

AGENDA

DIVISION OF BOND FINANCE OF THE STATE BOARD OF ADMINISTRATION

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(Contact person: J. Ben Watkins III - 488-4782)

The Capitol

September 29, 2015

This meeting is open to the public.

1. Approval of minutes of the meetings of August 5, 2015 and September 1, 2015.

Attachment #1

2. Report on the recommended review process for universities requesting to use the Consolidated Equipment Financing Program to finance equipment purchases.
3. Approval of the repeal of Administrative Rule 19A-3.004 relating to the sale and award of housing bonds. The rule is obsolete since the Division of Bond Finance no longer has statutory authority to issue bonds for the Florida Housing Finance Corporation.

(Recommend)

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STATE OF FLORIDA

IN RE: MEETING OF THE GOVERNOR
AND CABINET

VOLUME I

CABINET MEMBERS: GOVERNOR RICK SCOTT
ATTORNEY GENERAL PAM BONDI
CHIEF FINANCIAL OFFICER
JEFF ATWATER
COMMISSIONER OF AGRICULTURE
ADAM PUTNAM

DATE: WEDNESDAY, AUGUST 5, 2015

LOCATION: CABINET MEETING ROOM
LOWER LEVEL, THE CAPITOL
TALLAHASSEE, FLORIDA

REPORTED BY: YVONNE LAFLAMME, FPR
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NOTARY PUBLIC

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I N D E X

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3 INTERVIEW AND APPOINTMENT FOR DEPARTMENT OF LAW
ENFORCEMENT 4

4

5 INTERVIEW AND APPOINTMENT FOR DEPARTMENT OF ENVIRONMENTAL
PROTECTION SECRETARY 27

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7 HIGHWAY SAFETY AND MOTOR VEHICLES
By Executive Director Terry Rhodes 93

8

9 FLORIDA DEPARTMENT OF LAW ENFORCEMENT
By Interim Commissioner Rick Swearingen

10 DIVISION OF BOND FINANCE 106
By Director Ben Watkins

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DIVISION OF BOND FINANCE

GOVERNOR SCOTT: So we're going to take this out of order. Ben Watkins with the Division of Bond Finance.

DIRECTOR WATKINS: Good morning, Governor, Cabinet members. Thank you for taking us out of turn.

Item 1 is approval of the minutes of the October -- or April 14th meeting.

GOVERNOR SCOTT: Is there a motion?

ATTORNEY GENERAL BONDI: So moved.

GOVERNOR SCOTT: Second?

CHIEF FINANCIAL OFFICER ATWATER: Second.

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

DIRECTOR WATKINS: Item Number 2 contains four different items, which are reportable award on bond sales. Item 2a is the reportable award on the competitive sale of \$258.3 million of PECO Refunding Bonds. The bonds were awarded to the highest bidder in an interest cost rate of 1.28 percent. That allowed us to reduce the interest rate on outstanding PECO bonds from 4.68 percent to 1.28 percent,

generating gross debt service savings of 34.2 million;

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1 present value savings of 32.6 million, or 11.2 percent
2 of the principal amount of the bonds being refunded.

3 Item 2b is competitive sale of \$59.6 million for
4 an FSU dormitory revenue bonds. The bonds were
5 awarded at the true interest cost rate of 3.37
6 percent. It also included a refunding piece as well
7 of \$23.3 million. So the combined issue -- the new
8 money issue was 4.93 percent, and the refunding issue
9 was 3.52 percent. So that allowed us to reduce
10 interest rates on outstanding debt from 4.93 percent
11 to the 3.52 percent which generates gross debt service
12 savings of 5.2 million, present savings of
13 three-and-a-half million, or 14 percent of the
14 principal refunded bonds.

15 Item C is also a refunding. It was a competitive
16 sale of \$29.1 million for Florida International
17 University Student Housing Refunding Bonds. The bonds
18 were sold at competitive sale and awarded to the low
19 bidder at a true interest cost of 3.25 percent. That
20 allowed us to reduce the interest rate on outstanding
21 bonds from 4.46 percent to 3.25 percent, generating
22 gross debt service savings of 4 million, present value

23 savings of 3 million, or 10 percent of the principle
24 amount of the bonds being refunded.

25 Thank you, sir.

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1 GOVERNOR SCOTT: We've seen the money.

2 DIRECTOR WATKINS: Absolutely.

3 Lastly, Item D is sale of Turnpike revenue bonds.
4 The bonds \$241-and-a-half million of Turnpike revenue
5 bonds. The bonds were awarded to the low bidder at
6 the true interest cost of 3.58 percent. That was also
7 a combined new money and refunding issue. It was
8 \$172-and-a-half-million of new money and \$68.9 million
9 in refunding. So the new money piece was sold at a
10 true interest cost of 3.75 percent, and the refunding
11 piece was 2.73 percent. So what that allowed us to do
12 was reduce the interest rate on outstanding bonds from
13 4.87 percent to 2.73 percent, generating gross debt
14 service of 12.8 million, present value savings of
15 10-and-a-half million, or 14.1 percent of the
16 principal amount of the bonds being refunded.

17 So, whenever we have a new money issue and we
18 have a refunding piece that works as well, we combine
19 these two issues to take advantage of the efficiencies
20 gained in doing the one issue rather than two,

21 because it's the same amount of work so we attach a
22 refunding piece to it whenever there's an economically
23 feasible piece to do. So that's why you see these
24 combined issues.

25 We've been beneficiary and continue to be very

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1 favorable in attractive rates, and very favorable
2 rates in the municipal market, so we continue to move
3 aggressively, taking advantage of every possible
4 opportunity to lower the interest rate on our
5 outstanding debt and reduce the amount that we have is
6 to pay in interest cost over time.

7 GOVERNOR SCOTT: Has any statement been able to
8 get better financing costs than us? We have the
9 highest credit rating, right?

10 DIRECTOR WATKINS: Well, us being a
11 triple-A-rated state, it certainly helps our
12 reputation in the credit markets, reflecting the
13 conservative and prudent physical management of the
14 state. It has been superlative, and so we get very
15 attractive rates on everything that we sell. So as
16 low as it can be Governor. That's our number one
17 mission; that's our focus and that's what we do.

18 GOVERNOR SCOTT: It's better than Texas, right?

19 DIRECTOR WATKINS: Yes. Always. And that's a
20 fair comparison because they don't have a personal
21 income tax and neither do we, right? So we they don't
22 have any wind at their back in terms of unfair
23 advantages.

24 Item Number 3 is the resolution authorizing the
25 solicitation of competitive proposals for a master

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1 equipment financing program for state agencies.

2 GOVERNOR SCOTT: So we don't -- my concern about
3 this is we don't yet how this money will be spent.
4 It's my understanding the process is the agencies will
5 tell us if they want to use this, so I would rather
6 from a transparency standpoint, rather get that and
7 tell us how it's going to be used before we decide to
8 go spend the money. And then once we do that, then
9 you can go out and solicit the funds.

10 DIRECTOR WATKINS: Okay.

11 GOVERNOR SCOTT: That seems like a better process
12 than doing it the other way around.

13 DIRECTOR WATKINS: Right.

14 CHIEF FINANCIAL OFFICER ATWATER: May I ask a
15 question?

16 GOVERNOR SCOTT: Sure.

17 CHIEF FINANCIAL OFFICER ATWATER: Ben, usually
18 requests are made basically this being the line of
19 credit. I guess probably a gateway to say this, each
20 of those items has already have been approved in the
21 agency's budget; that would be correct?

22 DIRECTOR WATKINS: Correct.

23 CHIEF FINANCIAL OFFICER ATWATER: And the
24 expenditure going after that piece of fixed asset, but
25 not as debt.

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1 DIRECTOR WATKINS: Correct. The lease payment
2 would have been approved but not necessarily the
3 entire amount that they're looking to purchase the
4 equipment for.

5 GOVERNOR SCOTT: So just make sure I understand
6 it right. The item would be approved in the budget,
7 but the fact that they're going to do a leasing
8 transaction has not been approved in the budget, nor
9 the cost of the leasing transaction.

10 DIRECTOR WATKINS: That is correct. So in other
11 words, the Agency would come forward, they would have
12 included in their budget the annual appropriation for

13 the lease item. That's absolutely essential. So the
14 annual cost has been included in the budget. The cost
15 of the equipment purchase and the financing, not.

16 So you're both right in order to reconcile these
17 different points of view. I think to the Governor's
18 point is we don't know what this is being used for and
19 no project has been approved. This is how we
20 administered this program previously. It was set up
21 previously to be done as a bond issue.

22 We converted it to a line of credit to make it
23 very efficient so that we're not drawing down money.
24 We're not incurring the interest cost associated in
25 having this credit available pending its use, then

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1 that was the improvement we do, because there's no
2 sense in spending money on interest for money to sit
3 in the bank and incurring the cost of carry on that.

4 GOVERNOR SCOTT: So it's a line of credit?

5 DIRECTOR WATKINS: Sir?

6 GOVERNOR SCOTT: It's a line of credit?

7 DIRECTOR WATKINS: It is a line of credit. And
8 our role is statutorily to be in charge of the
9 solicitation process. We're not in charge of
10 administering the program, but because of our

11 expertise in finance and because of the protocols we
12 use in executing transactions, the Legislature
13 embedded the responsibility with us, and so in
14 evaluating this many years ago we said, "Wait a
15 minute. There's a better mouse trap." And that's
16 when we converted it to a line of credit so that the
17 credit facility is available, but there has been no
18 project approval.

19 So the CFO's Department of Financial Services
20 administers the program and is responsible for
21 receiving the proposals from the agencies about what
22 they would like to lease. The term of the lease is
23 limited to five years, so it's not long-term debt. It
24 tends to be short-term debt. Well, it is short-term
25 debt. It has to be amortized over a maximum of five

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1 years. The interest rate is established once that
2 approval is forthcoming.

3 There is no -- there is a DFS diligence process
4 in terms of the project and making sure that
5 administratively the lender has approved the project
6 and that the appropriations for the annual lease
7 payment is included in the budget. But there's not a

8 critical evaluation of the merits of any particular
9 project and how that may pay, which is more normal in
10 connection with long-term bond issues.

11 So that's the way the program is administered.
12 We're just doing the solicitation. The line of credit
13 would be in place for a maximum of 50 million. It is
14 not required to be used but is available to agencies
15 as opposed to then doing vendor financing, which is
16 what tends to happen. An IBM or Seiman's or some
17 equipment provider comes in and says, "We'll provide
18 you a lease agreement" and they can play with the
19 purchase price and interest rate that way. This
20 assures the absolute lowest cost of financing, because
21 we have a third-party lender who has bid on a line of
22 credit to provide that, so there is no subsequent
23 review of that. I've suggested we build the process
24 and require that before draw-downs are made. We can
25 do that formally or informally, and so that would be

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1 the best way in my judgment of incorporating oversight
2 on a project-by-project basis before a draw down is
3 made.

4 CHIEF FINANCIAL OFFICER ATWATER: Governor, I
5 think you're asking a very appropriate question. I

6 think a thread there that was the most valuable on the
7 explanation.

8 One, I guess I could just acknowledge it's in
9 Statute; we're required to do it by the Legislature to
10 put the facility in place, so it may be a question we
11 want to talk about statutorily. So we're just trying
12 to now execute as our office as to the requirement
13 under the law. But I do think what's important, this
14 number has moved around. We keep this number I would
15 say generally speaking a tight number, and there's
16 unquestionably when agencies choose to utilize a draw
17 down, they're getting a far better rate than going out
18 themselves, on a piece of equipment, by a piece of
19 equipment basis. And so it's a -- it's going to be a
20 more attractive rate that is available for them for
21 something that has been already budgeted for.

22 GOVERNOR SCOTT: Can I ask a question?

23 CHIEF FINANCIAL OFFICER ATWATER: Sure.

24 GOVERNOR SCOTT: So do they -- how do they do
25 this? So our budget just started July 1st; when do

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1 they come to you to talk about the projects?

2 CHIEF FINANCIAL OFFICER ATWATER: It could be at

3 any point, if the budget would have been approved by
4 the Legislature and yourself, that someone is going to
5 buy a \$3 million piece of equipment, it may be
6 November or it may be January when they present
7 themselves: "It is time the transaction is ready and
8 this is the instrument we wish to use;" that's how
9 that would occur.

10 GOVERNOR SCOTT: So right now, an agency can go
11 sign a long-term capital lease with no review by
12 anyone?

13 DIRECTOR WATKINS: That's correct. In terms of a
14 substantive review about the merits or the particular
15 piece of equipment and what purpose it will serve and
16 where the value is in having that.

17 GOVERNOR SCOTT: So just to make sure I
18 understanding this. So we go through the budget
19 process and we say we're going to allocate "X" dollars
20 for an acquisition. They can change that from buying
21 it to doing some sort of capital transaction -- with
22 an expense that's not approved?

23 DIRECTOR WATKINS: My understanding, Governor, is
24 -- and this not be accurate; I have to go back and
25 check because I'm not as familiar with the budgetary

1 process on this program as I am on others -- but I
2 believe that what would show up in the budget and
3 pursuant to the budget review process is simply an
4 appropriation for a lease and not the fixed capital
5 outlay that would you normally see in reviewing the
6 budget and other fixed capital projects.

7 GOVERNOR SCOTT: They can sign, commit to a
8 five-year commitment without getting legislative --
9 with not going through the legislative budget process.
10 It's only a one-year budget.

11 DIRECTOR WATKINS: Right. And there probably is
12 an LBC for budget amendment for the fixed capital
13 outlay for the acquisition piece, but I'm not as
14 familiar about that. I can find out the answer and
15 come back to you all on that.

16 GOVERNOR SCOTT: I've never heard LBC like that;
17 have you?

18 CHIEF FINANCIAL OFFICER ATWATER: No, not
19 specifically like that.

20 GOVERNOR SCOTT: I don't know how they would have
21 the authority to do that.

22 DIRECTOR WATKINS: It's by virtue of having the
23 facility in place in statute that allows them the
24 ability to be able to exercise the option, if you

25 will, statutorily to lease four or five years. So

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1 what they need critically is an appropriation for the
2 annual lease payment with appropriate limitations set
3 forth in statute.

4 But to your point, Governor, it's well-taken,
5 there's not the rigor of the analysis that may be
6 required of other projects in terms of proving up the
7 merits before they go and request using the facility
8 for the lease purchase and the acquisition of the
9 equipment. And I guess what I'm suggesting is, we can
10 build formally or informally that process and require
11 that prior to an agency accessing credit under the
12 facility, but understand that's informal, not formal.
13 It's not required by statute; we're not necessarily
14 involved in that process. We will be as involved or
15 uninvolved as this board is comfortable being with
16 respect to the oversight of that process for acquiring
17 equipment.

18 GOVERNOR SCOTT: So I mean, I want to understand.
19 I think this process is a better process than just
20 going out and doing a lease because we don't know what
21 interest rates they're going to give --

22 CHIEF FINANCIAL OFFICER ATWATER: The vender.

23 GOVERNOR SCOTT: -- and all of that. But like I
24 understand, I'm surprised you can do that. Business
25 would limit people do this because they can go out and

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1 do the foolish transaction because they're not
2 experienced to it, what processes to go through, what
3 bids would go through.

4 So if it's all right with you, what I would like
5 to do is withdraw the item at this time and come back,
6 and let's make sure we can understand what they can do
7 and if you can -- if there's a better process for the
8 projects or if you're comfortable and just bring up to
9 speed on how the projects are done.

10 CHIEF FINANCIAL OFFICER ATWATER: Governor, let
11 us do that. I think we've over time suggested other
12 conceptual ideas for this, as well. And not wanting
13 agencies to think I'm trying to insert myself in
14 decisions that have already been made but just trying
15 to make sure they make the right choice and not incur
16 an additional burden, and that's going to be in the
17 best interest of the taxpayers. So I would be happy
18 to bring it back. I think it's good to bring a
19 conversation here, because we're required to do it.

20 This one is maturing, it's expiring; there's agencies
21 out there that I am sure would wish to take advantage
22 of if so I'm happy to put it on the next agenda.

23 Ben, are you okay with that?

24 DIRECTOR WATKINS: Yes, sir.

25 CHIEF FINANCIAL OFFICER ATWATER: We would take

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1 the time to be sure we come back with any other
2 recommendations, or you may have a recommendation that
3 we ask the Legislature to revisit the idea.

4 DIRECTOR WATKINS: I'll be happy to do that and
5 I'll be better prepared on the budgetary process and
6 what the authorization is.

7 GOVERNOR SCOTT: I mean, you'll come back and
8 you'll explain exactly what they have the authority to
9 do, because it sounds like this is a better program
10 than what they can do on their own. But I'm surprised
11 that they can do it on their own.

12 DIRECTOR WATKINS: Right.

13 ATTORNEY GENERAL BONDI: I would love more time
14 on this.

15 CHIEF FINANCIAL OFFICER ATWATER: That's fine.
16 That's fine.

17 GOVERNOR SCOTT: So I'll make the motion. Is
18 there a second?

19 ATTORNEY GENERAL BONDI: Second.

20 GOVERNOR SCOTT: And any comments or objections?
21 Hearing none, the motion carries. Thanks.

22 DIRECTOR WATKINS: Item 4 is adoption of a
23 resolution offering master bond agreement pertaining
24 to the Everglades Restoration Bond Program. The
25 Amendment Number 1 precipitated changes to 201-15,

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1 which is distribution of documentary stamp taxes. We
2 took the opportunity in connection with the
3 implementation of Amendment 1 to clean up that
4 statute, if you will, and to make the payment of debt
5 service a priority, the first priority.

6 Currently, 63.31 of documentary stamp taxes are
7 pledged to secure the Environmental Bond Program. In
8 rewriting the statute, we have made 100 percent, or
9 the Legislature has made 100 percent of documentary
10 stamp taxes available to pay debt services on bonds,
11 enhancing the credit worthiness of the program and to
12 accommodating the implementation of Amendment Number
13 1.

14 So we are making conforming changes to our bond

15 resolutions to incorporate with the statute as it
16 currently exists that was required pursuant to the
17 implementation of Amendment Number 1.

18 GOVERNOR SCOTT: Is there a motion on the item?
19 Commissioner?

20 COMMISSIONER PUTNAM: Given the already
21 attractive rate environment we're operating in, by
22 freeing up 100 percent of the doc revenue stream to
23 pay down debt service, does that save us any money in
24 this rate of environment? Or is that something you
25 see an uptake in rates, this type of reform, would

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1 save us money?

2 DIRECTOR WATKINS: Credit spreads are very, very,
3 compressed right now because of the low rate
4 environment, so any enhancement in terms of
5 marketability and market reception will be marginal.
6 But in an entirely different rate environment, that
7 would I've been expecting for the last five years and
8 hasn't occurred, but it will -- even a stopped clock
9 is right twice a day. Just wait -- but in a different
10 rate environment, to answer your question, at higher
11 rates, then it absolutely will enhance and improve

12 market reception and save interest costs.

13 As a practical matter, we are just formalizing
14 what the State's commitment has been anyways. And
15 what I mean by that is during the height of the boom
16 and bust -- the real estate boom and bust --
17 documentary stamp taxes collections went from 4
18 billion to 1 billion. That's not supposed to happen
19 to a tax stream.

20 When we looked at the revenue estimates going
21 out, we were not going to have enough money. If what
22 the revenue estimating conference was projecting
23 became reality, we would not have enough. With 63.31
24 percent of doc, we would not have enough money to pay
25 debt service on bonds that were currently outstanding

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1 at that point in time.

2 We can't allow that to -- we can't jeopardize our
3 credit and reputation, so we went to the Legislature
4 and we showed them that and said, you know, "This is
5 an untenable situation; we need to do something about
6 it." What we did at that point in time, or what the
7 Legislature did with our counsel, was what we call the
8 back stop, which basically said if there's ever a
9 shortfall in the pledged portion of revenues, we're

10 going to first make the remaining revenues available
11 to pay debt service before we use it for any other
12 environmental purpose. So we had, in effect,
13 committed to this anyways, so this formalizes in a way
14 that bond holders can count on being paid first with
15 this revenue stream before the money is used for any
16 other purpose.

17 But I would point out that debt service on
18 environmental bonds counts for purposes of
19 Amendment 1, so it is included in what the required 33
20 percent spending of documentary stamp taxes by
21 Amendment 1. So we're just making it a better credit.

22 COMMISSIONER PUTNAM: Thank you.

23 GOVERNOR SCOTT: Any questions? Is there a
24 motion?

25 COMMISSIONER PUTNAM: So moved.

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1 GOVERNOR SCOTT: Is there a second?

2 CHIEF FINANCIAL OFFICER ATWATER: Second.

3 GOVERNOR SCOTT: Any comments or objections?

4 Hearing none, the motion carries.

5 DIRECTOR WATKINS: Item Number 5 is a resolution
6 authorizing the issuing of competitive sale of \$98

7 million in Florida Forever Revenue Refunding Bonds for
8 debt service savings. It also approves the amendments
9 to the authorizing resolution for Amendment 1 changes
10 to the documentary tax distribution that we just
11 discussed.

12 GOVERNOR SCOTT: Is there a motion?

13 CHIEF FINANCIAL OFFICER ATWATER: So moved.

14 GOVERNOR SCOTT: Is there a second?

15 ATTORNEY GENERAL BONDI: Second.

16 GOVERNOR SCOTT: Any comments or objections?

17 Hearing none, the motion carries.

18 DIRECTOR WATKINS: Item Number 6 is a resolution
19 authorizing the issuance of competitive sale of \$65
20 million in Lottery Revenue Refunding Bonds for debt
21 service savings.

22 GOVERNOR SCOTT: Is there a motion on the item?

23 CHIEF FINANCIAL OFFICER ATWATER: So moved.

24 GOVERNOR SCOTT: Is there a second?

25 ATTORNEY GENERAL BONDI: Second.

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1 GOVERNOR SCOTT: Any comments or objections?

2 Hearing none, the motion carries.

3 DIRECTOR WATKINS: And lastly, Item 7, is an
4 adoption of an incentive compensation plan for the

5 Division of Bond Finance. This is an item that I'm
6 bringing to you. We are part of the SBA and
7 previously approved by the board was an incentive
8 compensation program for them. This incentive
9 compensation plan provides a very modest incentive
10 compensation; a portion of the compensation for the
11 staff of the people who contribute to generating the
12 savings that we're reporting here would be allowed on
13 incentive compensation basis.

14 With the numbers before you, it's two percent of
15 new money savings, so if we sell at a bond issue at an
16 interest rate below the benchmark interest rate index,
17 we would do the bond math, calculate a present value
18 and it would be two percent of that number.

19 The second component is for refunding savings and
20 it is 20 basis points of the present value savings
21 that we report to you on a realtime basis as we
22 execute transactions. But to just do the math for you
23 and put it in context, if we save \$100 million in
24 refundings, \$200,000 would be available for incentive
25 compensation and I think it's entirely appropriate in

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1 terms of moving to a merit-based compensation system.

2 This is -- all that we do is completely transparent
3 and completely based on quantitative metrics and
4 external benchmarks, so I think it's entirety
5 appropriate in a good way to motivate staff and insure
6 continued production, so I would submit that for your
7 consideration.

8 GOVERNOR SCOTT: Is there a motion on the item?

9 COMMISSIONER PUTNAM: I would so move, and add
10 the comment that it's unfortunate this wasn't
11 considered as part of the SBA package, because you are
12 a subset of SBA, albeit with direct reporting response
13 to the Cabinet, but I think it's important to true
14 this up with the best of SBA.

15 GOVERNOR SCOTT: Is there a second?

16 CHIEF FINANCIAL OFFICER ATWATER: I'll offer a
17 second.

18 GOVERNOR SCOTT: Any comments or objections?
19 Hearing none, the motion carries.

20 DIRECTOR WATKINS: Thank you, sir.

21 GOVERNOR SCOTT: Thank you.

22 CHIEF FINANCIAL OFFICER ATWATER: Governor, can I
23 just add one thing? Ben, you're off to New York?

24 DIRECTOR WATKINS: Yes, sir. We're visiting with
25 the rating agencies tomorrow, Cynthia Kelly, the

1 Governor's budget direction, and Christian Weiss
2 (phonetic.) His representative of the conferee will
3 do the deep dive on the state's budget with the rating
4 agencies tomorrow.

5 CHIEF FINANCIAL OFFICER ATWATER: You mentioned
6 the question earlier. I just wanted to reiterate.
7 You never answered how do we stack up to the many of
8 these conversations with Ben, as you have done, and it
9 has been extremely impressive. I know the rating
10 agencies have deeply involved you and the Governor's
11 Office have been -- based upon some historical
12 experiences -- they've been very impressed by that and
13 just continue to express that they have no greater
14 admiration for anyone else in the finance state --
15 financing than they have for Ben Watkins. So thank
16 you, sir.

17 DIRECTOR WATKINS: Thank you, sir.

18 So just a couple of words. I'm just a mouthpiece
19 it's really a reflection of the legislature, the
20 Governor's leadership, and your leadership in terms of
21 how the State is managed, and being conservative makes
22 my job a lot easier in terms of telling the story,
23 so... And my staff and the Governor's staff, so it's a

24 team effort in all regards. So I'm just the
25 mouthpiece, but thanks very much for the recognition.

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1 GOVERNOR SCOTT: And CFO has had the opportunity
2 to meet with rating agencies also, so it explains why
3 we're doing so well.

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9 GOVERNOR SCOTT: Is there a second?
10 ATTORNEY GENERAL BONDI: Second.
11 GOVERNOR SCOTT: Comments or objections?
12 Hearing none, the motion carries.
13 Thank you, Ash.
14 This closes today's meeting. The next will be
15 September 1 in St. Augustine. It's going to be fun.
16 (Off of the record at 2:30 p.m.)

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1 CERTIFICATE OF REPORTER
2
3 STATE OF FLORIDA)
4 COUNTY OF LEON)
5

6 I, Yvonne LaFlamme, Florida Professional Reporter
7 and Notary Public, certify that I was authorized to and
8 did stenographically report the foregoing proceeding; and
9 that the transcript is a true and complete record of my
10 stenographic notes.

11 I further certify that I am not a relative,
12 employee, attorney, or counsel of any of the parties, nor
13 am I a relative or employee of any of the parties'
14 attorney or counsel connected with the action, nor am I
15 financially interested in the outcome of this case.

16

17 Dated this 21st day of AUGUST 2015.

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Yvonne LaFlamme, FPR
Court Reporter
Notary Public
State of Florida at Large

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STATE OF FLORIDA

IN RE: MEETING OF THE GOVERNOR AND
CABINET

_____ /

CABINET MEMBERS: GOVERNOR RICK SCOTT
ATTORNEY GENERAL PAM BONDI
CHIEF FINANCIAL OFFICER
JEFF ATWATER
COMMISSIONER OF AGRICULTURE
ADAM PUTNAM

DATE: TUESDAY, SEPTEMBER 1, 2015

LOCATION: TREASURY ON THE PLAZA
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ST. AUGUSTINE, FLORIDA

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1 DIVISION OF BOND FINANCE

2

3 GOVERNOR SCOTT: Next I'd like to recognize
4 Ben Watkins from the Division of Bond Finance.

5 DIRECTOR WATKINS: Good morning, Governor,
6 Cabinet.

7 Item number one is approval of the minutes of
8 the August 5th meeting.

9 GOVERNOR SCOTT: All right. Is there a
10 motion on the item?

11 COMMISSIONER PUTNAM: So moved.

12 GOVERNOR SCOTT: Is there a second?

13 CFO ATWATER: Second.

14 GOVERNOR SCOTT: Any comments or objections?

15 (No response.)

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

18 DIRECTOR WATKINS: Item number two are
19 reports of awards on bond sales.

20 The item 2a is a competitive sale of
21 213.8 million dollars of Department of
22 Transportation right-of-way refunding bonds.

23 The bonds were awarded to the low bidder at a
24 true interest cost of 1.90 percent.

25 That allowed us to reduce the interest on

1 outstanding debt from 3.91 percent to 1.90
2 percent, generating gross debt service savings of
3 27 million, present value savings of 24.2 million,
4 or 9.7 percent of the principal amount of the
5 refunded bonds.

6 (Attorney General Bondi reentered the room.)

7 DIRECTOR WATKINS: And item 2b is --

8 GOVERNOR SCOTT: I'm looking forward to them
9 paying this money to borrow.

10 DIRECTOR WATKINS: We're -- we're working on
11 that, Governor.

12 GOVERNOR SCOTT: That would be a --

13 DIRECTOR WATKINS: No bar too high.

14 GOVERNOR SCOTT: Yeah.

15 DIRECTOR WATKINS: Item 2b is also the report
16 on competitive bond sale. It was a sale of
17 306.6 million dollars in refunding bonds.

18 The bonds were awarded to the low bidder at a
19 true interest cost of 3.15 percent.

20 That allowed us to reduce interest rates on
21 outstanding bonds from 4.56 percent to 3.15
22 percent.

23 We expect to generate gross debt service
24 savings of 47.4 million, present value savings of
25 34 and a half million, or 10.7 percent of the

1 principal amount of the refunded bonds.

2 CFO ATWATER: Well done.

3 DIRECTOR WATKINS: Thank you, sir.

4 GOVERNOR SCOTT: Good job.

5 DIRECTOR WATKINS: We've been the beneficiary
6 of very favorable market conditions for a very
7 long time.

8 And so we -- as they say in the south, you
9 make hay when the sun shines, so that's exactly
10 what we're doing.

11 ATTORNEY GENERAL BONDI: And a great director
12 in you. Thank you.

13 DIRECTOR WATKINS: Thank you. I appreciate
14 your confidence.

15 Item number three is a follow-up item from
16 the agenda last -- the last Cabinet meeting.

17 It's a resolution authorizing the
18 solicitation of proposals of up to 50 million
19 dollars for a consolidated equipment financing
20 program.

21 You'll recall at the last meeting we had
22 questions and discussions around the oversight of
23 the program and what the approval process was.

24 And in response to that, DFS has provided
25 written materials providing an explanation of

1 their processes in terms of their review.

2 And I'm happy to walk you through that if you
3 would like to, but it's a -- it's a backup
4 attached to our information that's been provided.

5 It -- it seems adequate for state agencies
6 and executive-branch agencies, but as we reviewed
7 and did our diligence on the process, there --
8 there is, with respect to universities, not the
9 same kind of review and approval process as
10 required for state agencies.

11 Through the legislative budget process, or
12 legislative budget-request process, for state
13 agencies and executive-branch agency, there's the
14 opportunity for review and evaluation of
15 individual projects.

16 Not so for universities. So that's the only
17 piece of this that we -- is not covered.

18 And I would expect to work with the Board of
19 Governors to repeal those exemptions, if that is
20 the pleasure of the group, in order to have the
21 same level of scrutiny and oversight for the
22 universities that we have for all other state
23 agencies.

24 Seems to make some sense to me, but, again,
25 that's at your discretion. And just anticipating

1 what the likely response I would get back from
2 that, but it's certainly not additional work that
3 we're looking to do.

4 GOVERNOR SCOTT: The way I look at it is --
5 my understanding is all the state agencies, they
6 get that through the budget process is my
7 understanding, but the universities don't.

8 So my recommendation would be -- but I'm open
9 to however anybody else wants to do it -- is that
10 you go back and work with the Board of Governors
11 so we have a process that we go through the Board
12 of Governors where that's vetted before it comes
13 to us so -- so it's not just somebody being able
14 to, you know, basically borrow money without any
15 vetting.

16 DIRECTOR WATKINS: Right.

17 CFO ATWATER: May I ask a question, Governor?

18 It would still need to be included in
19 their -- in their budget, correct?

20 As in all other agencies, that if we are
21 going to make this acquisition and the legislature
22 has approved this, either, I would suspect,
23 laboratory equipment, microscopes, med-school
24 equipment, those are all still appropriated, I
25 take it?

1 DIRECTOR WATKINS: Yes. And it would be
2 designated in the budget as a deferred equipment
3 purchase, so --

4 CFO ATWATER: So at the time of the
5 appropriation voted on by the legislature, it has
6 been designated as part of this program.

7 The veto option remains, although I know that
8 Governor's thoughtful about that process, but they
9 have to clarify at that time. They don't enter
10 the program late.

11 DIRECTOR WATKINS: Right.

12 CFO ATWATER: They clarify at the time of
13 their budget request. This 500,000-dollar item
14 will be financed through this program, and that's
15 what the legislature has said green light. That's
16 how it will be financed, correct?

17 DIRECTOR WATKINS: Right.

18 GOVERNOR SCOTT: Can I -- can I make sure of
19 something?

20 DIRECTOR WATKINS: Sure.

21 GOVERNOR SCOTT: So there's a separate line
22 in the budget -- what you're saying is there's a
23 separate line in the budget that I have the
24 authority to review?

25 DIRECTOR WATKINS: Well, that's one of the --

1 one of the -- another thing that we learned in
2 connection with the programming is that all of the
3 line items for the annual appropriation for debt
4 service where -- what I heard you asking,
5 Governor, or at least my transportation -- my
6 interpretation was, is there, like every other
7 fixed capital outlay project, a line item
8 appropriation for the project.

9 And the answer to that is no, there's not.
10 So it doesn't appear in the same way that normal
11 fixed capital outlay does.

12 How it appears is the annual lease payment.
13 That's what gets approved, just the annual lease
14 payment.

15 So it's just the -- the first payment of --
16 of a maximum of five to be approved.

17 So it's -- it is there. It is categorized as
18 such, but it's not in the same way visible as a
19 line item for a specific project.

20 And they combine both existing leases as well
21 as the new leases. So were the governor to strike
22 that, we would have a problem with the program.

23 So it's not a very effective control in terms
24 of the budgetary review process in the same way as
25 it would be for normal fixed capital outlay

1 projects, I would say.

2 CFO ATWATER: But --

3 DIRECTOR WATKINS: But it is approved through
4 the legislative process, to your point, CFO --

5 CFO ATWATER: And -- and it is --

6 DIRECTOR WATKINS: -- legislative process.

7 CFO ATWATER: And the first lease payment is
8 identified, so it's not as if we've set ourselves
9 into an obligation --

10 DIRECTOR WATKINS: Right.

11 CFO ATWATER: -- that later you're -- you're
12 putting the credibility at risk or --

13 DIRECTOR WATKINS: Right.

14 CFO ATWATER: -- you're putting the --

15 DIRECTOR WATKINS: But the --

16 CFO ATWATER: -- lender at risk.

17 DIRECTOR WATKINS: But then the question
18 becomes what level of scrutiny and evaluation does
19 the legislature really do on those line items.

20 And I -- I'm not going to answer that.

21 CFO ATWATER: I wouldn't go there.

22 DIRECTOR WATKINS: Rhetorical question.

23 GOVERNOR SCOTT: So, Ben, just to make sure,
24 so there's a separate line item in the budget that
25 I would have the ability to review or any governor

1 would have the right to review.

2 DIRECTOR WATKINS: Correct.

3 GOVERNOR SCOTT: So I could -- so on -- it's
4 not over all capital leases. It's -- there's a
5 separate line item for this?

6 DIRECTOR WATKINS: For each agency that
7 includes --

8 GOVERNOR SCOTT: No, not the agency. I'm
9 just talking about the university.

10 DIRECTOR WATKINS: The university should have
11 a separate line item in the budget for their
12 deferred purchases.

13 GOVERNOR SCOTT: Yeah, but by -- by project.

14 DIRECTOR WATKINS: But not by project, right.

15 GOVERNOR SCOTT: That's right. 'Cause
16 there's projects --

17 DIRECTOR WATKINS: In other words, it's all
18 rolled up into one, and we can't nonappropriate.

19 The only thing that make -- what makes this
20 framework work is it's subject to annual
21 appropriation by the legislature, but the annual
22 appropriation, the expectation is, that it will
23 always be done.

24 So we have both existing leases that have
25 already been signed off on, that are currently

1 under lease, and the new lease is combined with
2 that.

3 So it doesn't stand alone. So it really
4 handcuffs the governor in terms of his ability to
5 be able to strike any individual new project.

6 And so there's not the same level of -- of
7 oversight that all the other debt that we
8 authorize goes through.

9 There is a separate -- there would always be
10 or always is a separate evaluation of the -- of
11 the project and the merits of the project for all
12 other instances where we incur debt.

13 CFO ATWATER: Does anywhere in the statute,
14 Ben, allow for acceptance?

15 The statute seems rather clear that the
16 process is item by item. It comes through item by
17 item.

18 Where do they have the authority to not bring
19 those through item by item?

20 GOVERNOR SCOTT: You talking the
21 universities?

22 CFO ATWATER: Yeah.

23 DIRECTOR WATKINS: I think it's probably a
24 matter of administrative convenience, to be quite
25 honest with you, in putting the budget together.

1 That would be my best guess.

2 GOVERNOR SCOTT: It's history. It's just the
3 history of how they've done it.

4 CFO ATWATER: Do you think it's just history
5 of how they've done it, and no one's questioning
6 it?

7 DIRECTOR WATKINS: Correct.

8 COMMISSIONER PUTNAM: So, Governor, what --
9 to what degree are the universities consumers of
10 this instrument?

11 You know, are they the heavy users, or are
12 they just a very small portion of it? I mean,
13 how is this -- as a practical matter, how is this
14 50 million dollars and authority utilized across
15 state government?

16 DIRECTOR WATKINS: So, you know, it's set up
17 with a three-year life cycle anticipated, and what
18 DFS does is a survey of agencies, say do you
19 anticipate in your capital plans needing to use
20 this credit facility in order to acquire -- in
21 order to lease assets.

22 And the -- the guesstimate this year was
23 34 million dollars in terms of the agencies that
24 they could identify.

25 But in many cases, the agencies don't know or

1 don't have plans for, and so it will be something
2 that will come up at a later date during this
3 three-year period.

4 But there's 34 million dollars of identified
5 need at the -- that DFS has done in their
6 diligence in requesting the 50 million.

7 And then they built in 16 million over and
8 above that to say, we'll wait. They prefer the
9 uncertainty of the three-year period going
10 forward.

11 And of that -- and the universities are a
12 fairly significant user of that, 4 million
13 dollar -- Florida is in for 4 million.

14 University of North Florida is in for a
15 million and a half.

16 University of Florida Veterinary Medicine is
17 in for 3 million.

18 And Florida Atlantic University is in for
19 5 million.

20 So say half was university related in terms
21 of the utilization of the credit facility.

22 So it's not an anomaly. I think they
23 recognize the value in having the -- this program
24 in place and how efficiently it can be used, but
25 the slip between the cup and lip in terms of the

1 institutional process is there's no evaluation of
2 the merits of the project by any oversight body.

3 And embedded within the debt management
4 guidelines, at the university level, from prior --
5 and this is historical vestige, is -- are
6 exemptions for using this facility.

7 In other words, it was thought to be
8 de minimus, but that was before we instituted
9 policies that required a rigorous scrutiny of the
10 merits of any project that's going to use debt.

11 And so this, because of the evolution of it,
12 has fallen outside of having an opportunity for
13 the oversight body that's responsible for the
14 universities to evaluate the merits of the -- of
15 the project being proposed by the university.

16 Although it does go through the legislative
17 process, there's not that additional layer of
18 scrutiny.

19 GOVERNOR SCOTT: Not by project, though.

20 DIRECTOR WATKINS: Not project by project.

21 GOVERNOR SCOTT: So who -- so the legislature
22 can review it by project.

23 DIRECTOR WATKINS: Uh-huh.

24 GOVERNOR SCOTT: The Cabinet could review it
25 by project, okay? The governor's Cabinet could do

1 it, or the Board of Governors. Those are -- so
2 the three -- somebody's got to re -- somebody
3 ought to be reviewing it, I think.

4 DIRECTOR WATKINS: Right.

5 GOVERNOR SCOTT: All right. It seems to me
6 the easiest would be the Board of Governors, but
7 I'm fine if -- if the Cabinet wants to do it, but
8 I just think somebody ought to -- some -- somebody
9 ought to be doing it.

10 COMMISSIONER PUTNAM: I think the direction
11 that you gave, Ben, to work with the board makes a
12 lot of sense.

13 I mean, that clearly is a policy call. And
14 you make a very compelling case for changing the
15 policy, but I think we owe the BOG an opportunity
16 to be a part of this conversation.

17 I wouldn't -- I don't think we're prepared to
18 make an action yet.

19 GOVERNOR SCOTT: Yeah.

20 COMMISSIONER PUTNAM: I would give them an
21 opportunity to respond to our raising the issue.

22 GOVERNOR SCOTT: Yeah.

23 CFO ATWATER: What I'm -- yeah. I think -- I
24 think, Governor, you've raised a very good issue.

25 I -- my hope would be -- there's a couple

1 things. My hope would be that we wouldn't -- this
2 facility is expiring, maturing -- that we wouldn't
3 deny all those other approved item by item across
4 agencies, including those of us who are overseeing
5 agencies of our own.

6 My hope would be that we could approve the
7 facility with a requirement that we would narrow
8 down and establish a going-forward practice with
9 the Board of Governors and, therefore, not deny
10 those agencies that are about -- after this cycle
11 we've just gone through on the budget process,
12 about to utilize an instrument that could get them
13 a lower cost.

14 GOVERNOR SCOTT: So --

15 ATTORNEY GENERAL BONDI: I agree.

16 GOVERNOR SCOTT: -- let me say it another
17 way --

18 CFO ATWATER: Sure.

19 GOVERNOR SCOTT: -- see if we're saying the
20 same thing.

21 Let's approve it, subject to it's not going
22 to be used by the universities until we approve
23 whatever process they come back with if Ben goes
24 and works with the Board of Governors.

25 So would be used by the agencies, all right,

1 the state agencies who've gone --

2 CFO ATWATER: Sure.

3 GOVERNOR SCOTT: -- through the legislative
4 process.

5 Won't be used by the universities until we're
6 comfortable with the process that they come back
7 with or something else.

8 CFO ATWATER: I think that's a good
9 recommendation, Governor.

10 I don't know that -- I can -- I will deliver
11 that message. And I bet, with us delivering this
12 collectively, they're going to want to respond to
13 us.

14 And I doubt any one of them is going to say,
15 statutorily, CFO, we don't get -- have a
16 requirement statute. I believe they're going
17 to -- going to work with us.

18 ATTORNEY GENERAL BONDI: And nothing will be
19 jeopardized if we do it in this time frame,
20 correct? We're --

21 DIRECTOR WATKINS: No, ma'am.

22 ATTORNEY GENERAL BONDI: -- fine.

23 I agree, Governor.

24 GOVERNOR SCOTT: Okay. Okay. So
25 let's just -- so the motion is that we will

1 approve -- we'll approve the -- it's 50 million
2 dollars.

3 CFO ATWATER: Correct.

4 GOVERNOR SCOTT: Okay. But it will be used
5 by state agencies, all right?

6 It cannot be used by the universities until
7 Ben comes back after meetings with the Board of
8 Governors with a proposal on how -- what the
9 approval process would be.

10 ATTORNEY GENERAL BONDI: Agreed.

11 GOVERNOR SCOTT: Okay. Is there a second?

12 COMMISSIONER PUTNAM: I think we need to put
13 a time line on ourselves. I don't want to hold up
14 equipment purchases because we're not meeting. So
15 I want to -- I mean, I think we need to very
16 quickly --

17 GOVERNOR SCOTT: The goal would be the next
18 meeting.

19 COMMISSIONER PUTNAM: -- adopt whatever the
20 policy is. And if the goal is next meeting, let's
21 say next meeting so we're sending a clear signal
22 to the Board of Governors that, you know, we're
23 not slow walking their needs, but we're going to
24 resolve this exemption issue.

25 ATTORNEY GENERAL BONDI: And, Commissioner,

1 that was my question for Ben. I asked is anything
2 going to be jeopardized in the meantime.

3 And you said there are no projects in the
4 pipeline or anything that's going to -- to -- that
5 we're going to miss out on by the next Cabinet
6 meeting; is that correct.

7 DIRECTOR WATKINS: I think -- yes, ma'am.
8 And I believe the way the motion is formulated and
9 what I hear will give us the authority to go ahead
10 and solicit the proposals, to bring the pricing
11 and -- and make it available.

12 And I would plan, Commissioner, to come back
13 to the meeting at the end of September with an
14 answer in terms of talking to the Board of
15 Governors and --

16 GOVERNOR SCOTT: Yeah.

17 DIRECTOR WATKINS: -- bringing up their
18 reaction back to you so that a implementation can
19 proceed in an orderly fashion and not have a gap
20 for other agencies who have -- whose projects have
21 been scrutinized in the availability of credit.

22 So then nothing will get done for the
23 universities until you hear back.

24 COMMISSIONER PUTNAM: 'Cause I -- I know I
25 want to do some fact-finding of my own.

1 ATTORNEY GENERAL BONDI: We are --

2 COMMISSIONER PUTNAM: Reach out to Mori
3 Hosseini and the others on the board and
4 universities to make sure we get this right.

5 GOVERNOR SCOTT: So, Commissioner, okay with
6 the way the motion is?

7 COMMISSIONER PUTNAM: I am.

8 GOVERNOR SCOTT: Okay. Is there a second?

9 ATTORNEY GENERAL BONDI: Second.

10 GOVERNOR SCOTT: Any comments or objections?

11 (No response.)

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

14 DIRECTOR WATKINS: Thank you, sir.

15 ATTORNEY GENERAL BONDI: Did I make the
16 motion, though, or did the commissioner?

17 GOVERNOR SCOTT: I think I made the motion.

18 ATTORNEY GENERAL BONDI: Oh, okay.

19 GOVERNOR SCOTT: Yeah.

20 All right. I think that was it, right, Ben?

21 DIRECTOR WATKINS: Yes.

22 COMMISSIONER PUTNAM: Tell me what's going on
23 in the market. I understand they're down 370 this
24 morning.

25 DIRECTOR WATKINS: This, yet again, reminds

1 me of 2008 relative to the volatility.

2 COMMISSIONER PUTNAM: Don't say that.

3 DIRECTOR WATKINS: You know, everything has
4 been driven by the emerging markets and questions
5 about the Chinese economy and how that ripples
6 through our economy.

7 And it has induced volatility, fortunately,
8 more so in the stock market than the bond market.

9 GOVERNOR SCOTT: Interest rates haven't
10 changed hardly at all, right?

11 DIRECTOR WATKINS: Correct. Not
12 significantly, which is a good thing 'cause,
13 normally, where volatility in one market will
14 induce volatility in another, we haven't seen that
15 in the fixed-income space.

16 And so we're fortunate. And, you know, all
17 eyes are on the Feds, really, in terms of the
18 interest rate and monetary policy.

19 And they're setting a meeting September 16
20 and 17. And they're out in Jackson Hole
21 confabbing and -- and deciding what kind of the
22 world -- what the world's going to look like when
23 they get done.

24 So -- but so we've seen a yield curve
25 flattening, but bond rates -- rates continue to

1 remain historically very attractive. So as long
2 as that happens, I'm -- I'm happy.

3 COMMISSIONER PUTNAM: Thank you.

4 GOVERNOR SCOTT: Thanks, Ben.

5 DIRECTOR WATKINS: Thank you.

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REPORTER'S CERTIFICATE

STATE OF FLORIDA)
COUNTY OF ST. JOHNS)

I, MARY GRAYBOSCH, Registered Professional Reporter, Certified Realtime Reporter, certify that I was authorized to and did stenographically report the foregoing proceedings and that the transcript is a true and complete record of my stenographic notes.

Dated this 12th day of September, 2015.



MARY GRAYBOSCH, RPR, CRR
Notary Public - State of Florida
My Commission No.: FF 164170
Expires: January 28, 2019