No problem. So I will be brief.

17 Again, the role that I play is to try and
18 address the question of how much overall risk is
19 appropriate for the fund, and I do that by trying
20 to put it into a risk management frame where we
21 look not just at investment risk, but translate it
22 into financial risk factors that are important for
23 the plan cost and funded ratio of the plan.

24 So I'm going to skip and hit a couple of pages
25 that I think are of interest, and we'll move kind

1 of quickly.

2 The first chart I would like to go to is this
3 one on page 61. The way we do our work is through
4 projections and modeling, so we do a lot of
5 simulations and make a lot of assumptions about
6 what the future might look like, both good and bad.
7 So this is a projection of the investment return
8 from our model over a period ultimately of 30
9 years, but we show expected return and the range of
10 possible returns in a 90 percent confidence band
11 going one year on the left, where we have a huge
12 amount of uncertainty. And then going forward, the
13 uncertainty tends to diminish as you are able to
14 average things over periods of years.

15 The trend line ultimately hits a level of just
16 a little over 8 percent. So we don't set the
17 actuary's assumption at 7 3/4, but an important
18 note is that our assumptions are relatively
19 consistent with what the actuary has been using to
20 do those calculations based on long-term return on
21 the fund.

22 GOVERNOR SCOTT: I don't want to have any of
23 these 20 percent down years.

24 MR. DAVIS: Pardon?

25 GOVERNOR SCOTT: I don't want to have any of

1 these 20 percent down years.

2 MR. DAVIS: I know. We wish we could avoid
3 those. So the challenge to policy makers, policy
4 setters is how much of that uncertainty is
5 tolerable and sustainable, and that's what we try
6 and wrestle with.

7 You can on the next slide see the effect of
8 trying to remove all investment risk, so the green
9 lines now would be 100 percent bond portfolio. And
10 you can see that the band is much, much tighter, so
11 you've removed a great deal of the risk. But the
12 tradeoff is that it floats at a much lower point,
13 and so that's where the tension is, giving up
14 return to gain more certainty.

15 Some of the material that precedes this talks
16 about how actuaries and the models for funding
17 plans are different between the corporate world and
18 the public plan world. Public plans have
19 maintained a long-term focus, which means the
20 volatility, short-term volatility is accepted and
21 tried to deal with it so that you can achieve these
22 higher returns and keep the cost low of the
23 program.

24 Corporate plans have evolved over the last 20
25 years to a different perspective, where the

1 short-term balance sheet issues are much more
2 prominent because of corporate transactions,
3 takeovers, mergers, acquisitions, bankruptcies,
4 meaning that the pension obligation can move to the
5 balance sheet at any point in time, so the issue of
6 avoiding that near term uncertainty is much more
7 critical. And the corporate world has moved in the
8 direction to derisk their pension arrangements and
9 exit them in many cases as well.

10 So there really are two different frames, and
11 it's kind of important to keep that in mind. Our
12 work has focused on the continuing frame of
13 reference that most public plans look at, which is
14 long-term cost management.

15 The importance of this sensitivity you can get
16 a feel for. The actuary for your plan, which is
17 Milliman, measures the sort of normal equilibrium
18 cost of the plan at about 12 percent of payroll as
19 it exists right now. So the theme would be that if
20 we could earn 7 3/4 percent and maintain full
21 funding, then you could sustain the plan at
22 12 percent of pay contributions going forward.

23 The rough part is that there's no certainty
24 about that, so there's bumps in the road, but that
25 will be sort of the long-term estimated sustainable

1 cost of the plan. The question then becomes, well,
2 how sensitive is that to this rate of return? And
3 the answer is that for every 1 percent change in
4 the return, you're going to get a 30 percent bump
5 or drop in the cost.

6 For example, if you lose 1 percent of return
7 for an extended period, if you thought $7\frac{3}{4}$, but
8 you actually get $6\frac{3}{4}$, then the cost should not
9 have been 12 percent. It should have been 15, over
10 15 percent. That's a 30 percent bump on top, so 12
11 percent times 1.3.

12 GOVERNOR SCOTT: So let me say that another
13 way and see if you're saying the same thing. So
14 instead of getting 7.75 percent return, we get 6.75
15 return --

16 MR. DAVIS: For a long period of time.

17 GOVERNOR SCOTT: Twenty years, whatever. So
18 what impact would that have on -- and you probably
19 can't answer it perfectly, but approximately how
20 much would that reduce -- I guess we're about
21 13 percent underfunded now? It might be a little
22 less now. How much would that increase that?

23 MR. DAVIS: The cost?

24 GOVERNOR SCOTT: Yes.

25 MR. DAVIS: The underlying sort of equilibrium

1 cost of the plan would move from 12 percent of pay
2 to about 15 to 16 percent of pay, so about a
3 4 percent, 4 percent of payroll increase in the
4 equilibrium cost.

5 GOVERNOR SCOTT: You're saying you would have
6 to put 4 percent more in to get that same return?

7 MR. DAVIS: Right.

8 GOVERNOR SCOTT: And you don't really know
9 what the number would be as far as how much we
10 would be underfunded?

11 MR. DAVIS: No, and that --

12 GOVERNOR SCOTT: That would be 4 percent and
13 growing; right?

14 MR. DAVIS: Right. This would be a long-term
15 equilibrium perspective. But if you have bad
16 returns, then you would have to accept the bumpy
17 road on all that.

18 GOVERNOR SCOTT: So what you're saying is that
19 it would be 4 percent compounded somehow, by the
20 6.75, I guess.

21 MR. DAVIS: Yes. The main point is -- and
22 these are all rule of thumb kind of estimates,
23 because I'm not the plan actuary. But a little bit
24 of extra return goes a long way to controlling the
25 long-term cost of the plan.

1 And the other point -- I missed a slide. The
2 previous one actually says it's not the actuary's
3 estimate that determines what the real cost is
4 going to be over the long term. It's what you
5 actually earn. So that's why we work so hard with
6 the staff to extract as good a return as we can
7 while watching the risk.

8 GOVERNOR SCOTT: And with your current 29/71,
9 over the next 15 years, how much would you go down
10 as far as percentage and under after --

11 MR. DAVIS: How much would we go down?

12 GOVERNOR SCOTT: Yes, or increase.

13 MR. DAVIS: In terms of fine tuning things?

14 GOVERNOR SCOTT: Yes.

15 MR. DAVIS: As long as the perspective for the
16 plan remains the long-term focus on controlling
17 costs, in general, the kinds of variations that we
18 would see probably would be within the 10 or maybe
19 15 percentage point band.

20 GOVERNOR SCOTT: Would it increase much ever
21 over 71?

22 MR. DAVIS: Possibly a bit, but more likely
23 the other side.

24 GOVERNOR SCOTT: So that 15 percent would not
25 -- it might be --

1 MR. DAVIS: Right. And the plan had been at a
2 higher -- we did a full study in 2010, and the
3 prior one was in 2007. During that study, the
4 recommendation was to dial down on the risk, and
5 that was at 78 percent and went to 71 percent from
6 the 2007 study.

7 GOVERNOR SCOTT: All right. Thank you.

8 MR. DAVIS: Okay. Let me move forward into
9 the 2010 study. And I'm not going to go through
10 too much of the material here. The bottom line
11 message from the study last year was on this
12 question of how much overall risk seems
13 appropriate. The answer was, it seemed that you
14 were just spot-on in the middle of what we call the
15 comfort zone or acceptable range, so we didn't
16 recommend any change up or down in the overall
17 risk.

18 Then the next step was to explore if there
19 were opportunities to get a better risk-adjusted
20 return by a better use of the different asset
21 classes, in particular, the strategic and
22 opportunistic type of asset classes. The answer
23 was yes. As we looked at a variety of different
24 configurations, we found several that would improve
25 results. The one that became the recommendation to

1 the Trustees last year was one that would produce
2 cost savings over a 15-year perspective of
3 \$2 billion and slightly lower the overall risk
4 based on these financial measures that we looked
5 at.

6 So that process is one where you do a lot of,
7 again, forecasting. This chart, for example, is a
8 forecast from last year of the rate of contribution
9 as a percentage of payroll under the existing
10 policy, 71 percent allocation, again, with these
11 kind of confidence intervals of rates. So you can
12 see a high level of uncertainty there, and this was
13 the same thing for funded ratio.

14 What we do then is collapse a lot of that
15 information into a risk-reward framework, and this
16 chart becomes the punch line to our study. And I
17 won't go into how it's constructed, but it's
18 constructed in a way so it has a very easy visual
19 interpretation, and it's all relative to the
20 diagonal line there. And the interpretation is
21 that if we plot all these points, points where you
22 either dial up or down the risk from where you are
23 now, which is the red line, if you can find points
24 that are above the diagonal, those are places you
25 would like to be. That gives you a good

1 risk-reward tradeoff.

2 So the picture we saw last year was this,
3 where there are no points above the diagonal. In
4 fact, the current policy, which is at the
5 crosshairs there, is in fact the best you could get
6 from this particular analysis of long-term cost,
7 pretty much in the middle of the range. So that
8 was the main conclusion from the asset-liability
9 part of the study.

10 Coming into this year, we updated on at least
11 a rough basis how would this curve look reflecting
12 things we know now that we didn't have knowledge of
13 last year. The investment returns for calendar
14 year 2010 were very strong, stronger than the model
15 would have predicted, so that's one thing. The
16 other thing is our assumption --

17 GOVERNOR SCOTT: Does that make you get more
18 conservative?

19 MR. DAVIS: Pardon?

20 GOVERNOR SCOTT: Does that make you get more
21 conservative?

22 MR. DAVIS: It does make me more conservative.
23 As the plan gets more well funded, you take some
24 risk off the table. That's the way our model
25 adjusted. And if you get to the surplus situation,

1 which this plan was at, then you do what you need
2 to do to try and protect the surplus.

3 The other thing that has changed from last
4 year, we are constantly reviewing our
5 forward-looking assumptions. Our view now is that
6 you probably will get paid a little more for taking
7 risk than what we thought last year. That's
8 because fixed income returns are a little lower
9 than we would have expected from a year ago. So if
10 you get paid more for taking risk, you know, it
11 shifts things in the upward direction.

12 So how does that look? If you go to this
13 chart, the red line is where we were last year.
14 The dotted blue line would be reflecting those two
15 things that I talked about, excellent returns
16 during 2010, but also a somewhat higher expectation
17 for the equity risk premium, what you get paid for
18 taking risk going forward. The line shifts a
19 little, but not dramatically.

20 And if you just put the same kind of logic in
21 here and look for points above the diagonal,
22 there's a few that just marginally are above. The
23 acceptable range has shifted to the right a little
24 bit, which would mean you're still very much in the
25 comfort zone, but more so now at the lower end of

1 that.

2 GOVERNOR SCOTT: I would have thought that as
3 you got better returns, it would have moved to the
4 left a little bit.

5 MR. DAVIS: That part, it did. But the part
6 about expecting that you might get paid more for
7 taking risk, that's a very powerful assumption in
8 this modeling exercise. And because of that, we
9 also express that. You know, we give you a
10 sensitivity analysis. But that's a very important
11 assumption, very, very critical to know what you've
12 going to get paid for taking risk, and it more than
13 offset the other movement.

14 So that's where we're sitting today, which is
15 a comfortable place to be. The big unknown is the
16 plan changes, and so we have done some very rough
17 calculations. If the plan changes are significant,
18 does it shift the curve? Yes, it does. Anything
19 you do that would slow the growth of the
20 liabilities will move you in a more conservative
21 direction from an investment policy point of view.

22 So we did again a ballpark estimate that said
23 if the COLA is phased out, no new employees are
24 brought into the Defined Benefit Plan, and you add
25 employee contributions, what might that curve look

1 like. It might shift as much as 10 percentage
2 points, so it's not inconsequential. Hence, the
3 basic view that we presented to the IAC yesterday
4 was, we're in a good place, last year's
5 recommendations are still standing, but there's a
6 big unknown, so we want to pause and review in the
7 middle part of the year.

8 Now, the second part of this study was, okay,
9 can we improve the risk-adjusted return by fiddling
10 with the asset classes and maybe creating some new
11 asset classes? That's an area where Mike Sebastian
12 will come up and address. But before I leave, if
13 there are any other questions on my part of it --

14 GOVERNOR SCOTT: Do you have any questions?

15 CFO ATWATER: Yes. Thank you, Governor.

16 Thank you. I'm curious. Just because I'm
17 curious, do you have a sense -- would this be the
18 right place to ask Ash what the funded ratio might
19 be today?

20 MR. DAVIS: Yes, it would be the perfect place
21 to ask. The liabilities as calculated by the
22 actuary for purposes of these funding calculations,
23 the number that gets highlighted and headlined was
24 138 billion last July 1st. My projections would
25 indicate that come this July 1st, we might be

1 somewhere around 145 million.

2 GOVERNOR SCOTT: Billion you mean?

3 MR. DAVIS: Billion. And the assets now of
4 the Pension Plan are about 127 billion, so where
5 will they be? June 30th, who knows? But if
6 they're still at 127, even without further market
7 movements from today, we would be near 90 percent
8 funded using the market value of assets.

9 Now, the other thing that comes in, which I
10 think Ash alluded to, is that the actuary in our
11 calculations smooths out some of those year-to-year
12 fluctuations, so the asset value that the actuary
13 uses to calculate costs is not market value. It's
14 basically a five-year average type value. I still
15 think it will be around 90 percent or very close to
16 90 percent. So if you think in terms of at or near
17 90 percent, that's probably the right answer for
18 the question.

19 GOVERNOR SCOTT: All right. Any other
20 questions?

21 Thank you very much.

22 MR. SEBASTIAN: Good afternoon. Mike
23 Sebastian again. Thanks very much. Roland covered
24 the first part of our regular analysis of the
25 investment policy of the DB Pension Plan. His

1 analysis related to the asset-liability portion,
2 which results in a recommendation of the overall
3 appropriate risk posture of the Investment Plan,
4 that being 71 percent to equity-like or risky
5 assets and 29 percent to fixed income, bond or less
6 risky assets. That's stage 1. And stage 2, after
7 we have determined or agreed up the appropriate
8 risk posture, is whether there's ways to improve
9 risk-adjusted returns through diversification of
10 those components in a better way.

11 The process that we walk through in order to
12 get there starts with assumptions for a wide
13 variety of asset classes, your traditional stocks
14 and bonds, but also a variety of alternative asset
15 classes, including commodities, timberland, hedge
16 funds, and many others, basically a full set of
17 opportunities to determine what might improve the
18 adjusted returns and lower costs over a period of
19 time. We review a broad set of those asset
20 allocation policies to give a lot of choice of
21 alternatives and ultimately narrow them down to
22 three, one being a lower risk policy that will
23 allow for better diversification and a reduction, a
24 substantial reduction in risk in the Pension Plan.

25 Ultimately, the recommended policy that also

1 had a reduction in risk relative to the current
2 policy, but also increased expected returns through
3 better diversification and more opportunistic
4 investing, while lowering risk and volatility, also
5 lowering cost over a 15-year projection horizon.

6 And then lastly, the near term policy,
7 recognizing the fact that the recommended policy
8 includes some changes which would require
9 legislative relief to enact in the plan. There is
10 currently a 10 percent overall limit to the
11 aggregate value of private equity, venture capital,
12 distressed debt, and hedge fund investments. So to
13 the extent that in the future a legislative
14 solution can be found to allow an increase beyond
15 10 percent, we can move to the recommended policy.
16 The near term policy which is described later in
17 this presentation is an interim step between the
18 current and the recommended.

19 The reasoning that we using in recommending
20 these changes were essentially threefold: One, to
21 maintain, or more importantly, reduce the overall
22 level of investment risk in the fund. We suggested
23 doing that in a number of ways, number one,
24 reducing the fund's overall exposure to the stock
25 market. You will see that the recommended decrease

1 is from 58 percent stock exposure in the plan to
2 52 percent to reduce risk and volatility, and then
3 also to decrease the fund's use of a different kind
4 of risk which is designed to increase returns over
5 time, which is active management. Market risk is
6 the largest component of the fund's risk, and the
7 second is skilled active managers taking risks
8 relative to asset class benchmarks in an attempt to
9 beat the market and increase the plan's returns.
10 We believe that the plan is well served by having
11 that, but possibly it can be taken in a more
12 efficient way. We recommend decreasing the use of
13 active management in the public stock and bond
14 markets and increasing it in other areas, such as
15 strategic investments, where it might be taken more
16 efficiently. Those two together result in a
17 reduction of risk to the plan.

18 We recommend increasing diversification in
19 investments. The plan is already well and
20 adequately diversified. We recommend more. One is
21 greater global diversification in public stock
22 investments. That would result in an increase in
23 the allocation to non-U.S. stocks from about
24 one-third of the public stock investments to about
25 one-half, with the idea being that that allows

1 broader participation in worldwide economic growth
2 and also a reduction in volatility and risk that
3 comes with better diversification, and then also
4 greater diversification into a broader array of
5 investment types, in particular, toward alternative
6 investments that can reduce risk to the plan by not
7 moving in lockstep with the other portions of the
8 fund's asset allocation and reducing the overall
9 volatility. And that can be private debt
10 investments, commodities, infrastructure,
11 timberland, and also even hedge funds, which
12 another one of your advisors, Cambridge Associates,
13 will speak about in more detail in a minute.

14 And then lastly, a third driving force behind
15 the changes was flexibility to take risks more
16 efficiently. I already touched on this a bit, in
17 the sense that some active risk to attempt to beat
18 the market moves from bond and stock investments,
19 which can be best served by thinking about a way to
20 participate in economic growth through stock
21 investments and protect the fund from downside risk
22 in the bond investments, but then going with active
23 market beating investments within the opportunistic
24 investment or strategic investments category. We
25 recommend over time to consider increasing that

1 portion of the fund to about 11 percent of total
2 assets to from around, on a market value basis, the
3 around 4 or 5 percent that it is today.

4 ATTORNEY GENERAL BONDI: Could I ask a
5 question?

6 GOVERNOR SCOTT: Sure.

7 ATTORNEY GENERAL BONDI: When you're talking
8 about risk factors, where do hedge funds fall?
9 High, medium, low growth?

10 MR. SEBASTIAN: Great question. If I might, I
11 might to skip ahead a second to some performance
12 results. Hedge funds are one of many possible
13 components of strategic investments. Hedge funds
14 we cannot view as an asset class or investment
15 category in and of itself. It's just a legal
16 structure. Lots of things can be called a hedge
17 fund, and they can have a wide variety of fees,
18 levels of transparency, liquidity, and types of
19 performance, and to come to your question, levels
20 of risk.

21 Some investors say that you ought to look at
22 these things very closely, and we agree. We
23 believe that it's not just hedge fund investments,
24 but the best hedge fund investments and the ones
25 that are an appropriate level of risk that are risk

1 reducers at the total fund level for the SBA's DB
2 Pension Plan.

3 You asked about risk, and I'll talk about
4 return. This graph shows two things. One is,
5 starting in 1994, the results of a hedge fund index
6 published by a firm called HFR, 1994 being the
7 earliest date at which good data is available, and
8 at the same time, the performance results of the
9 S&P 500 stock index of large cap U.S. stocks. This
10 is just growth of a dollar invested in December of
11 1993 to the same value in December 2010.

12 We see some variation in the blue hedge fund
13 line similar to that of the stock market, so there
14 is some stock market exposure, but less volatility
15 over time. The up-and-downs have been more muted.
16 And at the same time, the end value is greater in
17 this particular case than the S&P 500 stock index.
18 So although this won't be the case over every
19 smaller or shorter time period, in this case, hedge
20 funds as a group had returns comparable to the U.S.
21 stock market at a lower level of risk.

22 And you can see the same or even a better
23 analysis on the right of that chart, where the two
24 blue bars represent measures the hedge fund market,
25 one from the Dow Jones Credit Suisse, one from the

1 same firm, HFR, and then some major asset class
2 comparisons, stocks of various sorts, U.S. and
3 non-U.S., commodities on the far right, and then
4 bonds in the middle. And we see that the hedge
5 funds as a group, again, before any skillful
6 portfolio selection on the part of your staff, have
7 delivered risks that are lower, substantially lower
8 than stocks -- there are also commodities shown
9 here -- and are reasonably in the same level as
10 what is produced by bonds, with returns that have
11 been favorably comparable or comparable to stocks.

12 GOVERNOR SCOTT: But this is basically an
13 annualized return? This is not tied to actual
14 dollars invested; right? Because if you had a year
15 where there was less money invested in hedge funds
16 with less volatility and a year where there was
17 more money invested with greater volatility, it
18 wouldn't take into consideration that there was
19 more money invested in those years.

20 MR. SEBASTIAN: That's absolute right. It
21 does not consider that. It's a time weighted rate
22 of return.

23 GOVERNOR SCOTT: All right.

24 MR. SEBASTIAN: Governor Scott had mentioned a
25 desire to avoid 20 percent down years, that he

1 wished he could promise that. And alternative
2 investments and strategic investments won't deliver
3 that with certainty either, but I just thought I
4 would highlight on this slide the downside risk
5 protection from hedge funds.

6 Again, as a class, before any portfolio
7 selection, the blue bar -- well, to back up, this
8 is an analysis of the down stock market months from
9 1994 to 2010, so markets in which the S&P 500 stock
10 market index lost value. There were 73 of those
11 months over that time period.

12 And what we see here in the two bars are
13 average returns of hedge funds first, and then the
14 stock market in gray. So a negative .69 percent
15 for hedge funds, below zero, but a much more modest
16 loss than the 4.05 percent for the S&P 500. So
17 this is just a demonstration over a fairly long
18 time period that hedge funds as a class have saved
19 value when the market has been down.

20 GOVERNOR SCOTT: If you did this over a --
21 hedge funds really haven't been around that long,
22 probably since '94; is that right? There wouldn't
23 be any data, I guess, is the problem.

24 MR. SEBASTIAN: Good data -- data, period,
25 starts in about 1990, and good data starts about

1 1994.

2 GOVERNOR SCOTT: So going back further
3 wouldn't help you at all. You could look at the
4 right side, I guess, I mean, the S&P 500, but not
5 the hedge fund side.

6 MR. SEBASTIAN: Yes, that's right. Hedge
7 funds have been around for a lot longer than that,
8 but as a mature industry that had good data -- and
9 good data is often the bane of these kind of
10 analyses. We'll be glad to help out in any way we
11 can, but the best data starts in the '90s.

12 GOVERNOR SCOTT: Right.

13 MR. SEBASTIAN: So to close on hedge funds and
14 other alternative investments, there's certainly no
15 free lunch, but correctly structured, they can play
16 a role in the portfolio in a way -- provide a way
17 of reducing risk and increasing risk-adjusted
18 returns.

19 I'm going to close with a table that shows a
20 few policy items. So moving from the top to the
21 bottom, we see the various asset classes in which
22 the DB Pension Plan is invested. We see the prior
23 policy before the changes that were implemented by
24 the Trustees in -- the then-Trustees in July 2010,
25 or June 2010. That's on the left-hand side. On

1 the far right is the expanded authority policy.
2 That represents our recommendation, the farthest
3 out of the three that I mentioned earlier. And in
4 between is the transitional policy that reflects
5 the fact that there are legislative limits on
6 certain types of investments in the recommended
7 policy.

8 The changes from left to right, first of all,
9 a reduction in global equity, with the idea of
10 reducing the risk in the plan from 58 percent to
11 ultimately 52 percent. It's not shown here, but
12 combining domestic and foreign equity into one
13 global equity component, which we believe is best
14 practice. We view stocks of all types being one
15 part -- or part one of the broad global equity
16 asset class. A modest reduction in investment
17 grade fixed income, and elimination of the high
18 yield component and rolling that into the strategic
19 investments area, because it's believed that that
20 fits better there. It's more of an opportunistic
21 investment. No change to the real estate
22 investment allocation. A very modest increase in
23 private equity from 4 to 5 percent, and then an
24 increase over time to the strategic investments
25 category target, again which would include a wide

1 variety of investments designed to take risk more
2 efficiently, reduce overall risk, and increase
3 risk-adjusted returns, up to 11 percent of the
4 total fund.

5 We don't show, as we sometimes do, portfolio
6 statistics at the bottom, but if we did, what we
7 would see is expected returns that as we move from
8 left to right, from the current to the recommended
9 policy, expected returns increasing, risk
10 decreasing, and the cost savings of the plan over a
11 15-year time horizon, which is what we modeled,
12 increasing.

13 So the recommended policy is based on
14 Rowland's and Hewitt EnnisKnupp's modeling work and
15 the assumptions that flow into it. We expect from
16 the move to the recommend policy a cost savings of
17 \$2 billion over 15 years based on better
18 diversification and increased efficiency of taking
19 risk. And so we believe that that is a great place
20 for the fund to be over the long term.

21 And with that, I will ask for any questions.

22 CFO ATWATER: Could I ask a question?

23 GOVERNOR SCOTT: Sure.

24 CFO ATWATER: Thank you, Governor.

25 I just want to be sure I -- I know you went

1 through it, but just to be sure I've got it, I'm on
2 the page that's on the screen at the moment, and
3 the prior policy of global equity, 58 percent, you
4 footnoted that to be sure we saw that of that, if
5 I'm following the footnote, domestics were 38
6 percent and foreign was 20.

7 MR. SEBASTIAN: That's right.

8 CFO ATWATER: So now under the expanded
9 policy, expanded authority policy, it's at 52
10 percent total. But what were you suggesting would
11 be domestic and foreign?

12 MR. SEBASTIAN: We are recommending to remove
13 those explicit targets of 38 and 20 and combining
14 them into an overall target of 52, so then the
15 allocation for the U.S. and non-U.S. stocks would
16 be driven by market movements. Right now it's much
17 closer to a half and half split between U.S. and
18 non-U.S. stocks. So you can imagine taking that
19 52, dividing it in half, and that's about how much
20 will be invested domestically versus overseas.

21 CFO ATWATER: Thank you.

22 GOVERNOR SCOTT: Anything else?

23 ATTORNEY GENERAL BONDI: No, Governor.

24 GOVERNOR SCOTT: Thank you very much.

25 MR. SEBASTIAN: Thank you very much.

1 MR. WILLIAMS: Thank you, Mike.

2 So what we've teed up is the history of the
3 work that was done on the asset-liability side,
4 what the ramifications of that were for asset
5 allocation. We've talked a little bit about the
6 alternative area, framed up the somewhat
7 counterintuitive notion that some of the
8 alternatives can simultaneously reduce risk and
9 increase returns.

10 Particularly on hedge fund area, we talked
11 about aggregate hedge fund industry statistics.
12 And as Mike pointed out, that is without any
13 benefit for manager selection. Hedge funds in
14 particular, not unlike venture capital, private
15 equity, and certain other investment areas, are
16 areas where selection of the right management
17 partners are key.

18 To that end, we have the closing part of the
19 presentation today, which is Cambridge Associates,
20 who will talk for a moment about their processes
21 for selecting and overseeing hedge fund managers,
22 which we think are critical in terms of the overall
23 success.

24 MR. MNOOKIN: Thank you, Ash. I'm Jim
25 Mnookin. My colleague is Andre Mehta. We'll be

1 doing this together.

2 We're from Cambridge Associates. We're a
3 private, independent investment consulting firm
4 that provides proactive advice based on independent
5 research. Our only source of income is from our
6 clients, the owners of assets, and our client list
7 includes a number of public and government
8 agencies, as well as sovereign wealth funds. We've
9 been advising clients on hedge fund investments
10 since the late '80s, although as Mike just
11 reported, hedge fund investing did not become
12 mainstream until the '90s.

13 Hedge funds are really investment vehicles
14 that offer specialized investment strategies that
15 endeavor to make money independent of the direction
16 of stock or bond markets. Their legal structure is
17 a partnership which has incentive fees where
18 managers are rewarded for good performance. Unlike
19 traditional equities and fixed income, it's not
20 possible to invest in hedge funds passively through
21 an index fund.

22 The advantages of investing in hedge funds is
23 that they provide exposure to strategies not
24 available elsewhere, that they can earn equity-like
25 returns over the long run with less volatility, and

1 they provide access to some of the most talented
2 investment managers around. And as Ash just
3 alluded, it's very important to be discriminating
4 in selecting the hedge fund managers. You want to
5 be aware of things such as liquidity, transparency,
6 and leverage.

7 Broadly speaking, there are two main groups of
8 hedge funds. One is multi-strategy, and the other
9 is equity long/short. And in between, there's a
10 third sort of sub-group that has flexible
11 allocation, that can move where opportunities are
12 to multi-strategy when there are opportunities in
13 distressed or arbitrage situations and equity
14 long/short when there are more opportunities there.
15 And within each of these groups, there are finer
16 subsets.

17 Before one starts investing in hedge funds,
18 it's important to define the objectives of
19 investing. And on this page, we have sort of an
20 example of investment objectives. And these can
21 include sort of a desire to earn returns over the
22 risk-free rate, protect principal in down markets
23 while participating in up markets, and a desire to
24 diversify the sources of return in portfolios and
25 reduce the overall volatility of the portfolio.

1 MR. MEHTA: Let me just add one comment to
2 that. It's important to remember that there are
3 multiple objectives for having hedge funds in a
4 particular portfolio, so it's not just adding one
5 thing, adding return or lowering risk, but there's
6 really a combination of factors that come into
7 play.

8 MR. MNOOKIN: And as you saw, in aggregate,
9 Mike looked at data from '94 to 2010, to the
10 average month when the S&P was down, what happened.
11 What we have done in this slide is look at a
12 10-year period ending December 31, 2010, at
13 different hedge fund strategies and sort of link
14 together all the up months, up quarters for the S&P
15 500 linked to all the down quarters, and then have
16 the cumulative performance.

17 And as you can see from the top panel, linking
18 all the up quarters, the S&P during this 10-year
19 period was up 385 percent, and the hedge funds were
20 not able to keep up with that. But if you look at
21 the middle bar where, if you link together all the
22 down months, the S&P was down 76 percent, you can
23 see that all of these strategies were able to
24 protect principal. They weren't able to prevent
25 the loss of money, but they were able to protect

1 principal in the down months relative to the S&P.

2 And then at the bottom panel, you see how
3 they've done in all markets. And because of the
4 drops during the down months, you can see that over
5 this 10-year period, investing in hedge funds has
6 cumulative performance in excess of both the bond
7 and equity markets.

8 MR. MEHTA: I wanted to spend a few minutes
9 talking about the process by which we do our work
10 and how we advise our clients such as the SBA.

11 What you see here on page 120 is a simple flow
12 chart showing that there are approximately 10,000
13 hedge fund managers out there in existence, and we
14 obviously want to try and find those that are most
15 suitable and most prudent for our clients to invest
16 in.

17 We find good ideas in a number of ways. We
18 are contacted by many hedge funds directly, by
19 nature of the high quality client base that we
20 have. We get to know many of the analysts who work
21 at these firms, some of the junior talent, if you
22 will, as they develop, and progressively stay on
23 top of them and keep track of them as they leave to
24 launch their own firms. We also learn of
25 interesting investment opportunities through our

1 clients as well.

2 All things considered, we have a number of
3 sources, and we basically take that and try to
4 answer another set of questions, which are, you
5 know, is there real talent there, is there
6 something there that can be additive to our
7 clients' portfolios. And we do that by trying to
8 assess their strategy first and foremost, you know,
9 first of all, can we understand it, and that's
10 something that we should always be asking and
11 everybody should be asking.

12 Second is, really, what's the source of their
13 returns, that is, what is the market inefficiency
14 that they're trying to exploit, why does that
15 exist, how are they able to capture that
16 inefficiency, and is that sustainable. If those
17 criteria are met, we then do a deeper dive into the
18 organization and the investment process. We're
19 really trying to understand both things, because
20 they're both extremely important.

21 Finally, we spend a lot of time thinking the
22 about risk in a whole bunch of different ways.
23 Certainly on the investment side, we're trying to
24 understand what could go wrong, if something does
25 go wrong, how bad could it be, but also trying to

1 do, if you will, risk management ahead of time by
2 trying to understand the organization, trying to do
3 all the things that you might expect in terms of
4 background checks of the various principals,
5 confirming that the vendors, the brokers, and the
6 auditors are in fact legitimate and that they do
7 represent that particular hedge fund, and so forth.
8 And by following this process, we've been able to
9 prevent our clients from investing in some of the
10 notable failures that have occurred over the past
11 years.

12 I'm going to skip ahead a little bit to the
13 process as it pertains to an organization like the
14 SBA on page 125. You see two sides to this page.
15 One side is at the program level. And we really do
16 think of investing in hedge funds as not investing
17 in one manager at a time, but really thinking about
18 how they all relate to the other.

19 And as a result of that, the first step really
20 is trying to understand the objectives of the
21 organization, and in particular, what role hedge
22 funds play for the SBA. And that will be different
23 from an endowment or foundation or a private family
24 that we may also advise. We also want to
25 understand the particular constraints and the hot

1 button issues that a something like the SBA will
2 have. And in doing so, we try and to craft a
3 document, sort of a statement of objectives, if you
4 will, that really presents the guiding principles
5 which we follow in the subsequent steps.

6 On the right-hand side, you see a fund level
7 view of the process. It starts with informing the
8 SBA of some of the various funds that are out there
9 and talking about the tradeoffs between different
10 funds, the strengths and weaknesses and so forth.
11 We throw out a lot of data to try to really drill
12 down and use examples in that approach.

13 We then introduce members of the team to
14 various managers and start a dialogue going, start
15 with the presentations and helping them to
16 understand what it is that each specific hedge fund
17 does and what makes one different from another. We
18 spend time trying to cultivate that relationship
19 with them in order to gain access, because many of
20 the top tier hedge funds are very selective and can
21 afford to be very selective about the type of
22 institutions and clients that they take in.

23 Once the decision to proceed is made, we then
24 work in support of the staff to provide all the
25 data that we can, our analyses, our background

1 checks, and so forth, in order to check off all the
2 criteria that they have for their due diligence
3 process and make sure that their requirements and
4 processes are completed and so forth, down to the
5 final point at which the actual investment is made.

6 Moving then on the right-hand side at the
7 bottom -- I'm sorry, the left-hand side, the bottom
8 left where we talk about monitoring the
9 investments, this is something that is very
10 crucial. It's not strictly a buy and hold
11 approach. And there are lots of things that happen
12 in this industry on an almost continual basis, and
13 therefore, we spent a lot of time thinking about
14 monitoring of the investments.

15 I want to just pause for a second on page 127,
16 which puts in graphical terms the dispersion of
17 returns or the range of returns among certain asset
18 classes. You can see on the very left-hand side
19 the range of returns for a bond or a core bond
20 allocation, versus on the very right-hand side, the
21 last two sets of bars, the range of returns for
22 hedge funds.

23 Again, alluding to the fact that there are a
24 lot of hedge funds out there, not all of them are
25 very good. And so picking the right managers in

1 particular and trying to access the top tier
2 managers is important, so we spend a lot of time
3 trying to think about who really has talent and
4 really understand on a prospective, that is, on a
5 forward-looking basis, who has the ability to
6 generate the returns that we expect in a prudent
7 way.

8 Moving to page 130, we talk about monitoring.
9 We really focus, again, to the left-hand side or
10 right-hand side, on two aspects. One is
11 understanding the manager and on a frequent basis
12 staying in touch with the manager, monitoring any
13 news that might to come out about the manager,
14 having calls with the manager anytime something
15 appears that seems out of the ordinary, either good
16 or bad, that the manager, for example, has an
17 outsized positive return. We want to understand
18 were they lucky, were they good, or is there
19 something else that we're missing.

20 On a quarterly basis, we have formal calls
21 with the managers that our clients invest in,
22 really trying to understand performance, trying to
23 understand any organizational changes, trying to
24 understand what worked, what didn't work, and
25 trying to understand how the manager is positioned

1 for the market environment going forward.

2 On an annual basis, we have formal on-site
3 meetings with the managers, although we also have
4 meetings much more frequently if one of us happens
5 to be traveling through their offices or in the
6 same city that they're in.

7 Moving to the right-hand side, on the
8 portfolio, there's lots of things that we try and
9 monitor about the portfolio to really understand
10 what the exposures are and how the portfolio is
11 positioned. We want to try and understand
12 liquidity, that is, how frequently can an investor
13 take their money out of the fund and under what
14 circumstances. We want to understand both the
15 performance of the overall pool of assets as well
16 as the allocations among the various strategies.
17 We want to understand exposure, leverage,
18 geographic exposures, and so forth.

19 Finally, on an annual basis, a team of senior
20 people at our firm look at every one of our
21 clients' portfolios to try and understand is there
22 something that we're missing that we should be
23 aware of to make sure that we aren't missing
24 anything.

25 Skipping ahead a few more pages to 136, the

1 data on this page is a table with a lot of numbers
2 that represents the actual experience of a number
3 of our clients. In the top panel you see a
4 year-by-year review of their returns, at the top
5 where it says "CA client mean," Cambridge
6 Associates client mean. And at the bottom, you see
7 the annualized trailing one, two, three, all the
8 way up to ten years of performance.

9 The numbers I want to point out to you, which
10 we've talked about a little in the past already, is
11 that in certain years, especially when the markets
12 are struggling, hedge funds have the ability,
13 through the nature of their investment strategies,
14 through the nature of being able to get out of the
15 markets and not being beholden to a particular
16 index, to really protect capital well. You see in
17 2002 and 2001 the positive performance, whereas the
18 markets down below, you can see a negative loss in
19 2001 of almost 12 percent and 22 percent in 2001
20 and 2002.

21 In 2008, another year with severe losses, as
22 we're all painfully aware, hedge funds delivered a
23 disappointing negative 20 percent return. They
24 lost 20 percent, which was the first down year,
25 according to some of the hedge fund indices, since

1 they first started in the early 1990s. While they
2 did lose money, they did protect capital relative
3 to the equity markets, so down 20-ish percent
4 versus down 37 percent for the S&P 500.

5 And then down at the bottom, you can see that
6 despite those losses over various time periods, the
7 compound average annual has been quite good
8 relative to the equity markets, solely an equity
9 portfolio during these times periods. We don't
10 think that that's necessarily the case each and
11 every year, but over the long run, we would expect
12 a pattern somewhat similar.

13 GOVERNOR SCOTT: Do you have the same data
14 with the dollars, how much was invested?

15 MR. MEHTA: We do from our clients. It all
16 depends on the specific client, where they were in
17 their allocation cycle.

18 GOVERNOR SCOTT: But this is aggregate
19 numbers; right?

20 MR. MEHTA: I'm sorry? These are actual
21 numbers?

22 GOVERNOR SCOTT: These are aggregate numbers?

23 MR. MNOOKIN: These are actual numbers and
24 actual portfolios, time weighted.

25 GOVERNOR SCOTT: Could you send me that with

1 dollar numbers?

2 MR. MEHTA: Of course.

3 MR. MNOOKIN: And turning back to page 133,
4 sort of in conclusion, we think investing in hedge
5 funds provides an investor with the opportunity to
6 invest in best-of-class managers who are flexible
7 where they can invest, enabling an investor to
8 diversify the economic sources of return. The
9 result should be a portfolio that -- or investments
10 that reduce the overall volatility of the portfolio
11 and contribute positive to the returns over a full
12 market cycle.

13 And we would be glad to entertain any
14 questions.

15 GOVERNOR SCOTT: Thank you very much.

16 MR. MEHTA: Thank you.

17 MR. MNOOKIN: Thank you.

18 MR. WILLIAMS: Thank you, Trustees. That
19 concludes our agenda. And I guess to tie it up,
20 the appropriate question might be, are you
21 comfortable with what you've heard and with us
22 continuing to proceed in a prudent, disciplined,
23 thoughtful, and patient manner under the interim
24 investment policy guidelines that were outlined a
25 moment ago? And we'll come back to you post

1 session with the benefit of more knowledge, and in
2 the June meeting we can provide a more fulsome
3 recommendation of a more long-term nature.

4 GOVERNOR SCOTT: Let me just make sure. Right
5 now you're investing under that middle column,
6 those percentages; is that right?

7 MR. WILLIAMS: Correct. And I think the
8 important thing to note here would be, consistent
9 with the premise of the importance of getting
10 manager selection right, this is not something that
11 happens at a high rate of speed at all. This is
12 time-consuming stuff.

13 GOVERNOR SCOTT: I'm sorry. Say that again,
14 Ash.

15 MR. WILLIAMS: I said consistent with the
16 emphasis that was given to the appropriateness of
17 the manager selection and the priority that has to
18 be placed on that, this is not a rapid process.

19 To give you an example, using the hedge funds
20 as a specific example, we first started out in the
21 spring of 2010 with a group of about 25 funds as
22 rough input, as the initial recommendations from
23 Cambridge. We cut that down to a group of about
24 12. We've since cut that down to a group of about
25 five. The diligence process is still ongoing. So

1 we're not talking about something where we're going
2 to put a giant amount money out the door in a
3 hurry.

4 GOVERNOR SCOTT: And, Ash, right now, where do
5 hedge funds fit? Do they fit under strategic
6 investments?

7 MR. WILLIAMS: Yes, sir.

8 GOVERNOR SCOTT: All right. So right now,
9 your max is 6 percent?

10 MR. WILLIAMS: Yes, yes.

11 GOVERNOR SCOTT: Okay. I'm fine with that.
12 Is everybody all right?

13 CFO ATWATER: Yes.

14 ATTORNEY GENERAL BONDI: I like the most
15 prudent and cautious.

16 CFO ATWATER: Governor, I just want -- so at
17 the moment, we're shooting for that to be our range
18 in the interim; is that correct, Ash?

19 MR. WILLIAMS: Yes.

20 CFO ATWATER: The 6 percent number?

21 MR. WILLIAMS: And again --

22 GOVERNOR SCOTT: That's a max.

23 MR. WILLIAMS: That's a max. That's not a
24 number we would rush toward at all. The actual
25 percentage in hedge funds now is tiny, tiny,

1 probably -- it's tiny. It's less than 1 percent.

2 CFO ATWATER: Okay. Great.

3 MR. WILLIAMS: And the point I'm making is
4 that at the rate for doing this, this takes months.
5 This is not something we're eager to put a billion
6 dollars out in a matter of months. It's just not
7 going to happen.

8 GOVERNOR SCOTT: As you can tell, what I want
9 to understand better on all these is how many
10 dollars. I mean, these percentages sound really
11 good, but often there are more dollars invested at
12 different times, and so it changes the -- if you
13 look at actual dollars made or lost, I think it's
14 relevant. I think we ought to be looking at that
15 also as much as we can. I'm sure there's some of
16 it we can't.

17 MR. WILLIAMS: Well, I think in more recent
18 times, we can. Cambridge will prepare that
19 information for us.

20 GOVERNOR SCOTT: Good. Okay.

21 MR. MNOOKIN: We have actual experience where
22 the hedge fund portfolios of clients has sort of
23 added to returns and reduced volatility over a
24 10-year time period. But we will get you the
25 numbers, the dollars there.

1 It is really somewhat different than in the
2 private equity model, but -- and you are absolutely
3 right. You know, you don't want to look at
4 something where all the money went in during a down
5 period and the average investor lost money. That
6 has not been the case, the experience of our
7 investors.

8 GOVERNOR SCOTT: That sounds good.

9 MR. WILLIAMS: But the real takeaway is, you
10 set the risk envelope, and we want to make sure
11 we're meeting your expectations and following your
12 instructions. So if you're comfortable, tell us,
13 and if you're not, tell us.

14 GOVERNOR SCOTT: I think the presentation
15 today was responsive to what we asked for, and so
16 that's been --

17 CFO ATWATER: Yes.

18 MR. WILLIAMS: Thank you.

19 GOVERNOR SCOTT: And I'm sure we'll ask for
20 more.

21 MR. WILLIAMS: So we'll hold our course?

22 GOVERNOR SCOTT: Yes.

23 MR. WILLIAMS: Thank you.

24 GOVERNOR SCOTT: Thank everybody for the
25 presentation today and for the information, and

1 this concludes the SBA meeting, and we'll see you
2 soon.

3 All right. We're adjourned.

4 (Proceedings concluded at 3:51 p.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA:

COUNTY OF LEON:

I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 1 through 109 are a true and correct record of the aforesaid proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

DATED THIS 5th day of May, 2011.

MARY ALLEN NEEL, RPR, FPR
2894-A Remington Green Lane
Tallahassee, Florida 32308
850.878.2221

**A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION
APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT
EXCEEDING \$125,000,000 STATE OF FLORIDA, DEPARTMENT OF
TRANSPORTATION TURNPIKE REVENUE BONDS,
SERIES 2011A**

WHEREAS, the Division of Bond Finance of the State Board of Administration (the "Division") proposes to issue an amount not exceeding \$125,000,000 State of Florida, Department of Transportation Turnpike Revenue Bonds, Series 2011A (the "Bonds"), on behalf of the State of Florida Department of Transportation, for the purpose of financing the construction or acquisition of capital improvements to the turnpike system; and,

WHEREAS, the Bonds will be issued pursuant to the Original Resolution adopted on October 25, 1988, as amended and restated on May 17, 2005, and the Twenty-ninth Supplemental Turnpike Revenue Bond Resolution anticipated to be adopted by the Governor and Cabinet on May 17, 2011, authorizing the issuance and sale of the Bonds (collectively referred to herein as the "Resolution"); and,

WHEREAS, the Division has requested the State Board of Administration to approve the fiscal sufficiency of the proposed bond issue as required by Section 215.73, Florida Statutes; and,

WHEREAS, the Division, on behalf of the Department of Transportation has heretofore issued Turnpike Revenue and Revenue Refunding Bonds, Series 2003A through 2010B (the "Outstanding Bonds"); and,

WHEREAS, the proposed Bonds shall be issued on a parity as to source and security for payment with the Outstanding Bonds; and,

WHEREAS, the proposed Bonds shall be secured by a first lien upon Net Revenues of the Turnpike System, which consists of all tolls, revenues, rates, fees, charges, receipts, rents or other income derived from, or in connection with, the operation of the Florida Turnpike, less any necessary contribution to fund the Cost of Maintenance and Cost of Operation after taking into account other sources of funds available to fund the Cost of Maintenance and Cost of Operation; and,

WHEREAS, the Florida Department of Transportation has covenanted to pay the Cost of Maintenance and Cost of Operation of the Turnpike System from moneys in the State Transportation Trust Fund; and,

WHEREAS, tolls are required to be fixed, and adjusted if necessary, so that gross revenues shall be sufficient to pay at least (i) 100% of Operation and Maintenance costs; (ii) 120% of the Annual Debt Service Requirement; and (iii) 100% of all other payments required by the Resolution; and,

WHEREAS, an examination of this plan of financing indicated that the same will be executed pursuant to the applicable provisions of law, and that the revenue to be used in servicing and liquidating the indebtedness to be created thereby may be reasonably expected to accrue in amounts sufficient to accomplish this purpose; and,

WHEREAS, the estimate of toll revenues available indicates that sufficient moneys can be pledged to exceed the debt service requirements of the proposed issue and that in no State fiscal year will the moneys pledged for the debt service requirement of the proposed issue be less than the required coverage amount; and,

WHEREAS, the Division has furnished sufficient information to enable the State Board of Administration to fulfill its duties pursuant to Section 215.73, Florida Statutes; and,

WHEREAS, the State Board of Administration has relied upon information from others but has not independently verified the accuracy or completeness of such information; and,

WHEREAS, the State Board of Administration does not approve or disapprove the Bonds as an investment and has not passed upon the accuracy or adequacy of the Official Statement; **Now, Therefore,**

BE IT RESOLVED, by the State Board of Administration of Florida, a constitutional body created by Section 4 of Article IV of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, that pursuant to the requirements of Section 215.73, Florida Statutes, the proposal of the Division of Bond Finance of the State Board of Administration to issue an amount not exceeding \$125,000,000 State of Florida, Department of Transportation Turnpike Revenue Bonds, Series 2011A for the uses and purposes hereinabove set forth, is hereby approved as to fiscal sufficiency.

ADOPTED May 17, 2011

**STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308**

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Sufficiency
DATE: May 4, 2011

**APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING
\$125,000,000 STATE OF FLORIDA, DEPARTMENT OF TRANSPORTATION
TURNPIKE REVENUE BONDS, SERIES 2011A:**

The Division of Bond Finance of the State Board of Administration (the "Division"), on behalf of the State of Florida Department of Transportation, has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding \$125,000,000 State of Florida, Department of Transportation Turnpike Revenue Bonds, Series 2011A (the "Bonds") for the purpose of financing the construction or acquisition of capital improvements to the turnpike system. The Bonds will be issued pursuant to the Original Resolution adopted on October 25, 1988, as amended and restated on May 17, 2005, and the Twenty-ninth Supplemental Turnpike Revenue Bond Resolution anticipated to be adopted by the Governor and Cabinet on May 17, 2011, authorizing the issuance and sale of the Bonds.

The Division, on behalf of the Department of Transportation, has heretofore issued Turnpike Revenue and Revenue Refunding Bonds, Series 2003A through 2010B (the "Outstanding Bonds"). The Bonds shall be issued on a parity as to source and security for payment with the Outstanding Bonds. The Bonds shall not be secured by a pledge of the full faith and credit or the taxing power of the State of Florida or any political subdivision thereof.

A study of this proposal and the estimates of revenue expected to accrue indicate that the proposed Bonds are fiscally sufficient and that the proposal will be executed pursuant to the applicable provisions of law.

RECOMMENDATION: It is recommended that the Board approve the proposal outlined above.

cc: Janie Knight

**A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION
APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING \$85,000,000
STATE OF FLORIDA, FULL FAITH AND CREDIT, STATE BOARD OF EDUCATION
PUBLIC EDUCATION CAPITAL OUTLAY REFUNDING BONDS,
2011 SERIES (TO BE DETERMINED)**

WHEREAS, the State Board of Education of Florida proposes to issue an amount not exceeding \$85,000,000 Public Education Capital Outlay Refunding Bonds, 2011 Series (to be determined) (the "Bonds") for the purpose of refunding a portion of the Outstanding Public Education Capital Outlay Bonds, 2001 Series E and to pay certain costs of issuance; provided, however, that none of the said Bonds shall be issued in excess of the amount which can be issued in full compliance with the State Bond Act and other applicable provisions of law, and pursuant to Section 9(a)(2), Article XII of the Constitution of Florida, as amended; and,

WHEREAS, the Bonds will be issued in one or more series pursuant to an authorizing resolution adopted by the State Board of Education on July 21, 1992 and the Fiftieth Supplemental Authorizing Resolution and a sale resolution, both of which were adopted by the State Board of Education on January 18, 2011; and,

WHEREAS, the proposed Bonds shall be secured by a lien upon the Gross Receipts Taxes which are required to be deposited in the Public Education Capital Outlay and Debt Service Trust Fund administered by the State Board of Education of Florida (the "Gross Receipts Taxes"), and the Bonds are additionally secured by a pledge of the full faith and credit of the State of Florida; and,

WHEREAS, the State Board of Education has heretofore issued Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, Series 1985 through 2011 Series B; and,

WHEREAS, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$540,000,000 Public Education Capital Outlay Refunding Bonds, 2009 Series (to be determined) (the "2009 Series Refunding Bonds") at its September 15, 2009, meeting, of which \$239,225,000 remains unissued; and,

WHEREAS, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$625,000,000 Public Education Capital Outlay Refunding Bonds, 2010 Series (to be determined) (the "2010 Series Refunding Bonds") at its September 14, 2010, meeting, of which \$451,955,000 remains unissued; and,

WHEREAS, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$380,000,000 Public Education Capital Outlay Refunding Bonds, 2011 Series (to be determined) (the "2011 Series Refunding Bonds") at its February 1, 2011, meeting, of which \$43,250,000 remains unissued; and,

WHEREAS, the State Board of Education has submitted for approval as to fiscal sufficiency a proposal to issue not exceeding \$74,200,000 Public Education Capital Outlay Bonds, Series 2008 (to be determined) (the “2008 Series Bonds”) for approval at the May 17, 2011, meeting of the State Board of Administration; and,

WHEREAS, the Division of Bond Finance of the State Board of Administration has requested, and it is anticipated that the State Board of Administration will rescind its approval of fiscal sufficiency with respect to the unissued portion of the 2011 Series Refunding Bonds; and,

WHEREAS, the proposed Bonds shall be junior, inferior, and subordinate to the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, Series 1985 through 1989-A, as to lien on and source and security for payment from the Gross Receipts Taxes; and,

WHEREAS, the proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Gross Receipts Taxes with the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, 1996 Series B through 2011 Series B, the remaining portion of the 2009 Series Refunding Bonds and the remaining portion of the 2010 Series Refunding Bonds, when and if issued, and the 2008 Series Bonds when and if approved and issued; and,

WHEREAS, the Division of Bond Finance has furnished sufficient information to enable the State Board of Administration to fulfill its duties pursuant to Section 215.73, Florida Statutes; and,

WHEREAS, the State Board of Administration has relied upon information from others but has not independently verified the accuracy or completeness of such information; and,

WHEREAS, the State Board of Administration does not approve or disapprove the Bonds as an investment and has not passed upon the accuracy or adequacy of the Official Statement; **Now, Therefore,**

BE IT RESOLVED, by the State Board of Administration of Florida, a constitutional body created by Section 4 of Article IV of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, that pursuant to the requirements of Section 215.73, Florida Statutes, that the proposal of the State Board of Education of Florida to issue an amount not exceeding \$85,000,000 Public Education Capital Outlay Refunding Bonds, 2011 Series (to be determined), is hereby approved as to fiscal sufficiency

ADOPTED May 17, 2011

**STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308**

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Sufficiency
DATE: May 4, 2011

APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING \$85,000,000 STATE OF FLORIDA, FULL FAITH AND CREDIT, STATE BOARD OF EDUCATION PUBLIC EDUCATION CAPITAL OUTLAY REFUNDING BONDS, 2011 SERIES (TO BE DETERMINED):

The Division of Bond Finance of the State Board of Administration (the "Division"), on behalf of the State Board of Education, has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding \$85,000,000 Public Education Capital Outlay Refunding Bonds, 2011 Series (to be determined) (the "Bonds") for the purpose of refunding a portion of the Outstanding Public Education Capital Outlay Bonds, 2001 Series E and to pay certain costs of issuance; provided, however, that none of the said Bonds shall be issued in excess of the amount which can be issued in full compliance with the State Bond Act and other applicable provisions of law, and pursuant to Section 9(a)(2), Article XII of the Constitution of Florida, as amended. The Bonds will be issued in one or more series pursuant to an authorizing resolution adopted by the State Board of Education on July 21, 1992 and the Fiftieth Supplemental Authorizing Resolution and a sale resolution, both of which were adopted by the State Board of Education on January 18, 2011.

The State Board of Education has heretofore issued Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, Series 1985 through 2011 Series B. The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$540,000,000 Public Education Capital Outlay Refunding Bonds, 2009 Series (to be determined) (the "2009 Series Refunding Bonds") at its September 15, 2009, meeting, of which \$239,225,000 remains unissued. The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$625,000,000 Public Education Capital Outlay Refunding Bonds, 2010 Series (to be determined) (the "2010 Series Refunding Bonds") at its September 14, 2010, meeting, of which \$451,955,000 remains unissued. The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$380,000,000 Public Education Capital Outlay Refunding Bonds, 2011 Series (to be determined) (the "2011 Series Refunding Bonds") at its February 1, 2011, meeting, of which \$43,250,000 remains unissued. The State Board of Education has submitted for approval as to fiscal sufficiency a proposal to issue not exceeding \$74,200,000 Public Education Capital Outlay Bonds, Series 2008 (to be determined) (the "2008 Series Bonds") for approval at the May 17, 2011, meeting of the State Board of Administration. The Division of Bond Finance of the State Board of Administration has requested, and it is anticipated that the State Board of Administration will rescind its approval of fiscal sufficiency with respect to the unissued portion of the 2011 Series Refunding Bonds. The proposed Bonds shall be junior, inferior, and subordinate to the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds Series 1985 through 1989-A, as to lien on and source and security for payment from the Gross Receipts Taxes. The proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Gross Receipts Taxes with the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, 1996 Series B through 2011 Series B, the remaining portion of the 2009 Series Refunding Bonds and the remaining portion of the 2010 Series Refunding Bonds, when and if issued, and the 2008 Series Bonds when and if approved and issued.

A study of this proposal and the estimates of revenue expected to accrue indicate that the proposed Bonds are fiscally sufficient and that the proposal will be executed pursuant to the applicable provisions of law.

RECOMMENDATION: It is recommended that the Board approve the proposal outlined above.

cc: Janie Knight

**A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION
APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT
EXCEEDING \$77,000,000 STATE OF FLORIDA, DEPARTMENT OF
TRANSPORTATION TURNPIKE REVENUE REFUNDING BONDS,
2011 SERIES (TO BE DETERMINED)**

WHEREAS, the Division of Bond Finance of the State Board of Administration (the "Division") proposes to issue an amount not exceeding \$77,000,000 State of Florida, Department of Transportation Turnpike Revenue Refunding Bonds, 2011 Series (to be determined) (the "Bonds"), on behalf of the State of Florida Department of Transportation, for the purpose of refunding a portion of the outstanding Series 2003C Bonds; and,

WHEREAS, the Bonds will be issued pursuant to the Original Resolution adopted on October 25, 1988, as amended and restated on May 17, 2005, and the Thirtieth Supplemental Turnpike Revenue Bond Resolution anticipated to be adopted by the Governor and Cabinet on May 17, 2011, authorizing the issuance and sale of the Bonds (collectively referred to herein as the "Resolution"); and,

WHEREAS, the Division has requested the State Board of Administration to approve the fiscal sufficiency of the proposed bond issue as required by Section 215.73, Florida Statutes; and,

WHEREAS, the Division, on behalf of the Department of Transportation has heretofore issued Turnpike Revenue and Revenue Refunding Bonds, Series 2003A through 2010B (the "Outstanding Bonds"); and,

WHEREAS, the Division, on behalf of the Department of Transportation, has submitted for approval as to fiscal sufficiency a proposal to issue not exceeding \$125,000,000 Turnpike Revenue Bonds, Series 2011A (the "Series 2011A Bonds") for approval at the May 17, 2011, meeting of the State Board of Administration; and,

WHEREAS, the proposed Bonds shall be issued on a parity as to source and security for payment with the Outstanding Bonds and the Series 2011A bonds, when and if issued; and,

WHEREAS, the proposed Bonds shall be secured by a first lien upon Net Revenues of the Turnpike System, which consists of all tolls, revenues, rates, fees, charges, receipts, rents or other income derived from, or in connection with, the operation of the Florida Turnpike, less any necessary contribution to fund the Cost of Maintenance and Cost of Operation after taking into account other sources of funds available to fund the Cost of Maintenance and Cost of Operation; and,

WHEREAS, the Florida Department of Transportation has covenanted to pay the Cost of Maintenance and Cost of Operation of the Turnpike System from moneys in the State Transportation Trust Fund; and,

WHEREAS, tolls are required to be fixed, and adjusted if necessary, so that gross revenues

shall be sufficient to pay at least (i) 100% of Operation and Maintenance costs; (ii) 120% of the Annual Debt Service Requirement; and (iii) 100% of all other payments required by the Resolution; and,

WHEREAS, an examination of this plan of financing indicated that the same will be executed pursuant to the applicable provisions of law, and that the revenue to be used in servicing and liquidating the indebtedness to be created thereby may be reasonably expected to accrue in amounts sufficient to accomplish this purpose; and,

WHEREAS, the estimate of toll revenues available indicates that sufficient moneys can be pledged to exceed the debt service requirements of the proposed issue and that in no State fiscal year will the moneys pledged for the debt service requirement of the proposed issue be less than the required coverage amount; and,

WHEREAS, the Division has furnished sufficient information to enable the State Board of Administration to fulfill its duties pursuant to Section 215.73, Florida Statutes; and,

WHEREAS, the State Board of Administration has relied upon information from others but has not independently verified the accuracy or completeness of such information; and,

WHEREAS, the State Board of Administration does not approve or disapprove the Bonds as an investment and has not passed upon the accuracy or adequacy of the Official Statement; **Now, Therefore**,

BE IT RESOLVED, by the State Board of Administration of Florida, a constitutional body created by Section 4 of Article IV of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, that pursuant to the requirements of Section 215.73, Florida Statutes, the proposal of the Division of Bond Finance of the State Board of Administration to issue an amount not exceeding \$77,000,000 State of Florida, Department of Transportation Turnpike Revenue Refunding Bonds, 2011 Series (to be determined) for the uses and purposes hereinabove set forth, is hereby approved as to fiscal sufficiency.

ADOPTED May 17, 2011

**STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308**

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Sufficiency
DATE: May 5, 2011

**APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING
\$77,000,000 STATE OF FLORIDA, DEPARTMENT OF TRANSPORTATION
TURNPIKE REVENUE REFUNDING BONDS, 2011 SERIES (TO BE DETERMINED):**

The Division of Bond Finance of the State Board of Administration (the "Division"), on behalf of the State of Florida Department of Transportation, has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding \$77,000,000 State of Florida, Department of Transportation Turnpike Revenue Refunding Bonds, 2011 Series (to be determined) (the "Bonds") for the purpose of refunding a portion of the outstanding Series 2003C Bonds. The Bonds will be issued pursuant to the Original Resolution adopted on October 25, 1988, as amended and restated on May 17, 2005, and the Thirtieth Supplemental Turnpike Revenue Bond Resolution anticipated to be adopted by the Governor and Cabinet on May 17, 2011, authorizing the issuance and sale of the Bonds.

The Division, on behalf of the Department of Transportation, has heretofore issued Turnpike Revenue and Revenue Refunding Bonds, Series 2003A through 2010B (the "Outstanding Bonds"). The Division, on behalf of the Department of Transportation, has submitted for approval as to fiscal sufficiency a proposal to issue not exceeding \$125,000,000 Turnpike Revenue Bonds, Series 2011A (the "Series 2011A Bonds") for approval at the May 17, 2011, meeting of the State Board of Administration. The Bonds shall be issued on a parity as to source and security for payment with the Outstanding Bonds and the Series 2011A Bonds, when and if issued. The Bonds shall not be secured by a pledge of the full faith and credit or the taxing power of the State of Florida or any political subdivision thereof.

A study of this proposal and the estimates of revenue expected to accrue indicate that the proposed Bonds are fiscally sufficient and that the proposal will be executed pursuant to the applicable provisions of law.

RECOMMENDATION: It is recommended that the Board approve the proposal outlined above.

cc: Janie Knight

**A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION
APPROVING THE FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING \$74,200,000
STATE OF FLORIDA, FULL FAITH AND CREDIT, STATE BOARD OF EDUCATION
PUBLIC EDUCATION CAPITAL OUTLAY BONDS,
2008 SERIES (TO BE DETERMINED)**

WHEREAS, the State Board of Education of Florida proposes to issue an amount not exceeding \$74,200,000 Public Education Capital Outlay Bonds, 2008 Series (to be determined) (the "Bonds") for the purpose of financing capital outlay projects for the State System of Public Education in Florida authorized by the 2008 Legislature and to pay certain costs of issuance; provided, however, that none of the said Bonds shall be issued in excess of the amount which can be issued in full compliance with the State Bond Act and other applicable provisions of law, and pursuant to Section 9(a)(2), Article XII of the Constitution of Florida, as amended; and,

WHEREAS, the Bonds will be issued in one or more series pursuant to an authorizing resolution adopted by the State Board of Education on July 21, 1992, the Forty-fourth Supplemental Authorizing Resolution and a sale resolution, both of which were adopted by the State Board of Education on August 19, 2008; and,

WHEREAS, the proposed Bonds shall be secured by a lien upon the Gross Receipts Taxes which are required to be deposited in the Public Education Capital Outlay and Debt Service Trust Fund administered by the State Board of Education of Florida (the "Gross Receipts Taxes"), and the Bonds are additionally secured by a pledge of the full faith and credit of the State of Florida; and,

WHEREAS, the State Board of Education has heretofore issued Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, Series 1985 through 2011 Series B; and,

WHEREAS, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$540,000,000 Public Education Capital Outlay Refunding Bonds, 2009 Series (to be determined) (the "2009 Series Refunding Bonds") at its September 15, 2009, meeting, of which \$239,225,000 remains unissued; and,

WHEREAS, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$625,000,000 Public Education Capital Outlay Refunding Bonds, 2010 Series (to be determined) (the "2010 Series Refunding Bonds") at its September 14, 2010, meeting, of which \$451,955,000 remains unissued; and,

WHEREAS, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$380,000,000 Public Education Capital Outlay Refunding Bonds, 2011 Series (to be determined) (the "2011 Series Refunding Bonds") at its February 1, 2011, meeting, of which \$43,250,000 remains unissued; and,

WHEREAS, the State Board of Education has submitted for approval as to fiscal sufficiency a proposal to issue not exceeding \$85,000,000 Public Education Capital Outlay Refunding Bonds, Series 2011 (to be determined) (the “Proposed Refunding Bonds”) for approval at the May 17, 2011, meeting of the State Board of Administration; and,

WHEREAS, the Division of Bond Finance of the State Board of Administration has requested the State Board of Administration to rescind its approval of fiscal sufficiency with respect to the unissued portion of the 2011 Series Refunding Bonds; and,

WHEREAS, the proposed Bonds shall be junior, inferior, and subordinate to the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, Series 1985 through 1989-A, as to lien on and source and security for payment from the Gross Receipts Taxes; and,

WHEREAS, the proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Gross Receipts Taxes with the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, 1996 Series B through 2011 Series B, the remaining portion of the 2009 Series Refunding Bonds and the remaining portion of the 2010 Series Refunding Bonds, when and if issued, and the Proposed Refunding Bonds when and if approved and issued; and,

WHEREAS, the Division of Bond Finance has furnished sufficient information to enable the State Board of Administration to fulfill its duties pursuant to Section 215.73, Florida Statutes; and,

WHEREAS, the State Board of Administration has relied upon information from others but has not independently verified the accuracy or completeness of such information; and,

WHEREAS, the State Board of Administration does not approve or disapprove the Bonds as an investment and has not passed upon the accuracy or adequacy of the Official Statement; **Now, Therefore,**

BE IT RESOLVED, by the State Board of Administration of Florida, a constitutional body created by Section 4 of Article IV of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, that pursuant to the requirements of Section 215.73, Florida Statutes, that the proposal of the State Board of Education of Florida to issue an amount not exceeding \$74,200,000 Public Education Capital Outlay Bonds, 2008 Series (to be determined), is hereby approved as to fiscal sufficiency. In addition, the approval of fiscal sufficiency with respect to the unissued portion of the \$380,000,000 Public Education Capital Outlay Refunding Bonds, 2011 Series (to be determined) approved on February 1, 2011 is hereby rescinded.

ADOPTED May 17, 2011

**STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308**

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Sufficiency
DATE: May 4, 2011

APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING \$74,200,000 STATE OF FLORIDA, FULL FAITH AND CREDIT, STATE BOARD OF EDUCATION PUBLIC EDUCATION CAPITAL OUTLAY BONDS, 2008 SERIES (TO BE DETERMINED):

The Division of Bond Finance of the State Board of Administration (the "Division"), on behalf of the State Board of Education, has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding \$74,200,000 Public Education Capital Outlay Bonds, 2008 Series (to be determined) (the "Bonds") for the purpose of financing capital outlay projects for the State System of Public Education in Florida authorized by the 2008 Legislature and to pay certain costs of issuance; provided, however, that none of the said Bonds shall be issued in excess of the amount which can be issued in full compliance with the State Bond Act and other applicable provisions of law, and pursuant to Section 9(a)(2), Article XII of the Constitution of Florida, as amended. The Bonds will be issued in one or more series pursuant to an authorizing resolution adopted by the State Board of Education on July 21, 1992, the Forty-fourth Supplemental Authorizing Resolution and a sale resolution, both of which were adopted by the State Board of Education on August 19, 2008.

The State Board of Education has heretofore issued Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, Series 1985 through 2011 Series B. The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$540,000,000 Public Education Capital Outlay Refunding Bonds, 2009 Series (to be determined) (the "2009 Series Refunding Bonds") at its September 15, 2009, meeting, of which \$239,225,000 remains unissued. The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$625,000,000 Public Education Capital Outlay Refunding Bonds, 2010 Series (to be determined) (the "2010 Series Refunding Bonds") at its September 14, 2010, meeting, of which \$451,955,000 remains unissued. The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding \$380,000,000 Public Education Capital Outlay Refunding Bonds, 2011 Series (to be determined) (the "2011 Series Refunding Bonds") at its February 1, 2011, meeting, of which \$43,250,000 remains unissued. The State Board of Education has submitted for approval as to fiscal sufficiency a proposal to issue not exceeding \$85,000,000 Public Education Capital Outlay Refunding Bonds, Series 2011 (to be determined) (the "Proposed Refunding Bonds") for approval at the May 17, 2011, meeting of the State Board of Administration. The Division of Bond Finance of the State Board of Administration has requested the State Board of Administration to rescind its approval of fiscal sufficiency with respect to the unissued portion of the 2011 Series Refunding Bonds. The proposed Bonds shall be junior, inferior, and subordinate to the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds Series 1985 through 1989-A, as to lien on and source and security for payment from the Gross Receipts Taxes. The proposed Bonds shall be issued on a parity as to lien on and source and security for payment from the Gross Receipts Taxes with the outstanding and unpaid Public Education Capital Outlay and Public Education Capital Outlay Refunding Bonds, 1996 Series B through 2011 Series B, the remaining portion of the 2009 Series Refunding Bonds and the remaining portion of the 2010 Series Refunding Bonds, when and if issued, and the Proposed Refunding Bonds when and if approved and issued.

A study of this proposal and the estimates of revenue expected to accrue indicate that the proposed Bonds are fiscally sufficient and that the proposal will be executed pursuant to the applicable provisions of law.

RECOMMENDATION: It is recommended that the Board approve the proposal outlined above

cc: Janie Knight

Memo

TO: Ashbel C. Williams, Executive Director & CIO

FROM: Jack E. Nicholson, Chief Operating Officer, FHCF

DATE: May 6, 2011

SUBJECT: Florida Hurricane Catastrophe Fund
Two Agenda Items
Item 6. Notice of Proposed Rule for Two Rules
Item 7. Emergency Rule 19ER11-1, F.A.C., Extraordinary Circumstances for Alternative Method of Finalizing 2005 Losses.

Cabinet Agenda for May 17, 2011 – Request approval to file two (2) rules for Notice of Proposed Rule and request approval to file these rules for adoption if no member of the public requests a rule hearing. In addition, permission is sought to file Emergency Rule 19ER11-1, F.A.C., Extraordinary Circumstances for Alternative Method of Finalizing 2005 Losses, for adoption.

ITEM 6. – NOTICE OF PROPOSED RULE: Request approval of and authority to file a Notice of Proposed Rule for Rules 19-8.029, F.A.C., Insurer Reporting Requirements and 19-8.030, F.A.C., Insurer Responsibilities. If no member of the public requests a rule hearing, request approval to file these two rules for adoption.

SUMMARY AND REASONS FOR RULE CHANGES:

Insurer Reporting Requirements (Rule 19-8.029, F.A.C.)

This rule is being amended to adopt the 2011 Data Call (FHCF-D1A) and the 2011 Proof of Loss Reports (FHCF-L1A and FHCF-L1B).

Insurer Responsibilities (Rule 19-8.030, F.A.C.)

This rule is being amended to adopt the 2011 Proof of Loss Reports (FHCF-L1A and FHCF-L1B) and to adopt the 2011 Advance Preparation Instructions (FHCF-LAP1 and FHCF-EAP1) for exposure and loss examinations in the same manner as for the contract, data call, and proof of loss reports.

SUMMARY OF INCORPORATED FORM CHANGES: Attached herewith.

EXTERNAL INTEREST: The Notice of Proposed Rule Development was published in the *Florida Administrative Weekly* on April 22, 2011, Vol. 37, No. 16. A rule workshop was held on May 6, 2011.

BACKGROUND: Rulemaking for these rules was originally begun with a workshop on September 29, 2010. The Florida Hurricane Catastrophe Fund Advisory Council approved these rules for Notice of Proposed Rule on October 19, 2010. The SBA Board of Trustees approved these rules for Notice of Proposed Rule (“Notice”) and, if no member of the public requested a rule hearing, for adoption, on December 7, 2010. The Notice was published on December 17, 2010. A request for a rule hearing was made and an alternate Statement of Estimated Regulatory Costs (“SERC”) was filed. A rule hearing was held on January 25, 2011. At that hearing, the Florida Hurricane Catastrophe Fund staff worked with members of the public, including those filing the alternative SERC, and reached agreement as to how the forms could be changed to both avoid the problems highlighted by the alternate SERC and yet still address the problems that the changes were proposed to address. A notice of change was prepared to accomplish the changes agreed to at the rule hearing but before the SBA was able to bring those changes before the SBA Board of Trustees, the time limitations contained in Chapter 120, F.S. were exceeded by one day. Therefore, while no additional changes beyond those agreed to at the January 25, 2011, rule hearing are contemplated, these rules must go through the promulgation process once again in order to bring the promulgation within the time limitations of Chapter 120, F.S.

SIGNIFICANT POLICY ISSUES: None.

CONTROVERSIAL ISSUES: None.

ACTION REQUESTED: It is requested that these proposed rule amendments be presented to the Cabinet Aides on May 11, 2011, and to the State Board of Administration Trustees (“Board”) on May 17, 2011, with a request to approve the filing of these rules for Notice of Proposed Rule and to approve filing for adoption with the Department of State if no member of the public timely requests a rule hearing. A notice of the meeting of the Board will be published in the *Florida Administrative Weekly* on May 6, 2011, Vol. 37, No. 18.

The Office of Fiscal Accountability and Regulatory Reform authorized the filing of the Notice of Proposed Rule for both Rule 19-8.029, F.A.C. and 19-8.030, F.A.C. on May 3, 2011.

ATTACHMENTS TO BE INCLUDED WITH THE SBA AGENDA FOR ITEM 6:

- 2011 Incorporated Form and Rule Changes Summary
- Notice of Proposed Rule
- Notice of Meeting of Board as filed in the *Florida Administrative Weekly*
- **19-8.029, F.A.C., Insurer Reporting Requirements.**
Incorporated Forms: **FHCF-D1A**, “Florida Hurricane Catastrophe Fund 2011 Data Call,” rev. 01/11; **FHCF-L1A**, “Contract Year 2011 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF),” rev. 01/11; and **FHCF-L1B**, “Contract Year 2011 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF),” rev. 01/11.
- **19-8.030, F.A.C., Insurer Responsibilities.**

Incorporated Forms: **FHCF-EAP1**, “Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2011 Advance Preparation Instructions,” rev. 01/11; **FHCF-LAP1**, “Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year 2011 Advance Preparation Instructions,” rev. 01/11; **FHCF-L1A**, “Contract Year 2011 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF),” rev. 01/11; and **FHCF-L1B**, “Contract Year 2011 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF),” rev. 01/11.

All rules and all forms show the proposed amendments in “track changes” format.

ITEM 7. – EMERGENCY RULE: Request approval of and authority to file emergency rule 19ER11-1, F.A.C., Extraordinary Circumstances for Alternative Method of Finalizing 2005 Losses, for adoption.

SPECIFIC REASONS FOR FINDING AN IMMEDIATE DANGER TO THE PUBLIC HEALTH, SAFETY, OR WELFARE: Pursuant to Paragraph (3)(d), Article X, of the 2005 Florida Hurricane Catastrophe Fund (“FHCF”) Reimbursement Contract, the process of finalizing participating insurers’ losses must begin no later than June 1, 2011. This process involves a valuation of claims that an insurer has received but has not yet paid (“outstanding losses”) and claims that an insurer anticipates but has not yet received (“incurred but not reported losses”). In most circumstances, these losses represent a small portion of an insurer’s recoveries under the Reimbursement Contract. The FHCF is concerned that some participating insurers may have very large amounts of outstanding losses and incurred but not reported losses, as a result of claims that were filed or reopened many years after the hurricanes covered by the 2005 Reimbursement Contract. The size of these losses raises the possibility that the process for finalizing losses may understate their value, resulting in disruption of the property insurance market in Florida, or may overstate their value, resulting in the need for additional bonding on behalf of the FHCF. Both of these potential outcomes endanger the public welfare. The FHCF has determined that alternative methods of finalizing these losses may significantly reduce the likelihood of either overpayment or underpayment, and will therefore protect the public welfare.

ATTACHMENTS TO BE INCLUDED WITH THE SBA AGENDA FOR ITEM 7:

- **Rule 19ER11-1, F.A.C., Extraordinary Circumstances for Alternative Method of Finalizing 2005 Losses.**
- Notice of Emergency Rule.

2011 Incorporated Form and Rule Changes Summary

Rules

19-8.029 Insurer Reporting Requirements

*Amended: (3)(b) The confidentiality provision has been made more general by stating that information will be protected to the extent provided by law. This is to acknowledge that there are other, more general exemptions, than the specific exemption in 215.557, F.S., that may be applicable to information provided to the FHCF by insurers. [Example: Trade Secret Information. See 815.045, F.S.; 815.04, F.S.; Sepro Corporation v. Florida Department of Environmental Protection, 839 So. 2d 781 (Fla. 1st DCA 2003, rehearing denied, review denied Crist v. Florida Department of Environmental Protection, 911 So. 2d 792 (Fla. 2005)].

* Amended: (4)(m) adopts this Contract Year's Data Call, FHCF-D1A.

* Amended: (7)(g) adopts this Contract Year's Interim Loss Report and Proof of Loss Report, FHCF-L1A and FHCF-L1B.

19-8.030 Insurer Responsibilities

*Amended & New: Subsection (4) has been amended and subdivided to address the June 1 execution due date for the Reimbursement Contract for Contract Years prior to the 2011/2012 Contract Year and the March 1 execution due date for the 2011/2012 Contract Year. (*CS/SB 1460; Chapter 2010-10, Laws of Florida*)

*Non-substantive "clean up" changes in (3)(i), (5)(d), (6)(b), (7)(a), (7)(b), (8)(g) and (9)(a)-(c). [Example: In (6)(b), see the addition of the word "a" in the second sentence and the replacement of a period with a comma.]

*Amended: (7): Language has been added to ensure that pertinent documents are retained until commutation has been concluded.

*New: (7)(a)(9): Former Subsection (9) is now subsection (10). New subsection (9) adopts this Contract Year's examination instructions for exposure and loss examinations.

*New: (8)(f): New paragraph (f) adopts this Contract Year's Interim Loss Report and Proof of Loss Report, FHCF-L1A and FHCF-L1B.

*(9)(c)3.: Non-substantive clean up – the five months was reduced to four months last year in the Contract, Article VIII, paragraph 2., but was overlooked here. The change was made last year because the SBA had modified its process for determining monthly interest rates; therefore, the 5th month was not available in sufficient time to complete the final installment billing which is due December 1.

*Amended: (11): TEACO optional coverage language has been removed because it expired May 31, 2010. Language addressing the \$10 million dollar optional coverage was removed from Rule 30 subsection (11) in 2009 because this coverage was set to expire on May 31, 2009. However, after the rule was amended the 2009 Legislature reinstated the coverage through December 31, 2011. (*CS/CS/CS/HB 569, 2009-140, Laws of Florida, and CS/CS/CS/HB 149, 2009-87, Laws of Florida*). In 2010, the Legislature further extended this optional coverage through May 31, 2012. (*CS/SB 1460, 2010-10, Laws of Florida*).

Incorporated Documents

Rule 19-8.029, F.A.C., Incorporated Documents:

FHCF-L1A, 2011 Interim Loss Report: No Changes other than the date at the top of the form.

FHCF-L1B, 2011 Proof of Loss Report: The date at the top of the form has been updated, additional documentation requirements have been added to the Records Retention Requirements on page 2. Also, the requirement that pertinent documents be retained until after commutation is added here.

Not Provided: FHCF C-1, Company Contact Information: No Changes.

FHCF-D1A, 2011 Data Call: The Data Call contains a list of important changes on Page 2.

Rule 19-8.030, F.A.C., Incorporated Documents:

FHCF-EAP1, Exposure Examination – Contract Year 2011 Advance Preparation Instructions: In addition to updating the dates and non-substantive clean up, companies are reminded to retain pertinent documents until after the commutation is completed; the references to roof-wall connection and roof deck attachments are removed consistent with the changes made to the data call. A new requirement has been added requesting insurers to provide evidence to show a credit is given to the policyholder for structure opening protection.

FHCF-LAP1, Loss Reimbursement Examination – Contract Year 2011 Advance Preparation Instructions: Dates have been updated, companies are reminded to retain pertinent documents until after the commutation is completed and records required to have on site during an FHCF examination has been amended and clarified. The only new requirements of documents to have on site during an examination is the need to have in the claim file the first notice of loss, payment history, transactional history and documentation of the policyholder's legal and/or public adjuster fees paid, if this payment information has been provided to the insurer. In addition, the policy file now must contain the policy declarations for the examiner to review.

FHCF-L1A, 2011 Interim Loss Report: No Changes other than the date at the top of the form.

FHCF-L1B, 2011 Proof of Loss Report: The date at the top of the form has been updated and companies are reminded to retain pertinent documents until after the commutation is completed. The only new requirements of documents to have in a claims file is the first notice of loss, payment history and documentation of the policyholder's legal and/or public adjuster fees paid, if this payment information has been provided to

the insurer. In addition, the amount of loss now must be broken down into the category of coverage such as building, appurtenant structure, contents, etc.

Notice of Proposed Rule

STATE BOARD OF ADMINISTRATION

RULE NO: RULE TITLE

[19-8.029](#): Insurer Reporting Requirements

[19-8.030](#): Insurer Responsibilities

PURPOSE AND EFFECT: The State Board of Administration, Florida Hurricane Catastrophe Fund, seeks to amend the rules listed above to implement Section 215.555, Florida Statutes.

SUMMARY: The rules are being amended to adopt 2011/2012 Contract Year forms. Substantive changes are as follows: Rule 19-8.029, F.A.C., Insurer Reporting Requirements, is being amended to adopt the 2011/2012 Data Call and the 2011/2012 Interim and Proof of Loss forms. Rule 19-8.030, F.A.C., Insurer Responsibilities, is being amended to adopt the 2011/2012 Exposure and Loss Examination Advance Preparation Instructions and to adopt the 2011/2012 Interim and Proof of Loss forms.

SUMMARY OF STATEMENT OF ESTIMATED REGULATORY COSTS: A SERC has been prepared by the agency for Rule 19-8.029, F.A.C. and is available by contacting Tracy Allen at the address, telephone number, or e-mail address listed below. A SERC has not been prepared for Rule 19-8.030, F.A.C. The following is a summary of the SERC: No adverse impact on economic growth, private-sector job creating or employment, or private sector investment. No adverse impact on business competitiveness or innovation. Minimal regulatory costs for the 172 participating insurers to make minor one-time programming changes. No increased spending for the Agency anticipated. No costs to other states, local governmental entities, small counties or small cities. No impact on state or local revenues. Any person who wishes to provide information regarding a statement of estimated regulatory costs, or provide a proposal for a lower cost regulatory alternative must do so in writing within 21 days of this notice.

SPECIFIC AUTHORITY: [215.555\(3\)](#), F.S.

LAW IMPLEMENTED: [215.555\(2\)](#), (3), (4), (5), (6), (7), (10), (16), (17), F.S.

X IF REQUESTED WITHIN 21 DAYS OF THE DATE OF THIS NOTICE, A HEARING WILL BE HELD AT THE DATE, TIME AND PLACE SHOWN BELOW (IF NOT REQUESTED, THIS HEARING WILL NOT BE HELD):

DATE AND TIME: June 20, 2011, 9:00 a.m. (ET) to conclusion of meeting.

PLACE: This will be a telephone conference call meeting to which all persons are invited. Persons wishing to participate may dial (888) 808-6959 and enter conference code 4765251363.

THE PERSON TO BE CONTACTED REGARDING THE PROPOSED RULE IS: Tracy Allen, 1801 Hermitage Blvd., Tallahassee, FL 32308, 850-413-1341 or tracy.allen@sbafla.com.

THE FULL TEXT OF THE PROPOSED RULE IS:

[19-8.029](#) Insurer Reporting Requirements.

(1) through (2), No Changes.

(2)(a) Citizens Property Insurance Corporation or “Citizens” means the entity formed under Section 627.351(6), F.S., and includes both the High Risk Account and the Personal Lines and Commercial Lines Accounts.

(2)(b) through (2)(d), No Changes.

(2)(e) Data Call means the annual reporting of insured values forms. These forms are the FHCF-D1A for Contract Years after the 2002/2003 Contract Year ~~year~~ and the FHCF-D1A and FHCF-D1B for the Contract Year 2002/2003 and all prior Contract Years. ~~years~~.

(2)(f) through (2)(g), No Changes.

(2)(h) Loss Reporting Forms mean the FHCF-L1A and FHCF-L1B for Contract Years after the 2002/2003 Contract Year and means the FHCF-L1A, FHCF-L1B and FHCF-L1C for the Contract Years 2002/2003 and all prior Contract Years. ~~years~~.

(2)(i), through (3)(a), No Changes.

(3)(b) Confidentiality of reports containing insured values under Covered Policies. Section 215.557, F.S., enacted for the express purpose of protecting trade secret and proprietary information submitted to the FHCF by participating insurers, protects the confidentiality of information of the type submitted in the Data Call (FHCF-D1A), examination workpapers, and examination reports, ~~or loss reports (FHCF-L1A, FHCF-L1B and~~ Such information is not subject to the provisions of Section 119.07(1), F.S., or Section 24(a), Article I of the Florida State Constitution. Confidential data and trade secrets reported to the FHCF are protected to the extent allowed by law.

(3)(c) through (4)(l), No Changes.

(4)(m) For the 2011/2012 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, “Florida Hurricane Catastrophe Fund 2011 Data Call,” rev. 01/11, hereby adopted and incorporated by reference into this rule. The form may be obtained from the Fund’s Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(5) through (6), No Changes.

(7)(a) For the 2005/2006 and earlier Contract Years the applicable Interim Loss Report is that form that was in effect for the Contract Year as reflected by the revision date on the form. For example, the applicable Interim Loss Report for the Contract Year 2004-2005 is the FHCF-L1A, with the revision date of 05/04. ~~05/05~~.

(7)(b) through (7)(f), No Changes.

(7)(g) For the 2011/2012 Contract Year, the applicable Interim Loss Report is the “Contract Year 2011 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF),” FHCF-L1A, rev. 01/11, which is hereby adopted and incorporated by reference into this rule. The applicable Proof of Loss Report is the “Contract Year 2011 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF),” FHCF-L1B, rev. 01/11, which is hereby adopted and incorporated by reference into this rule. The forms may be obtained from the Fund’s Administrator at the address stated in subsection (6) above.

(8), No Changes.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555(2), (3), (4), (5), (6), (7), (15) FS. History—New 5-

17-99, Amended 6-19-00, 6-3-01, 6-2-02, 11-12-02, 5-13-03, 5-19-04, 8-29-04, 5-29-05, 5-10-06, 5-8-07, 6-8-08, 3-30-09, 8-2-09, 3-29-10, 8-8-10, XX-XX-11.

19-8.030 Insurer Responsibilities.

(1) through (3)(h), No Changes.

(3)(i) Data Call means the annual reporting of insured values forms. These forms, as adopted and incorporated into Rule 19-8.029, F.A.C., are the FHCF-D1A for Contract Years after the 2002/2003 Contract Year ~~year~~ and the FHCF-D1A and FHCF-D1B for Contract Year 2002/2003 and all prior Contract Years. ~~years~~.

(3)(j) through (4)(a), No Changes.

(4)(a)1. ~~For the 2010/2011 and earlier Contract Years, e~~Each Insurer required to participate in the FHCF must designate a coverage level in the annual Reimbursement Contract, make any required selections therein and execute the Reimbursement Contract and applicable Addenda so that the Contract, including the schedules and applicable Addenda, have been received by June 1 of each Contract Year.

2. For the 2011/2012 and subsequent Contract Years, each Insurer required to participate in the FHCF must designate a coverage level in the annual Reimbursement Contract, make any required selections therein and execute the Reimbursement Contract and applicable Addenda so that the Contract, including the schedules and applicable Addenda, have been received by the March 1 prior to each Contract Year.

(4)(b) through (4)(c), No Changes.

(4)(d) Optional coverages authorized by law must be chosen by current participants by executing and returning the applicable Addenda to the Reimbursement Contract ~~by June 1~~ of the relevant Contract Year by the date required. New Participants choosing optional coverage must execute and return the applicable Addenda to the Reimbursement Contract for the relevant Contract Year prior to the time in which a covered loss occurs and within 30 days of writing its first covered policy. Any current or New Participant failing to meet these deadlines shall not be eligible for such optional coverage.

(5)(a) through (5)(c), No Changes.

(5)(d) Resubmissions of Data: With one exception noted below, any Insurer which submits a Data Call, Form FHCF-D1A, with incorrect data, incomplete data, or data in the wrong format and is required to resubmit will be given 30 days from the date on the letter from the FHCF notifying the Insurer of the need to resubmit. An extension of 30 days will be granted if the Insurer can show that the need for the additional time is due to circumstances beyond the reasonable control of the Insurer. ~~participant~~. Exception: If the Insurer, at the time it receives notice of the need to resubmit, has already been issued a notice of examinations, the usual 30 day time limitation (measured from the date of the letter giving notice of the need to resubmit) does not apply. In this situation, the time period in which the Insurer must resubmit is measured by counting backwards 30 days from the date that the examinations are scheduled to begin as reflected on the notice of examinations letter. The FHCF needs the information prior to the examinations; thus, no extensions can be granted.

(6)(a), No Changes.

(6)(b) New Participants during the period of June 1 through November 30: Those Insurers that first begin

writing Covered Policies from June 1 through November 30 of a Contract Year must submit a payment of \$1,000 on or before the date indicated on the invoice. Once a New Participant's Data Call, which is filed on or before March 1 of the Contract Year, has been reviewed by the Administrator and the Company's actual Reimbursement Premium has been determined on its actual exposure, an invoice with the amount due, if any, will be sent to the Company by the Administrator. Payment, if any amounts are shown as due on the invoice, is due within 30 days from the date on the invoice. In no event will the Premium be less than the \$1,000.

(6)(c) through (6)(d), No Changes.

(7) Examination Requirements. A Company is required to prepare and retain an examination file in accordance with the specifications outlined in the Data Call instructions and a detailed claims listing to support losses reported on the Proof of Loss Report. Such records must be retained until the FHCF has completed its examination of a Company's exposure submission and any loss reports applicable to the Data Call Contract Year and commutation for the Contract Year (if applicable) has been concluded. The records provided for examination must be from the examination file as originally prepared unless a subsequent resubmission was sent to the FHCF. Note that both Citizens and Insurers participating in Quota Share Primary Insurance Arrangements must keep complete and accurate records, including copies of policy declaration pages and supporting claims documents, for the purpose of exposure and loss reimbursement examinations by the FHCF.

(a) Advance Examination Record Requirements: Within 30 days from the date on the letter from the FHCF, Companies are required to provide the FHCF with the records indicated in the applicable Contract Year's, "Exposure Examination Advance Preparation Instructions" or in the applicable Contract Year's "Loss Reimbursement Examination Advance Preparation Instructions". An extension of 30 days may be granted if the Insurer can show that the need for the additional time is due to circumstances beyond the reasonable control of the Insurer, participant.

1. For Contract Years prior to the 2003/2004 Contract Year, Form FHCF-AP1 as revised for each Contract Year, is the applicable Exposure Examination Advance Preparation Instructions form to use.

2. For the 2004/2005 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Audit – Contract Year 2004 Advance Preparation Instructions," FHCF-AP1, rev. 5/04. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year 2004 Advance Preparation Instructions," FHCF-LAP1, ~~rev.~~ 05/06.

3. For the 2005/2006 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2005 Advance Preparation Instructions," FHCF-AP1, rev. 5/05. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year 2005 Advance Preparation Instructions," FHCF-LAP1, rev. 05/07.

4. For the 2006/2007 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2006 Advance Preparation Instructions," FHCF-EAP1, rev. 5/06. The applicable loss examination instructions form is the "Florida Hurricane

Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year XXXX Advance Preparation Instructions,” FHCF-LAP1, ~~rev. new~~ 05/06.

(7)(a)5. through (7)(a)8., No Changes.

(7)(a)9. For the 2011/2012 Contract Year, the applicable exposure examination instructions form is the “Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2011 Advance Preparation Instructions,” FHCF-EAP1, rev. 01/11. The applicable loss examination instructions form is the “Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year 2011 Advance Preparation Instructions,” FHCF-LAP1, rev. 01/11.

~~10-9-~~ These forms are hereby adopted and incorporated by reference into this rule. Copies of these forms may be obtained from the FHCF website, www.sbafla.com/fhcf or by contacting the State Board of Administration. The mailing address is P. O. Box 13300, Tallahassee, Florida 32317-3300. The street address is 1801 Hermitage Blvd., Tallahassee, Florida 32308.

(7)(b) On-site Examination Record Requirements: The FHCF-EAP1, “Exposure Examination Advance Preparation Instructions” form and the FHCF-LAP1, “Loss Reimbursement Examination Advance Preparation Instructions” form each contain a list of the information that the Companies must have available, on-site, on the date the exposure or loss examination is to begin. These records must be made available to the FHCF examiner upon request.

(7)(c) through (8)(e), No Changes.

(8)(f) For the Contract Year 2011-2012, the applicable “Florida Hurricane Catastrophe Fund Interim Loss Report,” is the FHCF-L1A rev. 01/11 and the applicable “Florida Hurricane Catastrophe Fund Proof of Loss Report,” is the FHCF-L1B rev. 01/11. These forms are hereby adopted and incorporated by reference into this rule.

(g) These forms are hereby adopted and incorporated by reference into this rule and may be obtained from the Fund’s Administrator, Paragon Strategic Solutions Inc., 8200 Tower, 5600 West 83rd Street, Suite 1100, Minneapolis, Minnesota 55437. Companies must submit a detailed claims listing (in a delimited ASCII format) to support the losses reported in the FHCF-L1B, Proof of Loss Report, at the same time it submits its first Proof of Loss Report for a specific Covered Event that qualifies the Company for reimbursement under that Covered Event, and should be prepared to supply a detailed claims listing for any subsequent Proof of Loss Report upon request. Refer to Form FHCF-LAP1 for the required file layout. The Proof of Loss Report and the detailed claims listing are required to be sent to the FHCF Administrator, Paragon Strategic Solutions Inc., at the address listed above. If your Company submits its Proof of Loss Reports electronically through the FHCF’s Online Claims System at www.sbafla.com/fhcf, the detailed claims listing may be attached to the Company’s submission.

(9), No Changes.

(9)(a) Resubmissions of Data: A \$1,000 resubmission fee (for resubmissions that are not the result of an examination by the SBA) will be invoiced by the FHCF for each submission. If a resubmission is necessary as a result of an examination report issued by the SBA, the resubmission fee will be \$2,000. If a Company’s examination-required resubmission is inadequate and the SBA requires an additional resubmission(s), the resubmission fee for each subsequent resubmission shall be \$2,000.

(9)(b), No Changes.

(c) Consequences for Failure to meet the requirements contained in the FHCF-EAP1, “Exposure Examination Advance Preparation Instructions,” the FHCF-LAP1, “Loss Reimbursement Examination Advance Preparation Instructions,” or the on-site examination record requirements in a timely manner: In addition to other penalties or consequences, the FHCF has the authority, pursuant to Section 215.555(4)(f), F.S., to require that the Insurer pay for the following services under the circumstances outlined below:

1. If an examination is delayed, cannot be conducted as scheduled or cannot be completed and the Insurer is responsible for such, the Insurer shall be required to reimburse the FHCF for all the usual and customary expenses connected to such delay, cancellation or incompleteness.

2. If the FHCF finds any Insurer’s records or other necessary information to be inadequate or inadequately posted, recorded, or maintained, the FHCF may employ experts to reconstruct, rewrite, record, post, or maintain such records or information, at the expense of the Insurer being examined.

3. An Insurer required to reimburse the FHCF for costs as outlined in subparagraphs 1. and 2. immediately above, will owe interest on the amount owed to the FHCF from the date the FHCF pays such expenses until the date payment from the Insurer is received. The applicable interest rate will be the average rate earned by the SBA for the FHCF for the first ~~four~~ five months of the current Contract Year plus 5%. Also, the payment of reimbursements or refunds by the FHCF to any Insurer will be offset by any amounts owed by that Insurer to the FHCF.

(10), No Changes.

(11) Optional Coverage Programs: Except as provided in this subsection, this rule applies to the Additional Coverage Option created in Section 215.555(4)(b)4., F.S., and the Temporary Emergency Additional Coverage Option (“TEACO”) created in Section 215.555(16), F.S., and the Temporary Increase in Coverage Limit Options option created in Section 215.555(17), F.S. (“TICL”). ~~The definition of Premium in paragraph (3)(m), above, does not apply to TEACO. With respect to this Option, the word “Premium” when used in this rule shall refer to the amount payable under Section 215.555(16)(f), F.S., for this optional coverage.~~ The definition of Premium in paragraph (3)(m), above, does not apply to Section 215.555(4)(b)4., F.S., Additional Coverage Option. With respect to this Option, the word “Premium” when used in this rule shall refer to the amount payable under Section 215.555(4)(b)4., F.S., for this optional coverage.

(12), No Changes.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555 FS. History—New 5-13-03, Amended 5-19-04, 5-29-05, 5-10-06, 5-8-07, 8-13-07, 6-8-08, 3-30-09, 3-29-10, 8-8-10, XX-XX-11.

NAME OF PERSON ORIGINATING PROPOSED RULE: Jack E. Nicholson, FHCF Chief Operating Officer, State Board of Administration

NAME OF AGENCY HEAD WHO APPROVED THE PROPOSED RULE: The Trustees of the State Board of Administration of Florida

DATE PROPOSED RULE APPROVED BY AGENCY HEAD: May 17, 2011

DATE NOTICE OF PROPOSED RULE DEVELOPMENT PUBLISHED IN FAW: April 22, 2011

Notice of Meeting/Workshop Hearing

STATE BOARD OF ADMINISTRATION

The Florida Hurricane Catastrophe Fund announces a public meeting to which all persons are invited.

DATE AND TIME: May 17, 2011, 9:00 a.m. (ET) to conclusion of the meeting.

PLACE: Cabinet Meeting Room, Lower Level, The Capitol, Tallahassee, Florida.

GENERAL SUBJECT MATTER TO BE CONSIDERED: This is a meeting of the Trustees of the State Board of Administration to authorize the Florida Hurricane Catastrophe Fund to file a Notice of Proposed Rule for Rules 19-8.029, F.A.C., Insurer Reporting Requirements, and 19-8.030, F.A.C., Insurer Responsibilities, and to file these rules for adoption if no member of the public requests a rule hearing. In addition, other general business may be addressed. The rules and incorporated forms reflecting the proposed amendments are available on the Florida Hurricane Catastrophe Fund website: www.sbafla.com/fhcf.

A copy of the agenda may be obtained by contacting: Not available.

Pursuant to the provisions of the Americans with Disabilities Act, any person requiring special accommodations to participate in this workshop/meeting is asked to advise the agency at least 7 days before the workshop/meeting by contacting: Tracy Allen, Florida Hurricane Catastrophe Fund, (850) 413-1341, tracy.allen@sbafla.com, P.O. Drawer 13300, Tallahassee, FL 32317-3300. If you are hearing or speech impaired, please contact the agency using the Florida Relay Service, 1(800)955-8771 (TDD) or 1(800)955-8770 (Voice).

19-8.029 Insurer Reporting Requirements.

(1) Purpose. The purpose of this rule is to incorporate and adopt the annual reporting of insured values and the Loss Reporting Forms, to provide the time and place for submission of this required information and to address confidentiality of information provided to the Florida Hurricane Catastrophe Fund (FHCF or Fund).

(2) Definitions. The terms defined below will be capitalized in this rule.

(a) Citizens Property Insurance Corporation or “Citizens” means the entity formed under Section 627.351(6), F.S., and includes both the High Risk Account and the Personal Lines and Commercial Lines Accounts.

(b) Commutation means that period of time which is not less than 36 months or more than 60 months after the end of the Contract Year during which the loss occurrence took place. The Reimbursement Contract, adopted and incorporated into Rule 19-8.010, F.A.C., may provide for voluntary commutation earlier than the 36 month period under certain circumstances.

(c) Contract Year means the time period which begins at 12:00:01 Eastern Time on June 1 of each calendar year and ends at 12:00 p.m. midnight on May 31 of the following calendar year.

(d) Covered Policy is defined in Section 215.555(2)(c), F.S., and the Reimbursement Contract adopted by and incorporated into Rule 19-8.010, F.A.C.

(e) Data Call means the annual reporting of insured values forms. These forms are the FHCF-D1A for Contract Years after the 2002/2003 Contract Year ~~year~~ and the FHCF-D1A and FHCF--D1B for the Contract Year 2002/2003 and all prior Contract Years. ~~years~~.

(f) FHCF or Fund means the Florida Hurricane Catastrophe Fund.

(g) Independent Consultant means the independent individual, firm, or organization with which the State Board of Administration of Florida (Board) contracts to prepare the premium formula and any other actuarial services for the FHCF, as determined under the contract with the consultant.

(h) Loss Reporting Forms mean the FHCF-L1A and FHCF-L1B for Contract Years after the 2002/2003 Contract Year and means the FHCF-L1A, FHCF-L1B and FHCF-L1C for the Contract Years 2002/2003 and all prior Contract Years. ~~years~~.

(i) Office of Insurance Regulation means that office within the Department of Financial Services and which was created in Section 20.121(3), F.S.

(3) Reporting of Insurer Exposure Data.

(a) No later than September 1 of each Contract Year, authorized insurers and Citizens pursuant to Sections 215.555(5) and 627.351(6), F.S., shall report insured values reflecting wind exposure under Covered Policies by zip code and other relevant factors required to reflect each insurer’s relative exposure to hurricane loss, valued as of June 30 of the current Contract Year. Such other relevant factors shall be determined by the Independent Consultant consistent with principles of actuarial science and in conjunction with the development of the premium formula.

(b) Confidentiality of reports containing insured values under Covered Policies. Section 215.557, F.S., enacted for the express purpose of protecting trade secret and proprietary information submitted to the FHCF by participating insurers, protects the confidentiality of information of the type submitted in the Data Call (FHCF-D1A), examination workpapers, and examination reports. ~~or loss reports (FHCF-L1A, FHCF-L1B) and~~ Such information is not subject to the provisions of Section 119.07(1), F.S., or Section 24(a), Article I of the Florida State Constitution. Confidential data and trade secrets reported to the FHCF are protected to the extent allowed by law.

(c) Reporting Regarding Insurers Withdrawing from the State or Discontinuing the Writing of All Kinds of Insurance Prior to June 30 of Each Year. Insurers which discontinue writing insurance in Florida and have no remaining Covered Policy exposure as of June 30 of each Contract Year are required to petition for exemption from the Fund pursuant to Rule 19-8.012, F.A.C. Insurers which withdraw from the Florida insurance market prior to June 30 and have no remaining Covered Policy exposure as of that date shall not participate in the Fund. The affected insurer shall provide written evidence obtained from the Office of Insurance Regulation that it has surrendered its certificate of authority and currently has no outstanding Covered Policies in force. Nothing in this rule shall be construed to conflict with the requirements of Section 624.430(1), F.S.

(d) The requirement that the report is due by September 1 means that the report shall be in the physical possession of the Fund’s Administrator in Minneapolis no later than 5:00 p.m., Central Time, on September 1. If September 1 is a Saturday, Sunday or legal holiday, then the applicable due date will be the day immediately following September 1 which is not a Saturday, Sunday or legal holiday. For purposes of the timeliness of the submission, neither the United States Postal Service postmark nor a postage meter date is in any way determinative. Reports sent to the Board in Tallahassee, Florida, will be returned to the sender. Reports not in the

physical possession of the Fund's Administrator by 5:00 p.m., Central Time, on the applicable due date are late.

(4)(a) For the 1999/2000 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 1999 Data Call," rev. 05/99; Form FHCF-MOD, "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 12/22/94; and the FHCF computer validation software provided on diskette and called "FHCF Preliminary Validation Software Version 5.0," with its instructions. The two forms and the software with its instructions identified in the immediately preceding sentence are hereby adopted and incorporated by reference.

(b) For the 2000/2001 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2000 Data Call," rev. 05/00; Form FHCF-MOD, "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 12/22/94; and the FHCF computer validation software provided on diskette and called "FHCF Preliminary Validation Software Version 6.0," with its instructions. The two forms and the software with its instructions identified in the immediately preceding sentence are hereby adopted and incorporated by reference. For new companies, the company shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator on Form FHCF-D1B, "Florida Hurricane Catastrophe Fund 2000 Data Call for Newly Licensed Companies," rev. 05/00; Form FHCF-MOD, "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 12/22/94; and the FHCF computer validation software provided on diskette and called "FHCF Preliminary Validation Software Version 6.0," with its instructions. The two forms and the software with its instructions identified in the immediately preceding sentence are hereby adopted and incorporated by reference.

(c) For the 2001/2002 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2001 Data Call," rev. 05/01; Form FHCF-MOD, "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 12/22/94; and the FHCF computer validation software provided on diskette and called "FHCF Preliminary Validation Software Version 7.0," with its instructions. The two forms and the software with its instructions identified in the immediately preceding sentence are hereby adopted and incorporated by reference. For new companies, the company shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator on Form FHCF-D1B, "Florida Hurricane Catastrophe Fund 2001 Data Call for Newly Licensed Companies," rev. 05/01; Form FHCF-MOD, "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 12/22/94; and the FHCF computer validation software provided on diskette and called "FHCF Preliminary Validation Software Version 7.0," with its instructions. The two forms and the software with its instructions identified in the immediately preceding sentence are hereby adopted and incorporated by reference.

(d) For the 2002/2003 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Amended Florida Hurricane Catastrophe Fund 2002 Data Call," rev. 05/02 and Form FHCF-MOD, "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 3/27/01. The two forms identified in the immediately preceding sentence are hereby adopted and incorporated by reference. For new companies, the company shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator on Form FHCF-D1B, "Amended Florida Hurricane Catastrophe Fund 2002 Data Call for Newly Licensed Companies," rev. 05/02; and Form FHCF-MOD "CLASIC DATA FORMAT (tm) for Excess Insurance, Version 1.1," rev. 3/27/01. The two forms identified in the immediately preceding sentence are hereby adopted and incorporated by reference.

(e) For the 2003/2004 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Florida Hurricane Catastrophe Fund 2003 Data Call," rev. 05/03 and UNICEDE®/PX Data Exchange Format, Version 4.0.0." The two forms identified in the immediately preceding sentence are hereby adopted and incorporated by reference. A new participant shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator. NOTE: Form FHCF-D1B, "Amended Florida Hurricane Catastrophe Fund 2002 Data Call for Newly Licensed Companies," rev. 05/02 used in past years by new participants is no longer being used. The information new participants must submit is now incorporated into Form FHCF-D1A.

(f) For the 2004/2005 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Amended Florida Hurricane Catastrophe Fund 2004 Data Call," rev. 05/11/04 and UNICEDE®/PX Data Exchange Format, Version 4.0.0." The two forms identified in the immediately preceding sentence are hereby adopted and incorporated by reference. A new participant shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(g) For the 2005/2006 Contract Year, the reporting shall be in accordance with the following: Form FHCF-D1A, "Florida

Hurricane Catastrophe Fund 2005 Data Call,” rev. 05/05 and “UNICEDE®/PX Data Exchange Format, Version 4.0.0.” The two forms identified in the immediately preceding sentence are hereby adopted and incorporated by reference. The forms may be obtained from the Fund’s Administrator at the address stated in subsection (6) below. A new participant writing covered policies after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(h) For the 2006/2007 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, “Florida Hurricane Catastrophe Fund 2006 Data Call,” rev. 05/06, hereby adopted and incorporated by reference. The form may be obtained from the Fund’s Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(i) For the 2007/2008 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, “Florida Hurricane Catastrophe Fund 2007 Data Call,” rev. 05/07, hereby adopted and incorporated by reference. The form may be obtained from the Fund’s Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(j) For the 2008/2009 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, “Florida Hurricane Catastrophe Fund 2008 Data Call,” rev. 05/08, hereby adopted and incorporated by reference. The form may be obtained from the Fund’s Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(k) For the 2009/2010 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, “Florida Hurricane Catastrophe Fund 2009 Data Call,” rev. 05/09, hereby adopted and incorporated by reference. The form may be obtained from the Fund’s Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(l) For the 2010/2011 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, “Florida Hurricane Catastrophe Fund 2010 Data Call,” rev. 05/10, hereby adopted and incorporated by reference into this rule. The form may be obtained from the Fund’s Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(m) For the 2011/2012 Contract Year, the reporting shall be in accordance with Form FHCF-D1A, “Florida Hurricane Catastrophe Fund 2011 Data Call,” rev. 01/11, hereby adopted and incorporated by reference into this rule. The form may be obtained from the Fund’s Administrator at the address stated in subsection (6) below. A new participant writing covered policies on or after June 1 but prior to December 1, shall report its actual exposure as of December 31 of the Contract Year on or before March 1 of the Contract Year, to the Administrator.

(5) Loss Reimbursement Reporting Requirements.

(a) As directed by the Board, after a covered event occurs, insurers shall report all their estimated ultimate net losses (as defined in the Reimbursement Contract, adopted and incorporated into Rule 19-8.010, F.A.C.) for Covered Policies on the Form FHCF-L1A, “Florida Hurricane Catastrophe Fund Interim Loss Report,” for the applicable Contract Year, as specified in subsection (7) herein, in no less than fourteen days from the date of the notice from the Board that such a report is required. The Board may request subsequent Interim Loss Reports. To obtain copies of this form, see subsection (6), below. Prompt reporting in the format requested will aid the Board in determining whether to seek additional sources of funds to pay for reimbursable losses. The losses reported on the Interim Loss Report are expected to result from a good faith effort, using best business practices for the insurance industry, on the part of the insurer to report as accurately as possible. Preliminary reports will not be binding. Reimbursements by the Fund will be made on the basis of the Proof of Loss Report, adopted in subsection (b) below.

(b) Insurers shall report their ultimate net losses (as defined in the Reimbursement Contract, adopted and incorporated into Rule 19-8.010, F.A.C.) for each loss occurrence on the Form FHCF-L1B, “Florida Hurricane Catastrophe Fund Proof of Loss Report,” for the applicable Contract Year, as specified in subsection (7) herein. To obtain copies of this form, see subsection (6), below. To qualify for reimbursement, the Proof of Loss Report must have the original signatures of two executive officers authorized by the

Company to sign the report. Proof of Loss Reports may be faxed only if the Company does not qualify for a reimbursement. While a Company may submit a Proof of Loss Report requesting reimbursement at any time following a loss occurrence, all Companies shall submit a mandatory Proof of Loss Report for each loss occurrence no earlier than December 1 and no later than December 31 of the Contract Year during which the Covered Event(s) occurs using the most current data available, regardless of the amount of Ultimate Net Loss or the amount of loss reimbursements or advances already received. After the mandatory December Proof of Loss Report, quarterly Proof of Loss Reports are required. For purposes of this rule, quarterly Proof of Loss Reports shall be those reports submitted at each quarter end date after December 31 of the Contract Year in which the loss occurrence occurs and continuing until all claims and losses resulting from loss occurrences commencing during the Contract Year are fully discharged, including any adjustments to such losses due to salvage or other recoveries, in accordance with the reporting requirements in this paragraph. "Fully Discharged" means the earlier of the date on which the insurer has paid its policyholders in full or the commutation clause, in Article X of the Reimbursement Contract, adopted in Rule 19-8.010, F.A.C., takes effect. For the quarterly report due on March 31, any insurer whose losses exceed 50% of its FHCF retention for a specific loss occurrence shall submit a Proof of Loss Report for that loss occurrence. For the quarterly report due on June 30, any insurer whose losses exceed 75% of its FHCF retention for a specific loss occurrence shall submit a Proof of Loss Report for that loss occurrence. For the quarterly reports due on September 30 and thereafter, any insurer which anticipates that its losses will exceed its FHCF retention for a specific loss occurrence shall submit quarterly Proof of Loss Reports until all its losses are paid to its policyholders and the insurer has received reimbursement from the Fund. Annually, all Companies shall submit a mandatory year-end Proof of Loss Report for each loss occurrence, using the most current data available. This Proof of Loss Report shall be filed no earlier than December 1 and no later than December 31 of each year and shall continue until the earlier of the expiration of the commutation period or until all claims and losses resulting from the loss occurrence are fully discharged including any adjustments to such losses due to salvage or other recoveries.

(c) As a result of reports submitted on Form FHCF-L1B, reimbursements to insurers shall be adjusted in accordance with Section 215.555(4)(d)1., F.S., which requires the Fund to pay additional amounts to insurers and insurers to return overpayments to the Fund, based on the most recent calculation of losses.

(6) All the forms adopted and incorporated by reference in this rule may be obtained from: Administrator, Florida Hurricane Catastrophe Fund, Paragon Strategic Solutions Inc., 8200 Tower, 5600 West 83rd Street, Suite 1100, Minneapolis, MN 55437.

(7)(a) For the 2005/2006 and earlier Contract Years the applicable Interim Loss Report is that form that was in effect for the Contract Year as reflected by the revision date on the form. For example, the applicable Interim Loss Report for the Contract Year 2004-2005 is the FHCF-L1A, with the revision date of 05/04, ~~05/05~~.

(b) For the 2006/2007 Contract Year, the applicable Interim Loss Report is the "Contract Year 2006 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF)", FHCF-L1A, rev. 05/06, which is hereby adopted and incorporated by reference. The applicable Proof of Loss Report is the "Contract Year 2006 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF)," FHCF-L1B, rev. 05/06, which is hereby adopted and incorporated by reference.

(c) For the 2007/2008 Contract Year, the applicable Interim Loss Report is the "Contract Year 2007 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF)", FHCF-L1A, rev. 05/07, which is hereby adopted and incorporated by reference. The applicable Proof of Loss Report is the "Contract Year 2007 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF)," FHCF-L1B, rev. 05/07, which is hereby adopted and incorporated by reference.

(d) For the 2008/2009 Contract Year, the applicable Interim Loss Report is the "Contract Year 2008 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF)", FHCF-L1A, rev. 05/08, which is hereby adopted and incorporated by reference. The applicable Proof of Loss Report is the "Contract Year 2008 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF)," FHCF-L1B, rev. 05/08, which is hereby adopted and incorporated by reference. The forms may be obtained from the Fund's Administrator at the address stated in subsection (6) above.

(e) For the 2009/2010 Contract Year, the applicable Interim Loss Report is the "Contract Year 2009 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF)", FHCF-L1A, rev. 05/09, which is hereby adopted and incorporated by reference. The applicable Proof of Loss Report is the "Contract Year 2009 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF)," FHCF-L1B, rev. 05/09, which is hereby adopted and incorporated by reference. The forms may be obtained from the Fund's Administrator at the address stated in subsection (6) above.

(f) For the 2010/2011 Contract Year, the applicable Interim Loss Report is the "Contract Year 2010 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF)", FHCF-L1A, rev. 05/10, which is hereby adopted and incorporated by reference into this rule. The applicable Proof of Loss Report is the "Contract Year 2010 Proof of Loss Report, Florida Hurricane Catastrophe Fund

(FHCF),” FHCF-L1B, rev. 05/10, which is hereby adopted and incorporated by reference into this rule. The forms may be obtained from the Fund’s Administrator at the address stated in subsection (6) above.

(g) For the 2011/2012 Contract Year, the applicable Interim Loss Report is the “Contract Year 2011 Interim Loss Report, Florida Hurricane Catastrophe Fund (FHCF),” FHCF-L1A, rev. 01/11, which is hereby adopted and incorporated by reference into this rule. The applicable Proof of Loss Report is the “Contract Year 2011 Proof of Loss Report, Florida Hurricane Catastrophe Fund (FHCF),” FHCF-L1B, rev. 01/11, which is hereby adopted and incorporated by reference into this rule. The forms may be obtained from the Fund’s Administrator at the address stated in subsection (6) above.

(8) Company Contact Information: Companies must submit Form FHCF C-1, Company Contact Information, rev. 05/10, by June 1 of each Contract Year. This form must be updated by the Company as the information provided thereon changes. The FHCF shall have the right to rely upon the information provided by the Company to the FHCF on this form until receipt by the FHCF of a new properly completed and notarized FHCF C-1 from the Company. The form may be obtained from the Fund’s Administrator at the address stated in subsection (6) above.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555(2), (3), (4), (5), (6), (7), (15) FS. History—New 5-17-99, Amended 6-19-00, 6-3-01, 6-2-02, 11-12-02, 5-13-03, 5-19-04, 8-29-04, 5-29-05, 5-10-06, 5-8-07, 6-8-08, 3-30-09, 8-2-09, 3-29-10, 8-8-10, XX-XX-11.

DRAFT 11/15/10

19-8.030 Insurer Responsibilities.

(1) Section 215.555(10), F.S., provides that any violation of any provision of Section 215.555, F.S., or of any rule adopted under Section 215.555, F.S., constitutes a violation of the Florida Insurance Code.

(2) Purpose. The purpose of this rule is to clearly establish certain deadlines and other requirements for insurers required to participate in the Florida Hurricane Catastrophe Fund (Fund or FHCF). It is not the intent or purpose of this rule to address every requirement of Participating Insurers which could result in a referral to the Florida Department of Financial Services.

(3) Definitions. The terms defined below will be capitalized in this rule.

(a) Authorized Insurer means an insurer as defined in Section 624.09(1), F.S. and includes Citizens Property Insurance Corporation and any joint underwriting association or similar entity created pursuant to Section 627.351, F.S.

(b) Board or SBA means the State Board of Administration of Florida.

(c) Fund or FHCF means the Florida Hurricane Catastrophe Fund established pursuant to Section 215.555, F.S.

(d) Citizens Property Insurance Corporation or Citizens means the entity formed under Section 627.351(6), F.S., and includes both the High Risk Account and the Personal Lines and Commercial Lines Accounts.

(e) Contract Year means the time period which begins at 12:00:01 Eastern Time on June 1 of each calendar year and ends at 12:00 p.m. midnight on May 31 of the following calendar year.

(f) A Covered Event or Event is a hurricane as defined in Section 215.555(2)(b), F.S., and in Article V of the Reimbursement Contract adopted and incorporated by reference in Rule 19-8.010, F.A.C.

(g) Covered Policy. This term is defined in Section 215.555(2)(c), F.S., and the Reimbursement Contract adopted by and incorporated into Rule 19-8.010, F.A.C.

(h) Department means the Florida Department of Financial Services.

(i) Data Call means the annual reporting of insured values forms. These forms, as adopted and incorporated into Rule 19-8.029, F.A.C., are the FHCF-D1A for Contract Years after the 2002/2003 ~~Contract Year year~~ and the FHCF-D1A and FHCF-D1B for Contract Year 2002/2003 and ~~all prior Contract Years, years.~~

(j) Office of Insurance Regulation means that office within the Department of Financial Services and which was created in Section 20.121(3), F.S.

(k) Participating Insurer, Insurer or Company means an insurer which writes Covered Policies in this state and which has entered into a Reimbursement Contract with the Board, pursuant to Section 215.555(4)(a), F.S.

(l) Reimbursement Contract or Contract means the statutorily required annual contract which provides coverage to Participating Insurers for losses to covered property during a Covered Event.

(m) Reimbursement Premium or Premium means the premium determined by multiplying each \$1,000 of insured value reported by the Company in accordance with Section 215.555(5), F.S., by the rate as derived from the premium formula as described in Rule 19-8.028, F.A.C.

(n) Quota Share Primary Insurance Arrangement is defined in Section 627.351(6)(c)2.a.(I), F.S.

(4) Reimbursement Contract.

(a) Current Participants: The Reimbursement Contracts are annual contracts.

1. For the 2010/2011 and earlier Contract Years, e~~Each Insurer required to participate in the FHCF must designate a coverage level in the annual Reimbursement Contract, make any required selections therein and execute the Reimbursement Contract and applicable Addenda so that the Contract, including the schedules and applicable Addenda, have been received by June 1 of each Contract Year.~~

2. For the 2011/2012 and subsequent Contract Years, each Insurer required to participate in the FHCF must designate a coverage level in the annual Reimbursement Contract, make any required selections therein and execute the Reimbursement Contract and applicable Addenda so that the Contract, including the schedules and applicable Addenda, have been received by the March 1 prior to each Contract Year.

(b) New Participants during the period of June 1 through November 30: Those Insurers that first begin writing Covered Policies from June 1 through November 30 of a Contract Year are "New Participants." New Participants must designate a coverage level in the annual Reimbursement Contract, make any required selections therein, and execute the Contract and applicable Addenda simultaneously with issuing the first Covered Policy. The completed and executed Reimbursement Contract, including all required selections, schedules and applicable Addenda, must be returned no later than 30 days after the effective date of the first Covered Policy.

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(c) New Participants during the period of December 1 through May 31: Those Insurers that first begin writing Covered Policies from December 1 through May 31 of a Contract Year, along with the Insurers described in paragraph (b) immediately above, are New Participants. However, these Insurers shall not complete and submit the Data Call (Form FHCF-D1A) but shall meet all other requirements for New Participants.

(d) Optional coverages authorized by law must be chosen by current participants by executing and returning the applicable Addenda to the Reimbursement Contract ~~by June 1~~ of the relevant Contract Year by the date required. New Participants choosing optional coverage must execute and return the applicable Addenda to the Reimbursement Contract for the relevant Contract Year prior to the time in which a covered loss occurs and within 30 days of writing its first covered policy. Any current or New Participant failing to meet these deadlines shall not be eligible for such optional coverage.

(5) Exposure Reporting Requirements.

(a) Quota Share Primary Insurance: Citizens and Authorized Insurers may enter into Quota Share Primary Insurance Arrangements with respect to the High Risk Account policies. The statute also provides, in Section 627.351(6)(c)2.a.(II), F.S., that Citizens shall be responsible for the annual reporting of insured values to the FHCF for both Citizens and the Insurer participating with Citizens in the Quota Share Arrangement. Citizens shall report the insured values covered by the Quota Share Primary Insurance Arrangements in the same manner that all other current participants, as described in paragraph (b) below, report their insured values. Please note that both Citizens and the Quota Share Primary Insurer must keep complete and accurate records, including copies of policy declaration pages and supporting claims documents, for the purpose of exposure and loss reimbursement examinations by the FHCF.

(b) Current Participants: Each Insurer, with Covered Policies as of June 1 of a Contract Year must participate in the FHCF and must complete and submit the Data Call. The Data Call is incorporated into Rule 19-8.029, F.A.C., and is due, correctly completed, no later than September 1 of the Contract Year.

(c) New Participants during the period of June 1 through November 30: Those Insurers that first begin writing Covered Policies from June 1 through November 30 of a Contract Year must complete and submit the Data Call. The Data Call is incorporated into Rule 19-8.029, F.A.C., and is due, correctly completed, by March 1 of the Contract Year.

(d) Resubmissions of Data: With one exception noted below, any Insurer which submits a Data Call, Form FHCF-D1A, with incorrect data, incomplete data, or data in the wrong format and is required to resubmit will be given 30 days from the date on the letter from the FHCF notifying the Insurer of the need to resubmit. An extension of 30 days will be granted if the Insurer can show that the need for the additional time is due to circumstances beyond the reasonable control of the ~~Insurer, participant~~. Exception: If the Insurer, at the time it receives notice of the need to resubmit, has already been issued a notice of examinations, the usual 30 day time limitation (measured from the date of the letter giving notice of the need to resubmit) does not apply. In this situation, the time period in which the Insurer must resubmit is measured by counting backwards 30 days from the date that the examinations are scheduled to begin as reflected on the notice of examinations letter. The FHCF needs the information prior to the examinations; thus, no extensions can be granted.

(6) Premiums.

(a) Current Participants: Premium installments for Current Participants are due on August 1, October 1, and December 1. Premium adjustments are due as indicated on the invoice sent to the Insurer. Premiums paid to the FHCF with reference to property covered by Quota Share Primary Insurance Arrangements, as authorized and defined in Section 627.351(6)(c)2.a.(I), F.S., will be allocated by the FHCF between the Insurer and Citizens in accordance with the percentages specified in the Quota Share Primary Insurance Arrangement.

(b) New Participants during the period of June 1 through November 30: Those Insurers that first begin writing Covered Policies from June 1 through November 30 of a Contract Year must submit a payment of \$1,000 on or before the date indicated on the invoice. Once a New Participant's Data Call, which is filed on or before March 1 of the Contract Year, ~~has~~ been reviewed by the Administrator and the Company's actual Reimbursement Premium has been determined on its actual exposure, an invoice with the amount due, if any, will be sent to the Company by the Administrator. Payment, if any amounts are shown as due on the invoice, is due within 30 days from the date on the invoice. In no event will the Premium be less than the \$1,000.

(c) New Participants during the period of December 1 through May 31: Those Insurers that first begin writing Covered Policies from December 1 through May 31 of a Contract Year shall pay a \$1,000 Premium within 30 days from the date on the invoice sent to the Insurer by the FHCF.

(d) With respect to any Company where control of the Company has been transferred through any legal or regulatory

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proceeding to a state regulator or court appointed receiver or rehabilitator, or the Company has been placed under regulatory supervision, prior to December 1 of the Contract Year, the full annual provisional Reimbursement Premium as billed and any outstanding balances will be due on August 1, or the date that control is transferred if after August 1.

(7) Examination Requirements. A Company is required to prepare and retain an examination file in accordance with the specifications outlined in the Data Call instructions and a detailed claims listing to support losses reported on the Proof of Loss Report. Such records must be retained until the FHCF has completed its examination of a Company's exposure submission and any loss reports applicable to the Data Call Contract Year [and commutation for the Contract Year \(if applicable\) has been concluded](#). The records provided for examination must be from the examination file as originally prepared unless a subsequent resubmission was sent to the FHCF. Note that both Citizens and Insurers participating in Quota Share Primary Insurance Arrangements must keep complete and accurate records, including copies of policy declaration pages and supporting claims documents, for the purpose of exposure and loss reimbursement examinations by the FHCF.

(a) Advance Examination Record Requirements: Within 30 days from the date on the letter from the FHCF, Companies are required to provide the FHCF with the records indicated in the applicable Contract Year's, "Exposure Examination Advance Preparation Instructions" or in the applicable Contract Year's "Loss Reimbursement Examination Advance Preparation Instructions". An extension of 30 days may be granted if the Insurer can show that the need for the additional time is due to circumstances beyond the reasonable control of the ~~Insurer, participant~~.

1. For Contract Years prior to the 2003/2004 Contract Year, Form FHCF-AP1 as revised for each Contract Year, is the applicable Exposure Examination Advance Preparation Instructions form to use.

2. For the 2004/2005 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Audit – Contract Year 2004 Advance Preparation Instructions," FHCF-AP1, rev. 5/04. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year 2004 Advance Preparation Instructions," FHCF-LAP1, ~~rev.~~ 05/06.

3. For the 2005/2006 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2005 Advance Preparation Instructions," FHCF-AP1, rev. 5/05. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year 2005 Advance Preparation Instructions," FHCF-LAP1, rev. 05/07.

4. For the 2006/2007 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2006 Advance Preparation Instructions," FHCF-EAP1, rev. 5/06. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year XXXX Advance Preparation Instructions," FHCF-LAP1, ~~rev.~~ new-05/06.

5. For the 2007/2008 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2007 Advance Preparation Instructions," FHCF-EAP1, rev. 05/07. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year XXXX Advance Preparation Instructions," FHCF-LAP1, rev. 05/07.

6. For the 2008/2009 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2008 Advance Preparation Instructions," FHCF-EAP1, rev. 05/08. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year XXXX Advance Preparation Instructions," FHCF-LAP1, rev. 05/08.

7. For the 2009/2010 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2009 Advance Preparation Instructions," FHCF-EAP1, rev. 05/09. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year XXXX Advance Preparation Instructions," FHCF-LAP1, rev. 05/09.

8. For the 2010/2011 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Exposure Examination – Contract Year 2010 Advance Preparation Instructions," FHCF-EAP1, rev. 05/10. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund (FHCF) Loss Reimbursement Examination – Contract Year 2010 Advance Preparation Instructions," FHCF-LAP1, rev. 05/10.

[9. For the 2011/2012 Contract Year, the applicable exposure examination instructions form is the "Florida Hurricane Catastrophe Fund \(FHCF\) Exposure Examination – Contract Year 2011 Advance Preparation Instructions," FHCF-EAP1, rev. 01/11. The applicable loss examination instructions form is the "Florida Hurricane Catastrophe Fund \(FHCF\) Loss Reimbursement](#)

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Examination – Contract Year 2011 Advance Preparation Instructions,” FHCF-LAP1, rev. 01/11.

10. These forms are hereby adopted and incorporated by reference into this rule. Copies of these forms may be obtained from the FHCF website, www.sbafla.com/fhcf or by contacting the State Board of Administration. The mailing address is P. O. Box 13300, Tallahassee, Florida 32317-3300. The street address is 1801 Hermitage Blvd., Tallahassee, Florida 32308.

(b) On-site Examination Record Requirements: The FHCF-EAP1, “Exposure Examination Advance Preparation Instructions” form and the FHCF-LAP1, “Loss Reimbursement Examination Advance Preparation Instructions” form each contain a list of the information that the Companies must have available, on-site, on the date the exposure or loss examination is to begin. These records must be made available to the FHCF examiner upon request.

(c) Response to the FHCF Examination Report: Within 30 days from the date of the letter accompanying the examination report, a Company must provide a written response to the FHCF. The response must indicate whether the Company agrees with the recommendation of the examination report. If the Company disagrees with the examination findings, the reason for the disagreement will be outlined in the response and the Company will provide supporting information to support its objection. An extension of 30 days will be granted if the Company can show that the need for additional time is due to circumstances beyond the reasonable control of the Company.

(d) Resubmissions as a Result of a Completed Examination: A Company required to resubmit exposure data as a result of the examination must do so within 30 days of the date on the letter from the FHCF notifying the Company of the need to resubmit. An extension of 30 days will be granted if the Company can show that the need for additional time is due to circumstances beyond the reasonable control of the Company.

(8) Loss Reporting. Participating Insurers are required to file the following two types of loss reports at the times prescribed in Rule 19-8.029, F.A.C. Form FHCF-L1A, “Florida Hurricane Catastrophe Fund Interim Loss Report,” for the applicable Contract Year and Form FHCF-L1B, “Florida Hurricane Catastrophe Fund Proof of Loss Report,” for the applicable Contract Year.

(a) For the Contract Year 2006-2007, the applicable “Florida Hurricane Catastrophe Fund Interim Loss Report,” is the FHCF-L1A rev. 05/06 and the applicable “Florida Hurricane Catastrophe Fund Proof of Loss Report,” is the FHCF-L1B rev. 05/06.

(b) For the Contract Year 2007-2008, the applicable “Florida Hurricane Catastrophe Fund Interim Loss Report,” is the FHCF-L1A rev. 05/07 and the applicable “Florida Hurricane Catastrophe Fund Proof of Loss Report,” is the FHCF-L1B rev. 05/07.

(c) For the Contract Year 2008-2009, the applicable “Florida Hurricane Catastrophe Fund Interim Loss Report,” is the FHCF-L1A rev. 05/08 and the applicable “Florida Hurricane Catastrophe Fund Proof of Loss Report,” is the FHCF-L1B rev. 05/08.

(d) For the Contract Year 2009-2010, the applicable “Florida Hurricane Catastrophe Fund Interim Loss Report,” is the FHCF-L1A rev. 05/09 and the applicable “Florida Hurricane Catastrophe Fund Proof of Loss Report,” is the FHCF-L1B rev. 05/09. These forms are hereby adopted and incorporated by reference into this rule.

(e) For the Contract Year 2010-2011, the applicable “Florida Hurricane Catastrophe Fund Interim Loss Report,” is the FHCF-L1A rev. 05/10 and the applicable “Florida Hurricane Catastrophe Fund Proof of Loss Report,” is the FHCF-L1B rev. 05/10. These forms are hereby adopted and incorporated by reference into this rule.

(f) For the Contract Year 2011-2012, the applicable “Florida Hurricane Catastrophe Fund Interim Loss Report,” is the FHCF-L1A rev. 01/11 and the applicable “Florida Hurricane Catastrophe Fund Proof of Loss Report,” is the FHCF-L1B rev. 01/11. These forms are hereby adopted and incorporated by reference into this rule.

(g) These forms are hereby adopted and incorporated by reference into this rule and may be obtained from the Fund’s Administrator, Paragon Strategic Solutions Inc., 8200 Tower, 5600 West 83rd Street, Suite 1100, Minneapolis, Minnesota 55437. Companies must submit a detailed claims listing (in a delimited ASCII format) to support the losses reported in the FHCF-L1B, Proof of Loss Report, at the same time it submits its first Proof of Loss Report for a specific Covered Event that qualifies the Company for reimbursement under that Covered Event, and should be prepared to supply a detailed claims listing for any subsequent Proof of Loss Report upon request. Refer to Form FHCF-LAP1 for the required file layout. The Proof of Loss Report and the detailed claims listing are required to be sent to the FHCF Administrator, Paragon Strategic Solutions Inc., at the address listed above. If your Company submits its Proof of Loss Reports electronically through the FHCF’s Online Claims System at www.sbafla.com/fhcf, the detailed claims listing may be attached to the Company’s submission.

(9) Penalties and Additional Charges. The Participating Insurers’ responsibilities outlined in this rule are not an exhaustive list and Section 215.555, F.S., and other rules promulgated under that section may outline additional responsibilities or deadlines. The failure by a Participating Insurer to meet any of the deadlines or responsibilities outlined in this rule, Section 215.555, F.S., or any other rule applicable to the FHCF constitute a violation of the Florida Insurance Code. In the event of a violation, in addition to the

consequences outlined below, the FHCF may notify the Office of Insurance Regulation of the violation. The Office of Insurance Regulation may take whatever action it deems appropriate in addressing the violation.

(a) Resubmissions of Data: A \$1,000 resubmission fee (for resubmissions that are not the result of an examination by the SBA) will be invoiced by the FHCF for each submission. If a resubmission is necessary as a result of an examination report issued by the SBA, the resubmission fee will be \$2,000. If a Ceompany's examination-required resubmission is inadequate and the SBA requires an additional resubmission(s), the resubmission fee for each subsequent resubmission shall be \$2,000.

(b) Premiums and Other Payments: All late payments of Premium, including Premium adjustments, due to the FHCF from an Insurer are subject to interest.

(c) Consequences for Failure to meet the requirements contained in the FHCF-EAP1, "Exposure Examination Advance Preparation Instructions," the FHCF-LAP1, "Loss Reimbursement Examination Advance Preparation Instructions," or the on-site examination record requirements in a timely manner: In addition to other penalties or consequences, the FHCF has the authority, pursuant to Section 215.555(4)(f), F.S., to require that the Insurer pay for the following services under the circumstances outlined below:

1. If an examination is delayed, cannot be conducted as scheduled or cannot be completed and the Insurer is responsible for such, the Insurer shall be required to reimburse the FHCF for all the usual and customary expenses connected to such delay, cancellation or incompletion.

2. If the FHCF finds any Insurer's records or other necessary information to be inadequate or inadequately posted, recorded, or maintained, the FHCF may employ experts to reconstruct, rewrite, record, post, or maintain such records or information, at the expense of the Insurer being examined.

3. An Insurer required to reimburse the FHCF for costs as outlined in subparagraphs 1. and 2. immediately above, will owe interest on the amount owed to the FHCF from the date the FHCF pays such expenses until the date payment from the Insurer is received. The applicable interest rate will be the average rate earned by the SBA for the FHCF for the first four ~~five~~ months of the current Contract Year plus 5%. Also, the payment of reimbursements or refunds by the FHCF to any Insurer will be offset by any amounts owed by that Insurer to the FHCF.

(10) Time Deadlines: If any deadline provided for herein falls on a Saturday, Sunday or on a legal holiday, then the applicable due date will be the first business day immediately following the Saturday, Sunday or legal holiday.

(11) Optional Coverage Programs: Except as provided in this subsection, this rule applies to the Additional Coverage Option created in Section 215.555(4)(b)4., F.S., and the Temporary Emergency Additional Coverage Option ("TEACO") created in Section 215.555(16), F.S., and the Temporary Increase in Coverage Limit Options option created in Section 215.555(17), F.S. ("TICL"). ~~The definition of Premium in paragraph (3)(m), above, does not apply to TEACO. With respect to this Option, the word "Premium" when used in this rule shall refer to the amount payable under Section 215.555(16)(f), F.S., for this optional coverage. The definition of Premium in paragraph (3)(m), above, does not apply to Section 215.555(4)(b)4., F.S., Additional Coverage Option. With respect to this Option, the word "Premium" when used in this rule shall refer to the amount payable under Section 215.555(4)(b)4., F.S., for this optional coverage.~~

(12) Company Contact Information: Companies must submit Form FHCF-C1, Company Contact Information, by June 1 of each Contract Year to the FHCF Administrator, Paragon Strategic Solutions Inc., 8200 Tower, 5600 West 83rd Street, Suite 1100, Minneapolis, Minnesota 55437. This form must be updated by the Company as the information provided thereon changes. The FHCF shall have the right to rely upon the information provided by the Company to the FHCF on this form until receipt by the FHCF of a new properly completed and notarized FHCF C-1 from the Company.

Rulemaking Authority 215.555(3) FS. Law Implemented 215.555 FS. History--New 5-13-03, Amended 5-19-04, 5-29-05, 5-10-06, 5-8-07, 8-13-07, 6-8-08, 3-30-09, 3-29-10, 8-8-10, XX-XX-11.

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Florida Hurricane Catastrophe Fund **~~2010~~-2011 Data Call**

Instruction Sheet

Each authorized insurance company writing Covered Policies in the state of Florida is required to pay a reimbursement premium to the Florida Hurricane Catastrophe Fund (FHCF). This premium is based on the Reimbursement Premium Formula specifying the amount of premium to be paid for each \$1,000 of insured value for Covered Policies in each Florida ZIP Code by type of business, construction type, deductible group, and Building Code Effectiveness Grading (BCEG) code combinations.

In order to perform the calculation, each authorized insurance company must submit its total covered property exposure (wind/hurricane insurance in force) **by September 1, ~~2010~~-2011** for insured values under Covered Policies **as of June 30, ~~2010~~2011**. Covered Policies are defined in subsection (10) of Article V of the FHCF Reimbursement Contract (see page 17 herein; a full copy of the Reimbursement Contract is available on-line at www.sbafla.com/fhcf under “fhcf rules”).

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**** Important Changes in the ~~2010~~2011 Data Call ****

1. Construction type “Masonry” has been split into two categories (“Masonry” and “Masonry with Reinforced Concrete Roof”) and construction type “Superior” has been split into two categories (“Superior” and “Superior with Reinforced Concrete Roof”) for FHCF types of business Commercial, Condominium Unit Owners, and Tenants. See pages 11 and 27.
2. The FHCF Florida Building Code Indicator codes and instructions have been revised. See page 16.
3. The FHCF Structure Opening Protection field has been revised to be dependent on whether or not a company gives its policyholder a credit. See page 16.
4. The FHCF Roof-Wall Connection and Roof Deck Attachment fields have been eliminated.

**** Steps for Completing Data Call ****

1. Complete the Data Call and return the required items as outlined below.
2. Return the following information to the Administrator, Paragon Strategic Solutions Inc. (Paragon):

Required Documentation	Item to Return
Exposure Data File*	Diskette(s) /CD-ROM
Submission Checklist	Hard Copy (page 28)
Brief Written Verification of Exposure Fluctuations	Cover Letter
Control Totals Form	Hard Copy (page 29)
Statement of Exposure Data Validity	Hard Copy (page 30)
Statement of Retention of Exam File	Hard Copy (page 31)
Collateral Protection Statement (required only for Companies writing Collateral Protection Policies)	Hard Copy (page 32)

***Note:** All data for an individual company should be submitted as one file, unless your company has participated in a Citizens Property Insurance Corporation High Risk Account or Citizens Property Insurance Corporation Personal Lines and Commercial Lines Account assumption agreement (see pages 6 and 23). If your company has different departments responsible for compiling portions of your data submission, please have one individual coordinate, compile, and submit the complete package to the Administrator.

3. If your company does not have Covered Policies as defined in subsection (10) of Article V of the FHCF Reimbursement Contract (see page 17 herein), but was an active FHCF company for the ~~2009/2010~~ 2010/2011 contract year, a letter requesting to petition for exemption from the FHCF must be returned to the Administrator no later than **September 1, ~~2010~~2011**.

Note: If your company determines at a later time that it does have Covered Policies, or the State Board of Administration of Florida (SBA) denies your company’s request for exemption from the FHCF, your company will be subject to any fees and/or administrative action by the Florida Department of Financial Services (Department) for delinquent or inadequate exposure data as defined in this Data Call and/or your company’s Reimbursement Contract.

**** General Data Call Issues ****

Extensions

Data Call submissions must be received by September 1, ~~2010~~[2011](#). Extensions will not be granted.

Media Type

Provide the exposure data file in a fixed length (82-character) ASCII format on CD-ROM.

Where to Send Your Submission

For your convenience, we have enclosed a self-addressed envelope for returning the required information to:

Ms. Kathy Mackenthun, CPCU, ARe
[Director](#)~~Vice President~~ – FHCF Administration
Paragon Strategic Solutions Inc.
8200 Tower
5600 West 83rd Street, Suite 1100
Minneapolis, MN 55437

If you have any questions about the information to be supplied or about this Data Call, please do not hesitate to call Holly Bertagnolli, Kathy Mackenthun, or Martin Helgestad of Paragon Strategic Solutions Inc. at 1-800-689-FUND (3863).

**** Data Quality ****

Any company submitting an exposure data file in an incorrect format or in noncompliance with the specifications herein will be required to resubmit its data. See Resubmissions for information on resubmission fees.

Resubmissions

Any company required to resubmit data will be allowed 30 calendar days to resubmit data (may be less than 30 days if the company has been already notified by the SBA for an exam). A \$1,000 resubmission fee (for resubmissions that are not the result of an exam by the SBA) will be invoiced by the FHCF for each resubmission.

If a resubmission is necessary as a result of an examination report issued by the SBA, the resubmission fee will be \$2,000. If a company's examination-required resubmission is inadequate and the SBA requires an additional resubmission(s), the resubmission fee for each subsequent resubmission shall be \$2,000.

Explanation of Exposure Fluctuations

Compare your current year submission against your submission from the previous year to ensure increases or decreases in reported exposure are valid. The FHCF requires an explanation of exposure increases or decreases for specific FHCF types of business which meet either the combined dollar/percentage thresholds or the large dollar thresholds below. Please include a brief written explanation of such fluctuations with your Data Call submission. While the degree of detail is left to the discretion of your company, the explanation must provide detail beyond simply stating that “the data has been reviewed and is correct as submitted”.

Type of Business	\$ Threshold		% Threshold		Large \$ Threshold
Commercial:	+/- \$ 25,000,000	and	+/- 40%	or	+/- \$200,000,000
Residential and Other Contents Policies or Endorsements:	+/- \$ 50,000,000	and	+/- 40%	or	+/- \$2,000,000,000
Mobile Home:	+/- \$ 25,000,000	and	+/- 40%	or	+/- \$40,000,000
Tenants:					+/- \$20,000,000
Condominium Unit Owners:	+/- \$ 25,000,000	and	+/- 40%	or	+/- \$40,000,000

Preliminary Validation Software

Running the Preliminary Validation Software (Version ~~2010~~2011) will help ensure that your company’s data is in the correct format. However, please keep in mind that the software has been designed to identify data formatting errors, percentage of exposure with valid ZIP Codes, and invalid ZIP-to-county mappings. **The software will not identify records with valid FHCF record formatting that have been coded incorrectly according to the policy details.** Such errors may require a resubmission of exposure data. Any examination conducted by the SBA will be the final determinant of data quality.

Note: If you make changes to the Data Call file as a result of the Preliminary Validation Software, remember to make the same changes to the SBA exam file (see page 5).

Aggregate versus Individual Records

Data may be either aggregated or reported by individual policy record. If aggregating data, please aggregate by each type of business, line of business, construction type, deductible group, county, ZIP Code, Year Built, BCEG, Florida Building Code ~~Indicator~~indicator code, Structure Opening Protection code, ~~and~~ Roof Shape code, ~~Roof Wall Connection code, and Roof Deck Attachment code~~ combinations.

Rounding

Exposures should be reported in whole dollars and may be rounded to the nearest \$1,000, but no greater.

**** Covered Policies ****

Covered Policies are defined in Section 215.555(2)(c), Florida Statutes, as any insurance policy covering a residential structure, or its contents, located in the State of Florida. Covered Policy is further defined in subsection (10) of Article V of the FHCF Reimbursement Contract (see page 17 herein), which includes personal lines residential coverages, commercial lines residential coverages, and mobile home coverages. **The FHCF provides reimbursement only for losses from policies with wind or hurricane coverage.**

All Covered Policies written by an individual insurer must be reported even if they are written in areas eligible for coverage from Citizens Property Insurance Corporation High Risk Account or Citizens Property Insurance Corporation Personal Lines and Commercial Lines Accounts.

**** June 30th “as of” Date ****

The data reported under this Data Call pertains to a company’s insured values under Covered Policies as of June 30, ~~2010~~[2011](#). This data is used by the FHCF to calculate a company’s premium, retention, and maximum FHCF coverage under the applicable Reimbursement Contract.

Although changes to coverage under a policy that are effective after June 30th do not impact reporting under the Data Call (including new policy issuance and policy terminations), the policy terms in effect at a time of loss will be considered in determining a company’s losses eligible for reimbursement under the FHCF. For example, if a Covered Policy was written effective July 1, ~~2010~~[2011](#), exposure for that policy would not be included under the ~~2010-2011~~ Data Call submission, but losses under that policy would be reportable to the FHCF when the company files its loss reports.

Given an “as of” date of June 30th and a statutory Data Call due date of September 1st, a company must determine the date at which it can most accurately capture and report its data to include policy transactions with effective dates of June 30th or earlier, while still being able to meet the statutory Data Call due date. For example, a company writes a policy with an effective date of June 29, ~~2010~~[2011](#), the transaction was processed by the company on July 15, ~~2010-2011~~ and the company compiled its data on July 20, ~~2010~~[2011](#). The FHCF would expect the policy to be reported since the policy was in effect on June 30th and the transaction was processed before the date the data was compiled. However, the FHCF recognizes that if a transaction was not processed far enough through a company’s systems by the date on which the company compiled its Data Call information, then that transaction would not necessarily be reflected in the company’s original Data Call submission. Nonetheless, should the company have to resubmit its Data Call at a later date, then the transaction should be included in the resubmitted data.

**** SBA Exam File ****

Generation of the SBA Exam File

The SBA exam file should be generated at the same time your Data Call file is created. If fields are unique to the SBA exam file, care must be taken to ensure accuracy with your company’s files. The total reported exposure and rating factors in the exam file must match the total exposure and rating factors of the Data Call file. If, at the time the SBA reviews your exam file, it is determined that these files are not in agreement and the files cannot be used to conduct the examination, your company will be required to resubmit both files and will be subject to the \$1,000 resubmission fee.

Retention of Records for SBA Examination

In accordance with Article XIII of the Reimbursement Contract and the SBA’s examination program, all records, including exposure filings (Data Call submission), policy files, and supporting documentation, must be retained along with computer runs (exam file) produced to support the Data Call submission. Companies writing covered collateral protection policies, as defined in this Data Call, must be able to provide documentation that the policy covers the borrower’s and lender’s interest and that the coverage is in an amount at least equal to the coverage for the dwelling in place under the lapsed homeowner’s policy. Such records must be retained until the SBA has completed its examination of your company’s exposure submission and loss reports (applicable to the Data Call contract year) and commutation for the contract year (if applicable) has been concluded. The exam file must be retained and maintained so that, upon examination by the SBA, changes can be made to correct any errors which may be identified and to allow for a resubmission if required.

SBA Exam File Specifications

The SBA exam file must be by individual policy, sorted by type of business and line of business, must be available in a delimited ASCII format or as a Microsoft Access database, and must contain the following fields (do not include any symbols such as -, +, #, \$, “, /) in the order listed on the following page.

Field #	Description	Type	Notes
1	Type of Business	Numeric	Only use the codes on page 8.
2	Line of Business	Numeric	Only use the codes on page 9.
3	Construction Type	Numeric	Only use the codes on pages 9-10.
4	Deductible Group	Text	Only use the codes on pages 10-11.
5	County Code	Numeric	Only use the codes on page 26.
6	ZIP Code	Numeric	
7	Insured Risks	Numeric	Must be greater than zero.
8	Total Insured Value – Building	Numeric	
9	Total Insured Value – Appurtenant Structures	Numeric	
10	Total Insured Value – Contents	Numeric	
11	Total Insured Value – Additional Living Expense	Numeric	
12	Year Built	Numeric	Only use the codes on page 14.
13	BCEG Code	Numeric	Only use the codes on page 14.
14	Florida Building Code Indicator	Numeric	Only use the codes on page 15.
15	Structure Opening Protection	Numeric	Only use the codes on page 15.
16	Roof Shape	Numeric	Only use the codes on page 15.
17	Roof-Wall Connection Reserved for future use	Numeric	Only use the codes on page 15. Enter 0 (zero)
18	Roof Deck Attachment Reserved for future use	Numeric	Only use the codes on page 15. Enter 0 (zero).
19	Policy Effective Date	Numeric or Date/Time	Numeric Format: yyyymmdd Date/Time Format: Month/day/year Effective Date must be in one field and the numeric format must have 8 characters.
20	Policy Expiration Date	Numeric or Date/Time	Numeric Format: yyyymmdd Date/Time Format: month/day/year Expiration Date must be in one field and the numeric format must have 8 characters.
21	Policy Number	Text	
22	Citizens Policy Number	Text	Applies only to policies assumed from Citizens that have not renewed onto the company's books by June 30, 2011-2009 .

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File Layout

The following fields must be provided. If you aggregate your company's data, please do so by type of business, line of business, construction type, deductible group, county, ZIP Code, Year Built, BCEG code, Florida Building Code ~~Indicator~~indicator, Structure Openings Protection, and Roof Shape, ~~Roof-Wall Connection, and Roof Deck Attachment~~ code combinations.

Field #	Description	Position	Length	Type	Notes
1	Type of Business	1	1	Numeric	Only the codes on page 8 are acceptable.
2	Line of Business	2	1	Numeric	Only the codes on page 9 are acceptable.
3	Construction Type	3	2	Numeric	Only the codes on pages 9-10 are acceptable.
4	Deductible Group	5	2	Alpha	Only the codes on pages 10-11 are acceptable.
5	County Code	7	3	Numeric	Only the codes on page 26 are acceptable.
6	ZIP Code	10	5	Numeric	At least 95% of exposure must have a valid ZIP Code.
7	Total Insured Risks	15	12	Numeric	Must be greater than zero.
8	Total Insured Value – Building*	27	12	Numeric	* See note below table.
9	Total Insured Value – Appurtenant Structures*	39	12	Numeric	* See note below table.
10	Total Insured Value – Contents*	51	12	Numeric	* See note below table.
11	Total Insured Value – ALE*	63	12	Numeric	* See note below table.
12	Year Built	75	1	Numeric	Only the codes on page 14 are acceptable.
13	BCEG Code	76	2	Numeric	Only the codes on page 14 are acceptable.
14	Florida Building Code Indicator	78	1	Numeric	Only the codes on page 15 are acceptable.
15	Structure Opening Protection	79	1	Numeric	Only the codes on page 15 are acceptable.
16	Roof Shape	80	1	Numeric	Only the codes on page 15 are acceptable.
17	Roof-Wall Connection	81	1	Numeric	Only the codes on page 15 are acceptable. <u>Enter 0 (zero)</u>
18	Roof Deck Attachment	82	1	Numeric	Only the codes on page 15 are acceptable. <u>Enter 0 (zero).</u>

*Note: The sum of these four fields for each record must be greater than zero.

Example: A record with the following information:

Field #	Description	Type	Entry
1	Type of Business	Residential	2
2	Line of Business	Homeowners	2
3	Construction Type	Frame	01
4	Deductible Group	\$2,000	RC
5	County Code		025
6	ZIP Code		33130
7	Total Insured Risks		5
8	Total Insured Value – Building		\$500,000
9	Total Insured Value – App. Structures		\$100,000
10	Total Insured Value – Contents		\$250,000
11	Total Insured Value – ALE		\$50,000
12	Year Built	Date Range	1
13	BCEG Code	BCEG code of 5	05
14	Florida Building Code Indicator	Meets FL Building Code Standards Dwelling built under the 2001 Florida Building Code, or Dwelling located in Miami-Dade or Broward counties and built under the 1994 South Florida Building Code	1
15	Structure Openings Protection	Basic Shutters No credit is given to policyholder	+0
16	Roof Shape	Hip, Mansard, or Pyramid	1
17	Roof Wall Connections Reserved for future use	Anchor Bolts, Hurricane Ties, Clips, Wraps, or Structurally Connected	+0
18	Roof Deck Attachment Reserved for future use	Reinforced Concrete Roof Deck	40

Each record must have the following layout:

2201RC0253313000000000000500000050000000000010000000000025000000000005000001051~~1114~~0100

Since each field has a defined length, please “zero fill” the positions in each field that will not be used. Each record must be 82 characters in length.

Description of Data Fields

The FHCF strongly encourages any individual involved in completing this Data Call to review the Reporting Clarifications on pages 19-22 herein.

1. Type of Business (TOB)

All exposure should be classified as one of the following FHCF TOBs. Exposure for scheduled personal property written under attachments, endorsements, riders; any policy separately covering personal property; or any policy separately covering commercial residential contents should be reported as the FHCF TOB it is associated with. If the exposure is not associated with another policy, it should be reported as FHCF TOB “4” (Tenants), with the exception of mobile home related property, which must still be reported as FHCF TOB “3” (Mobile Home).

Type of Business	Code
Commercial	1
Residential	2
Mobile Home	3

Type of Business	Code
Tenants	4
Condominium Unit Owners	6

General TOB Instructions:

- **“Commercial”** should be used for commercial-habitational exposures such as apartment buildings and condominium complexes. Do not use this TOB for individual condominium unit owners.

- **“Mobile Home”** should be used for all mobile home coverages, regardless of the policy form on which coverage is written, including coverage provided to a person(s) renting a mobile home.
- **“Tenants”** should be used for policies providing property coverage to a person(s) entitled to occupy a dwelling unit (including a condominium unit) under a rental agreement. Do not use this TOB for any policy providing coverage to a person renting a mobile home. Exposure for scheduled personal property written under attachments, endorsements, riders; any policy separately covering personal property; or any policy separately covering commercial residential contents should be reported as the FHCF TOB it is associated with. If the exposure is not associated with another policy, it should be reported as Tenants.
- **“Condominium Unit Owners”** should be used for individual condominium unit owners, whether owner or tenant occupied. Do not use this TOB for condominium complexes or multi-unit structures.

2. Line of Business

Exposure information for Covered Policies is to be reported using the following codes (use the code your company deems most appropriate):

Line of Business	Code
Fire and Allied Lines	1
Homeowners Multiple Peril	2
Farmowners Multiple Peril	3

Line of Business	Code
Commercial Multiple Peril	4
Mobile Homeowners	5
Inland Marine	6

3. Construction Type

The FHCF has further condensed its listing of construction types/definitions. The FHCF’s construction codes and definitions are provided on page 25. Your company must use the applicable FHCF codes in its Data Call submission.

If your company’s construction definitions do not match those of the FHCF, you must provide the Administrator with your company’s construction types and definitions and your recommended mapping to the most similar FHCF construction types as defined on pages 25. This will help you avoid a subsequent resubmission due to improper construction reporting. The Administrator will review your method of mapping construction codes and determine if the mapping between your codes and the FHCF’s codes match. Once the Administrator has notified you in writing that your mapping is acceptable, you must complete the actual mapping so that only FHCF constructions are reported in your submission. If a mapping review is necessary for your company, such a review must be done each year to ensure changes to the FHCF construction types have not affected the previously reviewed mapping.

For policies in which your company does not capture construction information, exposure should always be reported using the FHCF Unknown construction code “11” (or code “25” for mobile home exposure). Otherwise, if your company does capture construction information, but has less than \$50 million of aggregate exposure, you have the option of reporting all non-mobile home exposure with FHCF default construction code “12” and all mobile home exposure with FHCF default construction code “26”.

Residential

Construction Type	Code
Frame	01
Masonry	02
Masonry Veneer	10
Unknown (Non-Mobile Home)	11
Non-Mobile Home Default Construction*	12

Commercial, Condominium Unit Owners, Tenants

Construction Type	Code
Frame	01
Masonry	02
Masonry with Reinforced Concrete Roof	15
Superior	07
Superior with Reinforced Concrete Roof	16
Masonry Veneer	10
Unknown (Non-Mobile Home)	11
Non-Mobile Home Default Construction*	12

Mobile Home

Construction Type	Code
Mobile Home - Fully Tied Down, Mfg. before 7/13/94	21
Mobile Home - Fully Tied Down, Mfg. on or after 7/13/94 or documented to be in compliance with ANSI/ASCE 7-88	22
Mobile Home – Other than Fully Tied Down or Unknown	25
Mobile Home - Default Construction*	26

* See paragraph preceding the above tables for reporting eligibility

4. Deductible Group – Wind Including Hurricane Deductible, or Hurricane Deductible Only

Except as instructed for commercial-habitation policies below, report an FHCF percentage or dollar deductible code based on how the policy deductible is written. For example, a \$100,000 [residential](#) ~~Residential~~ policy written with a 2% deductible must be reported with code R2, not code RC (\$1,501 to \$2,500 deductible), regardless of how the deductible is “stated” to the policyholder.

For policies written with a percentage deductible and a minimum dollar deductible, report the percentage deductible.

For commercial-habitation policies (regardless of the FHCF Type of Business under which the policy’s exposure is reported) that have a policy deductible greater than \$50,000, the deductible amount must be converted to a percentage of the total insured [building](#) ~~Building~~ value (Data Call field 8) and reported to the FHCF as a percentage deductible.

For commercial-habitation policies covering multiple structures/contents under an indivisible aggregate deductible, report the full blanket deductible for each record reported.

Following are the FHCF deductible groups and codes:

Commercial

Deductible Group	Code
\$0 to \$2,500	CA
\$2,501 to \$7,500	CB
\$7,501 to \$15,000	CC
\$15,001 to \$50,000	CD
Greater than \$50,000 – Convert to a percentage	See % Ded.’s

Deductible Group	Code
Less than or equal to 1%	C1
Greater than 1%, less than or equal to 2%	C2
Greater than 2%, less than or equal to 3%	C3
Greater than 3%, less than or equal to 4%	C4
Greater than 4%, less than or equal to 5%	C5
Greater than 5%, less than or equal to 6%	C6
Greater than 6%, less than or equal to 7%	C7
Greater than 7%, less than or equal to 8%	C8
Greater than 8%, less than 10%	C9
10% or Greater	C0

Residential, Tenants, or Condominium Unit Owners

Deductible Group	Code
\$0	RM
\$1 to \$500	RA
\$501 to \$1,500	RB
\$1,501 to \$2,500	RC
Greater Than \$2,500	RD
Greater than \$50,000 – Convert to a percentage	See % Ded.'s

Deductible Group	Code
Less than or equal to 1%	R1
Greater than 1%, less than or equal to 2%	R2
Greater than 2%, less than or equal to 3%	R3
Greater than 3%, less than or equal to 4%	R4
Greater than 4%, less than or equal to 5%	R5
Greater than 5%, less than or equal to 6%	R6
Greater than 6%, less than or equal to 7%	R7
Greater than 7%, less than or equal to 8%	R8
Greater than 8%, less than 10%	R9
10% or greater, less than 15%	R0
15% or Greater	RZ

Mobile Home

Deductible Group	Code
\$0	MM
\$1 to \$250	MA
\$251 to \$500	MB
Greater Than \$500	MC
Greater than \$50,000 – Convert to a percentage	See % Ded.'s

Deductible Group	Code
Less than or equal to 1%	M1
Greater than 1%, less than or equal to 2%	M2
Greater than 2%, less than or equal to 3%	M3
Greater than 3%, less than or equal to 4%	M4
Greater than 4%, less than or equal to 5%	M5
Greater than 5%, less than or equal to 6%	M6
Greater than 6%, less than or equal to 7%	M7
Greater than 7%, less than or equal to 8%	M8
Greater than 8%, less than 10%	M9
10% or Greater	M0

5. County Code

Florida county code specifying the location of each covered risk. All records must be coded with a valid Florida county code listed on page 26. There is no “unknown” county code. ZIP Codes and county codes must be cross-referenced to ensure that 95% of your company’s aggregate exposure has a valid Florida ZIP Code to county code match. As the FHCF recognizes some ZIP Codes may span county boundaries, the Preliminary Validation Software Version ~~2010~~ 2011 has been programmed to accept any county immediately bordering the county the FHCF considers to be the county in which a specific ZIP Code resides.

6. ZIP Code

The 5-digit ZIP Code location of each covered risk in Florida. A minimum of 95% of your company’s aggregate exposure must be coded with valid Florida ZIP Codes. The FHCF ZIP Code database is as of January ~~2010~~ 2011. If a record contains a ZIP Code that does not match our database, the rate applied will be based on the county code instead of the ZIP Code.

A listing of valid ZIP Codes and corresponding county codes and rating regions is installed with the Preliminary Validation Software CD-ROM under the file name “zipinput.csv.”

7. **Total Insured Risks (Must be greater than zero.)**

This is the total number of insured risks for the FHCF Covered Policies included in a given record.

Reportable Exposure (Data Call Fields 8-11)

The only wind exposure that should be reported in response to this Data Call is summarized below. Keep in mind that the exposure reportable to the FHCF is less inclusive than the coverage provided by the FHCF. (Covered policies are defined in subsection (10) of Article V of the Reimbursement Contract. See page 17 herein.) Note that under no circumstances should exposure be reported for Ordinance and Law coverage (this type of coverage is reimbursable but is built into the FHCF rates) or loss assessment coverage (this coverage is not reimbursable).

1. Basic wind/hurricane limit for dwellings (often referred to as Coverage A);
2. Basic wind/hurricane limit for appurtenant structures or non-habitational structures (often referred to as Coverage B);
3. Basic wind/hurricane limit for contents (often referred to as Coverage C);
4. Basic wind/hurricane limit for additional living expense (often referred to as Coverage D, and sometimes as Coverage E);
5. Any attachments, endorsements, or riders that modify or increase the limits above; and
6. Any attachments, endorsements, or riders that provide additional wind/hurricane limit for personal property or structures, Building Additions and Alterations coverage, or Unit Owners coverage on Condominium Unit Owners policies.

Exposure from any additional coverages/coverage extensions written within the policy form and not listed above, regardless of whether the coverage is within the policy limits or in addition to the policy limits, are not reportable to the FHCF under this Data Call.

Examples of exposure to be reported to the FHCF:

- In addition to the \$50,000 of Coverage C limit on Patti's renters policy, Patti has \$10,000 of coverage for her personal computer system written as scheduled personal property. \$60,000 of Coverage C limit must be reported.
- Andy's insurance company does not offer Coverage B as a standard coverage under a homeowners policy, but Coverage B limit can be purchased via an endorsement. If Andy purchases the Coverage B endorsement, this exposure must be reported.
- Jason's insurance policy does not provide a stated limit on the dec page for Coverage B, but under "Other Coverages," Coverage B limit is provided as an additional 10% of Coverage A limit. This exposure must be reported.
- Marcie's renters policy provides for a Coverage C limit of \$50,000. The coverage for the tenants policy includes an additional coverage written within the policy form for buildings additions and alterations of 10% of the Coverage C limit. Marcie has purchased an endorsement to increase the buildings additions and alterations coverage to 25% of the Coverage C limit. In addition to reporting the \$50,000 Coverage C limit, the additional 15% (\$7,500) of the Coverage C limit for building additions and alterations coverage is also reportable, for a total of \$57,500 of exposure to be reported.
- An apartment complex is covered on a commercial policy with \$500,000 for building and \$20,000 for contents. The policy also provides a coverage extension for valuable papers of \$2,500. This coverage is offered as part of the policy form and not by endorsement. The amount of reportable exposure is \$520,000 since the coverage extension for valuable papers is provided as a coverage extension within the policy form.

Examples of exposure not to be reported to the FHCF:

- Any type of Ordinance and Law coverage (coverage is included within the FHCF rates).
- Any exposure for Loss Assessment coverage.
- Any additional exposure for endorsements that specifically increase the limit of liability at the time of a covered loss (i.e., guaranteed replacement cost, specified increase to the dwelling limit.)
- Peggy's renters policy provides for a Coverage C limit of \$50,000. The coverage for the tenants policy includes an additional coverage written within the policy form for buildings additions and alterations of 10% of the Coverage C limit. Peggy has not purchased any endorsements to increase the coverages provided under the policy form. The Coverage C limit of \$50,000 would be reported. The 10% of the Coverage C limit for building additional and alterations coverage is not reportable as additional exposure.
- Your company's condominium unit owners policy provides for a dwelling limit (additions and alterations coverage) of \$1,000, which is listed on every condominium unit owners policy written by the company and is provided at no additional premium. The \$1,000 is not reportable to the FHCF as an additional exposure.
- Your company provides ALE coverage at a limit of 50% of the building (Coverage A) limit. Therefore, for a policy with a Coverage A limit of \$200,000, your company would also provide \$100,000 of ALE limit. Because 40% is the statutory cap with respect to FHCF coverage, your company would only report \$80,000 of ALE exposure under this Data Call.
- Appurtenant Structures insured under a policy that does not include coverage for a habitational structure(s) when such a policy is not an attachment/endorsement/rider to a policy providing coverage for a habitational structure(s). For example, if your company writes a policy covering a pool for an apartment complex, but does not insure the apartment complex itself, the pool exposure is not reportable to, or covered by, the FHCF.

For a list of specific exclusions, see Article VI of the Reimbursement Contract applicable to this Data Call.

8. Total Insured Value - Building

This is the total insured building limit for a policy or multiple policies with the same Data Call codes.

9. Total Insured Value - Appurtenant Structures or Non-Habitational Structures

This is the total insured appurtenant structures limit for a policy or multiple policies with the same Data Call codes.

10. Total Insured Value - Contents

This is the total insured contents limit for a policy or multiple policies with the same Data Call codes.

11. Total Insured Value – Additional Living Expense (ALE)

This is the total insured ALE limit for a policy or multiple policies with the same Data Call codes. For ALE coverage provided as a specific dollar limit, report exposure values based on that limit, but not to exceed 40% of the Residential Structure (Coverage A) exposure or 40% of the contents (Coverage C) exposure. If ALE is written as a portion of Coverage A, 40% of Coverage A is the cap. If ALE is written as a portion of Coverage C, 40% of Coverage C is the cap. Note that if the ALE coverage written is less than 40%, ALE should be reported as written.

For covered policies written with ALE as a time element coverage, you must report ALE exposure in an amount not to exceed 40% of the Residential Structure or 40% of the contents exposure based on

the type of policy (e.g., a homeowners policy is usually based on structure versus a renters policy based on contents).

Note that the 40% threshold is a statutory cap. If your company provides coverage to its policyholders that is in excess of this cap, or if rounding of your building or contents exposure results in a higher ALE percentage, report no more than the cap when reporting ALE exposure to the FHCF.

12. Year Built

Enter the Year Built from the table below.

Year Built	FHCF Code
Unknown or Mobile Home	0
1994 or earlier	1
1995 - 2001	2
2002 or later	3

13. Building Code Effectiveness Grading (BCEG) Code

This code is **required** to identify qualifying exposure units that also receive a BCEG credit from their direct insurance writers. Report your actual “community graded” BCEG code (Codes 01 - 10 only). If a BCEG credit is not given or the BCEG code is “Ungraded” or “Non-Participating,” enter “00.”

If your company has less than \$50 million of aggregate non-mobile home exposure, you may choose to report all non-mobile home exposure with default FHCF Code “50”. Exposures reported with this default will not receive any credits from the FHCF.

The FHCF premium credits below will be given for qualifying exposure units that also receive credits from their direct insurance writers:

Actual BCEG Code	FHCF Credit
00	None
01 - 03	12%
04 - 07	8%
08 - 09	4%
10	None
FHCF Default: 50*	None

*See default eligibility requirement in second paragraph of this section.

With respect to buildings which have been individually graded and certified as “Grade 1” for windstorm/hail, and are eligible for a BCEG credit from the FHCF, such exposure may be reported to the FHCF with BCEG credit code “01.”

14. Florida Building Code Indicator

This code is used to identify ~~exposure dwelling~~ units ~~that meet~~ built under the 2001 Florida Building Code standards effective March 1, 2002 or the Miami-Dade and Broward Counties 1994 South Florida Building Code effective September 1, 1994. Enter the appropriate code from the table below. If ~~your company rates dwellings constructed in 2002 or later as meeting the Florida Building Code effective March 1, 2002~~ a dwelling was built in 2002 or later, or if the dwelling is located in Miami-Dade or Broward counties and was built in 1995 or later, then code “1” should be used ~~for these risks~~. Otherwise, unless there is an inspection report confirming compliance with ~~the~~ one of these two building codes, FHCF code “2” should be used.

Florida Building Code Indicator	FHCF Code
Meets 2002 <u>Dwelling built under the 2001 Florida Building Code, or Dwelling located in Miami-Dade or Broward counties and built under the 1994 South Florida Building Code</u>	1
Does not Meet <u>Dwelling not built under the 2001 Florida Building Code or the 1994 South Florida Building Code,</u> or Unknown	2

15. Structure Opening Protection

Enter the appropriate structure opening protection code from the table below based on whether or not your company gives a structure opening protection credit to its policyholder for the dwelling unit being reported under this Data Call.

Structure Opening Protection	FHCF Code
None or Unknown <u>No credit is given to policyholder</u>	0
Basic Shutters	1
Hurricane or Engineered Shutters or FBC Equivalent*	2
<u>Credit is given to policyholder</u>	<u>5</u>

~~* Requires that all openings must be protected with impact resistant coverings, impact resistant doors, and/or impact resistant glazing that meets the requirements of one of: SSTD 12; ASTM E 1886 and ASTM E 1996; Miami Dade PA 201, 202, and 203; or Florida Building Code Testing Application Standards (TAS) 201, 202, and 203. Any structure opening protection devices not meeting one of the preceding standards shall be considered, for the purpose of this Data Call, as basic shutters.~~

16. Roof Shape

Enter the appropriate roof shape code from the table below.

Roof Shape	FHCF Code
Hip, Mansard, or Pyramid	1
Gable, Other, or Unknown	2

17. ~~Roof-Wall Connection~~ Reserved for future use – enter 0.

~~Enter the appropriate roof-wall connection code from the table below.~~

Roof-Wall Connection	FHCF Code
---------------------------------	----------------------

Anchor Bolts, Hurricane Ties, Clips, Single Wraps, Double Wraps or Structurally Connected	1
Nails, Toe Nails, Screws, Gravity, Friction, Adhesive Epoxy, Other, or Unknown	2

18. ~~Roof Deck Attachment~~ **Reserved for future use – enter 0.**

~~Enter the appropriate roof deck attachment code from the table below.~~

Roof Deck Attachment	FHCF Code
Reinforced Concrete Roof Deck	4
Other or Unknown	8

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Attachments

- Article V - Definitions of Additional Living Expense, Covered Policy, Excess Insurance, and Residential Structures, as included in the Reimbursement Contract (page 17)
- Article VI – Excluded Exposures ~~exposures~~ (page 18)
- Reporting Clarifications (pages 19-22)
- Citizens Property Insurance Corporation Takeouts Pursuant to Assumption Agreements (page 23)
- Citizens Property Insurance Corporation High Risk Account Quota Share Primary Insurance Reporting Requirements (page 24)
- Construction Codes (page 25)
- Florida County Codes (page 26)
- Reference Guide (page 27)
- Submission Checklist (page 28)
- Control Totals Form (page 29)
- Statement of Exposure Data Validity (page 30)
- Statement of Retention of Exam File (page 31)
- Collateral Protection Statement (page 32)
- Supplemental Instruction Sheet for New Participants (page 33)
(Sent only to new participants)

Enclosures

- FHCF Preliminary Validation Software Version ~~2010~~2011 CD-ROM
- FHCF Preliminary Validation Software Version ~~2010~~2011 Instruction Sheet

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Reimbursement Contract: Article V – Selected Definitions

(3) **Additional Living Expenses (ALE)**

ALE losses covered by the FHCF are not to exceed 40 percent of the insured value of a Residential Structure or its contents based on the coverage provided in the policy. Fair rental value, loss of rents, or business interruption losses are not covered by the FHCF.

(10) **Covered Policy or Covered Policies**

(a) Covered Policy, as defined in Section 215.555(2)(c), Florida Statutes, is further clarified to mean only that portion of a binder, policy or contract of insurance that insures real or personal property located in the State of Florida to the extent such policy insures a Residential Structure, as defined in definition (27) herein, or the contents of a Residential Structure located in the State of Florida.

(b) Due to the specialized nature of the definition of Covered Policies, Covered Policies are not limited to only one line of business in the Company's annual statement required to be filed by Section 624.424, Florida Statutes. Instead, Covered Policies are found in several lines of business on the Company's annual statement. Covered Policies will at a minimum be reported in the Company's statutory annual statement as:

- Fire
- Allied Lines
- Farmowners Multiple Peril
- Homeowners Multiple Peril
- Commercial Multiple Peril (non liability portion, covering condominiums and apartments)
- Inland Marine

Note that where particular insurance exposures are reported, e.g., mobile home, on an annual statement is not dispositive of whether or not the exposure is a Covered Policy.

(c) This definition applies only to the first-party property section of a policy pertaining strictly to the structure, its contents, appurtenant structures, or ALE coverage.

(d) Covered Policy also includes any collateral protection insurance policy covering personal residences which protects both the borrower's and the lender's financial interest, in an amount at least equal to the coverage for the dwelling in place under the lapsed homeowner's policy, if such policy can be accurately reported as required in Section 215.555(5), Florida Statutes. A Company will be deemed to be able to accurately report data if the required data, as specified in the Premium Formula adopted in Section 215.555(5), Florida Statutes, is available.

(e) See Article VI of this Contract for specific exclusions.

(13) **Excess Policies**

This term, for the purposes of this Contract, means a policy that provides insurance protection for large commercial property risks that provide a layer of coverage above a primary layer (which is insured by a different insurer) that acts much the same as a very large deductible.

(27) **Residential Structures**

This term means dwelling units, including the primary structure and appurtenant structures insured under the same policy and any other structure covered under endorsements associated with a policy covering a residential structure. Covered Residential Structures do not include any structures listed under Article VI herein or structures used solely for non-residential purposes.

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Reimbursement Contract: Article VI – Exclusions

The following selected exclusions from Article VI of the Reimbursement Contract pertain to exposure that should not be reported under this Data Call.

2. Any policy which excludes wind or hurricane coverage.
3. Any Excess Policy or Deductible Buy-Back Policy that requires individual ratemaking.
4. Any policy for Residential Structures, as defined in Article V(27) herein, that provides a layer of coverage underneath an Excess Policy, as defined in Article V(13) herein, issued by a different insurer.
5. Any liability of the Company attributable to losses for fair rental value, ~~loss of use~~, loss of rents or rental income, or business interruption.
6. Any collateral protection policy that does not meet the definition of Covered Policy as defined in Article V(10)(d) herein.
7. Any reinsurance assumed by the Company.
8. Any exposure for hotels, motels, timeshares, shelters, camps, retreats, and any other rental property used solely for commercial purposes.
9. Any exposure for homeowner associations if no habitational structures are insured under the policy.
10. Any exposure for homes and condominium structures or units that are non-owner occupied and rented for six (6) or more rental periods by different parties during the course of a twelve (12) month period.
11. Commercial healthcare facilities and nursing homes; however, a nursing home which is an integral part of a retirement community consisting of primarily habitational structures that are not nursing homes will not be subject to this exclusion.
12. Any exposure under commercial policies covering only appurtenant structures or structures that do not function as a habitational structure (e.g., a policy covering only the pool of an apartment complex).
13. Personal contents in a commercial storage facility (including jewelry in an off-premises vault) covered under a policy that covers only those personal contents.
14. Policies covering only Additional Living Expense.
15. Any exposure for barns or barns with apartments.
16. Any exposure for builders risk coverage or new residential structures still under construction.
17. Any exposure for recreational vehicles, golf carts or boats (including boat related equipment) requiring licensing and written on a separate policy or endorsement.
22. Any exposure for, or losses attributable to, loss assessment coverage.
24. Any liability assumed by the Company from Pools, Associations, and Syndicates. Exception: Covered Policies assumed from Citizens under the terms and conditions of an executed assumption agreement between the Authorized Insurer and Citizens are covered by this Contract.
28. Specialized Fine Arts Risks as defined in Rule 19-8.028(4)(d), F.A.C.

Florida Hurricane Catastrophe Fund

2010-2011 Data Call

Reporting Clarifications

General Clarifications

1. *Aggregate Policy Limits (not applicable to Commercial Residential Policies)*

For policies that provide an aggregate limit without stating a specific limit for buildings, appurtenant structures, contents, or ALE exposures, report the exposure to the FHCF by allocating the total policy limit to the building field if the policy fits the definition of FHCF types of business Residential or Mobile Home, or to the contents field if the policy fits the definition of FHCF types of business Tenants or Condominium Unit Owners.

2. *Farmowners*

The only exposure under a Farmowners policy that is reportable to the FHCF is exposure for the dwelling, other private structures appurtenant to dwellings, household personal property, and additional living expense coverage. FHCF commercial codes for type of business and deductible may not be used.

3. *BCEG Credits that Vary by Coverage Within a Policy*

For policies under which BCEG credits do not apply to every policy coverage (e.g., credit applies to building but not contents), all exposure under the policy may be reported as one record.

4. *Multiple Rating Factors (Construction and Deductible) within the Building, Appurtenant Structures, Contents (including scheduled personal property), and ALE Limits*

If, within a policy, the limits above have different FHCF rating factors, exposure may be reported under one record using the rating factors applicable to the most exposure (e.g., if 70% of the exposure under such a policy is for Building coverage, report the rating factors applicable to the Building coverage). If your company chooses to break such policies into multiple records for FHCF reporting, you must do so consistently across your non-commercial book of business.

This clarification is also applicable to the Year Built, Florida Building Code Indicator, Structure Opening Protection, [and](#) Roof Shape, ~~Roof Wall Connection, and Roof Deck Attachment~~ fields.

For commercial policies covered by the FHCF, see Commercial-Habitational Clarification #1 below.

5. *Golf Cart Coverage*

If coverage for golf carts is provided with no stated limit (i.e., based on actual cash value at the time of a loss), the exposure required to be reported to the FHCF is \$5,000 for each risk. If the coverage is provided by endorsement to a covered policy, the exposure is only reportable when coverage for the golf cart is in addition to the policy limits provided for personal property. If a golf cart requires licensing, it is not reportable to, or covered by, the FHCF.

Commercial-Habitation Clarifications

The only Commercial policies covered by the FHCF are those covering habitation structures (e.g. apartments and condominiums).

1. *Multiple Rating Factors (Construction and Deductible) within the Building (dwelling), Non-Habitation Structures, Contents, and ALE Limits of a commercial policy*

One Occupied Dwelling Structure: If, within a commercial policy, the limits above have different rating factors (e.g. a superior masonry apartment building, a frame guardhouse, and a masonry pool), exposure may be reported under one record using the rating factors applicable to the dwelling structure. If your company chooses to break such policies into multiple records to report different constructions and deductibles to the FHCF, you must do so consistently across your commercial book of business.

Multiple Occupied Dwelling Structures: If, within a commercial policy, several occupied dwelling structures are insured and those structures are in multiple ZIP Codes, a separate record must be reported for each ZIP Code with the exposure applicable to that specific ZIP Code.

If multiple occupied dwelling structures insured under one policy are in the same ZIP Code and have shared non-habitation structures with different rating factors, your company may report the exposure for the non-habitation structures as appurtenant to the dwelling structure your company deems most appropriate.

This clarification, in its entirety, is also applicable to the Year Built, Florida Building Code Indicator, Structure Opening Protection, [and](#) Roof Shape, ~~Roof Wall Connection, and Roof Deck Attachment~~ fields.

2. *Commercial Policies Covering Farms*

For commercial farms with habitation exposure that is written on a commercial policy form, report the exposure as “Residential” type of business, with the exception of any mobile home related exposure. Dwelling mobile home exposure on the policy, including the contents therein and scheduled personal property, must be reported as “Mobile Home” type of business.

3. *Commercial Policies Covering a Variety of Risks (other than Farm coverage)*

For a commercial policy covering both commercial habitation exposures and incidental non-commercial habitation exposures (i.e. single-family homes, condominium unit owners, tenants coverage, and mobile homes) in the same ZIP Code, all non-mobile home related exposure may be reported under one record using FHCF type of business “Commercial.” The construction, deductible, Year Built, Florida Building Code Indicator, Structure Opening Protection, [and](#) Roof Shape, ~~Roof Wall Connection, and Roof Deck Attachment~~ codes applicable to the commercial habitation exposure should be reported for that record. Non-commercial habitation exposure is considered incidental if such exposure accounts for less than 50% of the total reportable exposure under that policy. Any mobile home exposure, regardless of the type of policy under which it is written, must be reported to the FHCF as type of business Mobile Home and with the applicable mobile home construction and deductible codes.

Note that if the exposures are in different ZIP Codes, the exposures under the single commercial policy must be reported as separate records using the ZIP Code applicable to each exposure(s). Should your company choose to report the exposure under such a policy as multiple records (e.g. an apartment building reported as Commercial, the CEO’s home reported as Residential, and the president’s condominium reported as Condominium Unit Owners), the decision to do so must be applied consistently to all such policies, and the Data Call codes applicable to each record/type of business must be reported.

4. *Blanket Limits*

For a multiple location policy with a blanket limit, report the lesser of the full blanket limit or the full wind exposure value for each risk/building/exposure. The company must maintain a copy of the Statement of Values to support the policy exposure reported in order for the SBA to confirm correct reporting during examination.

5. *Blanket Deductibles*

For a policy covering multiple structures/contents under an indivisible aggregate deductible, report each risk/building/exposure with the full blanket deductible amount.

6. *Multiple Location Policy with Non-Florida Risk*

For a multiple location policy with non-Florida risk, report the lesser of the full policy limit or the full wind exposure value for each Florida risk/building/exposure. The company must maintain a copy of the Statement of Values to support the policy exposure reported in order for the SBA to confirm correct reporting during examination.

7. *Single Structures with Mix of Commercial-Habitational and Non-Habitational or Business Exposure*

Important Note: If this section is applicable to your company, it is necessary for you to review your executed ~~2010~~ 2011 FHCF Reimbursement Contract.

A. If a single structure is used for both habitational and non-habitational purposes and the structure has a commercial-residential class code (based on a classification plan submitted to, and reviewed by, the FHCF Administrator), report the entire exposure for the structure to the FHCF. The FHCF will reimburse losses for the entire structure as well. **This requirement applies to all companies insuring such structures.**

B. If the structure has a commercial non-residential class code (again, as on file with and reviewed by the FHCF Administrator), report only the habitational portion of the policy.

In recognition of the unusual nature of commercial structures with incidental habitational exposure and the hardship some companies may face in having to carve out such incidental exposure, as well as the losses to such structures, the FHCF will accommodate these companies by allowing them to exclude the entire exposure from their Data Call submission, if all of the following three conditions are met:

- (1) The decision to not carve out and report the incidental habitational exposure shall apply to all such structures insured by the company.
- (2) The company should not report losses to this incidental habitational exposure and the FHCF will not reimburse the losses to this exposure.
- (3) The company must have already indicated its decision to not carve out and report the incidental exposure in the annual Reimbursement Contract. Failure to disclose this decision at the time of the company's execution of the Reimbursement Contract shall be interpreted by the FHCF as the company's intent to carve out and report incidental habitational exposure, and the failure to do so will be considered a reporting error.

C. If a policy covers multiple structures that each have a mix of commercial-habitational and non-habitational or business exposure, apply the decision rules in A. and B. above separately to each structure. (This process must be consistent with requirement B.(1) above.)

D. If your company writes policies for which this section is applicable, provide the Administrator with a list of your company's applicable Florida class codes (as on file with and reviewed by the FHCF Administrator), a description of those codes, and your company's recommendation of whether each code is commercial-residential or commercial non-residential. The Administrator will review this information with the SBA, and will respond to your company with respect to the submitted recommendations prior to your Data Call submission.

8. *Policies with a Mix of Commercial Habitational & Non-Habitational Structures*

Only report exposure which directly covers, or is used in relation to, covered habitational structures. “Used in relation to” is defined as any structure that is used solely by the occupants (or their guests) of the habitational structure. If you are unable to make this determination for a structure, do not report the exposure for that structure in your Data Call submission. Refer to the other clarifications herein with respect to blanket limits or blanket deductibles.

9. *Multiple Family Dwellings on a Commercial Policy & FHCF Type of Business (TOB)*

Two, three, and four-family dwellings should be reported with an FHCF TOB based on how your company rates the dwellings (either Residential or Commercial FHCF TOB). Dwellings housing more than four families should be reported as FHCF TOB Commercial. For a commercial policy covering exposure that falls under multiple FHCF types of business, see Commercial-Habitational Clarification #3 herein.

Florida Hurricane Catastrophe Fund

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Citizens Property Insurance Corporation Takeouts Pursuant to Assumption Agreements

Pursuant to Sections 627.351(6)(p)3. and 627.3511, Florida Statutes, for purposes of reporting exposure, calculating reimbursement premium, and determining retention, all FHCF exposure removed from Citizens Property Insurance Corporation High-Risk Account and/or Citizens Property Insurance Corporation Personal Lines and Commercial Lines Accounts pursuant to an assumption agreement shall be treated as the exposure of the assuming insurer.

Insurers engaged in assumption agreements from July 1, ~~2009-2010~~ through June 30, ~~2010-2011~~ with either Citizens entity shall submit **separate** data files to the FHCF (including a Control Totals Form for each file) in the format specified herein. If your company engaged in assumption agreements with both Citizens entities, three files would be submitted in response to this Data Call. One file must contain the insurer's FHCF exposure from direct written premiums. The exposure assumed from either Citizens entity which is renewed by June 30, ~~2010-2011~~ must be included with the direct portion. The other two file(s) must contain the FHCF exposure which was assumed from each Citizens entity (one file for each entity) and which was not renewed onto your company's book by June 30, ~~2010~~2011. Providing they are clearly labeled, all files may be submitted on the same diskette or CD-ROM.

Note: All data for an individual company should be submitted at the same time. If your company has different departments responsible for compiling portions of your data submission, please have one individual coordinate, compile, and submit the complete package to the Administrator.

For the purpose of this Data Call, each Citizens entity shall submit all of its FHCF exposure not subject to assumption agreements in the format specified herein. In addition, each Citizens entity shall report all FHCF exposure removed from the applicable Citizens entity which, as of June 30, ~~2010~~2011, had not been renewed onto the assuming insurer's policy forms. Such a file is required for each assumption company. Each file shall be reported in the Data Call format specified herein and shall be accompanied by a Control Totals Form.

The FHCF will compare the file(s) submitted by an assumption company against the file(s) submitted by Citizens and the assumption company will be required to explain discrepancies.

The FHCF recognizes that policyholders receiving a notice of assumption from an assumption company can opt to not have their policy assumed any time during the policy period. For purposes of reporting assumed policies to the FHCF, Citizens and the assuming company must track the date the policyholder notified the assumption company or Citizens rejecting the assumption company's offer of coverage since the policy is required to be reported to the FHCF based on its status at June 30th. Any decision made by the policyholder to opt out of the assumption after June 30th will not be recognized for exposure reporting purposes by the FHCF and should not affect how the policy is reported. Furthermore, any retroactive coverage changes subsequent to June 30th will not be considered by the FHCF and will not impact Data Call reporting for Citizens or the assuming insurer.

All exposure files requested from the two Citizens entities and insurers engaged in removing exposure from either Citizens entity pursuant to an assumption agreement are subject to examination by the SBA and must be retained as specified under **Retention of Records for SBA Examination** on page 5 herein.

Florida Hurricane Catastrophe Fund

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Citizens Property Insurance Corporation High Risk Account Quota Share Primary Insurance Reporting Requirements

Section 627.351(6)(c)2.f, Florida Statutes, requires that “For all eligible risks covered under quota share primary insurance agreements, the exposure and coverage levels for both the corporation and authorized insurers shall be reported by the corporation to the Florida Hurricane Catastrophe Fund. For all policies of eligible risks covered under quota share primary insurance agreements, the corporation and the authorized insurer shall maintain complete and accurate records for the purpose of exposure and loss reimbursement examinations as required by Florida Hurricane Catastrophe Fund rules. The corporation and the authorized insurer shall each maintain duplicate copies of policy declaration pages and supporting claims documents.”

Citizens Property Insurance Corporation High Risk Account (referred to hereafter on this page as Citizens) shall report all quota share primary insurance exposure data to the FHCF in a separate file meeting the requirements below. **Individual insurers shall not report any such exposure to the FHCF.**

1. File must include quota share primary insurance exposure for all insurers engaged in quota share primary insurance agreements;
2. File must include all data fields as specified in this Data Call; and
3. In addition to the data fields specified in this Data Call, the file must include the following two fields:
 - Field #19: Five-character numeric field indicating NAIC# of insurer for each record reported, and
 - Field #20: Two-character numeric field indicating Citizens’ specified percentage of hurricane coverage of the risks reported in a specific record, as set forth in the quota share primary insurance agreement between Citizens and an insurer.
4. A separate SBA exam file, as specified on pages 5-6 of this Data Call, shall also be prepared for this data. The two fields specified immediately above shall be included as fields #23-24 of the SBA exam file.

Based on the separate Data Call file, the FHCF shall:

- Calculate the aggregate FHCF premium, based on the Reimbursement Premium Formula as discussed on page 1 of this Data Call, by insurer;
- Based upon the specified Citizens’ percentage of hurricane coverage, allocate the applicable share of FHCF premium to Citizens and to each insurer;
- The allocated premium from above will be added to the FHCF premium calculated from non-quota share primary insurance for Citizens and for each insurer participating in a quota share primary insurance agreement(s) with Citizens; and
- This aggregate premium shall be used for the calculation of retentions and FHCF reimbursements.

When reporting loss information to the FHCF, Citizens and insurers will be required to report only their respective portion of losses under quota share primary insurance agreements.

Florida Hurricane Catastrophe Fund

2010-2011 Data Call

FHCF Construction Codes

The construction code identifies the material with which the building is constructed.

Construction Type/Definition	FHCF Code
<p><i>Frame</i></p> <p>Buildings where the exterior walls are wood or other combustible materials, including wood iron-clad, stucco on wood, or plaster on combustible supports. Also includes aluminum or plastic siding over frame. If a company's definition of frame includes hardiboard, FHCF Frame construction should be used¹.</p>	1
<p><i>Masonry</i></p> <p>Buildings where the exterior walls are constructed of masonry, non-combustible, or fire resistive materials such as adobe, brick, concrete, gypsum block, hollow concrete block, stone, tile or other non-combustible materials.</p>	2
<p><u><i>Masonry with Reinforced Concrete Roof</i></u></p> <p><u>Construction meeting the definition of FHCF Masonry construction, as outlined above, and having a reinforced concrete roof.</u></p>	<u>15</u>
<p><i>Superior</i></p> <p>Masonry, non-combustible, or fire resistive construction where one of the following additional conditions exist:</p> <ul style="list-style-type: none"> ▪ Roof deck has a minimum thickness of 2 inches with roof supports having a minimum dimension of 6 inches; or ▪ Floors and roof constructed of 2 inches of masonry on steel supports or documented to be constructed of 22 gauge metal or heavier on steel supports; or ▪ Roof assembly is documented to have a UL wind uplift classification of 90 or equivalent. <p>Or</p> <p>A building of any construction which is 6 or more stories.</p>	7
<p><u><i>Superior with Reinforced Concrete Roof</i></u></p> <p><u>Construction meeting the definition of FHCF Superior construction, as outlined above, and having a reinforced concrete roof.</u></p>	<u>16</u>
<p><i>Masonry Veneer</i></p> <p>Buildings with exterior walls of combustible construction veneered with brick, masonry, or stone. If a company's definition of veneer includes hardiboard, FHCF Masonry Veneer construction should be used¹.</p>	10
<p><i>Unknown</i></p> <p>Construction information not collected for the policy or the reportable exposure. Not valid for mobile home or mobile home-related exposure.</p>	11
<p><i>Non-Mobile Home Default Construction</i></p> <p>Construction information collected for the policy, but company is eligible to report all non-mobile home exposure using this default code. See page 10 for restrictions on the use of this default.</p>	12

<i>Mobile Home - Fully Tied Down, manufactured before 7/13/94²</i>	21
Mobile/Manufactured Housing, manufactured before 7/13/94, which has anchors and tie-downs as required by Section 320.8325, Florida Statutes, and Florida Administrative Code rules promulgated thereunder.	
<i>Mobile Home - Fully Tied Down, manufactured on or after 7/13/94²</i>	22
Mobile/Manufactured Housing which has anchors and tie-downs as required by Section 320.8325, Florida Statutes, and Florida Administrative Code rules promulgated thereunder, and was manufactured on or after 7/13/94 or is documented to be in compliance with ANSI/ASCE 7-88.	
<i>Mobile Home – Other than Fully Tied Down or Unknown</i>	25
Mobile home is not fully tied down, the nature of any tie downs is unknown, or tie down information is not available.	
<i>Mobile Home Default Construction</i>	26
Construction information collected for the policy, but company is eligible to report all mobile home exposure using this default code. See page 11 for restrictions on the use of this default.	
¹ If your company has a specific rate for hardiboard construction (i.e., a rate other frame or veneer), a proposed mapping must be submitted to the FHCF Administrator as specified on page 9 herein.	
² If you are uncertain whether a mobile home was manufactured on or after 7/13/94, use the manufactured before 7/13/94 code “21.” If your company only tracks the year built and not the month, use code “21.”	

Florida Hurricane Catastrophe Fund

~~2010~~-2011 Data Call

Florida County Codes*

County Code	County Name	County Code	County Name	County Code	County Name
001	Alachua	049	Hardee	093	Okeechobee
003	Baker	051	Hendry	095	Orange
005	Bay	053	Hernando	097	Osceola
007	Bradford	055	Highlands	099	Palm Beach
009	Brevard	057	Hillsborough	101	Pasco
011	Broward	059	Holmes	103	Pinellas
013	Calhoun	061	Indian River	105	Polk
015	Charlotte	063	Jackson	107	Putnam
017	Citrus	065	Jefferson	109	St. Johns
019	Clay	067	Lafayette	111	St. Lucie
021	Collier	069	Lake	113	Santa Rosa
023	Columbia	071	Lee	115	Sarasota
027	De Soto	073	Leon	117	Seminole
029	Dixie	075	Levy	119	Sumter
031	Duval	077	Liberty	121	Suwannee
033	Escambia	079	Madison	123	Taylor
035	Flagler	081	Manatee	125	Union
037	Franklin	083	Marion	127	Volusia
039	Gadsden	085	Martin	129	Wakulla
041	Gilchrist	086	Miami-Dade	131	Walton
043	Glades	087	Monroe	133	Washington
045	Gulf	089	Nassau		
047	Hamilton	091	Okaloosa		

* Derived from the Federal Information Processing Standards (FIPS) Codes.

Florida Hurricane Catastrophe Fund

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Reference Guide

The FHCF is dedicated to making information pertaining to the FHCF as readily available as possible, and has posted a considerable amount of information on the Internet through both the FHCF (www.sbafla.com/fhcf/) and Paragon (<http://fhcf.paragon.aonbenfield.com>) web sites.

The following are sample documents/information available on-line:

- Bonding Estimates
- FHCF Calendar
- Contact Request Form (Insurer Contacts)
- Coverage Selections & Premium Calculations
- Data Call
- Examination Information
- Frequently Asked Questions
- Link: FEMA
- Link: Florida Administrative Weekly
- Link: Florida Department of Financial Services
- Link: Online Sunshine
- Loss Reimbursement Preparedness Program
- Loss Reports
- Member Handbook
- Projected Payout Multiple
- Ratemaking Formula Report and Addendum(s), as applicable
- Rates and Retention Multiples
- Reimbursement Contract and Addendum(s), as applicable
- Rule 19-8.010: Reimbursement Contract
- Rule 19-8.012: Ineligibility/Exemption from the FHCF
- Rule 19-8.013: Revenue Bonds
- Rule 19-8.028: Reimbursement Premium Formula
- Rule 19-8.029: Insurer Reporting Requirements
- Rule 19-8.030: Insurer Responsibilities
- Section 215.555, Florida Statutes

Florida Hurricane Catastrophe Fund

~~2010~~ 2011 Data Call

Submission Checklist

Due September 1, ~~2010~~ 2011

Please provide us with the following information and return this checklist with your exposure data:

Company Name: _____ **NAIC No.** _____

Item	Included?
Exposure Data File	Y / N
Completed Submission Checklist (page 28)	Y / N
Brief Written Verification of Exposure Fluctuations (criteria on page 3)	Y / N
Completed Control Totals Form (page 29)	Y / N
Completed Statement of Exposure Data Validity (page 30)	Y / N
Completed Statement of Retention of Exam File (page 31)	Y / N
Completed Collateral Protection Policies Statement * (page 32)	Y / N
*The above Statement is required only for Companies writing Collateral Protection Policies	
Validation Printouts (optional)	Y / N

In the event that we have questions regarding the data submitted, please provide the name of the person responsible for data collection:

_____ Name	_____ Telephone Number
_____ Title	_____ Facsimile Number
_____ Street Address (not P.O. Box)	_____ E-Mail Address
_____ City, State, ZIP	

Florida Hurricane Catastrophe Fund

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Control Totals Form

Due September 1, ~~2010~~ 2011

Please complete this form, verify that the totals match both your Data Call submission file and your SBA exam file, and return to Paragon along with your exposure data.

Company Name: _____ NAIC No. _____

FHCF Type of Business	Insured Risks	Total Insured Value (Exposure)			
		Building	Appurtenant Structures	Contents	ALE
Commercial	_____	_____	_____	_____	_____
Residential	_____	_____	_____	_____	_____
Mobile Home	_____	_____	_____	_____	_____
Tenants	_____	_____	_____	_____	_____
Condominium Unit Owners	_____	_____	_____	_____	_____
Totals	_____	_____	_____	_____	_____

Florida Hurricane Catastrophe Fund
~~2010~~ 2011 Data Call

Pursuant to Section 215.555(5)(c), Florida Statutes

Due September 1, ~~2010~~ 2011

Statement of Exposure Data Validity

on behalf of

(Company Name)

We, the undersigned, do state that, to the best of our knowledge, the attached data provided by the captioned Company to the State Board of Administration of Florida under Section 215.555(5)(c), Florida Statutes, is complete and accurate.

The validity of all exposure data sets received by Paragon is subject to examination.

We are each, respectively, executive officers of said Company, acting within our authority in making this declaration, and we have conducted, or have had conducted, a thorough review of said Company's records and systems to determine the truth of this statement.

BY: _____
Signature

BY: _____
Signature

NAME: _____
Typed/Printed

NAME: _____
Typed/Printed

TITLE: _____

TITLE: _____

DATE: _____

DATE: _____

Florida Hurricane Catastrophe Fund ~~2010~~ 2011 Data Call

Pursuant to Section 215.555(5)(c), Florida Statutes

Due September 1, ~~2010~~ 2011

Statement of Retention of Exam File

on behalf of

(Company Name)

We, the undersigned, state that the State Board of Administration of Florida (SBA) exam file referenced on pages 5-6 of this Data Call has been produced by the captioned Company in accordance with the required specifications and that the SBA exam file will be retained and maintained by the captioned Company in a secure location. We understand that the SBA exam file will be used when the FHCF conducts an examination of the captioned Company's exposure submission for this Contract Year. The captioned Company will provide the SBA exam file to the FHCF or its designated representative upon notification that an exposure examination for this Contract Year has been scheduled. The captioned Company recognizes that the exposure examination will require documentation in addition to the SBA exam file.

We are each, respectively, executive officers of said Company, acting within our authority in making this declaration, and we have conducted, or have had conducted, a thorough review of the said Company's records and systems to determine the truth of this statement. We understand that our SBA exam file should be generated at the same time our Data Call file is created, and that data fields common to both the Data Call file and the SBA exam file must be the same. We acknowledge that if it is determined, subsequent to our Data Call submission, that these files are not in agreement, our company will be required to resubmit both files and will be subject to a \$1,000 resubmission fee for each resubmission.

BY: _____
Signature

BY: _____
Signature

NAME: _____
Typed/Printed

NAME: _____
Typed/Printed

TITLE: _____

TITLE: _____

DATE: _____

DATE: _____

Florida Hurricane Catastrophe Fund

~~2010~~ 2011 Data Call

Pursuant to Section 215.555(5)(c), Florida Statutes

Due September 1, ~~2010~~ 2011

Collateral Protection Statement

(This form may be disregarded if not applicable to your company)

on behalf of

(Company Name)

We, the undersigned, acknowledge that the captioned Company writes collateral protection policies covering personal residences in the State of Florida that protect both the borrower's and the lender's financial interest, in an amount at least equal to the coverage for the dwelling in place under the lapsed homeowner's policy. We understand that, as referenced in Section 215.555(2)(c), Florida Statutes, for such policies to be covered by the FHCF, our Company must be able to accurately report exposure information for those policies as required in Section 215.555(5), and specifically, as outlined in this Data Call.

We are each, respectively, executive officers of said Company, acting within our authority in making this declaration. We have conducted, or have had conducted, a thorough review of said Company's records to determine whether all necessary information required for collateral protection policies to be covered by, and reported to, the FHCF, as outlined above and in this Data Call, is available for reporting (whether in a hard copy or an electronic format). Accordingly, we certify that (check appropriate box below):

☐

Said Company has collected all information necessary for such policies to be covered by, and reported to, the FHCF, as outlined in this Statement and this Data Call, and has accordingly included collateral protection exposure covered by the FHCF in this Data Call submission.

☐

Said Company **DOES NOT** have available the data as required by the premium formula as specified in Section 215.555(5), Florida Statutes, and therefore is unable to accurately report its collateral protection exposure. We understand that the said Company is ineligible to collect any reimbursements from the FHCF for losses occurring during the 2010 FHCF contract year from policies covering collateral protection exposure.

BY: _____
Signature

BY: _____
Signature

NAME: _____
Typed/Printed

NAME: _____
Typed/Printed

TITLE: _____

TITLE: _____

DATE: _____

DATE: _____

Florida Hurricane Catastrophe Fund

~~2010~~ 2011 Data Call

Supplemental Instruction Sheet for New Participants

As explained on page one of this Data Call, each authorized insurance company writing Covered Policies in the state of Florida is required to pay a reimbursement premium to the Florida Hurricane Catastrophe Fund (FHCF). This includes new participants to the FHCF. Rule 19-8.028 Reimbursement Premium Formula, Florida Administrative Code (F.A.C.), defines a new participant as a company that:

“writes covered policies on or after the beginning of the Fund’s contract year on June 1 and did not do so prior to the beginning of the contract year, or if it removes exposure from Citizens Property Insurance Corporation pursuant to an assumption agreement on or after June 1 and had written no other covered policies before June 1.”

Rule 19-8.028, F.A.C., requires that a new participant report its insured values under Covered Policies **as of December 31, ~~2009~~ 2010** by March 1, ~~2011~~ 2012. To comply with this requirement, please use the 2010 Data Call instructions, keeping the following points in mind:

- All references to data as of June 30, ~~2010~~ 2011 should be as of December 31, ~~2010~~ 2011 for new participants.
- The Data Call submission for new participants is due by March 1, ~~2011~~ 2012. Extensions will not be granted.
- The forms included in this supplemental should be used when compiling and submitting your company’s data.
- All references to exposure fluctuations from the prior year may be disregarded.

If you have any questions about the information to be supplied as a new participant, please do not hesitate to call Holly Bertagnolli, Martin Helgestad, or Kathy Mackenthun of Paragon Strategic Solutions Inc. at 1-800-689-FUND (3863).

Florida Hurricane Catastrophe Fund

~~2010~~ 2011 Data Call

New Participants Submission Checklist

Due March 1, ~~2011~~ 2012

Please provide us with the following information and return this checklist with your exposure data:

Company Name: _____ NAIC No.: _____

Item	Included?
Exposure Data File	Y / N
Completed New Participants Submission Checklist (page 34)	Y / N
Completed New Participants Control Totals Form (page 35)	Y / N
Completed New Participants Statement of Exposure Data Validity (page 36)	Y / N
Completed New Participants Statement of Retention of Exam File (page 37)	Y / N
Completed New Participants Collateral Protection Policies Statement * (page 38)	Y / N
*The above Statement is required only for Companies writing Collateral Protection Policies	
Validation Printouts (optional)	Y / N

In the event that we have questions regarding the data submitted, please provide the name of the person responsible for data collection:

_____ Name	_____ Telephone Number
_____ Title	_____ Facsimile Number
_____ Street Address (not P.O. Box)	_____ E-Mail Address
_____ City, State, ZIP	

Florida Hurricane Catastrophe Fund
~~2010~~ 2011 Data Call

New Participants Control Totals Form

Due March 1, ~~2011~~ 2012

Please complete this form, verify that the totals match both your Data Call submission file and your SBA exam file, and return to Paragon along with your exposure data.

Company Name: _____ **NAIC No.** _____

FHCF Type of Business	Insured Risks	Total Insured Value (Exposure)			
		Building	Appurtenant Structures	Contents	ALE
Commercial	_____	_____	_____	_____	_____
Residential	_____	_____	_____	_____	_____
Mobile Home	_____	_____	_____	_____	_____
Tenants	_____	_____	_____	_____	_____
Condominium Unit Owners	_____	_____	_____	_____	_____
Totals	_____	_____	_____	_____	_____

Florida Hurricane Catastrophe Fund
~~2010~~ 2011 Data Call

Pursuant to Section 215.555(5)(c), Florida Statutes

Due March 1, ~~2011~~ 2012

New Participants Statement of Exposure Data Validity

on behalf of

(Company Name)

We, the undersigned, do state that, to the best of our knowledge, the attached data provided by the captioned Company to the State Board of Administration of Florida under Section 215.555(5)(c), Florida Statutes, is complete and accurate.

The validity of all exposure data sets received by Paragon is subject to examination.

We are each, respectively, executive officers of said Company, acting within our authority in making this declaration, and we have conducted, or have had conducted, a thorough review of said Company's records and systems to determine the truth of this statement.

BY: _____
Signature

BY: _____
Signature

NAME: _____
Typed/Printed

NAME: _____
Typed/Printed

TITLE: _____

TITLE: _____

DATE: _____

DATE: _____

Florida Hurricane Catastrophe Fund ~~2010~~ 2011 Data Call

Pursuant to Section 215.555(5)(c), Florida Statutes

Due March 1, ~~2011~~ 2012

New Participants Statement of Retention of Exam File

on behalf of

(Company Name)

We, the undersigned, state that the State Board of Administration of Florida (SBA) exam file referenced on pages 5-6 of this Data Call has been produced by the captioned Company in accordance with the required specifications and that the SBA exam file will be retained and maintained by the captioned Company in a secure location. We understand that the SBA exam file will be used when the FHCF conducts an examination of the captioned Company's exposure submission for this Contract Year. The captioned Company will provide the SBA exam file to the FHCF or its designated representative upon notification that an exposure examination for this Contract Year has been scheduled. The captioned Company recognizes that the exposure examination will require documentation in addition to the SBA exam file.

We are each, respectively, executive officers of said Company, acting within our authority in making this declaration, and we have conducted, or have had conducted, a thorough review of the said Company's records and systems to determine the truth of this statement. We understand that our SBA exam file should be generated at the same time our Data Call file is created, and that data fields common to both the Data Call file and the SBA exam file must be the same. We acknowledge that if it is determined, subsequent to our Data Call submission, that these files are not in agreement, our company will be required to resubmit both files and will be subject to a \$1,000 resubmission fee for each resubmission.

BY: _____
Signature

BY: _____
Signature

NAME: _____
Typed/Printed

NAME: _____
Typed/Printed

TITLE: _____

TITLE: _____

DATE: _____

DATE: _____

Florida Hurricane Catastrophe Fund

~~2010~~ 2011 Data Call

Pursuant to Section 215.555(5)(c), Florida Statutes

Due March 1, ~~2011~~ 2012

New Participants Collateral Protection Statement

(This form may be disregarded if not applicable to your company)

on behalf of

(Company Name)

We, the undersigned, acknowledge that the captioned Company writes collateral protection policies covering personal residences in the State of Florida that protect both the borrower's and the lender's financial interest, in an amount at least equal to the coverage for the dwelling in place under the lapsed homeowner's policy. We understand that, as referenced in Section 215.555(2)(c), Florida Statutes, for such policies to be covered by the FHCF, our Company must be able to accurately report exposure information for those policies as required in Section 215.555(5), and specifically, as outlined in this Data Call.

We are each, respectively, executive officers of said Company, acting within our authority in making this declaration. We have conducted, or have had conducted, a thorough review of said Company's records to determine whether all necessary information required for collateral protection policies to be covered by, and reported to, the FHCF, as outlined above and in this Data Call, is available for reporting (whether in a hard copy or an electronic format). Accordingly, we certify that (check appropriate box below):

☐

Said Company has collected all information necessary for such policies to be covered by, and reported to, the FHCF, as outlined in this Statement and this Data Call, and has accordingly included collateral protection exposure covered by the FHCF in this Data Call submission.

☐

Said Company **DOES NOT** have available the data as required by the premium formula as specified in Section 215.555(5), Florida Statutes, and therefore is unable to accurately report its collateral protection exposure. We understand that the said Company is ineligible to collect any reimbursements from the FHCF for losses occurring during the 2010 FHCF contract year from policies covering collateral protection exposure.

BY: _____
Signature

BY: _____
Signature

NAME: _____
Typed/Printed

NAME: _____
Typed/Printed

TITLE: _____

TITLE: _____

DATE: _____

DATE: _____

Contract Year ~~2010~~ 2011 Interim Loss Report Florida Hurricane Catastrophe Fund (FHCF)

Company Name: _____ Co. NAIC No.: _____

Group NAIC No. (if applicable): _____ Losses as of (most current data available): _____

HURRICANE: _____ PCS CAT. NO.: _____ Report Due Date (see schedule below): _____

ESTIMATED ULTIMATE NET LOSSES ON COVERED POLICIES

	Commercial-Residential	Residential	Mobile Home	Tenants	Condominium Unit Owners	Total
Paid Loss*						
Outstanding Loss*						
IBNR (unknown losses)*						
TOTAL*						

Schedule of Report Due Dates

If the FHCF determines that an Interim Loss Report is required due to the occurrence of a Covered Event, all participants in the FHCF shall be notified of the required filing and the applicable due date (not less than fourteen days from the notice date). The FHCF will notify participants if subsequent Interim Loss Reports are required or if a detailed claims listing (as outlined on the Form FHCF-L1B – Proof of Loss Report) must be provided to the FHCF.

* Report Ultimate Net Losses only. Do not include Loss Adjustment Expenses. If your company has negative IBNR numbers, report the negatives; do not net with the Outstanding Loss numbers. See Article V of the Reimbursement Contract for the definitions of Covered Event, Covered Policy, and Ultimate Net Loss. See Article VI of the Reimbursement Contract for specific coverage exclusions. Copies of this Interim Loss Report, the Reimbursement Contract, and additional information can be found on the Internet at www.sbafla.com/fhcf or <http://fhcf.paragon.aonbenfield.com>.

Signature: _____ Executive Title: _____ Date: _____

Printed or Typed Name of Executive: _____

Contract Year ~~2010~~ 2011 Proof of Loss Report

Florida Hurricane Catastrophe Fund (FHCF)

Company Name: _____ Co. NAIC No.: _____

Group NAIC No. (if applicable): _____ Losses as of (most current data available): _____

HURRICANE: _____ PCS CAT. NO.: _____ Report Due Date: _____

SECTION I - MANDATORY

ULTIMATE NET LOSSES ON COVERED POLICIES

	Commercial-Residential	Residential	Mobile Home	Tenants	Condominium Unit Owners	Total
A. Paid Loss*						
B. Outstanding Loss*						
C. IBNR (unknown losses)*						
D. TOTAL*						

* Report Ultimate Net Losses only. Do not include Loss Adjustment Expenses. If your company has negative IBNR numbers, report the negatives; do not net with the Outstanding Loss numbers. See Article V of the Reimbursement Contract for the definitions of Covered Event, Covered Policy, and Ultimate Net Loss. See Article VI of the Reimbursement Contract for specific coverage exclusions. Copies of this Proof of Loss Report, the Reimbursement Contract, and additional information can be found on the Internet at www.sbafla.com/fhcf or <http://fhcf.paragon.aonbenfield.com>.

SECTION II - OPTIONAL

ESTIMATED RECOVERABLE FROM THE FHCF (excluding reimbursements under 215.555(4)(b)4., F.S)

Section II is provided for your Company's use only. The FHCF will calculate loss reimbursements based on the information provided under Section I above.

		<u>Incurring Basis</u>
A. Incurred Ultimate Net Loss	(Sec. I.D.)	
B. Less Actual Retention		
C. Subtotal (minimum of -0-)	(A - B)	
D. Elected Coverage Percentage		
E. Ultimate Net Loss Excess Retention	(C x D)	
F. LAE (5% of Incurred Losses in Excess of Retention)	(E x 5%)	
G. Estimated Recoverable from the FHCF on Incurred Basis**	(E + F)	

**Estimated recoverables are limited by your Company's share of the claims paying capacity of the FHCF, as limited pursuant to Sections 215.555(4)(c), (16) and (17), Florida Statutes.

		<u>Paid Basis</u>
A. Paid Ultimate Net Loss	(Sec. I.A)	
B. Less Actual Retention		
C. Subtotal (minimum of -0-)	(A - B)	
D. Elected Coverage Percentage		
E. Ultimate Net Loss Excess of Retention	(C x D)	
F. LAE (5% of Paid Losses in Excess of Retention)	(E x 5%)	
G. Total Estimated Recoverable	(E + F)	
H. Previous Reimbursements		
I. <u>Estimated</u> Recoverable from the FHCF this request**	(G - H)	

Company Name: _____ Hurricane: _____

SECTION III - MANDATORY

SIGNATURES

The undersigned does hereby confirm that all losses reported under Section I of this Proof of Loss Report are losses under FHCF Covered Policies and have been incurred by the named Company for the named hurricane. All reported information is subject to examination by the State Board of Administration of Florida (SBA).

Signature: _____ Executive Title: _____ Date: _____

Printed or Typed Name of Executive: _____

Signature: _____ Executive Title: _____ Date: _____

Printed or Typed Name of Executive: _____

RECORDS RETENTION REQUIREMENTS

Companies reporting losses and receiving reimbursements or advances from the FHCF for paid losses from Covered Events are subject to examination by the FHCF or its agents pursuant to the Reimbursement Contract entered into between the Company and the FHCF. Therefore, all ~~C~~ompanies shall retain complete and accurate records of all losses paid by the FHCF until the FHCF has completed its examination of the Company and commutation for the Contract Year (if applicable) has been concluded. All records, including Form FHCF-L1B (Proof of Loss Report), correspondence, and supporting documentation, must be available with computer runs produced containing the information below. Upon notice of an examination, the Company will be required to provide the following information along with the information outlined in Form FHCF-LAP1 "Loss Reimbursement Examination Advance Preparation Instructions" for the applicable Contract Year.

1. Detailed claims listing which supports the losses reported on the Proof of Loss Report including:

- | | | |
|------------------------------|-------------------------------------|-----------------------------------------|
| • Claim number | • County code | • Paid loss – contents |
| • Date of loss | • County name | • Paid loss – additional living expense |
| • Policy number | • ZIP Code | • Outstanding loss reserve |
| • Policy effective date | • Paid loss – habitational building | |
| • FHCF type of business code | • Paid loss – appurtenant structure | |

2. Claim files which include documentation of the following:

- | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| • First notice of loss | • Payment history | |
| • Claim number | • Policy number and location of property | • Evidence of salvage received |
| • Date of loss | • Amount of loss adjustment expense | • Evidence of whether the deductible was applied |
| • Amount of loss for each category of coverage (building, appurtenant structure, contents, and additional living expense) | • Copies of checks for payment of losses | • Receipts for any additional living expenses paid |
| • Claim description | • All a Adjuster reports estimates, including public adjuster estimates if provided to the Company -with estimate of losses | • Evidence to show the loss was a direct result of a hurricane |
| • Documentation of policyholder's legal fees and/or public adjuster fees paid, if provided to the Company | | |

3. Detailed exposure listing, which was retained at the time the exposure data was submitted to the FHCF, for the Contract Year the loss occurred. See the SBA Exam File specifications section of the Data Call applicable to the Contract Year the loss occurred.

4. Additional detail on the loss examination requirements can be accessed on the Internet at www.sbafla.com/fhcf.

NOTE: Companies must submit a detailed claims listing to support the losses reported in the Proof of Loss Report at the same time it submits its first Proof of Loss Report for a specific Covered Event that qualifies the company for reimbursement under that Covered Event, and should be prepared to supply a detailed claims listing for any subsequent Proof of Loss Report upon request. Refer to Form FHCF-LAP1 for the required file layout. The Proof of Loss Reports and the detailed claims listing are required to be sent to the FHCF Administrator, Paragon Strategic Solutions Inc., 8200 Tower, 5600 West 83rd Street, Suite 1100, Minneapolis, MN 55437. If your ~~C~~ompany submits its Proof of Loss Reports electronically through the FHCF's Online Claims System at www.sbafla.com/fhcf, the detailed claims listing must be attached in an ASCII format.

FLORIDA HURRICANE CATASTROPHE FUND (FHCF)
EXPOSURE EXAMINATION – CONTRACT YEAR 2011¹⁹
ADVANCE PREPARATION INSTRUCTIONS

Company:

Date of Examination:

Advance Records Due:

The following instructions are provided to help your Company prepare for the FHCF's examination. If you have questions pertaining to the preparation and submission of required records, or about the activities or work processes of the examiner which cannot be adequately answered by the examiner, please call Gina T. Wilson, Director of Examinations, at (850) 413-1348.

Please note: If your Company participated in a takeout pursuant to an assumption agreement with Citizens Property Insurance Corporation or the examination is for Citizens Property Insurance Corporation High Risk Account with quota share primary insurance data, additional instructions apply (see pages 5 and 6).

ADVANCE RECORDS

Your company is required to submit records to the FHCF in advance of the examiner's on-site review to allow the examiner to fully prepare and to ensure the examination begins as scheduled.

All advance records must be provided on a CD-ROM that is labeled with the Company name and contract year. Be sure to check your CD-ROM to be certain the files were saved and can be opened. A cover letter is not required; however, if there is any information related to the data or the exam that you would like the examiner to know, it can be noted in a cover letter. If more than one company is under examination, preparation of separate data for each company is necessary. If your Company has different departments responsible for compiling portions of your data submission, please have one individual coordinate, compile, and submit the complete package to the FHCF.

1. REQUIRED RECORDS CHECKLIST

The Checklist, provided as an attachment in the Notice email, should be completed by the company to ensure that all advance records are submitted to the FHCF and should be returned to the FHCF in electronic form with the remainder of the required advance records. Do not use versions from a prior examination. Using the drop-down options located to the right of the list of required records, the company should indicate whether each of the records is included, not included, or not applicable. The company should also designate the office location where the on-site examination should take place and provide complete contact information of a Company Coordinator and a company executive. All examination correspondence will be directed through the Company Coordinator you have designated, including the Examination Report, unless otherwise noted on the checklist (the FHCF will only send one printed copy of the Report). The Company Coordinator will be contacted periodically by FHCF staff and the examiner to help guide the Company in the preparation of information needed to expedite the examination.

2. OPERATIONS QUESTIONNAIRE

The electronic questionnaire form should be completed in its entirety and submitted to the FHCF in electronic form. Questions should be answered based on covered policies in force for the contract year being examined. The individual(s) responsible for preparing the questionnaire should be available to answer questions once the examiner arrives on-site.

3. FORMS AND ENDORSEMENTS

Your Company must provide a list of all forms and endorsements used (as of the Data Call date) for all covered and reported policies, as well as a specimen copy of each form. The list must include the form and endorsement numbers and titles.

4. LIST OF COMPANY CONSTRUCTION TYPES

Your Company must provide a list of company construction types with a definition for each type and the applicable FHCF code used to report each construction.

5. DEFINITION OF WINDSTORM MITIGATION FEATURES

Your Company must provide a list of windstorm mitigation features reported to the FHCF for structure opening protection and, roof shape, ~~roof-wall connection and roof-deck attachment~~, along with a definition for each feature and the applicable FHCF code the feature is mapped to.

6. EXAM FILE/EXPOSURE DATA

Your Company is required to submit its Exam File produced and retained in accordance with the specifications given in the Data Call for the current contract year. The Exam File must match the Company's Data Call File submitted to the FHCF Administrator and must be submitted as originally prepared unless a subsequent resubmission was sent to the FHCF. If your Company failed to retain the Exam File, you should immediately contact the FHCF staff for further instructions.

The Exam File must be submitted as one report and be by individual policy, sorted by type of business and line of business. It must be provided in a Microsoft Access database or in delimited ASCII (text) format. The Exam File may not include symbols such as -, +, #, \$, ", / and must contain the following fields in the order listed in the table below.

Field #	DESCRIPTION	TYPE	NOTES
1	Type of Business	Numeric	Only use the codes on pg X FHCF Data Call
2	Line of Business	Numeric	Only use the codes on pg X FHCF Data Call
3	Construction Type	Numeric	Only use the codes on pg X FHCF Data Call
4	Deductible Group	Text	Only use the codes on pg X FHCF Data Call
5	County Code	Numeric	Only use the codes on pg X FHCF Data Call
6	ZIP Code	Numeric	
7	Insured Risks	Numeric	Must be greater than zero
8	Total Insured Value – Building	Numeric	
9	Total Insured Value – Appurtenant Structures	Numeric	
10	Total Insured Value – Contents	Numeric	
11	Total Insured Value – Additional Living Expenses	Numeric	
12	Year Built	Numeric	Only use the codes on pg X FHCF Data Call
13	BCEG Code	Numeric	Only use the codes on pg X FHCF Data Call
14	Florida Building Code	Numeric	Only use the codes on pg X FHCF Data Call

	Indicator		
15	Structure Opening Protection	Numeric	Only use the codes on pg X FHCF Data Call
16	Roof Shape	Numeric	Only use the codes on pg X FHCF Data Call
17	Roof-Wall-Connection Reserved for future use	Numeric	Only use the codes on pg X FHCF Data Call Enter 0 (zero)
18	Roof-Deck Attachment Reserved for future use	Numeric	Only use the codes on pg X FHCF Data Call Enter 0 (zero)
19	Policy Effective Date	Numeric or Date/Time	Numeric Format: yyymmdd Date/Time Format: month/day/year Effective Date must be in one field and the numeric format must have 8 characters
20	Policy Expiration Date	Numeric or Date/ Time	Numeric Format: yyymmdd Date/Time Format: month/day/year Expiration Date must be in one field and the numeric format must have 8 characters
21	Policy Number	Text	
22	Citizens Policy Number*	Text	*Applies only to policies assumed from Citizens that have not renewed onto the company's books by June 30, 2019.

7. DIRECT WRITTEN PREMIUM REPORT

Your Company must provide (1) a copy of the annual statement page with the direct written premiums for Florida and (2) a report which supports your Company's total direct written premium for all lines where any policy or coverage subject to the FHCF may be written. Both documents must be provided for the period ending December 31, 2019. Although the direct written premiums for a line of business may include policies covered and policies not covered by the FHCF, the Direct Written Premium Report must include all policies needed to reconcile to the line item total on the annual statement. It would be helpful to include a notation on the report, which distinguishes ex-wind policies from wind policies. Also, if there are any reconciling entries made to the annual statement, enclose a schedule detailing the reconciling items.

The Direct Written Premium Report must be by individual policy, sorted by type and line of business, must be provided as a Microsoft Access database or in a delimited ASCII (text) format, and must contain the fields in the order listed in the table below. **Policy numbers in the Exam File and Direct Written Premium Report must be formatted alike. If not, an explanation on how to match the policies is required.**

#	DESCRIPTION	TYPE	NOTES
1	Type of Business	Numeric	Only use the codes on pg X FHCF Data Call
2	Line of Business	Numeric	Only use the codes on pg X FHCF Data Call
3	Policy Effective Date	Numeric or Date/Time	Numeric Format: yyymmdd Date/Time Format: month/day/year Effective Date must be in one field and the numeric format must have 8 characters
4	Policy Expiration Date	Numeric or Date/Time	Numeric Format: yyymmdd Date/Time Format: month/day/year Expiration Date must be in one field and the numeric format must have 8 characters
5	Direct Written Premium	Numeric	
6	Policy Number	Text	Use the same policy number and format as used in the Exam File
7	Notation Designating FHCF Covered Policies	Text	If available
8	Notation Designating Policy Written with	Text	If available

	Ex-wind Endorsement		
9	Notation Designating Policy has Endorsement for Scheduled Personal Property	Text	If applicable
10	Class C code	Numeric	If applicable (typically applies to Commercial policies only)

For Commercial Multiple Peril, only include policies with premium reported under line 5.1. **DO NOT INCLUDE POLICIES REPORTED UNDER LINE 5.2.**

Also, if your Company writes Inland Marine endorsements to covered policies and the premium from these policies is included under a line of business other than Line 9 for Inland Marine, provide a separate listing for this premium. Also, be sure to provide separate listings for lines of business that include premiums for both commercial and residential policies.

ON-SITE REQUIREMENTS

In order for the examiner to properly conduct and expedite an early conclusion of the Exposure Examination, the Company Coordinator should ensure that the examiner has access to the following:

1. EQUIPMENT AND SPACE

The examiner will need a private working space, dedicated telephone line and telephone, and an internet connection.

2. COMPANY PERSONNEL

The Company Coordinator may wish to provide names of persons whom the examiner can contact directly for answers to the many questions the examination generates. In addition, the individual(s) responsible for preparing the Operations Questionnaire should be available to answer questions once the examiner arrives on-site.

3. REQUIRED RECORDS TO HAVE AVAILABLE ON-SITE

The examiner will also be requesting applications and declaration pages to be available for review on-site. If policy files are in more than one location, your Company is responsible for coordinating the retrieval of the files to one central location. The files must contain at least the following information:

- a. Insured's Name
- b. Address and ~~zip code~~ ZIP Code for location of property insured
- c. Policy Number
- d. Policy Period
- e. Construction Type
- f. Deductible Group
- g. County Code
- h. Total Insured Values
- i. Year Built
- j. Building Code Effectiveness Grading Code (BCEG)
- ~~k. Evidence the policy complies with the Florida Building Code, if applicable~~
- ~~l. k. Evidence to support the reported structure opening protection, roof shape code, roof wall connection, and roof deck attachment~~
- l. Evidence to show a credit is given to the policyholder for structure opening protection

-
- m. A copy of the Residential Property Insurance Checklist required by the Office of Insurance Regulation Rule 69O-167.013, F.A.C. (This requirement applies to homeowners', mobile homeowners', dwelling or condominium unit owners' policies)
 - n. All applicable endorsements and policy changes

Online policy files may be acceptable for the review of residential lines of business if the items listed above are viewable on the online system, if the system is the same system that produces the Company's dec pages, and if the examiner determines the system information is reliable. If the examiner determines the on-line system cannot be used for policy review, then your Company must provide the physical policy files including the applications and underwriting files.

For review of commercial policies, the complete policy files, including underwriting files, applications, commercial class codes, and statement of values are required.

4. ADDITIONAL ON-SITE REQUIREMENTS

- a. A copy of your Company's underwriting manual and rating manual for policies covered by the FHCF and the name of a contact that is familiar with these manuals.
- b. If your Company writes policies covering single structures that contain a mix of both commercial and habitational exposure, your Company is required to submit a classification plan to the FHCF Administrator before the September 1st deadline. Be certain an individual familiar with your Company's class codes is available to answer questions before and during the examination. Also, your Company must be able to identify policies insuring single structures that contain a mix of both commercial and habitational exposure for examination purposes.
- c. If your Company's reported exposure includes collateral protection policies covered by the FHCF, a copy of the lapsed homeowner's policy or the equivalent of a dec page must be available for the examiner's review in addition to the dec page for the policy in force at June 30, 201~~10~~.

SPECIAL EXAMS RELATED TO ASSUMPTIONS AND QUOTA SHARE AGREEMENTS WITH CITIZENS PROPERTY INSURANCE CORPORATION (CITIZENS)

1. CITIZENS TAKEOUTS PURSUANT TO ASSUMPTION AGREEMENTS

a. Requirements for Assuming Companies:

If your Company was engaged in an assumption agreement with Citizens High Risk Account and/or Citizens Personal Lines and Commercial Lines Accounts, a separate Exam File should be submitted. One file must contain your Company's FHCF exposure from direct written premiums. The exposure assumed from either Citizens entity which is renewed by June 30, 201~~10~~ must be included with the direct portion. The other file(s) must contain the FHCF exposure which was assumed from each Citizens entity (one file for each entity) and which was not renewed onto your Company's book by June 30, 201~~10~~.

b. Requirements for each Citizens entity engaged in an assumption:

In addition to the Exam File for all of its FHCF exposure not subject to an assumption agreement, each Citizens entity shall submit the following information for each assumption occurring ~~between~~ July 1, 201~~009~~ through June 30, 201~~10~~:

-
1. A separate file that includes a list of all policies that were assumed by each company on the date of the assumption. This file must include the policy number, policy written premium, and policy effective/expiration date.
 2. A separate listing of all assumed policies with indicators that identify policies with no wind coverage and cancellations (June 30th monthly extract).
 3. A separate file for all FHCF exposure removed from the applicable Citizens entity, which, as of June 30, 201~~1~~0, had not been renewed onto the assuming company's policy forms. This file must be prepared with the Exam File specifications outlined in the Contract Year 201~~1~~0 Data Call.
 4. A copy of the assumption agreement between ~~the~~ Citizens and the assuming company along with copies of exhibits to show the number of policies assumed.

2. CITIZENS HIGH RISK ACCOUNT – QUOTA SHARE PRIMARY INSURANCE REPORTING REQUIREMENTS

Citizens High Risk Account shall report all quota share primary insurance exposure data to the FHCF in a separate file meeting the requirements on page X of the Contract Year 201~~1~~0 Data Call. This file is to contain all of the fields in the Exam File specifications and the following two additional fields:

- Field #23: Five-character field indicating NAIC# of insurer for each policy reported, and
- Field #24: Two-character field indicating Citizens' specified percentage of hurricane coverage of the risks reported in a specific record, as set forth in the quota share primary insurance agreement between Citizens and an insurer.

For those policies under a Quota Share Primary Insurance Agreement, Citizens and each participating insurer are required to maintain duplicate copies of policy declaration pages. After receiving a notice for examination, Citizens must have a copy of the following information available on-site:

- a. The all-perils policy issued by the insurer for each policy under the Quota Share Primary Insurance Agreement
- b. Each endorsement attached to the all-perils policies that shows the specified percentage of participation by Citizens and the insurer under the Quota Share Primary Insurance Agreement
- c. The Quota Share Primary Insurance Agreement

All records, including exposure filings (Data Call File and Exam File), policy files, and supporting documentation must be retained along with any information produced to support the Data Call submission. Such records must be retained until the FHCF has completed its examination of your Company's exposure submission and claims reports (applicable to the Data Call ~~C~~ontract ~~Y~~ear) and commutation for the Contract Year (if applicable) has been concluded.

FLORIDA HURRICANE CATASTROPHE FUND (FHCF)
LOSS REIMBURSEMENT EXAMINATION – CONTRACT YEAR 2011¹⁰
ADVANCE PREPARATION INSTRUCTIONS

Company:

Date Examination Scheduled:

Date Required Records Due:

Events: (Event Name) – **Proof of Loss Report with losses as of:**
(Event Name) – **Proof of Loss Report with losses as of:**
(Event Name) – **Proof of Loss Report with losses as of:**

In order for the examiner to properly conduct and expedite an early conclusion of the Loss Reimbursement Examination, please follow the guidelines below. If more than one company is under examination, preparation of separate data for each company is necessary. If more than one contract year is scheduled for examination, preparation and submission of separate data for each contract year is necessary.

(1) Company Coordinator:

All correspondence will be directed through the Company Coordinator you have designated. The Company Coordinator will be contacted periodically by FHCF staff and the examiner to ensure proper receipt of records and to help guide the Company Coordinator in the preparation of information needed to expedite the examination. Your Company Coordinator may wish to provide the names of people whom the examiner can directly contact for answers to the many questions the examination generates. Please remember that if you do not understand what we need, feel free to ask questions.

(2) Equipment and Space:

The examiner will need a private working space, dedicated telephone line and telephone, and an internet connection.

(3) Work Processes:

If, at any time, you have questions about the activities or work processes of the examiner, which cannot be adequately answered by the examiner, please call Gina T. Wilson, Director of Examinations, at 850-413-1348.

(4) Required Records:

A. Required Records to be submitted to the FHCF in advance:

Claims Process Memo

Provide a written narrative of your Company's hurricane claim process. The narrative should start with how a claim is originated to the time the claim is paid. Please indicate the name and title of primary employees with responsibilities in the process.

Detailed Claims Listing(s)

Your Company is required to maintain records of all losses paid by the FHCF until the FHCF has completed its examination of the Company [and commutation for the Contract Year \(if applicable\) has been concluded](#). The records retention requirement, as stipulated in the Proof of Loss Report, page 2, requires the Company to maintain all records, including the Proof of Loss Report, correspondence and supporting documentation to support the losses reported to the FHCF.

The Detailed Claims Listing, which supports the losses reported in the Proof of Loss Report(s), by hurricane, must match the aggregate total amounts for paid losses and outstanding losses reported on page 1 of the Proof of Loss Report. The Detailed Claims Listing must be provided as a Microsoft Access database or in a fixed-width ASCII (text) format, and contain the following fields (do not include symbols, such as -, +, #, \$, ", /) in the order listed. Please note: Policy numbers in the Detailed Claims Listing must be in the same format as policy numbers provided in the Exposure Exam File.

FIELD #	DESCRIPTION	POSITION	LENGTH	TYPE	NOTES
1	Claim Number	1	20	Text	Only numbers and letters are acceptable.
2	Date of Loss	21	8	Text	mmddyyyy
3	Policy Number	29	30	Text	Only numbers and letters are acceptable and must match the policy numbers and format provided in the 2011 Exposure Exam File for policies required to be reported at 6/30/11
4	Policy Effective Date	59	8	Text	mmddyyyy
5	FHCF Type of Business Code	67	1	Text	Only use the codes on pg x of the Contract Year 2011 FHCF Data Call
6	County Code	68	3	Text	Only use the codes on pg xx of the Contract Year 2011 FHCF Data Call
7	County Name	71	20	Text	All capital letters
8	ZIP Code	91	5	Text	
9	Paid Loss – Habitational Building*	96	12	Text	Enter zeros if none
10	Paid Loss – Appurtenant Structures *	108	12	Text	Enter zeros if none
11	Paid Loss – Contents *	120	12	Text	Enter zeros if none
12	Paid Loss – Additional Living Expense *	132	12	Text	Enter zeros if none
13	Outstanding Loss Reserve	144	12	Text	Enter zeros if none

*** A breakdown of paid losses is required.**

Example: A record with the following information:

FIELD #	DESCRIPTION	TYPE	ENTRY
1	Claim Number		336733
2	Date of Loss		091020110
3	Policy Number		HCP5670996
4	Policy Effective Date		021520110
5	FHCF Type of Business Code	Residential	2
6	County Code		049
7	County Name		HARDEE
8	ZIP Code		33890
9	Paid Loss – Habitational Building		12100
10	Paid Loss – Appurtenant Structures		3600
11	Paid Loss – Contents		8000
12	Paid Loss – Additional Living Expense		1500
13	Outstanding Loss Reserve		5000

Sample record layout:

00000000000000336733091020110000000000000000000HCP5670996021520110204
900000000000000HARDEE3389000000001210000000003600000000080000000000
01500000000005000

Each record must have this type of layout. Since each field has a defined length, please “zero fill” the position in each field that will not be used. Each record must be 155 characters in length.

Provide a separate Detailed Claims Listing to support the Proof of Loss Report(s) for each event listed on the first page of these instructions. If your company is unable to provide a Detailed Claims Listing that matches the losses reported in the Proof of Loss Report(s), you should immediately contact the FHCF staff for further instructions.

Incurred But Not Reported (IBNR)

In addition to the Detailed Claims Listing(s), your company is required to submit documentation to support the amount of IBNR reported for each Proof of Loss Report and event listed above.

List of Claims with Salvage

The Company is required to provide a listing of all FHCF covered claims where salvage was received. This listing must be provided as a Microsoft Access database or in a delimited ASCII (text) format.

The listing must contain a single record for each policy with the following information:

FIELD #	DESCRIPTION	TYPE	NOTES
1	Claim Number	Text	
2	Policy Number	Text	
3	Salvage Received	Text	

Multi-State Policy Listing

The Company is required to provide a listing of all FHCF covered commercial policies in effect during the 2011 hurricane season that have exposures written with Florida and non-Florida locations on the same policy. This list includes all policies regardless of whether or not a claim was reported to the FHCF for the policy and must be provided as a Microsoft Access database or in a delimited ASCII (text) format.

The listing must contain a single record for each policy with the following information:

FIELD #	DESCRIPTION	TYPE	NOTES
1	Policy Number	Text	Only numbers and letters are acceptable and must match the policy numbers and format provided in the 2011 Exposure Exam File, if the policy was required to be reported
2	FHCF Type of Business Code	Text	Only use the codes on pg x of the 2011 FHCF Data Call

Multi-Risk Policy Listing

The Company is required to provide a listing of all FHCF covered commercial policies in effect during the 2011 hurricane season that have both covered and non-covered risks written on the same policy. This list includes all policies regardless of whether or not a claim was reported for the policy and must be provided as a Microsoft Access database or in a delimited ASCII (text) format.

The listing must contain a single record for each policy with the following information:

FIELD #	DESCRIPTION	TYPE	NOTES
1	Policy Number	Text	Only numbers and letters are acceptable and must match the policy numbers and format provided in the 2011 Exposure Exam File, if the policy was required to be reported
2	FHCF Type of Business Code	Text	Only use the codes on pg x of the 2011 FHCF Data Call

Single Structures Policy Listing

The Company is required to provide a listing of all FHCF covered policies in effect during the 2011 hurricane season that insure single structure(s) that are used for both habitational and non-habitational purposes. This listing includes all policies regardless of

whether or not a claim was reported for the policy and must be provided as a Microsoft Access database or in a delimited ASCII (text) format.

The listing must contain a single record for each policy with the following information:

FIELD #	DESCRIPTION	TYPE	NOTES
1	Policy Number	Text	Only numbers and letters are acceptable and must match the policy numbers and format provided in the 2011 Exposure Exam File, if the policy was required to be reported
2	FHCF Type of Business Code	Text	Only use the codes on pg x of the 2011 FHCF Data Call
3	Class Code	Text	Only numbers and letters are acceptable

Required Records Checklist and Operations Questionnaire

In addition to the records outlined above, attached are a Required Records Checklist and a Claims Operations Questionnaire that should be prepared electronically and submitted to the FHCF in advance. The individual responsible for preparing the questionnaire should be available to answer questions once the examiner arrives on site.

Remittance of Required Documents

The reports must be provided on a CD-ROM that is labeled with the Company name, contract year, hurricane(s) and file name. Save each Detailed Claims Listing with the name applicable to each hurricane. Be sure to check your CD-ROM to be certain the files were saved and can be opened.

B. Required Records to Have Available On Site:

The examiner will also be requesting claims and policy files, based on the sample selection, to be available once the examiner arrives on site. The claims and policy files can be provided either in electronic or hard copy format. The files should be made available upon request and should contain at least the following information:

Claim File (the complete file)

- a. First notice of loss
- b. Claim Number
- c. Date of Loss
- d. Amount of loss for each category of coverage (building, appurtenant structure, contents, and additional living expense)
- e. Claim description
- f. Policy Number and location of property
- g. Amount of loss adjustment expense
- h. Copies of checks for payment of losses
- i. All adjuster's ~~reports~~ estimates, including Public Adjuster estimates if provided to the Company, ~~with estimate of losses~~
- j. Payment history
- k. Evidence of salvage received, if any
- l. Evidence of whether the deductible was applied

-
- ~~k.m.~~ Receipts for any additional living expenses paid
 - ~~n.~~ Evidence to show the loss was a ~~the claim was the~~ direct result of a hurricane
 - ~~l.o.~~ Documentation of policyholder's legal fees and/or Public Adjuster fees paid, if provided to the Company

Policy File (the complete file in effect at the time of loss)

a. Policy Declarations

- ~~a.b.~~ Insured's Name
- ~~b.c.~~ Address and ZIP Code for location of property insured
- ~~e.d.~~ Policy Number
- ~~d.e.~~ Policy Period
- ~~e.f.~~ Construction Type
- ~~f.g.~~ Deductible Group
- ~~g.h.~~ County Code
- ~~h.i.~~ County Name
- ~~i.j.~~ Total Insured Values
- ~~j.k.~~ Evidence to support occupancy is primary or secondary residence
- ~~k.l.~~ All applicable forms, endorsements, and policy changes/transactional history

If your Company retains claims and/or policy files on an on-line system, this will be acceptable for the review of residential lines of business as long as the items listed above are available on that system and the examiner determines the system information can be relied on. If the examiner determines the on-line system cannot be used for policy review, then the examiner will need policy files including the application and underwriting files for the specific policies being reviewed. Also, if the Company's on-line system is not the same system that produces the Company's dec pages, then the actual files will need to be provided to the examiner.

For any commercial policies reviewed, you are required to provide the complete policy file, underwriting file, application, commercial class codes, and statement of values.

(5) Additional Requirements:

The Company may be required to provide a walk through of the claims process once the examiner arrives on site. The examiner will coordinate with the Company prior to arriving on site and provide direction on performing the walk through. The Company should make prior arrangements for the examiner to conduct this walk through with the necessary personnel. Be certain an individual familiar with the Company's claims process is available to answer questions before and during the examination.

If claims and/or policy files are in more than one location, your Company is responsible for coordinating the retrieval of the files to one central location.

Also, provide the examiner with a copy of the claims manual for claims covered by the FHCF and the name of a contact familiar with this manual. It is preferable that the claims manual be provided in electronic format.

Notice of Emergency Rule

STATE BOARD OF ADMINISTRATION

Departmental

RULE NO: 19ER11-1

RULE TITLE Extraordinary Circumstances for Alternative Method of Finalizing 2005 Losses

SPECIFIC REASONS FOR FINDING AN IMMEDIATE DANGER TO THE PUBLIC HEALTH, SAFETY, OR WELFARE: Pursuant to Paragraph (3)(d), Article X, of the 2005 Florida Hurricane Catastrophe Fund ("FHCF") Reimbursement Contract, the process of finalizing participating insurers' losses must begin no later than June 1, 2011. This process involves a valuation of claims that an insurer has received but has not yet paid ("outstanding losses") and claims that an insurer anticipates but has not yet received ("incurred but not reported losses"). In most circumstances, these losses represent a small portion of an insurer's recoveries under the Reimbursement Contract. The FHCF is concerned that some participating insurers may have very large amounts of outstanding losses and incurred but not reported losses, as a result of claims that were filed or reopened many years after the hurricanes covered by the 2005 Reimbursement Contract. The size of these losses raises the possibility that the process for finalizing losses may understate their value, resulting in disruption of the property insurance market in Florida, or may overstate their value, resulting in the need for additional bonding on behalf of the FHCF. Both of these potential outcomes endanger the public welfare. The FHCF has determined that alternative methods of finalizing these losses may significantly reduce the likelihood of either overpayment or underpayment, and will therefore protect the public welfare.

REASON FOR CONCLUDING THAT THE PROCEDURE IS FAIR UNDER THE CIRCUMSTANCES:

This emergency rule is a benefit for the public at large, participating insurers, and the FHCF. There is no benefit to any of these parties to have payments to insurers by the FHCF be inadequate or excessive. Further, this emergency rule is posted to the State Board of Administration's website.

SUMMARY: This emergency rule provides authority for participating insurers and the SBA or the FHCF to apply flexibility to the timing requirements for settling the 2005 claims and losses.

THE PERSON TO BE CONTACTED REGARDING THE EMERGENCY RULE IS: Jack E. Nicholson, Chief Operating Officer, Florida Hurricane Catastrophe Fund, State Board of Administration of Florida.

THE FULL TEXT OF THE EMERGENCY RULE IS:

19ER11-1 Extraordinary Circumstances for Alternative Method of Finalizing 2005 Losses.--

(1) Section 215.555(3), F.S., provides that in situations of an unusual nature, Florida Hurricane Catastrophe Fund rules may be applied with reasonable flexibility if such flexibility is in accord with sound insurance practices and is not contrary to the public purpose of the Florida Hurricane Catastrophe Fund.

(2) Applying such statutorily-authorized flexibility, this rule specifies circumstances under which an alternative method of finalizing an insurer's losses may be used notwithstanding the commutation process as described in Paragraph (3)(d) of Article X of the 2005 Florida Hurricane Catastrophe Fund Reimbursement Contract, which was adopted as Rule 19-8.010, F.A.C.

(3) Upon the request of a participating insurer that is a party to the 2005 Florida Hurricane Catastrophe Fund Reimbursement Contract, the State Board of Administration of Florida ("SBA") and the participating insurer may agree to an alternative method of finalizing the participating insurer's losses notwithstanding the commutation process as described in Paragraph (3)(d) of Article X of the 2005 Florida Hurricane Catastrophe Fund Reimbursement Contract. The request must be made no later than May 31, 2011.

(4) A participating insurer is eligible to make the request described in subsection (3) if:

(a)1. The "Estimated Recoverable from the FHCF on Incurred Basis" (Section II, Incurred Basis, G. on Form FHCF-L1B, Proof of Loss Report) is more than 200 percent of the Total Estimated Recoverable (Section II, Paid Basis, G. on Form FHCF-L1B, Proof of Loss Report), or the Total Estimated Recoverable (Section II, Paid Basis, G. on Form FHCF-L1B, Proof of Loss Report) is zero; and

2. The difference between The “Estimated Recoverable from the FHCF on Incurred Basis” (Section II, Incurred Basis, G. on Form FHCF-L1B, Proof of Loss Report) and the Total Estimated Recoverable (Section II, Paid Basis, G. on Form FHCF-L1B, Proof of Loss Report) exceeds \$50 million; or

(b) The participating insurer is in receivership, in which case the request may be made on behalf of the participating insurer by either the receiver or the Florida Insurance Guaranty Association.

(5) If the participating insurer and the SBA do not reach agreement on the alternative method of finalizing the participating insurer’s losses within 60 calendar days after the date of the request, the provisions of Paragraph (3)(d) of Article X of the 2005 Florida Hurricane Catastrophe Fund Reimbursement Contract apply.

Specific Authority: 215.555(3), F.S.; Law Implemented 215.555, F.S.; History–New

THIS RULE TAKES EFFECT UPON BEING FILED WITH THE DEPARTMENT OF STATE UNLESS A LATER TIME AND DATE IS SPECIFIED IN THE RULES.

EFFECTIVE DATE: May ____, 2011

19ER11-1 Extraordinary Circumstances for Alternative Method of Finalizing 2005 Losses.--

(1) Section 215.555(3), F.S., provides that in situations of an unusual nature, Florida Hurricane Catastrophe Fund rules may be applied with reasonable flexibility if such flexibility is in accord with sound insurance practices and is not contrary to the public purpose of the Florida Hurricane Catastrophe Fund.

(2) Applying such statutorily-authorized flexibility, this rule specifies circumstances under which an alternative method of finalizing an insurer's losses may be used notwithstanding the commutation process as described in Paragraph (3)(d) of Article X of the 2005 Florida Hurricane Catastrophe Fund Reimbursement Contract, which was adopted as Rule 19-8.010, F.A.C.

(3) Upon the request of a participating insurer that is a party to the 2005 Florida Hurricane Catastrophe Fund Reimbursement Contract, the State Board of Administration of Florida ("SBA") and the participating insurer may agree to an alternative method of finalizing the participating insurer's losses notwithstanding the commutation process as described in Paragraph (3)(d) of Article X of the 2005 Florida Hurricane Catastrophe Fund Reimbursement Contract. The request must be made no later than May 31, 2011.

(4) A participating insurer is eligible to make the request described in subsection (3) if:

(a)1. The "Estimated Recoverable from the FHCF on Incurred Basis" (Section II, Incurred Basis, G. on Form FHCF-L1B, Proof of Loss Report) is more than 200 percent of the Total Estimated Recoverable (Section II, Paid Basis, G. on Form FHCF-L1B, Proof of Loss Report), or the Total Estimated Recoverable (Section II, Paid Basis, G. on Form FHCF-L1B, Proof of Loss Report) is zero; and

2. The difference between The "Estimated Recoverable from the FHCF on Incurred Basis" (Section II, Incurred Basis, G. on Form FHCF-L1B, Proof of Loss Report) and the Total Estimated Recoverable (Section II, Paid Basis, G. on Form FHCF-L1B, Proof of Loss Report) exceeds \$50 million; or

(b) The participating insurer is in receivership, in which case the request may be made on behalf of the participating insurer by either the receiver or the Florida Insurance Guaranty Association.

(5) If the participating insurer and the SBA do not reach agreement on the alternative method of finalizing the participating insurer's losses within 60 calendar days after the date of the request, the provisions of Paragraph (3)(d) of Article X of the 2005 Florida Hurricane Catastrophe Fund Reimbursement Contract apply.

Specific Authority: 215.555(3), F.S.; Law Implemented [215.555](#), F.S.; History--New

STATE BOARD OF ADMINISTRATION OF FLORIDA

A. Purpose

The Trustees of the State Board of Administration ("SBA") desire a final written report identifying issues and providing an evaluation and recommendations related to the Compliance Program and its alignment to any enterprise risk management processes (ERM) within the SBA. This scope of work will outline the specific requirements and tasks to be accomplished by the consultant for services.

B. Scope of Work

The Consultant will evaluate the progress made by the SBA as of June 30, 2011 relative to the presentation of Phases I and II of the Compliance Program Assessment completed by Deloitte and Touche, dated January 15, 2009 and June 16, 2009, respectively, including alignment with Enterprise Risk Management within its organization. In addition, the Consultant will update the "Tactical Recommendations" with prevailing best practices related to the Compliance Program and its alignment with the ERM program.

C. Consultant's Responsibilities and Schedule

1. The Consultant will provide an engagement plan to the SBA Audit Committee distributed through the SBA Chief Internal Auditor that will explain the engagement objectives, scope, and methodology to be used to reach conclusions. The engagement plan should also describe the Consultant's resources that will be employed on the engagement as well as the Consultant's requirements of the SBA (e.g., security access, system access, file access, space and technology needs, appropriate staff availability) and a timeline with due dates for accomplishing milestones.
2. The Consultant must submit an outline of the report's format within fourteen (14) days of execution of the contract for approval by the SBA Audit Committee.
3. At a minimum, the report should include separate sections for each of the following:
 - a. An introduction which provides an overview of the following:
 - i. The purpose and role of the Compliance Program and ERM in the SBA;
 - ii. SBA's plans and goals for using the Compliance Program and ERM; and
 - iii. SBA's progress achieving its plans and goals.
 - iv. Does the system of internal controls, including the Audit Committee and Investment Advisory Council, at the SBA provide reasonable assurance that the trustees are able to comply with their fiduciary responsibilities in accordance with state and federal law?
 - b. An evaluation that the role for ERM envisioned by the SBA is consistent with accepted and prevailing industry practice.

- c. A discussion and analysis of changes instituted by SBA that are a result of the 2009 Compliance Program Assessment completed by Deloitte and Touche —
 - i. Operations;
 - ii. Administration; and
 - iii. Reporting.
 - d. An evaluation of the organizational structures intended to separate oversight functions from management functions, including an assessment of the independence of the Chief Compliance Officer.
 - e. Evaluating the Enterprise Risk Management Policy and the associated Risk and Compliance Committee responsibilities.
 - f. Evaluating the periodic assessment protocols of both the Compliance and ERM programs.
 - g. The impact of statutory changes to Chapter 215, Florida Statutes, resulting from Chapter 2010-180, Laws of Florida.
 - h. An overview of actions the trustees can pursue to ensure strong and effective risk management and fulfillment of their fiduciary responsibilities. This may include matters within existing authority, and those that require statutory changes.
4. A draft report is due to the SBA Chief Internal Auditor to distribute simultaneously to the SBA Audit Committee (Contract Manager) and SBA management by September 12, 2011. The SBA Audit Committee members will be responsible for reviewing the draft and providing a list of report deficiencies within 5 business days. The Consultant will be responsible for resolving all deficiencies in the final report.

The final report should be delivered by 5:00 p.m. on September 30, 2011.