MEETING OF THE STATE BOARD OF ADMINISTRATION

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

AUGUST 2, 2011

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AGENDA

ITEM 1. Request approval of the minutes of the May 17, 2011, and June 16, 2011, meetings.

(See Attachments 1-A and 1-B)

ACTION REQUIRED

ITEM 2. Request approval of a fiscal sufficiency of an amount not exceeding $345,000,000 State of Florida, Department of Environmental Protection Florida Forever Revenue Refunding Bonds, Series (To Be Determined).

(See Attachment 2)

ACTION REQUIRED

ITEM 3. Request approval of a fiscal sufficiency of an amount not exceeding $268,000,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series (To Be Determined).

(See Attachment 3)

ACTION REQUIRED

ITEM 4. Request approval of a fiscal determination of an amount not exceeding $9,350,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (Series to be Designated) (Groves of Delray II Apartments).

(See Attachment 4)

ACTION REQUIRED

ITEM 5. Request approval of a fiscal determination of an amount not exceeding $7,540,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (Series to be Designated) (Sand Dunes Apartments).

(See Attachment 5)

ACTION REQUIRED

ITEM 6. Request approval of a fiscal determination of an amount not exceeding $6,500,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (Series to be Designated) (Winchester Gardens Apartments).

(See Attachment 6)

ACTION REQUIRED

ITEM 7. Request approval to repeal the following obsolete rules:

19-8.001 Purpose
19-15.001 Insurance Capital Build-Up Incentive Program

See Jack Nicholson's Memo Detailing FHCF Items 7 & 8 (Attachment 7)
(See Attachments 7-A, 7-B, 7-C, 7-D)

ACTION REQUIRED

ITEM 8. Request appointment of Chair for the Florida Commission on Hurricane Loss Projection Methodology. Each year, the SBA is required to appoint a Commission member to serve as Chair, Section 627.0628(2)(d), F.S. During a regularly scheduled meeting on June 16, 2011, the Commission voted to recommend to the Trustees that Scott Wallace, President, Chief Executive Officer and Executive Director, Citizens Property Insurance Corporation, be appointed to serve as Chair for the 2011-2012 year.

A copy of Mr. Wallace's biography and a list of all Commission members are provided.

(See Attachments 8-A and 8-B)

ACTION REQUIRED

ITEM 9. Request approval of the appointment of Kimberly Ferrell to the SBA Audit Committee.

(See Attachments 9-A and 9-B)

ACTION REQUIRED

S T A T E   O F   F L O R I D A

Representing:

STATE BOARD OF ADMINISTRATION
DIVISION OF BOND FINANCE
DEPARTMENT OF VETERANS' AFFAIRS
BOARD OF TRUSTEES OF THE INTERNAL IMPROVEMENT TRUST FUND

The above agencies came to be heard before THE FLORIDA CABINET, the Honorable Governor Scott presiding, in the Cabinet Meeting Room, LL-03, The Capitol, Tallahassee, Florida, on Tuesday, May 17, 2011, commencing at approximately 9:08 a.m.

Reported by:

MARY ALLEN NEEL
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APPEARANCES:

Representing the Florida Cabinet:

RICK SCOTT
Governor

PAM BONDI
Attorney General

JEFF ATWATER
Chief Financial Officer

ADAM PUTNAM
Commissioner of Agriculture

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STATE BOARD OF ADMINISTRATION
(Presented by ASH WILLIAMS)

INDEX CONTINUED

P R O C E E D I N G S

(The agenda items commenced at 9:18 a.m.)

GOVERNOR SCOTT: The next Cabinet meeting is Thursday, June 16, 2011.

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

MR. WILLIAMS: Good morning, Governor and Cabinet members.

Item 1, request approval of the minutes of our March 9 meeting.

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

CFO ATWATER: So move.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

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

MR. WILLIAMS: Thank you. Item 2, request approval of a fiscal sufficiency of an amount not exceeding $125 million State of Florida, Department of Transportation Turnpike Revenue Bonds.

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

CFO ATWATER: So move.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

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

MR. WILLIAMS: Thank you. Item 3, request approval of a fiscal sufficiency of an amount not exceeding $85 million State of Florida, Full Faith and Credit, Board of Education Public Education Capital Outlay Refunding Bonds.

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

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

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

MR. WILLIAMS: Thank you. Item 4, request approval of a fiscal sufficiency of an amount not exceeding $77 million State of Florida, DOT Turnpike Revenue Refunding Bonds.

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

CFO ATWATER: So move.

ATTORNEY GENERAL BONDI: Move to approve.

CFO ATWATER: Second.

GOVERNOR SCOTT: Is there a second? I'm sorry. Moved and seconded. Show Item 4 approved without objection. It will be quicker here.

MR. WILLIAMS: Thank you. Item 5, request approval of a fiscal sufficiency of an amount not exceeding $74,200,000 State of Florida, Full Faith and Credit, Board of Education Public Education Capital Outlay Bonds.

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

CFO ATWATER: So move.

GOVERNOR SCOTT: Is there a second? Now nobody will do it.

ATTORNEY GENERAL BONDI: Second.

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

MR. WILLIAMS: Thank you. Item 6 is actually a technical correction. Request approval of and authority to file a notice of proposed rule for two rules listed here in the materials. These rules are rules we've done previously. There was a one-day defect in a prior filing. We need to correct that, so we're doing a redo here. Request approval.

GOVERNOR SCOTT: 1is there a motion to approve

Item 6?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

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

MR. WILLIAMS: Thank you. Item 7, request approval of and authority to file an emergency rule for extraordinary circumstances for an alternative method of finalizing 2005 losses. This relates to the Hurricane Catastrophe Fund and will help us have some flexibility in dealing with sort of a one-off window of exposure that we have left over from the 2005 storm events.

It's important to note that a number of the circumstances that gave rise to the losses that cause us to need this rule today have in fact been addressed in subsequent legislation. We had -- the glide path legislation started in 2009 when CFO Atwater was leading the Senate. Subsequently, we had an additional move on that legislation last year which did not become law, and then the Legislature has again moved to address some of these issues.

This time, I believe, Governor, Senate Bill

408 is pending on your desk. That will definitely move us in the right direction on these issues.

But meanwhile, we have this window of claims outstanding from '05 that don't have the benefit of those statutory changes. So this rule will give us some flexibility to ensure that we neither overpay covered insurers, which would be a detriment, because it would spend money inappropriately, or underpay them, which would equally create a detriment, because it could cause disruption in the insurance industry in the form of putting insurance companies under inappropriate financial stress.

GOVERNOR SCOTT: Does anybody have any questions?

CFO ATWATER: Thank you, Governor.

Do you have a sense of what -- in reading what you provided us, it looked like, in layman's terms, it's an extension of time. There wasn't a specific layout of a process in what you're asking of us. Would we be seeing in the near future, and how soon, a recommendation for how that process would operate, what the emergency change will be?

MR. WILLIAMS: We will certainly be in touch with all of your offices in real time as we know more about this. Essentially, this is a fairly concentrated problem that results from an inversion in claim experience. Normally, the vast majority of claims are received early on in the process, and there is a small percentage come in at the back end. What we're now seeing is the reverse of that. We're seeing a large group of claims coming in years after the storm event, which is very odd, and they're concentrated in a particular type of exposure, those being condominium buildings.

So what we're doing is working with the part of the industry that has the greatest exposure to those claims, because their interest, obviously, is to ensure an appropriate handling of those as well. So as those discussions progress, we will absolutely keep your offices informed.

I think this is a case, quite honestly, of all of us trying to reason together and come up with the most rational outcome we can so that we align economic incentives and legal structures and our administration of the Catastrophe Fund in a way that we encourage responsible behavior and minimize moral hazard.

CFO ATWATER: Do you see this as sunsetting, that the rule that you're -- the emergency rule that you're asking for, that that would sunset, or that that would stay in place to be the solution should this occur again, even with the changes that are in Senate Bill 408? There will still be a time horizon, and people may still push up against that. So would we be seeing a new rule, or do you see this one sunsetting the extension, the emergency?

MR. WILLIAMS: It would effectively sunset. It wouldn't be a sunset in the classical sense of a legislative sunset, where it's there for a period of time and then subject to review. The key to this is that it's drafted to apply specifically to 2005 losses, and this rule terminates the handling of those losses. Commutation, which is the process that commences June 1, by definition closes out these claims, so this is self-extinguishing.

CFO ATWATER: It -- I'm sorry.

GOVERNOR SCOTT: Go ahead.

CFO ATWATER: But still remaining, whether it was the five-year horizon that's provided now or a three-year horizon which would be provided potentially with this change, we'll still have people bucking up against that again in the future, apparently. So whether this was a calculated, you know, strategy, or the people just finally got to these claims, as you're mentioning, do you see that we will have a process that we will need to have going forward when they start bucking up against the same time horizon?

MR. WILLIAMS: The time horizon is driven by statute, not this rule.

CFO ATWATER: Right.

MR. WILLIAMS: There will always be, as -- there are several variables here, CFO. I think, number one, we're in tough economic times. That has caused people to potentially be more aggressive in seeking recoveries from their insurance coverage than they might in less difficult financial times.

Secondly, we have the cumulative effect of a period of very accommodating statutes that really encouraged claims of a number of types that might be overly aggressive.

Thirdly, we have the evolution of an entire industry dedicated to aggressively pursuing claims.

Those three things taken together mean that we are going to see constant change in this area just as do in financial markets generally, and I think we're all going to have to work closely together to ensure that that balance of fairness, economic propriety, and the avoidance of moral hazard can be maintained. So I think this is an ongoing work in progress for all of us.

GOVERNOR SCOTT: So the answer is we really don't know what will happen with the three-year, and we'll see what happens over time, and we'll have to make changes.

MR. WILLIAMS: Correct.

CFO ATWATER: Yep.

GOVERNOR SCOTT: All right. Anyone else? Is there a motion to approve Item 7?

ATTORNEY GENERAL BONDI: Move to approve Item 7.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded. Show Item 7 approved without objection.

MR. WILLIAMS: Thank you. Item 8 is essentially another component of the work we've done helping you gain comfort as new Trustees of the FRS. We, of course, started with fiduciary training. We then provided access directly to some of our other advisors to help you understand what we do and gain comfort independent of the staff of the SBA that what we're doing is appropriate and helps you meet your fiduciary responsibilities.

This item is very consistent with that

direction, and the idea here is, through the SBA's Audit Committee -- which is, of course, appointed by you, the Trustees, and reports to you and manages our internal audit activities -- to commence a review of the progress we have made in two areas: Number one, the degree of attainment we've accomplished of the recommendations provided by Deloitte in the work they did for us back in '08 and '09 in designing an independent risk management and compliance system; and second, to ensure that our overall reporting and controls are such that you as Trustees can be comfortable that you are in fact exercising your fiduciary duties appropriately under state and federal law.

This is just, I think, a good, thorough external review of what we're doing. As General Milligan likes to say, sunshine is the best disinfectant. This puts it right out there in the open and in independent hands and will hopefully give you peace of mind and validate what we're doing, I believe.

GOVERNOR SCOTT: Okay. Does anybody have anything else?

CFO ATWATER: Governor, I just appreciate what the staff has done, and frankly, what the entire team has done in coming up with this outline and scope for the Audit Committee to work with in identifying and managing the contract. I sure appreciate it. And I think, again, following up on '08-'09, going in and seeing the progress we've made, I think it's an excellent idea. I'm very, very pleased.

I move the agenda item.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Show Item 8 approved without objection. Thanks, Ash.

MR. WILLIAMS: One last thing, if I may. I usually say at the beginning how we're doing. I failed to do that today. Let me just say that as of last night's close, the Pension Fund is up 20.7 percent, 21.7 percent net of costs year to date. That leaves the fund north of $129 billion.

Thank you.

GOVERNOR SCOTT: Thank you very much.

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 agency came to be heard before THE FLORIDA CABINET, Honorable Rick Scott presiding, in the Cabinet Meeting Room, LL-03, The Capitol, Tallahassee, Florida, on Thursday, June 16, 2011, commencing at approximately 1:06 p.m.

Reported by:

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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)

P R O C E E D I N G S

GOVERNOR SCOTT: Good afternoon, Ash. Are you ready?

MR. WILLIAMS: Governor and Trustees, good afternoon. The first thing we have is the minutes from the 19 April meeting. Request a motion on the minutes.

GOVERNOR SCOTT: Is there a motion on Item 1?

CFO ATWATER: So moved.

ATTORNEY GENERAL BONDI: Second.

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

MR. WILLIAMS: Thank you. The next item is a fiscal sufficiency of an amount not to exceed $330 million. This is for State Board of Education Public Education Capital Outlay Refunding Bonds.

GOVERNOR SCOTT: Okay. And this is all refunding? It's not new debt?

MR. WILLIAMS: Yes, sir.

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

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

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

MR. WILLIAMS: Thank you. Item 3 is a fiscal determination of an amount not to exceed $8 million Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds.

GOVERNOR SCOTT: And this is full faith and credit or not?

MR. WILLIAMS: I do not believe so. I believe this is a revenue bond that's Housing Finance agency, not full faith and credit of the State.

GOVERNOR SCOTT: Not full faith and credit?

MR. WILLIAMS: Yes, that's correct.

GOVERNOR SCOTT: Is there a motion on Item 3?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

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

MR. WILLIAMS: Thank you. Item 4 is the quarterly report on the Protecting Florida's Investments Act. And there's not a significant change there. You'll recall that the Act, Protecting Florida's Investments Act, this is the Sudan-Iran matter.

GOVERNOR SCOTT: Okay. Any questions? Is there a motion on Item 4?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Show Item 4 approved without objection.

MR. WILLIAMS: Thank you. Item 5, request approval to file for adoption three rules relating to the Florida Retirement System Investment Plan. You will recall these are rules we've talked about previously when we got the approval to go ahead with the hearings on them and the notice on them. These are essentially cleanup and technical rules in nature.

CFO ATWATER: It would be helpful Governor, I thought when we all had the opportunity and privilege of being sworn in, you had laid out a nice filter of our expectations. And if we could just -- I've asked my staff to ensure that every time I'm looking at one of these, that they have been through that filter. Would you just confirm as you go through these today that we have looked at these for the cost involved, everything that we had laid out at the beginning of the term?

MR. WILLIAMS: Yes. I think the answer to all of those questions on these three rules is that yes, they have been through the filter, and I will confirm that.

CFO ATWATER: Very good.

GOVERNOR SCOTT: All right. Is there a motion?

ATTORNEY GENERAL BONDI: Move to approve.

CFO ATWATER: Second.

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

MR. WILLIAMS: Thank you. Item 6, request approval to file a notice of proposed rule for four rules pertaining to the Florida Retirement System Investment Plan and to file these rules along with the incorporated forms for adoption if no member of the public requests a rule hearing.

GOVERNOR SCOTT: All right. Any questions on this one? All right. Is there a motion on Item 6?

ATTORNEY GENERAL BONDI: Move to approve.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

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

MR. WILLIAMS: Thank you. Item 7, request approval of and authority to file emergency rule for the Florida Hurricane Catastrophe Fund. This is the rule I believe we've talked about previously involving implementation of the statutory change passed this session that authorizes payment of legal fees to primary insurers who are covered under the Hurricane Catastrophe Fund.

The rationale here is that we want insurance companies to be vigilant on the legitimacy of claims that they pay and not to have there be any moral hazard in the form of there being no incentive for insurance companies to fight what they believe to be inappropriate or inflated claims because they will have to pay the legal costs out of pocket, and it's therefore easier for them to simply pass on a claim unchallenged to the Catastrophe Fund.

So while it may be a little bit counterintuitive, our view is that by authorizing these payments of legal fees, what we do is empower primary insurers to fight what they believe to be inappropriate claims at that level and not pass them on to us. And net of the legal fees, this will actually save the CAT Fund money.

GOVERNOR SCOTT: These are legal fees for both sides?

MR. WILLIAMS: No. These would be legal fees that an insurance company would pay to challenge a claim that they feel is inappropriate.

GOVERNOR SCOTT: And this was requested by -- this was passed by the Legislature?

MR. WILLIAMS: This was -- yes, it was.

GOVERNOR SCOTT: Okay. Is there a motion?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Show Item 7 approved without objection.

MR. WILLIAMS: Thank you. Item 8, request approval of and authority to file a notice of a proposed rule for the reimbursement contract and to file this rule along with the incorporated forms for adoption if no one requests a hearing. This is the Hurricane Catastrophe Fund reimbursement that we talked about, I believe, at the last meeting.

GOVERNOR SCOTT: Okay. Any questions?

CFO ATWATER: So moved.

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Show Item 8 approved without objection.

MR. WILLIAMS: Thank you. And with that, I would like to move into the quarterly meeting of the State Board of Administration and would open with a comment that fiscal year-to-date, we stand at a positive return of 19.75 percent net of costs. That's 74 basis points ahead of target. And the balance in the Florida Retirement System Trust Fund is currently at $126.7 billion. That's as of last night's close. Now --

GOVERNOR SCOTT: Ash, what are you at? 126?

MR. WILLIAMS: 126.7.

GOVERNOR SCOTT: That's not our high; right? Our high was 129?

MR. WILLIAMS: No. The highest we've been, I think, in the current rebound was close to 132, 131 and change. And as you know, over the past couple of weeks, there's been a pretty significant swoon in global equity markets with anxiety over sovereign credit risk, et cetera. So that's where we are.

GOVERNOR SCOTT: Okay.

MR. WILLIAMS: I'm going to -- rather than take a lot of time making introductory remarks, we've got a lot of substance to cover today, so I think the better thing to do is get straight to the performance reports and let's let the numbers speak for themselves.

But the general order of march today will be to go through first what performance has been in the various funds, defined benefit, defined contribution, and the local government fund, Florida PRIME, and the CAT Fund, and then to look at our standing reports from our advisory councils, the Investment Advisory Council and the Participant Local Government Council.

This is a critical meeting for those two, because by statute, once a year we do a joint meeting of the two for the purpose of affirming compliance with best practice and all applicable legal guidelines for Florida PRIME. And we have outside presentations done, outside expert presentations done on each. We then accept those. The advisory councils then accept the outside analysis certifying that the legal standards have been met and best practices have been followed. Both of those were done yesterday. Then we affirm the investment policy at the advisory council level for each entity. So both of those things have been done and are ready for your final action today.

We'll also have a report from the Audit

Committee, and we have standing reports from various staff folks, our enterprise risk and compliance executive, our internal auditor, our corporate governance head, et cetera. We don't intend to take those up independently. If you have questions on those, of course, we're happy to respond to them.

Then we'll go through an update on the asset-liability work that we revisited in March and derive from that a recommendation on where we are with the investment policy. We will also have a review on the private equity asset class and the Florida Growth Fund from Hamilton Lane. As you'll see, over time, our course is to periodically in a quarterly meeting highlight a particular area of the portfolio, bring in the outside specialist consultant in that area, and dig in in more depth than we normally would so you have an opportunity to really see what's going on.

So without further ado, let me introduce Kristen Doyle. Steve Cummings, the CEO of Hewitt EnnisKnupp, normally does these reports. Steve was struck by some sort of illness yesterday and couldn't make it. So as I was saying to Kristen, since the CEO is tied up, we're finally in a position to get what we've really wanted all along, and we'll let Kristen do that report. Thank you.

MS. DOYLE: Good afternoon.

GOVERNOR SCOTT: So where do you live, Kristen?

MS. DOYLE: In Chicago.

GOVERNOR SCOTT: Chicago? When are you guys moving to Florida?

MS. DOYLE: When it gets a little cooler here. If it stays too cold in Chicago, I'm sure we'll --

GOVERNOR SCOTT: And what's your corporate tax rate and your --

MS. DOYLE: I wasn't ready for that one.

GOVERNOR SCOTT: -- personal tax rate? So you have freezing weather -- so we're supposed to assume you have good judgment, and you're freezing your tail off, and you pay high corporate taxes and high personal taxes. I don't know. Good luck.

MS. DOYLE: I ask myself quite a lot why do I live in Chicago. Ask me in a month or so and I'll let you know. It's a fun town in the summer.

So the purpose of my presentation today is to review the performance of the asset allocation and the investment characteristics through March 31st for the FRS Pension Plan, the FRS Investment Plan, and the Florida PRIME Fund, and lastly, the Florida Hurricane Catastrophe Fund.

So I'll start with the FRS Pension Plan. And what you'll note as I walk through performance and the asset allocation of the FRS Pension Plan is that absolute and relative performance has been very, very strong over all short- and long-term time periods; that the Pension Plan is well diversified across six broad asset classes; and then within those asset classes, is significantly diversified across sectors and security types, vehicle types, in both active and passive management; and lastly, that adequate liquidity is maintained to ensure that benefit payments to retirees can be made and that other cash flow needs of the plan are met.

So I'm going to flip to what I think is slide 5 or page 5 in your packet and look at the market environment over the past year. What we've illustrated here is what would have happened to a dollar invested over the past year if you had invested in fixed income, international equity, or domestic equity. As you can see, investing in all three asset classes over the past year resulted in more than a dollar at the end of the year across all asset classes, as they all posted positive returns for the one-year period.

As we would expect, fixed income performed less well than the other two asset classes, but at a lower level of volatility. So if you see that light blue line with the squares, there's a lot less volatility, but you didn't earn as high of a return because you didn't take on as much risk.

I'm going to flip forward to where we show a summary of cash flows for the Pension Plan for the quarter and for the fiscal year-to-date. For the quarter, the market value ended $3.5 billion higher than it did at the beginning of the quarter. All of that was due to investment earnings of a little less than $5 billion, $4.6 billion net of withdrawals, a total of about $1.1 billion for the quarter. And for the fiscal year-to-date, net withdrawals totaled $3.5 billion, but net investment gains more than made up for that drawdown, earning $21 billion for the fiscal year.

This slide shows the actual asset allocation of the Pension Plan relative to the policy targets and the ranges set by the Investment Policy Statement. So the bars on the left with the brown filling, if you look at the global equity asset class, for example, the range is between 48 and 64 percent. The target is 60 percent, and the actual allocation as of March 31st was 61.5 percent. So the conclusion from this slide is that all asset classes, all asset allocations are close to their policy targets and within the acceptable ranges set by the Investment Policy Statement.

Slide 8 shows the performance of the FRS Pension Plan for both short- and long-term time period relative to two benchmarks. The performance benchmark is a benchmark that assumes no active management, so that assumes that for each asset class, you invested in the market passively. And we multiply it out by the policy asset allocation. So what this shows is that over all time periods, the FRS Pension Plan beat its performance benchmark.

And then the blue bar is the absolute nominal target rate of return, which is inflation, which we measure using the consumer price index plus 5 percent per annum. And this is the absolute return target for the Pension Plan. And as you can see, for the quarter, one-, three-, five-, and ten-year periods, the FRS Pension Plan underperformed that absolute target, but outperformed for the 15-year period.

GOVERNOR SCOTT: And this is after all fees?

MS. DOYLE: Correct. This is net of fees, yes.

GOVERNOR SCOTT: And why do you stop at 15 years?

MS. DOYLE: Actually, we don't. If you flip to the following slide, we show the performance of the FRS Pension Plan over the longer term time periods. And here we just show against the absolute target rate of return, because that's really the long-term performance benchmark for the FRS Pension Plan. As you can see here, over the last 15, 20, 25, and 30 years, the Pension Plan has significantly outperformed that target.

GOVERNOR SCOTT: So why don't you do the performance on this one, the benchmark?

MS. DOYLE: Because when we look over longer time periods, what we want to see is -- according to the Investment Policy Statement, the long-term goal in order to ensure that retirees are able to receive their pension checks and that current and future retirees are earning -- or the Pension Plan able to earn what it needs to pay out those promises. The benchmark for that is the inflation plus 5 percent.

MR. WILLIAMS: There's one more detail, Governor, that might be relevant on that, and that is, when you start going back over the 25- and 30-year periods, the allowable investments were extremely narrow. In the early days, for example, the only allowable investments were investment grade corporate bonds and United States Treasuries. And obviously, the benchmark has changed very dramatically over time. So to go back over those long periods and put the benchmarks to it, it becomes a significant misfit.

GOVERNOR SCOTT: Okay.

MS. DOYLE: Okay. This slide just shows over the ten-year period that the FRS has earned -- has outperformed the performance benchmark. That's what we call on this slide the target, which is the same as the performance benchmark.

GOVERNOR SCOTT: Excuse me. Ash, the 7.75 percent expected -- I don't know if the right word is "expected return" -- is inflation plus? Is that how that is arrived at?

MR. WILLIAMS: Not exactly. It's sort of. I mean, the two sort of relate to one another. We tend to say that the 5 percent real -- if you look at where inflation is now, it happens to be such that the 7.5 roughly approximates a nominal version of the 5 percent real.

Historically, that may or may not have been the case. And when that number is set, I think it's sort of a joint reasoning of what has been done historically, what would the real return plus current inflation and expected inflation be, et cetera.

GOVERNOR SCOTT: And when is the last time that was addressed, the 7.75?

MR. WILLIAMS: It's done every year by statute in the fourth quarter of the year under what's called the Actuarial Estimating Conference, which is a joint legislative-executive exercise usually convened in October, and I believe it reports out usually in December.

GOVERNOR SCOTT: We get a report, a recommendation? Is that what we get?

MR. WILLIAMS: Yes.

GOVERNOR SCOTT: Okay.

MR. WILLIAMS: Thank you.

MS. DOYLE: Okay. Here on this slide, we show what we call the attribution analysis, so this is what added and detracted from performance for the one-year period and the five-year period. The bars to the right signify what helped performance, and the bars to the left signify what detracted. So for the one-year, global equity, fixed income, and strategic investments added value, added to that 82 basis funds we see that the total fund outperformed by over the one-year period.

Private equity and the taxable asset allocation, which is calculated by taking a look at how different the actual allocations were to the policy, detracted for the one-year period. And then over the five-year period, the private equity asset class detracted slightly, but all other asset classes either added value or remained neutral relative to their benchmarks.

We also like to look at performance and asset allocation relative to peers. That's what the next couple of slides cover. We compare the FRS Pension Plan to a peer universe of the top ten defined benefit plans by assets under management. And this universe represents about a trillion dollars in assets under management and a median fund size of about $109 billion, so we believe we're comparing apples to apples.

So here we compare the asset allocation as of March 31st. This is the policy allocation to the average allocation for the universe. A couple of things to point out. The FRS is overweight to global equity relative to the universe and underweight to alternatives, which we define on the -- if you look at the chart for the FRS total fund, it would be private equity plus strategic investments, which is about 7 percent relative to the universe that shows an average allocation of 15 percent to alternatives.

And then this is performance of the FRS. This is gross performance, so as with the other slides that were net of fees, this is gross of fees, because the universe is gross of fees, and we want to make sure we're comparing apples to apples. This is compared to the median return of the top ten defined benefit plan universe.

For the quarter, the FRS Pension Plan was just slightly under the median, just very slightly under for the one-year period, outperformed for the three-year, and then approximated the median for the five- and ten-year periods.

GOVERNOR SCOTT: The other funds, do they have significantly different asset allocations? You used that with that earlier slide.

MS. DOYLE: Yes. Here's the average, so -- not significantly, no.

GOVERNOR SCOTT: Is there a big range between the -- you know --

MS. DOYLE: As far as asset allocation?

GOVERNOR SCOTT: Yes.

MS. DOYLE: No. I think the average is pretty well representative of what the other funds are doing. And then with regards to performance, if you flip to the following slide, you can see that even the dispersion of returns is very, very small as well. And so here we show the dispersion of returns for the different time periods and the percentile rankings. So here if you're looking at percentile rankings, 1 is the best and 99 would be the worst. So the Pension Plan has performed well relative to peers over the longer time periods.

If there aren't any other questions on the Pension Plan, I'll move to the Investment Plan.

GOVERNOR SCOTT: In your firm, you're focused all on allocation; is that right?

MS. DOYLE: Can you repeat the question?

GOVERNOR SCOTT: You're focused on how we allocate; is that right?

MS. DOYLE: That's correct.

So in summary, for the FRS Investment Plan, what you'll see is that performance of the fund options within the Investment Plan have been very strong. Costs have remained extremely low to manage the Investment Plan, and the plan continues to grow.

I also want to point out that the Investment Plan offers an adequate number of investment options to participants that span the risk-return spectrum and have been able to strike a balance between offering too many options so that participants are confused and offering enough options that they can adequately diversify their money.

GOVERNOR SCOTT: Ash, are there ever any issues on how you allocate the internal costs between the Pension Plan and the Investment Plan?

MR. WILLIAMS: No, not really. What we try and do is track where those go, and there is a fair amount of positive cross-fertilization. For example, you see in the fees that we get in the Investment Plan, they're remarkably low, and there's a comparison in here illustrating that.

That's largely the result of other activity the State Board is involved in that gives us purchasing power. That's a soft thing. In terms of hard allocation, no. It's pretty easy to allocate directly, because most of the staff, with the exception of Ron Poppell, the director over the area, that are in DC focus exclusively on DC.

MS. DOYLE: So this slide shows performance of the FRS Investment Plan relative to two benchmarks. The first benchmark is the average DC plan, which we calculate using the average allocations from the Profit Sharing Council of America survey. It's a survey from 2009. And we apply that to the median fund net of fee return data that we get from Morningstar.

So what you'll see is over the one-, three-, and five-year period the FRS Investment Plan underperforming that benchmark. The main reason for that is allocation differences between the survey data and the FRS Investment Plan, and the main difference is an underweight within the FRS Investment Plan to equity, to U.S. equity. And the main reason for that is that most corporate DC plans, of which there are many in the Profit Sharing Council of America survey, have company stock. And obviously, the SBA does not issue company stock, and therefore, there's an inherent underweight to equity. So when equities do well, the FRS Investment Plan tends to underperform the average DC plan.

And then the second benchmark is the total plan aggregate benchmark, which is an aggregate of the underlying benchmarks for the fund options within the Investment Plan. And you'll see strong and consistent outperformance of the FRS Investment Plan relative to that benchmark over time.

GOVERNOR SCOTT: Is there an average DC plan that is just of public entities that would be a benchmark for us to -- would be more relevant?

MS. DOYLE: I can double-check on that. I'm not aware off the top of my head that there's a good, robust universe of public plans with DC plans. But we can definitely revisit the universe we're using there.

This slide shows that the Investment Plan costs that I was mentioning have remained very low. We compare the Investment Plan expense ratio to a peer corporate DC plan expense ratio. And this corporate DC universe is created by CEM, which is a pension fund benchmarking analysis organization, and they created a custom peer group to compare the

Investment Plan costs to. It's 20 DC plans with between 2 and $11 billion. And you can see that the expense ratio is just lower than that of the DC plan universe.

We also include here average investment management fees for defined benefit plans. This is from Greenwich Associates, corporate and public funds with $5 billion or more under management. And you'll see that the DC Plan is run at an even lower cost than large defined benefit plans.

The following slide shows Investment Plan fees by investment category, and we compare this to the Morningstar database of mutual funds. For each category, the FRS Investment Plan participants are paying significantly less than the average mutual fund investor.

And then I mentioned that the Investment Plan continues to grow, and you can see this on the next two slides. So this slide shows the growth in assets under management. Comparing this fiscal year -- this is as of March 31st -- relative to the end of the last fiscal year, it's up $1.2 billion. 700 million of that is participants moving out of the Defined Benefit Plan into the Defined Contribution Plan.

And the last slide on the FRS Investment Plan shows the growth in number of participants. The DC Plan has added 5,000 participant since the end of the last fiscal year.

GOVERNOR SCOTT: So there's how many participants in the Investment Plan now? Oh, here it is.

MS. DOYLE: A little less than 133,000 participants.

Okay. I'll move on to the Florida PRIME Fund.

Just as a brief reminder, the purpose of the Florida PRIME is, in this order, according to the Investment Policy Statement: Safety, liquidity, and competitive returns, while minimizing and controlling risk. So as I walk through the presentation, you'll note that Florida PRIME is invested in short-term, high quality bonds that are tiered, that have a tiered maturity schedule to ensure liquidity and to manage interest rate risk; it's adequately diversified across issuers; and the performance of the Florida PRIME on both an absolute and relative basis has been strong, and I'll show that on this slide.

We show performance for both short- and long-term periods. So what you'll note in the shorter term periods, the quarter, one-year, and three-year time periods, the absolute return is low relative to longer time periods, and that's the nature of the low interest rate environment that we're in today. But the absolute -- I'm sorry, but the relative performance is strong. So when compared to the S&P, AAA, and AA government investment pool index, performance has been very favorable.

GOVERNOR SCOTT: And why is that happening? It seems like this would be harder to get better performance.

MS. DOYLE: This pool is managed by Federated Investment Advisors, and they have done a very good job of being able to control both interest rate and credit risks, but find those bonds or those securities that are yielding a little bit more than maybe their counterparts have been able to invest in.

And then over the longer term time periods, five, ten years, and since inception, performance on both an absolute basis and a relative basis has been very strong.

The next slide shows the cash flows for the quarter. The participant deposits and withdrawals are consistent with the cash flows that we typically see for the pool in the first quarter of each year, so this is some of the seasonality that we see in the Florida PRIME. But what also is adding to the balance within the fund are gross earnings of $5 million for the quarter and transfers from Fund B during the quarter of $14.8 million. So the pool was just below $7 billion as of the end of March.

I mentioned the tiered maturity schedule and the high quality composition of the Florida PRIME. The pool is diversified across maturity profiles, and this suggests adequate liquidity and strong risk controls. You'll note that 97 percent of the pool will mature in six months. It's very short term. And the S&P, the credit quality composition that you see in the bottom, everything in the pool is rated A1 or A1 plus.

And then I'm going to flip forward one slide. These are the distributions from Fund B to participants since the beginning of 2008. If you scroll down to the very bottom, you'll see the cumulative distributions since the beginning of 2008 are a little less than $1.7 billion. The remaining principal that's owed to participants is just less than $350 million, so there has been -- 83 percent of the original principal has been returned to Fund B participants.

And then lastly, we look at the performance of the Florida Hurricane Catastrophe Fund, which we call CAT Fund for short. As you're aware, the purpose of this fund is to provide reimbursement to insurers for a portion of their catastrophic losses as a result of hurricanes.

You'll note that performance for the CAT Fund on both an absolute and a relative basis has been very strong. The CAT Fund is adequately diversified across issuers. It's invested in high quality, short-term bonds and maintains adequate liquidity to address the cash flow obligations that the CAT Fund has.

This slide has a lot of words on it, but I'll just summarize that the CAT Fund is comprised of the operating account, three post-event tax-exempt revenue bonds, and one pre-event floating rate note -- I'm sorry, one pre-event note.

The CAT Fund, the operating fund and the pre-event note are managed internally by the SBA, and they're managed to a blend of two short-term benchmarks. And then the other three post-event tax-exempt revenue bonds are invested in state and local government series securities. So we'll take a look at the operating fund and the pre-event note. And then the market value of the entire Hurricane Catastrophe Fund was just less than $11 billion as of the end of March.

GOVERNOR SCOTT: Do they invest in Florida securities?

MS. DOYLE: I don't know.

MR. WILLIAMS: Not disproportionately, no.

GOVERNOR SCOTT: It seems like there would be more risk if we have a hurricane. You know, this community is going to get hit too.

MS. DOYLE: Here's the summary of cash flows for the quarter and the fiscal year-to-date for the operating fund. At the end of the quarter, the ending market value was up about $21 million due to during the quarter net contributions of $13 million and investment earnings of 8 million. And then for the fiscal year-to-date period, net contributions were $1.3 billion and net investment earnings were just less than $27 million.

Here's performance as of the end of March. Again, kind of as I noted with the Florida PRIME, for the shorter term time periods, the absolute return is weaker due to the lower interest rate environment, but significantly outperformed the performance benchmark for the quarter and the one-year period. And then over the three-year period and the five-year period, there's a slight underperformance, but strong performance, strong outperformance over the ten-year period.

And then here's a summary of the investment characteristics for the operating fund. It's a diversified short-term -- there's a maturity profile with 86 percent maturing within one year, and the credit quality is very high with about 99 percent of the investments rated single-A or higher.

And then moving on to the 2007 A fund, this is the pre-event note. It was at $3.5 billion as of the end of March due to a net investment change of $3.4 million, and over the fiscal year-to-date has earned $11.5 million.

Performance is very strong on a relative basis for this note as well, significantly outperforming the performance benchmark over the quarter, one-year, and three-year time periods.

And then the maturity profile and credit quality composition is very similar to that of the operating fund, again, about 88 percent maturing within one year and 100 percent invested in single-A rated securities or higher.

That concludes my comments on the performance of the four funds, if there's any questions.

GOVERNOR SCOTT: So you'll be moving soon?

MS. DOYLE: Yes. Thank you.

GOVERNOR SCOTT: It's called job creation. That's what we do every day. Thank you.

MR. WILLIAMS: I love a direct ask. There's no substitute.

One detail I would add to that, Governor, and in further follow-up on your question about why is PRIME outperforming, another key advantage is fees. Particularly in a very thin interest rate environment, if you have lower fees, which we do by a factor of three to five times commercial competitors, it's a lay-up. They can't possibly outdistance us.

Moving ahead, one of the --

GOVERNOR SCOTT: You're just able to leverage the fact that the pension fund is so big? Is that what you're able to do? Is that why your fees are so low?

MR. WILLIAMS: Well --

GOVERNOR SCOTT: Or are those internal fees?

MR. WILLIAMS: No. What I'm talking about here is, in the case of the Florida PRIME, there would be two layers of fees. There's six-tenths of a basis point that we charge, and then there's Federated's fee. But even those two together are a fraction of what any commercial enterprise would cost, and the reasons are simple. Number one, we're not charging a profit margin, and number two, we're tax-exempt. Those two things together are very powerful, as you can imagine.

Historically, we have had great, great benefit from our advisory councils, the Investment Advisory Council, which the board has had for many, many years, and more recently the Participant Local Government Advisory Council, and also our outside Audit Committee. All of these are made up, of course, by individuals that you appoint, commonly with significant and relevant expertise. We're very fortunate to have their guidance.

So at this point, what I would like to do is go into the standing reports from our advisory councils and the Audit Committee, leading off with Mr. Rob Gidel, chairman of the Investment Advisory Council.

MR. GIDEL: Good afternoon. The IAC met yesterday here in Tallahassee, and the members present in addition to myself were Chuck Newman, Martin Garcia, and our newest member, Les Daniels. And Les, who was appointed by Governor Scott, brings to our council a long history of organizing, investing, and managing institutional capital, and he quickly added value to our council meeting, and we are very grateful for his service. Let me introduce Les, who is in the audience today.

The members of the Investment Advisory Council have historically contributed extensive capital markets experience to our deliberations, and we are very grateful to the Trustees for their most recent appointments. The additions have been quick to catch on because of their extensive experience, and we're very grateful, and we hope that you will continue to bring members to the committee that will add to that experience, particularly in the capital markets. We're very appreciative.

ATTORNEY GENERAL BONDI: We concurred with that appointment, by the way.

MR. GIDEL: At our meeting yesterday, we accomplished five objectives.

First we reviewed the investment performance of the Florida Retirement System and the major asset classes, both in nominal returns and against appropriate benchmarks. We are pleased to report that our current asset allocation and our management of the classes have added value to the fund, which is very important.

Second, we reviewed an update to the state of the private equity investment class and our private equity portfolio as presented to us by our consultant, Hamilton Lane. As a part of that presentation, we reviewed the status of the Florida Growth Fund, which we have been -- which has been successfully and substantially deployed.

Next we reviewed the update to our consultant's asset-liability study and our investment policy, which was appropriate given the strong investment performance of the fund and the plan changes that were adopted in the recent legislative session. This was an actionable item by the council, and we concurred with our consultant's recommendation to continue to diversify our investment portfolio by expanding the private equity and strategic investment classes.

We also reviewed the performance of the Florida Investment Plan, which continues to provide an appropriate number of investment alternatives for our participants and how they actually use them.

Finally, we reviewed and approved a standing agenda for the Investment Advisory Council, which provides regular reviews of the major asset classes, which is alternative, fixed income, real estate, and equity classes. We also supported the staff's effort to design a standard report which both the Investment Advisory Council and you as the Trustees would use, both looking at the same reports at the same time. So we're hopeful over the next several quarters this will meet with both your acceptance and ours.

The IAC voted to affirm the current investment policy statement, which you will deal with and consider at this meeting in a few minutes. The substance of this policy statement is the target allocations to and within the six major asset classes. It's really the most important thing that we do and you do as a standing committee.

Presently we are in a transitional stage, which has decreased the allocations to global equity and increased allocations to private equity and the alternative component. We believe that further diversification is appropriate, but acknowledge that that will require both your approval as well as legislative approval to move the capital in alternatives from 10 percent to 16 percent.

We concurred with the policy statement after quite considerable deliberations using the following logic:

First of all, that continued diversification of fund investments away from global equities will actually reduce risk.

Second, that our investment choices for the fund, which if you think of it in simple terms really falls into one of four boxes, you either have -- you either invest in public debt and equity or private debt and equity. We do not as a group feel that -- it's important that we do not limit the opportunities to invest in strategic investments in the private sector, and leaving that allocation at 10 percent would in fact limit those opportunities in the future.

Third, that the policy as adopted could further reduce the contribution cost to the State and participants over the life of the fund, which is very important and very timely.

And last, although we do not know at the present time the ultimate effects of the plan changes by the Legislature and what that will be to the Florida Retirement System, we felt it appropriate to have a policy adopted in order to enable us to make the appropriate changes once we ultimately understand from definitive evidence what changes, in effect, the Florida Retirement System -- how that will be affected by those plan changes.

The SBA has had a history of implementing --

GOVERNOR SCOTT: Let me make sure I understand this. So basically you made a recommendation.

MR. GIDEL: Correct.

GOVERNOR SCOTT: We approve or disapprove.

MR. GIDEL: Correct.

GOVERNOR SCOTT: We approve, and then we go to the Legislature to get approval.

MR. GIDEL: The policy statement is a living document that's generally reviewed periodically, Ash, I would say over the last -- maybe once every three to five years.

MR. WILLIAMS: To clarify, the board has full authority to set asset allocation without any legislative approval and simply periodic reporting.

The element of Rob's commentary that relates to legislative authority is, we have a statutory cap presently of 10 percent on alternative investments. Alternatives are defined by statute to be private equity, hedge funds, distressed debt, and a handful of other opportunistic investments. Currently that's barred at a 10 percent limit in the statute.

GOVERNOR SCOTT: Is real estate in that?

MR. WILLIAMS: No.

GOVERNOR SCOTT: Real estate is separate?

MR. WILLIAMS: It's separate. And so the history of the board is, as I touched on earlier, over a period of decades, there has been a gradual evolution in legal authority for investments based on basically earned confidence, for lack of a better term, between the board and the legislative branch, and periodically we will lift caps or create authority for new investment areas.

So, for example, when I was in my first tour at the board in the early '90s, there was no international equity that was allowed in the portfolio. And we thought at the time that as the global economies matured and the global equity capitalization outside the U.S. expanded, the U.S.'s component of global equity capital would by definition decline, and unless we wanted to have an inadvertent and permanent overweight to the U.S., we needed to get that global authority, and further, that the fastest growing economies -- this was again in the early 90s -- were likely to be those then identified as the emerging market nations.

We put that authority in place in, I want to say, 1992 or '93, right around there, which was in the teeth of the Mexican peso implosion, if you remember that, and put money to work there and have been doing so ever since. So this would be yet another example of simply expanding the headroom.

Currently we have the authority to put, for example, up to 80 percent of any portfolio in either equities or credit. And we would obviously never put 80 percent of any portfolio in equities, but the authority is there simply because it provides the flexibility. And the checks and balances are many and pluralistic, both internal and external, including the IAC, the PLGAC, et cetera. So that's how it works.

GOVERNOR SCOTT: And the CAT Fund, alternative investments at 10 percent, has that been there for a long time?

MR. WILLIAMS: It was put in place while I was gone. I want to say it was probably '06, something like that.

UNIDENTIFIED SPEAKER: (Inaudible.)

MR. WILLIAMS: '05 or '06, so it's been there five years or so, five or six years.

GOVERNOR SCOTT: And how long is it allowed -- how long have we been allowed to do alternative investments? A long time?

MR. WILLIAMS: I think that would have probably been the --

UNIDENTIFIED SPEAKER: (Inaudible.)

MR. DAVIS: Yeah. Well, actually, no, that's not right, because private equity goes way back. Private equity goes back probably -- many years, 15 years.

GOVERNOR SCOTT: And the biggest -- is the biggest concern because other than -- which is the risk of losing money or not getting a good return -- is transparency on alternative investments? How good is the transparency on alternatives?

MR. WILLIAMS: I think it's reasonably good. And what we have -- you'll hear the report from Hamilton Lane in a moment on private equity, and I think you'll get very good visibility on what's going on in that area. And as you've heard from Cambridge before, one of the things that we insist on is an acceptable level of transparency to properly do due diligence on the front end and to provide ongoing oversight on a sustainable basis.

So I think generally speaking, we have a bias against black box strategies which are opaque and unknowable. We just don't go there. And we would generally require a certain amount of transparency within reason. 100 percent transparency doesn't always make sense. But we get more than enough for what we feel is necessary.

And in fact, the Legislature this session reenacted a very, very narrow exemption for a subcomponent of our portfolio relating to alternative investments, which is currently about 5 or 6 percent of our holdings, for exactly that reason, because it's recognized that there are some things that just have to be that way.

GOVERNOR SCOTT: Thank you.

MR. GIDEL: Just to conclude, my experience with the SBA has been that anytime we make a strategic change like this, they've done it very judiciously. They've done it very methodically to a position where -- we meet every quarter, and we can follow what they're doing. And in my position, I'm comfortable with making a change like that and find it very unlikely that a move from 10 -- you'll see a move to 16 percent anytime in the near future. It's just the ability to be able to do that at a time, you know, when we think it's important that the fund have those options.

As always, we happy to provide any kind of help we can to the Trustees. And that is the report of the IAC. If there's any questions, I'll be happy to answer them.

CFO ATWATER: Could I just ask --

GOVERNOR SCOTT: Sure.

CFO ATWATER: Thank you. Just to the discussion we were having on the private equity alternative, I was glancing back at -- it's graph 11 in the package that I have here, and it was kind of showing the strengths with the drag of the six different investment areas that you're referring to. And on both the one-year and the five-year, it was the -- and maybe someone might want to just touch on it one more time. It was the private equity that was offering the greatest drag.

So it sounded like you had a really healthy conversation in coming to that suggestion. Where did the track record play into that conversation that over these last five years, in the last year in particular, that this has been a bit of a drag on, I guess, our separation, if I understand this graph correctly, our separation from the average or our separation from peer?

MR. GIDEL: Well, I'll leave the details to --

GOVERNOR SCOTT: It's not the peer. That chart is absolute return.

CFO ATWATER: I'm assuming it's absolute, but --

GOVERNOR SCOTT: Yes, it's basis points on returns, I think, that one. It's not peers.

MR. WILLIAMS: Let me see if I can help out on a couple of levels. First of all, one of the dynamics you'll see with private equity investments or any nonmarketable investments -- the same with would be true of real estate, timberland, et cetera -- is that if you have a period of aggressively upward moving public market equities, any private market asset will lag significantly, for the simple reason that it doesn't get repriced daily.

When I give you the numbers I give you at every meeting, that's as of the prior night's close, and it reflects primarily changes in values in publicly traded securities. Private equity securities are valued, at most, on a quarterly basis commonly, and commonly with a lag of 60 to 90 days, because that's how long it takes to get the audited performance information. So that's point one. There will be a disconnect in upward moving markets.

By the same token, there will be a disconnect in vigorously down public market environments. So if you looked at the last half of '08 when the U.S. equity market just went off a cliff and declined violently, our private equity portfolio would not have shown that vigorous decline, because it doesn't get repriced that frequently. So that's point one. It creates a disconnect in performance.

Point two is, if you have a long-term benchmark for something like strategic investments, which is a broad public market index plus a premium for illiquidity -- commonly 300 basis points is what we use for, I guess, both private equity and strategic. Then if you have -- that's your absolute goal. And if you've had a declining market environment, no matter how good your performance is, the chances of you beating an absolute return target in a declining market is low. So those would be two major points.

The last point I would offer on performance is, we look at our private equity book in two ways. We have some early private equity investments that were made pre-1999, 2000, which is when our current head of private equity and strategic, Jim Treanor, came to work for the board. And then we have everything that was done in what we call the portfolio period, where a disciplined portfolio structure, diversified across investment strategies, vintage investment years, geography, cap focus, et cetera, was put in place.

And so we look at our returns in two ways. We look at them in aggregate, and then we carve out the legacy and non-legacy assets. Hamilton Lane is going to go into all of this in great detail in just a couple of minutes. But you'll see it all come into focus there.

MR. GIDEL: In answer to your question, yes, we did take that into consideration, and that was part of the lively deliberations. I think, you know, many of us are involved in the private part of the investment markets. And there's no question that during the heady periods of 2004, '5, '6, and into '7, you know, many of these private equity investments -- and Hamilton Lane will go into that in more detail -- ended up performing poorly. Some are coming back rather robustly, which I think is encouraging.

On the other hand, thinking forward, there have been some tremendous opportunities in the market after the downturn in the end of '08, and they continue today, particularly in the distressed debt market. That's all private market -- you know, those opportunities to invest and receive some pretty attractive risk-adjusted returns just need to be available, you know, to a fund of this size.

And so as a consequence, you know, looking at private equity from a strategy point of view, which is all the way from investing in distressed debt to venture capital to buyouts, those opportunities present themselves through independent managers that can execute those strategies in times that we think are appropriate. There's obviously times where there's not appropriate.

And looking back in the rear view mirror, all of us would like to have an opportunity to go back over that road again. But I think that's part of the expertise I think that's brought to this fund, and we'll be able to avoid those potholes. But there's no question that those returns have in fact not been as robust as we would like them to be. But on the other hand, we're going to look at those measurements over a longer period of time as the markets recover.

Is that a fair answer?

If there are no other questions, thank you.

GOVERNOR SCOTT: Thank you very much.

MR. WILLIAMS: Thank you, Rob.

We now have with us the chair of the Participant Local Government Advisory Council, Mayor Roger Wishner.

GOVERNOR SCOTT: Good afternoon.

MR. WISHNER: Good afternoon, Governor. Good afternoon, Trustees. Just to let you know, Governor, my target is to hire two to three to five new employees before the end of the year for my business I'm restarting up in August, so hopefully that's going to help solve some of our problems that we're having here with unemployment.

The Participant Local Government Advisory Council met yesterday, and we also are scheduled for our quarterly meeting on August 24th of 2011.

The council continues to oversee the operations, client services, and investment management of Florida PRIME. And most recently, over the last quarter ending March 31st of 2011, the participants deposited total of $2.97 billion. Participants withdrew a total of $3.33 billion, for a net decrease of approximately $338 million.

During the first quarter, the Florida PRIME delivered an aggregate of $5.24 million investment earnings to their investors. As of March 31st, the total market value of the Florida PRIME was $6.39 billion, approximately $1.3 billion higher than the level of last year.

Performance of the Florida PRIME both on an absolute and relative basis is strong over the short and long periods. For the period ending on March 31, 2011, the Florida PRIME generated excess returns, performance above the pool's benchmarks, approximately 14 basis points, and over the last three months -- and 14 basis points over the last 12 months. Florida PRIME's seven-day SEC yield was 0.24 percent as of May 31, 2011.

Our annual best practices review and statutory compliance review was conducted in April and May and was distributed to our committee as well as the

IAC for review.

I'm proud also to tell that you we did our annual survey that was conducted on May 16 through June 1st, and the pool's investors indicated a very high level of customer satisfaction and strong demand for new services under consideration.

As far as our Fund B is concerned, we have continued to pay principal and interest with accumulated distribution to participants of $1.66 million through the end of April. And as a portion of the original principal, approximately 82.9 percent has been returned to Fund B investors.

And I'm available for any questions if you have any.

CFO ATWATER: Representative, given the survey results, I thought I had heard that maybe the League of Cities or someone had sought to establish a similar fund. Is that up and running, and are they out marketing to the same participants, and what seems to be the reaction?

MR. WISHNER: Basically it is, but I can tell that since our committee has been put together, we have been talking -- and yesterday we talked very strongly about getting out there and marketing our plan to local governments, not only cities, but also school boards, county agencies, clerks, and other people like that. We do have a schedule of all the meetings that are going to be held this year that we will be having representation there from either Federated or someone from Florida PRIME will be there to market our program and prove back to them.

And with 82 percent returned back, that's a good amount to be able to give back to the people who were invested in the Florida PRIME or in the SBA. And we were able to give that money back, and now we can prove to them that we are a very, very viable, whether short-term or long-term investment vehicle.

And as you know, yes, there is competition out there because of the problems that existed in the past. But through the changes that have been made and through the work of the staff, I think we've turned this ship completely around and we can prove that we are a great place, a great source to be able to park the money.

CFO ATWATER: Are you getting much action at the other, at the League of --

MR. WISHNER: Do we -- I guess Ash could probably answer the question more than I could.

CFO ATWATER: I just -- I'm fine with --

MR. WISHNER: We've seen a shift.

CFO ATWATER: And I'm fine that there's an alternative, that they can make a choice. We're offering a service. They can choose to work with us or not. I just would be curious how they may be marketing themselves given really the success that we're seeing.

MR. WILLIAMS: I think there are a couple of things. Excuse me, Mayor. There are a couple of things going on. First of all, you're exactly right. No investor should have all their eggs in one basket. Everyone should be diversified, and there's plenty of room for competition here, and there's nothing wrong with private sector, tax-paying competitors being out there.

I would say that what's commonly going on in such a low rate environment is that we very appropriately are constrained by law to three priorities: Number one, safety; number two, liquidity; and number three, return. That means we're always going to be probably the highest quality, most liquid, lowest cost provider out there.

That also means in an interest rate curve environment like this one, our yields are going to be tiny. You heard the mayor say the current seven-day yield was -- what? 0.24, I believe, was the number. That's not a big, fat return.

So with local governments under an element of financial stress just as the State is, what we're seeing is people reaching a little bit in other products through greater credit risk, greater duration risk for a little bit higher return. And our view is, fine, we're happy to let other people offer riskier products, and if they go bad, let the depositors be angry with them, not us.

GOVERNOR SCOTT: As long as they don't come to us to bail them out.

MR. WISHNER: Thank you.

MR. WILLIAMS: Thank you, Mayor.

Why don't we move on to the Audit Committee, Judy Goodman.

MS. GOODMAN: Good afternoon.

GOVERNOR SCOTT: Good afternoon.

MS. GOODMAN: The Audit Committee continues our review of SBA audited financial statements. Since the Trustees' last meeting, we reviewed recommendations from Ernst & Young's financial statement audit's management letter related to the

Florida Retirement Service -- System Pension Plan and the Investment Plan Trust Funds audits. The second thing was individual audited financial statements of 22 SBA's wholly owned title holding companies and joint ventures within the real estate asset class. The third thing, Ernst & Young's follow-up report on information technology, which was a general controls assessment.

The IT report indicated progress in implementing previous recommendations with two modified findings and one repeat recommendation that I believe yesterday they told me was cleared up.

Ernst & Young opined the financial statements presented fairly the financial position of the funds. There were some recommendations for the SBA as a result of these financial statement audits. The wholly owned title company audits revealed some expense classification errors not considered material to the financial statements as a whole.

In addition, the request for approval of contract negotiations for three items were affirmed, or the requests were affirmed: the financial statement audit of the Florida Hurricane Catastrophe Fund; the SAS audit of the third-party provider for this fund and the Finance Corporation fund; and assessment of SBA's network security.

The Audit Committee also recognize the need for financial statement audits of four special purpose entities of the SBA whose book value was over 1.3 billion.

We approved the revised internal audit plan, which included the following subject areas: private equity, accounts payable, reconciliations, and follow-up audits of previous recommendations made in earlier reports. The committee also discussed the enterprise risk management policy and received updates routinely on risk management and compliance activities.

At your direction, the SBA issued an invitation to negotiate on May 24th for an evaluation of the progress made by the SBA relative to the 2009 compliance program assessment completed by Deloitte & Touche. The previous review included an assessment of the alignment with enterprise risk management within the SBA. Contract selection should be made July 18th, and the bidding specifications call for the final report to be delivered to the Audit Committee by October 24th. This is a few weeks later that the report will get back to you than the September 30th that we originally -- okay. Are we okay with that?

GOVERNOR SCOTT: Fine.

MS. GOODMAN: Thank you.

We believe these audit reviews and assessments assist in the oversight of SBA's financial reporting, internal controls, risk management, and help to ensure compliance with ethical and legal requirements.

On behalf of myself and my fellow committee members, we thank you for the honor of serving on this committee.

GOVERNOR SCOTT: Thank you. Any questions?

Thank you very much.

MR. WILLIAMS: Thank you, Madam Chair.

Just by way of follow-up comment, Robert Gidel touched on something that's important. You will remember when we did the fiduciary training shortly after you all assumed office, we went through with fiduciary counsel a series of reports that you receive, and I specifically remember the Governor asking the question, "To what extent does the material we cover in these quarterly meetings reflect what these lawyers are telling us we need to cover as fiduciaries?" And the CFO asked a very similar question.

And what we did was basically reorient our standard agenda to reflect exactly the guidelines that fiduciary counsel said are the items that should be covered by you Trustees and us to be good fiduciaries. So that's how this is designed.

Now, at this point, we've covered the three live reports from the bodies that are required by statute to provide quarterly reports to you. In addition, we have a number of staff reports in the book that we will not touch on unless you have questions. Those include the report from our enterprise risk management and compliance officer, general counsel, and corporate governance team. So unless we have questions on those, I would like to move ahead into Item 10.

GOVERNOR SCOTT: That's fine.

MR. WILLIAMS: All right. Very good. Let's go then to Item 10 and cover the real key to today's meeting, which is an updating of the asset and liability work that you heard back in March. We have Rowland Davis with us today from Hewitt EnnisKnupp. The idea would be to go through the information Rowland has about the impact of recent legislative changes and an update in our actuarial return assumptions, then take that information and go back to Kristen Doyle and talk about its ramifications for investment policy.

MR. DAVIS: Good afternoon.

GOVERNOR SCOTT: Are you part of the Chicago crew?

MR. DAVIS: I am. I'm looking. I called my agent as soon as you talked to Kristen.

GOVERNOR SCOTT: It's cold there, and it's just as hot and more humid up there than it is here in the summer.

MR. DAVIS: Well, it's good to be back in the heat and humidity.

GOVERNOR SCOTT: Next time you won't have to say that. It's good to be here.

MR. DAVIS: I think our update report today should be fairly brief, because fortunately, the results didn't tell us to change course, so that's the bottom line that we'll get to.

But when we were here earlier this year, we took the opportunity to review the recommendations that were made in 2010 and some of the process that led to those recommendations. But we also observed that the Legislature was just starting their session with a number of pension-related issues on the table and that the potential existed for benefit changes potentially to maybe lead us to want to re-evaluate that policy. So we recommended that we wait and see what changes were adopted and then come back and do an update, and that's what we're doing today.

The first bullet item here just again recaps the recommendations that were adopted, recommended and then adopted in 2010. There were two main recommendations. The first one that we always look at is what about the overall level of portfolio risk. The conclusion in 2010 was that you're pretty much right spot on in the range that we think is acceptable or optimal, so no change in risk was a key part of the recommendation.

The second area was whether there would be opportunities to use diversification to add return without adding risk, and we've had some discussion already about the recommendations on that. But there were a number of opportunities that seemed pretty substantial that were then worked into the recommendations, including most importantly probably the strategic investment, that category, and a significant allocation to that.

We had at that time in the work in 2010

estimated that the average expected savings over the 15-year forward-looking period that we use was $2.1 billion driven by these diversification effects without adding any -- making any major change in the risk profile of the fund.

So the second bullet is our conclusion after reviewing things that have changed since 2010, and we can report that we continue to support those recommendations that were made in 2010. I'm going to give you a little more detail, a little finer grain on it, but that's the bottom line, that we basically are saying stay the course. That's the message that we presented to the IAC yesterday, and they have concurred that that is the reasonable thing to do.

So what did we look at when we did this update? There were three things. The main thing that was driving it was the benefit changes. You know, we knew that was in the works. But since we were doing an update, we obviously reflected the most recent fund performance that we had available to us, and also any changes in the capital market expectations, so changes in assumptions.

We had strong investment performance from the time we did the 2010 study through the first quarter of this year, so we reflected that. The capital market assumptions updated, we'll give you a little more detail on that, but they tended to indicate maybe a little more payoff for taking risk than what we had used in 2010. And we knew what the plan changes were, so we reflected all that.

This chart recaps with specific numbers some of what has been discussed, but there's three columns. The first column is prior policy, so this is the policy before the recommended changes from 2010. The far right column is the ultimate recommended policy. The center column is where we are constrained by this 10 percent limitation on alternatives.

So the recommended policy you'll see includes 5 percent private equity and 11 percent strategic investments, so 16 percent, which would be in excess of the 10 percent limitation. So until the legislative approval is granted to expand allocations in this area, then the current policy will have to be in that center column. But ultimately, we hope to move to the right-hand column.

And as you see, there's a drawdown in global equity and in fixed income, with increased commitments on private equity and strategic investments. High yield disappears as a separate asset class, but it would be an eligible class, I think, in the strategic investment category. And I think existing high yield is going to be put into that category to start with.

At the bottom we see with the assumptions that we're now using for this 2011 update the impact on returns, real returns here relative to the 5 percent target that was discussed earlier. So we see a 20 to 30 basis point pickup in the excepted real returns, depending on which particular statistic you look at.

And in our modeling we can gauge the, what we would say, forward-looking probability of beating the 5 percent real return target over a 15-year period, and now we believe that that will improve from 53 percent from what would have been the prior policy to 55 percent. So everything points in the positive direction to these changes.

Any questions on this?

GOVERNOR SCOTT: That 5.1, that's your 5 percent above inflation?

MR. DAVIS: Inflation, yes, real return over and above the CPI.

This chart gives a little more detail on the three areas where we made changes and reflected it in the update. The investment return, we were able to pick up five quarters of actual experience, during which the total return was about 18 percent, so strong investment performance since the 2010 study was completed.

Capital market assumptions updated, basically what happened, equity return expectations just about exactly the same as they were, but fixed income return expectations a little lower. So the so-called equity risk premium, which is the spread between those two, went up from 3.36 to 3.79, almost 40 -- a little over 40 basis points.

That's a fairly significant move in that number, and that's a very important number, because, if you recall, last time we talked about that, you need to think of the equity risk premium as a measure of what you get paid for taking risk. So anytime you get a higher equity risk premium, it's going to maybe indicate that if you get paid more for taking risk, it will tilt you more towards taking some risk. In the plan changes, then, that we reflected --

GOVERNOR SCOTT: May I ask -- excuse me. On the second one, so if we start having much higher inflation, does it change your capital market assumptions at all?

MR. DAVIS: Yes, it will change the nominal returns, but the spread between returns won't necessarily be impacted. But typically, yes, changing inflation expectations will also nudge that, but not on a one-to-one basis. It will reflect it.

The plan changes, you're probably very familiar with the 3 percent COLA being phased out for current active members. Members now contribute 3 percent of pay. Members hired after July 1st of this year will have a different benefit structure with no COLA, higher retirement age, higher vesting service, and so forth. The DROP program interest rates were reduced. And from the preceding legislative session, the decision to fund only the normal cost for one year, and that is also now reflected in the work that we've done.

What do these things lead to? Without getting into all the numbers, basically the favorable investment return improves the assets, improves the funded ratio. Anytime that happens, you will tend to move away from risk taking, so that moved our optimal zone by about 10 percentage points towards less risk.

The second one was the increased equity risk premium, and that exactly offset that. So anytime you have a higher equity risk premium, it will move you towards taking a little more risk, and it moved the optimal range about 10 percentage points up. So first two things basically canceled each other.

The plan changes then were the final item. And while they had a very significant impact, obviously, on the total plan cost levels, we're digging, drilling deep into the risk-reward dynamics of risk versus reward. And what we found is, while there was a subtle shift towards less risk taking, which is not surprising -- when you slow down liability growth, you will typically want to take some risk off the table -- it was very small, very minor, not enough to cause us to come to you today and say we need to change course from what was decided before.

So we reconfirmed the recommendation to stay at the current overall portfolio risk. We reconfirmed that the diversification benefits are still there. And in fact, we remeasured them now at 2.3 billion up from 2.1 billion before, so we have actually an increased gain from the diversification.

And the last bullet is important. We did see subtle signals that, because of the plan changes, we may be embarking -- on a forward-looking basis, we may be seeing things that would lead us to take less risk. We didn't see enough of it, didn't have strong enough evidence to make any substantial claims this year, but we are going to keep our eye on that every year when we update these things going forward.

One of the key things we will want to see is how the election rates for new employees between the Defined Benefit and the Defined Contribution Plan work out. That's going to be a very important variable. We, of course, would logically expect higher defined contribution elections, but how high will matter. And so we will by next year have our first evidence of what has actually happened there.

Also, again, it's not a driving factor, but sort of a side factor; the time to move to more fixed income probably is not now. It's not a great environment for buying bonds as a long-term investment. We don't normally bring taxable things into our mind, but this is at least a footnote to the reason not to move too fast towards derisking the plan. It may happen, though.

And that concludes my basic comments. We have additional material in the package that was reviewed with the IAC, and I can use it to answer any questions you may have, or you can peruse it and get a little more flavor of what we did. But I think for the purposes of the recommendations today, we think the update continues to support the decisions in 2010.

GOVERNOR SCOTT: Any questions? Thank you.

MR. DAVIS: Thank you.

MR. WILLIAMS: Thank you, Rowland.

Why don't we move on, then, to the investment review of private equity and the Florida Growth Fund update. I'll call on Eric Hirsch, the chief investment officer of Hamilton Lane. Let me give you a little background first as we go into this.

As we said earlier, our experience in private equity goes back a number of years. Hamilton Lane is the specialty advisor who focuses on that area and helps us out there.

In addition, in 2008, the Florida Legislature enacted what is known as the Florida Growth and Technology Act, and from that came the Florida

Growth Fund. This was a legislative effort to focus pension investment in-state in the areas of venture capital, growth capital, mezzanine debt, et cetera, and to essentially foster the growth of Florida businesses and therefore jobs through constructively directed pension funds.

That, frankly, is a slippery slope, and it has gone very badly in a number of states. The poster child for how not to do this is Kansas, where an investment of something on the order of $100 million, I believe, was evaporated in its entirety, and just about everybody involved with it ended up with some sort of prosecution, not where we want to go.

The Legislature did this properly, because right in the opening intro of the bill that created the Florida Growth Fund, it said quite plainly that any action undertaken under this section shall be done consistent with fiduciary investment responsibility, number one, and the entire thing was permissive. So the headline that was bandied about at the time was "1 1/2 percent of pension fund to be invested in in-state venture and growth capital," et cetera. It was in fact permissive up to that amount.

And when I got back to Florida in the tail end of 2008, I worked with the SBA staff and the legislative staff and principals, et cetera, to understand this and figure out how to launch it. And our thinking was that in venture capital, particularly early stage venture capital, there's a phenomenon known as a J-curve, meaning that as capital comes in, it will actually decline in value over a period of time, level out, and then after a period of years, commonly about seven, you'll start to accrete value and see the value of the investment go up.

Knowing what memories are like in the public arena, three to seven years of steady losses would not be well received, I don't believe. And I know where the finger would be pointed, and it would not be at the members of the Legislature five years ago. It would be at yours truly. So we --

GOVERNOR SCOTT: This is your job; right?

MR. WILLIAMS: Yes, it is.

GOVERNOR SCOTT: It's part of --

MR. DAVIS: Yes. Thank you for pointing that out. And so --

GOVERNOR SCOTT: It shouldn't at elected officials.

MR. WILLIAMS: Correct, no. Totally my bad, always. I accept that.

But at any rate, what we figured out and worked with the Trustees and all came together on, and the legislative sponsorship as well, is that what we really ought to do is emphasize on the early years growth capital, which is much safer, much more likely to create a return, mezzanine debt, et cetera.

And I left out a very, very important part of this. A key early decision that we made was not to do this internally. The last thing we want is to be in a position where people are calling us saying, "My brother-in-law has this great invention, and if you'll just fund it, and p.s., he's a member of the Legislature," or whatever. You know, who needs that?

So we looked around, and we did a public procurement, and we ended up going back to Hamilton Lane. Why? Because Hamilton Lane had successfully run similar programs in the states of New York and California. And knowing what we know about some of the other experiences that have been had with pension money in those states, the fact that Hamilton Lane had run a program of this nature successfully, profitably, and cleanly we thought was unbelievable. So we worked with them to structure this.

And as you'll hear in a minute, the experience has been really, really good. I'll not rain on the parade of Hamilton Lane. We'll let them tell the story when they get there. But suffice it to say, this is an area where there are a million ways you could have gone into the rocks, and this one has been executed properly. It has been a good experience. The public interest has been served. And most importantly from our standpoint as fiduciaries, the economic interest of our pension beneficiaries has been well served.

So without further ado, let me introduce Eric Hirsch, the chief investment officer of Hamilton Lane.

GOVERNOR SCOTT: Eric, just to be consistent, where do you live?

MR. HIRSCH: I am the unfortunate one who does not work in our Florida office, which we do have. I live in Philadelphia.

GOVERNOR SCOTT: But you're planning on that, I'm sure.

MR. HIRSCH: I am. My mother-in-law, who is watching, is probably encouraging me to come down here quickly. Hi, Mom.

So with that behind us, Governor, Trustees, good afternoon. It's my privilege to be here, and it has been Hamilton Lane's privilege for the last ten years to work with the SBA.

My presentation is really in three sections. I'm going to focus very briefly on just the private equity market, take you through some slides there. I'm happy to answer, obviously, any questions. The second is to do a review of the SBA's private equity program, and then lastly, I will talk about the Florida Growth Fund in some detail.

As we start here on page 4, I would say that the current private equity markets are characterized by sort of areas of optimism and pockets of concern. One, activity levels have clearly rebounded, both fundraising, deal volume all beginning to come back up. The asset class itself remained strong during the downturn, and the result of that was that investors have continued to come into the asset class. So you're seeing really net inflows as opposed to what you saw in the hedge fund world, where a lot of money came out very quickly. Private equity, though fundraising is down from its highs, they are still raising new capital.

The result of that, however, is that we had a lot of money raised, not as much money spent over the last few years. And what you're seeing here on page 4 is what we're measuring as dry powder. This is certainly something that we keep an eye on. It's something to be a little bit concerned about, which is how much capital has been raised that's in managers' hands that has not yet been spent. That obviously can create little bit of an irrational exuberance in the buying market, continuing to drive prices up.

Page 5 simply shows you just an analysis to say how long could it take to sort of burn through this capital. And it's very dependent on what happens with deal volume. We are seeing as the capital markets have continued to open up, showing here on page 6, that deal volume is picking up. But again, a lot of capital is still sitting in the asset class.

Transactions in terms of sector and where people have been investing capital remain diversified, not such a radical change in the first quarter of '11 versus the four-year average. What is a little bit different is that private equity to some extent wants to revert to its roots. In some cases, it's being forced to revert to its roots. Deals are getting smaller. Banks are just simply not lending in the shear magnitude that they had done in '06 and '07, where we saw a lot of those headlines deals of the multi, tens of billions of dollars of businesses that were being bought. A lot of that again is simply a factor of what's available in the lending market.

Pricing, though, I would say is a little bit surprisingly high. I think that's a direct result of the capital overhang here on page 7. So purchase prices I would say have not nearly adjusted to the extent that the market has adjusted. And again, I think that's simply a direct factor on just how much money is sitting out there, a pure supply-demand imbalance.

Moving on to page 8, you do see that the capital markets are opening up, lots of high yield volume, so the "L" in leveraged buyouts is returning. The banks are getting more aggressive, in some cases, surprisingly aggressive. We sometimes joke that Wall Street lacks a short-term memory. This would appear to be that again.

And the good news here on page 9 is liquidity, liquidity, liquidity. The good news on the pricing is that the savvy fund managers are taking advantage of high prices and are aggressively selling out of their positions, which has been nice. The Florida Retirement System has been a beneficiary of this, which I'll show in a second.

But big deal flow in terms of things being sold, the IPO window open, so a lot of cash, as you see, in the public markets looking for a home. These private companies that are good growth stories, terrific candidates for the IPO window. And so we've seen a number of exits coming through over the last couple of quarters, and we would expect that that will continue throughout this year and into next year.

With that, I'll move on to section 2. The highlights for 2010 have been very strong. The SBA staff in private equity has been very busy, the since-inception return strong at 7.3 percent, very good 12-month number. The portfolio has continued to rebound.

Ash spoke earlier about the fact that private equity does lag. It's marked to market on a quarterly basis, and that again also comes with simply the time lag of -- underlying companies get audited, it goes to the fund manager, they get audited, it in turn goes to us, the SBA, that goes through a process, and so that simply takes typically at least 60 to 90 days to post a quarter. So this is an asset class that's always going to be lagging behind just simply due to the mechanics of that.

You can see here on page 12 what the activity has been. I won't go through the numbers. They're here for you. You can see both market value increasing, and new deals have continued to get done. We and the SBA have continued to find new, attractive investment opportunities and have committed capital to them accordingly.

Page 13 I think breaks out in the detail that Ash alluded to earlier, which is the pre-asset creation and the post-asset creation. This is what we refer to again -- beginning in 2000 was when the SBA began a truly strategic concerted effort to focus on private equity, to do it with the discipline and rigor that it exhibits today, working alongside of Hamilton Lane.

And you can see the difference in the numbers. I think this is very clear. The pre-asset creation is basically a detractor, falling behind the benchmark by slightly over 800 basis points, whereas the activity from 2000 forward, and taking into account that that was still in a relatively choppy economic environment, has actually generated over 900 basis points of outperformance. And again, the benchmark here is the Russell 3000 plus 300 basis points.

So I think the numbers speak very clearly here. The program is working, and the activity level, which has been significant dollars, over 9 billion committed since 2000, has generated significant outperformance against the benchmark.

Page 14 shows the program in its entirety. You can just see a little bit of volatility clearly with the downturn in 2008 and the rebound subsequent to that. These numbers continue to move up. And with my earlier comments of expected liquidity, I would continue to see these moving up throughout the year.

Performance drivers, both the good and the bad here, are on page 15. This is measured by net dollar change and net asset value.

And on page 16, you can just simply see the portfolio activity. The top chart is measuring dollars in and dollars out and net cash flow. This is a program that is still young. There's still a lot of unfunded commitments, and the SBA continues to actively contribute new capital. That does create a little bit of that J-curve effect that has been talked about earlier. And you can see the commitments by vintage year below.

Diversification remains strong. The portfolio is consciously overweight North America. And from an asset class, industry diversification, it really is invested across a variety of underlying industries.

From a transparency standpoint, let me just comment on a question that had been addressed earlier. The private equity level, we and the SBA get total transparency down to the portfolio company level. So the fund managers actually report all the individual holdings. It's 100 percent transparency. We know exactly what assets are being owned by the SBA. These charts here from measured at a company level, so that's reflecting up in our ability to show the diversification.

Page 18 just simply makes the point that there's an awful lot of funds out there still looking to raise capital, and so the ability for us to find good, interesting investment opportunities that are complementary to what we already own, or in some cases are further reups in what we already do own, remain strong for 2011.

With that, I'll move on to section 3, which is a review of the Florida Growth Fund. Ash gave a little bit of the background. In 2008, we were hired to manage the program. The program went live in 2009 with the goal of directing capital into Florida businesses with a technology and growth focus. And the second key objective was to make investment profits.

The program is very young. These are the audited numbers coming through year-end, December 2010. Despite its youth, the program is off to a terrific start. The since-inception net IRR is running slightly over 26 percent, so we're off to a good start.

And activity post-2010 has been robust. I would just draw your attention to the second bullet here on page 20, which is, we've been actively investing capital through 2011. As we stand today, effectively, the first tranche, which was 250 million, has largely been committed and allocated.

I'll just remind you that the program has two components. Component 1 is that we're investing in fund managers who have a disproportionate focus in the State of Florida. Part 2 of the program is that we are investing directly in Florida-based businesses. We're doing that alongside experienced fund managers, so that the Florida Growth Fund is never leading or driving or owning the majority of the program. We're taking advantage of the talents of leading fund managers who are investing in those businesses, and we're nicely riding alongside of them.

So there's a fund component to it, and then there's what we consider a direct component to it, and that's what's broken out here. Co-investments would be the direct portion. Partnerships would be the fund portion.

On page 21, from a diversification standpoint, we think part of our job, aside from being good selectors of investments, is that we need to be very conscientious portfolio constructors, and so here you can see the breakout on diversification. From a strategy standpoint, significant capital allocated to that growth stage venture that Ash had alluded to earlier, but half the capital in more classic buyout opportunities. And we're still taking meaningful exposure to early stage venture, but we think taking appropriate but not undue risk.

From an industry standpoint, the State has afford us the opportunity to invest across a variety of interesting sectors. You can just see the breakout here across the transactions that we've done. And from a geographic standpoint, we have been fairly active across the state.

Twenty-two simply shows the co-investment portfolio in slightly more detail in terms of how the investments have been sourced. I will say that, again, partnering with the SBA here has been to our benefit. They have a terrific reputation, as does the private equity team led by Jim Treanor, and so the combination of their network, our network, and our feet on the street has really resulted in a number of interesting opportunities, including partnering up with some people outside the state and bringing them into the state to actually invest in some of these leading businesses.

An interesting statistic here on page 22, 10 of the 12 fund managers that we have co-invested with are top quartile managers. So not only are we finding great deals in the state, but we're doing so alongside of very experienced, outstanding producers.

Page 23 just gives some more detail on the fund portion of it. You can see that we really are getting the dollars to work in the State of Florida. 88 percent of all those fund dollars are also flowing. Obviously, all the direct dollars are in the state on the fund side. It's hard to get that to 100 percent. We think at 88 percent it has been a terrific success.

How do we do this? This is kind of good, old-fashioned, going around and meeting a lot of people. We have an office here in the State of Florida. Page 24 just simply shows since we've been engaged to manage this program what the activity level has been. We have attended 46 conferences, had 204 fund manager meetings, 91 outreach events. And you can see that from an activity level, it has really been -- we try to really canvass the entire state.

Active speakers down here, and this is really about us just educating people about the program, looking for opportunities, being a good sounding board, and if we're not a good source of capital for them, helping them to find a good source of capital. So we see our job here as not only providing capital where appropriate for this vehicle, but making sure that we're introducing people to capital sources if we are not appropriate.

With that, I'm happy to answer any questions. Thanks for your time.

GOVERNOR SCOTT: Thank you very much. Good job.

MR. HIRSH: Thank you.

MR. WILLIAMS: Thank you. The last thing on this section before we move on is, we have a tab in here on other major projects. I just wanted to quickly mention a handful of things. This is on page 2 at the very back of tab 10.

We have largely completed the asset transition that we had mentioned before. We have accomplished this using a third-party fiduciary as a transition manager, that being BlackRock. We have also had independent oversight from Hewitt EnnisKnupp on this transition. They'll do a separate report to you on the completion of the transition, its effect on benchmark, cost-effectiveness, et cetera, at our next meeting.

We are also in the market on a couple of searches for products. We periodically, consistent with best practice, revisit all of our major contractual relationships. And currently we are looking at our general consulting relationship. We've just completed a procurement process there. We made determination to reup with Hewitt EnnisKnupp. We are also looking at our public markets consulting relationship, and we are in finals now. We've narrowed that to two firms, Mercer and Wilshire. We're working through that and will report to you upon its completion.

We have also recently completed a total fund risk model search. The idea here is to have a model into which we can input at the security level holdings of a wide range of managers, aggregate all of them up, and see across all portfolios and all managers what our exposures are and understand our risks as a result. And we've gone with a product from MSCI, Barra, for that purpose.

Lastly, legislation. There were two pieces of legislation directly relevant to the SBA this year. One I touched on earlier, which was a public records matter. The other was simply a few ministerial corrections relating to the Defined Contribution Plan. Both were adopted. And, Governor, thank you for signing them into law.

So with that, unless there are other questions, why don't we move on to Item 11?

GOVERNOR SCOTT: Okay.

MR. WILLIAMS: Item 11 really ties everything together that you've just heard, and that is that we request approval of the Investment Policy Statement for the FRS Pension Plan. I think we've heard good discussion of it. It has been heard in the Investment Advisory Council yesterday, in March, and also in June. And with the benefit of additional members of the IAC, it has been unanimously recommended. So we respectfully request approval.

GOVERNOR SCOTT: Ash, how fast do you think you'll -- I mean, the real issue here is how much do we want to put into alternative assets. That's the real big change; right? And how fast do you think you'll do that?

MR. WILLIAMS: It's very gradual, Governor. To give you an example, we have recently executed and funded a small, as in single digits, small single-digit number of hedge fund relationships over the past month. The diligence process on those started this time last year. The diligence process, followed by the legal negotiation of terms and execution of docs is very time consuming. The priority here is to be prudent, deliberate, and disciplined, not quick. And we think it's much more important to get the right partners than it is to race to fill some percentage target. That's a fool's errand.

So I think as a practical matter, reaching the ultimate 16 percent target in strategic or in alternatives that was discussed is something that will take years. This is not something that takes weeks or months. It could quite reasonably take us a substantial period of time. And if the market environment or the partnership environment changes and renders that target less desirable, we'll be right back here recommending something else.

GOVERNOR SCOTT: And the risk status as far as transparency, you think we've got enough controls in place that that's just not going to happen?

MR. WILLIAMS: Yes, sir.

GOVERNOR SCOTT: All right. Any other questions?

CFO ATWATER: Given what maybe we're about to shift to, just maybe a general question, and that is, we've had a good conversation on March 30, March 31, activity and performance, and I'm just curious. Some things have changed in the last few weeks, the seriousness of the situation in Greece. Sovereign debt may be issue beyond Greece. Is there anything that you would say if things were to move in a -- I hate to say it, but in a catastrophic direction because of some of this sovereign debt issue, is there anything you would need to know from us or that we would need to be aware of or that is important for us to just be up to speed on?

MR. WILLIAMS: I don't think so. I think most of the really obvious perils out there are pretty plain for all of us to see. Sovereign debt is at the top of the list. I think there's a very strong argument to be made that the European Union will remain intact and the Euro as a currency will continue to survive, simply because the downside -- I mean, the political dynamic here that would cause the destruction of the European Union and the abandonment of the Euro as a currency is primarily the argument that the productive, responsible, higher net worth economies, for lack of a better term, primarily Germany, will get tired of supporting their less responsible neighbors in other parts of the region.

The problem with that is that if they dissolve their currency and the union, their ability to sell products to their own neighbors will be destroyed, and they're effectively running up their own unemployment and hampering their own ability to sell product. So there's sort of a natural gravity that holds that solar system of the European Union in place.

The other big risk area is one that has been there for a long time, and we all got a real reminder of how serious it is on 9/11, and that's geopolitics and the instability created by the concentration of very, very high numbers of young people in some of the more oppressive political regions of the world. That's a very dangerous mix. And add to that the social networking capability that we just saw exercised in Europe for political -- or in Egypt for political ends that ultimately led to a leadership change there in a very, very short period of time, and you see how rapidly tinder can turn into fire. We're aware of those things.

And I guess what I would say when we look at what the bigger picture ramifications are for our asset allocation and our exposures and how we think about risk, if you just take a look at what happened during the most recent really extreme bad period, 2008, the S&P 500 was down on the order of 40 percent plus for that year. If you look at what happened in the alternative space, if you look at the average across all hedge funds, the HFRI index, it was down between 18 and 19 percent that same year.

Now, why is that? It could be because these strategies have the ability to do shorting and do other things that are opportunistic that take a bad situation and turn it into a less bad outcome. So that's the diversification benefit we're talking about.

And over the long term, what you get out of the alternatives is, your targeted return to the up is a little bit below what you would expect from equities -- not more, less. The real benefit comes in that the risk, as reflected by volatility, is about 40 percent less than equities, which means that if you protect capital more effectively in down markets, over the long term, across good markets and bad, you compound capital more effectively. So that's the rationale for a move into alternatives.

And it actually plays directly to your point, which is, if you have a catastrophically bad environment, what can you do. And the problem is, at 126.7, or whatever it was, billion dollars, there's nowhere to hide. You can run, but you can't hide. You can't go to cash with that kind of money.

So what you try and do is take your beta exposure in a responsible way, but really put some money in a lot of places so you're diversified and you can protect capital and opportunistically move the needle to the upside wherever possible.

GOVERNOR SCOTT: Is there anything else? Okay. All right. Is there a motion on Item 11?

ATTORNEY GENERAL BONDI: So moved.

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded. Show Item 11 approved without objection.

MR. WILLIAMS: Thank you. Item 12, request approval of a draft letter to the Joint Legislative Auditing Committee for annual certification of legal compliance and best investment practices compliance for the Local Government Surplus Funds Trust Fund, Florida PRIME. As you heard from the PLGAC and the IAC, both of those matters have been considered and opined upon.

GOVERNOR SCOTT: Okay. Any questions?

CFO ATWATER: So moved.

GOVERNOR SCOTT: All right. Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Show Item 12 approved without objection.

MR. WILLIAMS: Thank you. Item 13, request approval of the investment policy statements for the Local Government Surplus Funds Trust Fund known as Florida PRIME and for Fund B. I would say that on the policy statement for the Local Government Surplus Funds Trust Fund that the changes there are ministerial in nature. We had made certain adjustments in the Investment Policy Statement to reflect the SEC 2a-7, which is the section of the SEC code relating to money market-like funds rules.

When the financial regulation changes were adopted in Congress recently, Dodd-Frank, they upended some of those SEC standards. So what we did was go back into the rule and strip those out pending the SEC resolution of rulemaking under Dodd-Frank. So it's no change in substantive policy for us. It's purely referencing various standards from the SEC.

And on Pool B, the only change in the guideline there is to reflect the fact that, A, we now have control of all the underlying collateral from the Pool B securities, and second, on Pool B, that we have brought in a specialty manager to manage those collateral assets going forward, so we've adopted reference to that manager in the Investment Policy Statement.

GOVERNOR SCOTT: All right. Is there a motion on Item 13?

ATTORNEY GENERAL BONDI: So moved.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded. Show Item 13 approved without objection.

MR. WILLIAMS: Thank you. Item 14, request approval of the State Board of Administration's proposed budgets for fiscal year '11-12. There are five embedded budgets here, for the SBA itself, the Florida Retirement System Investment Plan, the Hurricane Catastrophe Fund, the Division of Bond

Finance, and the Prepaid College Board.

Of course, in circumstance of the Division of Bond Finance and Prepaid, they're under a different board, but they are administratively housed under the State Board. And for the SBA itself, the Investment Plan, and the CAT Fund, they are fully creatures of the SBA.

We've provided materials which are in the packet. We've also briefed with each of your offices individually. We'll be happy to answer any questions you may have.

GOVERNOR SCOTT: All right. Are there any questions?

Okay. Is there a motion on Item 14?

CFO ATWATER: So moved.

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Show Item 14 approved without objection.

Ash, when you come back, or the group that comes back to talk about expected returns, that's when?

MR. WILLIAMS: That's in the fourth quarter of this year, usually October.

GOVERNOR SCOTT: Okay. And who does it?

MR. WILLIAMS: It's the Joint

Legislative-Executive Actuarial Estimating Conference, and it's basically -- and somebody here correct me if I misstate, but I believe it's basically the legislative staff and the Division of Retirement primarily.

Governor's staff. Sorry about that.

GOVERNOR SCOTT: Okay. And who does the studies on that?

MR. WILLIAMS: Generally it's done through the state actuary, which is Milliman.

GOVERNOR SCOTT: Okay. Great. Thank everyone for being here today and for the information.

This concludes the SBA meeting. Thank you very much, Ash, and your team. And I'm sure everybody from Chicago will be moving down.

We are adjourned.

(Meeting concluded at 2:54 p.m.)

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 95 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 19th day of July, 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 $345,000,000 STATE OF FLORIDA, DEPARTMENT OF ENVIRONMENTAL PROTECTION FLORIDA FOREVER REVENUE REFUNDING BONDS, 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 $345,000,000 State of Florida Department of Environmental Protection Florida Forever Revenue Refunding Bonds, Series (to be determined) (the "Bonds"), on behalf of and in the name of the State of Florida Department of Environmental Protection, for the purpose of refunding all or a portion of the outstanding Florida Forever Revenue Bonds, Series 2001A, Series 2001B, Series 2002A and Series 2002B; and,

WHEREAS, the Bonds will be issued in one or more series pursuant to the Thirteenth Subsequent Resolution adopted by the Governor and Cabinet on January 23, 2001, as amended, and the Thirty-seventh Subsequent Resolution anticipated to be adopted by the Governor and Cabinet on August 2, 2011 (together 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 issue as required by Section 215.73, Florida Statutes; and,

WHEREAS, the Department of Environmental Protection has heretofore issued Preservation 2000 Revenue and Revenue Refunding Bonds, Series 1997B through 2001A, Florida Forever Revenue Bonds and Revenue Refunding Bonds, Series 2001A through 2010D, and Everglades Restoration Revenue and Revenue Refunding Bonds, Series 2007A-B through 2010B (collectively, the “Previous Bonds”); and,

WHEREAS, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding $337,000,000 Florida Forever Revenue Refunding Bonds, Series (to be determined) (the “2010 Refunding Bonds”) at its March 23, 2010 meeting, of which $109,840,000 remains unissued; 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 $109,840,000 remaining portion of the 2010 Refunding Bonds; and

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

WHEREAS, the proposed Bonds are secured by excise taxes required by law to be distributed pursuant to Section 201.15(1), Florida Statutes (the "Pledged Revenues"). The Bonds to be issued pursuant to the Resolution shall not constitute, directly or indirectly, a debt or a charge against the State of Florida, or any political subdivision thereof under the Constitution and laws of the State of Florida and shall not constitute a lien on any of the lands acquired from the proceeds of the Bonds, or any part thereof; and,

WHEREAS, all applicable requirements of Section 5.01 of the Thirteenth Subsequent Resolution regarding the issuance of additional bonds will be met prior to the issuance of the Bonds; 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 Division, on behalf of Department of Environmental Protection, 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 $345,000,000 State of Florida Department of Environmental Protection, Florida Forever Revenue Refunding Bonds, 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 $337,000,000 Florida Forever Revenue Refunding Bonds, Series (to be determined) approved on March 23, 2010 is hereby rescinded.

ADOPTED August 2, 2011

STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Sufficiency
DATE: July 20, 2011

APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $345,000,000 STATE OF FLORIDA, DEPARTMENT OF ENVIRONMENTAL PROTECTION FLORIDA FOREVER REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED):

The Division of Bond Finance of the State Board of Administration (the "Division"), on behalf of the Department of Environmental Protection of Florida, has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding $345,000,000 State of Florida Department of Environmental Protection, Florida Forever Revenue Refunding Bonds, Series (to be determined) (the "Bonds") for the purpose of refunding all or a portion of the outstanding Florida Forever Revenue Bonds, Series 2001A, Series 2001B, Series 2002A and Series 2002B. The Bonds will be issued in one or more series pursuant to the Thirteenth Subsequent Resolution adopted by the Governor and Cabinet on January 23, 2001, as amended, and the Thirty-seventh Subsequent Resolution anticipated to be adopted by the Governor and Cabinet on August 2, 2011 (together referred to herein as the “Resolution”)

The Department of Environmental Protection has heretofore issued Preservation 2000 Revenue and Revenue Refunding Bonds, Series 1997B through 2001A, Florida Forever Revenue Bonds and Revenue Refunding Bonds, Series 2001A through 2010D, and Everglades Restoration Revenue and Revenue Refunding Bonds, Series 2007A-B through 2010B (collectively, the “Previous Bonds”). The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding $337,000,000 Florida Forever Revenue Refunding Bonds, Series (to be determined) (the “2010 Refunding Bonds”) at its March 23, 2010 meeting, of which $109,840,000 remains unissued. 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 2010 Refunding Bonds. The proposed Bonds shall be issued on a parity with the Previous Bonds as to source and security for payment.

A study of this proposal and the estimates of revenue expected to accrue from the Pledged Revenues, 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

STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Sufficiency
DATE: July 20, 2011

APPROVAL OF FISCAL SUFFICIENCY OF AN AMOUNT NOT EXCEEDING $268,000,000 STATE OF FLORIDA, STATE BOARD OF EDUCATION LOTTERY REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED):

The Division of Bond Finance of the State Board of Administration of Florida (the "Division") has submitted for approval as to fiscal sufficiency a proposal to issue an amount not exceeding $268,000,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series (to be determined) (the "Bonds") for the purpose of refunding all or a portion of the callable Series 2002C and Series 2003A Refunding Bonds. The Bonds will be issued in one or more series pursuant to an authorizing resolution adopted by the Governor and Cabinet on December 16, 1997, as amended from time to time and as most recently amended, supplemented and restated on December 18, 2007, and the Ninth Supplemental Resolution, authorizing the issuance and sale of the Bonds anticipated to be adopted by the Governor and Cabinet on August 2, 2011.

The State Board of Education has heretofore issued Lottery Revenue and Revenue Refunding Bonds, Series 2002C through 2010F (the "Previous Bonds") The State Board of Administration has approved the fiscal sufficiency of an amount not exceeding $540,000,000 Lottery Revenue Refunding Bonds, Series (to be determined) (the "2010 Refunding Bonds") at its August 26, 2010 meeting, of which $146,745,000 remains unissued. 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 2010 Refunding Bonds. The proposed Bonds shall be issued on a parity with the Previous Bonds as to source and security for payment.

A study of this proposal and the estimates of revenue expected to accrue from the Pledged Revenues, 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 $268,000,000 STATE OF FLORIDA, STATE BOARD OF EDUCATION LOTTERY REVENUE REFUNDING BONDS, SERIES (TO BE DETERMINED)

WHEREAS, the Division of Bond Finance of the State Board of Administration of Florida (the "Division") proposes to issue an amount not exceeding $268,000,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series (to be determined) (the "Bonds") for the purpose of refunding all or a portion of the callable Series 2002C and Series 2003A Refunding Bonds; and,

WHEREAS, the Bonds will be issued pursuant to the provisions of Article VII, Section 11(d), of the Florida Constitution; Sections 1013.68, 1013.70 and 1013.737, Florida Statutes; the State Bond Act, being Sections 215.57-215.83, Florida Statutes; and other applicable provisions of law; and,

WHEREAS, the Bonds will be issued in one or more series pursuant to an authorizing resolution adopted by the Governor and Cabinet on December 16, 1997, as amended from time to time and as most recently amended, supplemented and restated on December 18, 2007, and the Ninth Supplemental Resolution, authorizing the issuance and sale of the Bonds, anticipated to be adopted by the Governor and Cabinet on August 2, 2011 (collectively, the "Authorizing Resolution"); and,

WHEREAS, the proposed Bonds shall be secured by a first lien upon the Pledged Revenues which are defined by the Authorizing Resolution as all revenues pledged pursuant to Section 24.121(2), Florida Statutes, for bonds issued pursuant to Sections 1013.68, 1013.70 and 1013.737, Florida Statutes; and,

WHEREAS, the Division has heretofore issued Lottery Revenue and Revenue Refunding Bonds, Series 2002C through 2010F (the "Previous Bonds"); and,

WHEREAS, the State Board of Administration has approved the fiscal sufficiency of an amount not exceeding $540,000,000 Lottery Revenue Refunding Bonds, Series (to be determined) (the "2010 Refunding Bonds") at its August 26, 2010 meeting, of which $146,745,000 remains unissued; 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 2010 Refunding Bonds; and,

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

WHEREAS, the Division has requested the State Board of Administration approve the fiscal sufficiency of the proposed issue as required by Section 215.73, Florida Statutes; 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 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 of Florida to issue an amount not exceeding $268,000,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series (to be determined), is hereby approved as to fiscal sufficiency. In addition, the approval of fiscal sufficiency with respect to the $146,745,000 remaining portion of the $540,000,000 State of Florida, State Board of Education Lottery Revenue Refunding Bonds, Series (to be determined) approved on August 26, 2010 is hereby rescinded.

ADOPTED August 2, 2011.

STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Determination
DATE: July 20, 2011

A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA MAKING THE FISCAL DETERMINATION IN CONNECTION WITH THE ISSUANCE OF AN AMOUNT NOT EXCEEDING $9,350,000 FLORIDA HOUSING FINANCE CORPORATION MULTIFAMILY MORTGAGE REVENUE BONDS, (SERIES TO BE DESIGNATED) (GROVES OF DELRAY II APARTMENTS):

The Florida Housing Finance Corporation has submitted for approval as to fiscal determination a proposal to issue an amount not exceeding $9,350,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (series to be designated) (the "Bonds") for the purpose of providing financing for the acquisition and rehabilitation of a multifamily rental development located in Palm Beach County, Florida (Groves of Delray II Apartments).

The Bonds shall be payable as to principal, premium (if any), and interest solely out of revenues and other amounts pledged therefor, and shall not be secured by the full faith and credit of the State of Florida.

RECOMMENDATION: It is recommended that, pursuant to the fiscal determination requirements of Section 16(c) of Article VII of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, and in reliance upon information provided by the Florida Housing Finance Corporation, the Board find and determine that in no state fiscal year will the debt service requirements of the Bonds and all other bonds secured by the same pledged revenues exceed the pledged revenues available for payment of such debt service requirements. The Board does not assume any responsibility for, and makes no warranty (express or implied) with respect to any aspect of this bond issue.

cc: Janie Knight

A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA MAKING THE FISCAL DETERMINATION IN CONNECTION WITH THE ISSUANCE OF AN AMOUNT NOT EXCEEDING $9,350,000 FLORIDA HOUSING FINANCE CORPORATION MULTIFAMILY MORTGAGE REVENUE BONDS, (SERIES TO BE DESIGNATED) (GROVES OF DELRAY II APARTMENTS)

WHEREAS, the Florida Housing Finance Corporation (the "Corporation") proposes to issue an amount not $9,350,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (series to be designated) (the "Bonds") for the purpose of providing financing for the acquisition and rehabilitation of a multifamily rental development located in Palm Beach County, Florida (Groves of Delray II Apartments); and,

WHEREAS, the Corporation has requested the State Board of Administration of Florida to make the fiscal determination required by Section 420.509, Florida Statutes, as stated in Section 16(c) of Article VII of the Constitution of the State of Florida, as revised in 1968 and subsequently amended (the "Florida Constitution"); and,

WHEREAS, the Bonds shall be secured by a Trust Indenture; and,

WHEREAS, in accordance with Section 420.509, Florida Statutes, the principal of and all interest and any premium on the Bonds shall be payable solely out of revenues and other amounts pledged therefor, as described in the Trust Indenture and other required documents, and shall not be secured by the full faith and credit of the State of Florida; and,

WHEREAS, the cash flow analysis furnished by the Corporation shows that in no State fiscal year will the debt service requirements of the Bonds proposed to be issued and all other bonds secured by the same pledged revenues exceed the pledged revenues available for payment of such debt service requirements; and,

WHEREAS, the Corporation has furnished sufficient information to enable the State Board of Administration of Florida to fulfill its duties pursuant to Section 420.509(2), Florida Statutes; and,

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

WHEREAS, the Board's determination pursuant to Section 16(c) of Article VII of the Florida Constitution and Section 420.509(2), Florida Statutes, is limited to a review of the matters essential to making such determination and the Board does not approve or disapprove of the Bonds as investments and has not passed upon the accuracy or adequacy of the Trust Indenture or any other required documents; **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 Florida Constitution, that in connection with the issuance of the Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (series to be designated) (Groves of Delray II Apartments), in an amount not exceeding $9,350,000, for the uses and purposes hereinabove set forth, it makes the fiscal determination required by Section 420.509, Florida Statutes.

Accordingly, as required by Section 16(c) of Article VII of the Florida Constitution, the Board finds and determines that in no state fiscal year will the debt service requirements of the Bonds and all other bonds secured by the same pledged revenues exceed the pledged revenues, as defined in Section 420.503, Florida Statutes and described in the Trust Indenture, which are available for payment of such debt service requirements.

ADOPTED August 2, 2011

STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308

TO: Ash Williams
FROM: Robert Copeland
SUBJECT: Fiscal Determination
DATE: July 20, 2011

A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA MAKING THE FISCAL DETERMINATION IN CONNECTION WITH THE ISSUANCE OF AN AMOUNT NOT EXCEEDING $7,540,000 FLORIDA HOUSING FINANCE CORPORATION MULTIFAMILY MORTGAGE REVENUE BONDS, (SERIES TO BE DESIGNATED) (SAND DUNES APARTMENTS):

The Florida Housing Finance Corporation has submitted for approval as to fiscal determination a proposal to issue an amount not exceeding $7,540,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (series to be designated) (the "Bonds") for the purpose of providing financing for the acquisition and rehabilitation of a multifamily rental development located in Bay County, Florida (Sand Dunes Apartments).

The Bonds shall be payable as to principal, premium (if any), and interest solely out of revenues and other amounts pledged therefor, and shall not be secured by the full faith and credit of the State of Florida.

RECOMMENDATION: It is recommended that, pursuant to the fiscal determination requirements of Section 16(c) of Article VII of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, and in reliance upon information provided by the Florida Housing Finance Corporation, the Board find and determine that in no state fiscal year will the debt service requirements of the Bonds and all other bonds secured by the same pledged revenues exceed the pledged revenues available for payment of such debt service requirements. The Board does not assume any responsibility for, and makes no warranty (express or implied) with respect to any aspect of this bond issue.

cc: Janie Knight

A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA MAKING THE FISCAL DETERMINATION IN CONNECTION WITH THE ISSUANCE OF AN AMOUNT NOT EXCEEDING $7,540,000 FLORIDA HOUSING FINANCE CORPORATION MULTIFAMILY MORTGAGE REVENUE BONDS, (SERIES TO BE DESIGNATED) (SAND DUNES APARTMENTS)

WHEREAS, the Florida Housing Finance Corporation (the "Corporation") proposes to issue an amount not exceeding $7,540,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (series to be designated) (the "Bonds") for the purpose of providing financing for the acquisition and rehabilitation of a multifamily rental development located in Bay County, Florida (Sand Dunes Apartments); and,

WHEREAS, the Corporation has requested the State Board of Administration of Florida to make the fiscal determination required by Section 420.509, Florida Statutes, as stated in Section 16(c) of Article VII of the Constitution of the State of Florida, as revised in 1968 and subsequently amended (the "Florida Constitution"); and,

WHEREAS, the Bonds shall be secured by a Trust Indenture; and,

WHEREAS, in accordance with Section 420.509, Florida Statutes, the principal of and all interest and any premium on the Bonds shall be payable solely out of revenues and other amounts pledged therefor, as described in the Trust Indenture and other required documents, and shall not be secured by the full faith and credit of the State of Florida; and,

WHEREAS, the cash flow analysis furnished by the Corporation shows that in no State fiscal year will the debt service requirements of the Bonds proposed to be issued and all other bonds secured by the same pledged revenues exceed the pledged revenues available for payment of such debt service requirements; and,

WHEREAS, the Corporation has furnished sufficient information to enable the State Board of Administration of Florida to fulfill its duties pursuant to Section 420.509(2), Florida Statutes; and,

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

WHEREAS, the Board's determination pursuant to Section 16(c) of Article VII of the Florida Constitution and Section 420.509(2), Florida Statutes, is limited to a review of the matters essential to making such determination and the Board does not approve or disapprove of the Bonds as investments and has not passed upon the accuracy or adequacy of the Trust Indenture or any other required documents; **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 Florida Constitution, that in connection with the issuance of the Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (series to be designated) (Sand Dunes Apartments), in an amount not exceeding $7,540,000, for the uses and purposes hereinabove set forth, it makes the fiscal determination required by Section 420.509, Florida Statutes.

Accordingly, as required by Section 16(c) of Article VII of the Florida Constitution, the Board finds and determines that in no state fiscal year will the debt service requirements of the Bonds and all other bonds secured by the same pledged revenues exceed the pledged revenues, as defined in Section 420.503, Florida Statutes and described in the Trust Indenture, which are available for payment of such debt service requirements.

ADOPTED August 2, 2011

A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA MAKING THE FISCAL DETERMINATION IN CONNECTION WITH THE ISSUANCE OF AN AMOUNT NOT EXCEEDING $6,500,000 FLORIDA HOUSING FINANCE CORPORATION MULTIFAMILY MORTGAGE REVENUE BONDS, (SERIES TO BE DESIGNATED) (WINCHESTER GARDENS APARTMENTS)

WHEREAS, the Florida Housing Finance Corporation (the "Corporation") proposes to issue an amount not $6,500,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (series to be designated) (the "Bonds") for the purpose of providing financing for the acquisition and rehabilitation of a multifamily rental development located in Miami-Dade County, Florida (Winchester Gardens Apartments); and,

WHEREAS, the Corporation has requested the State Board of Administration of Florida to make the fiscal determination required by Section 420.509, Florida Statutes, as stated in Section 16(c) of Article VII of the Constitution of the State of Florida, as revised in 1968 and subsequently amended (the "Florida Constitution"); and,

WHEREAS, the Bonds shall be secured by a Trust Indenture; and,

WHEREAS, in accordance with Section 420.509, Florida Statutes, the principal of and all interest and any premium on the Bonds shall be payable solely out of revenues and other amounts pledged therefor, as described in the Trust Indenture and other required documents, and shall not be secured by the full faith and credit of the State of Florida; and,

WHEREAS, the cash flow analysis furnished by the Corporation shows that in no State fiscal year will the debt service requirements of the Bonds proposed to be issued and all other bonds secured by the same pledged revenues exceed the pledged revenues available for payment of such debt service requirements; and,

WHEREAS, the Corporation has furnished sufficient information to enable the State Board of Administration of Florida to fulfill its duties pursuant to Section 420.509(2), Florida Statutes; and,

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

WHEREAS, the Board's determination pursuant to Section 16(c) of Article VII of the Florida Constitution and Section 420.509(2), Florida Statutes, is limited to a review of the matters essential to making such determination and the Board does not approve or disapprove of the Bonds as investments and has not passed upon the accuracy or adequacy of the Trust Indenture or any other required documents; **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 Florida Constitution, that in connection with the issuance of the Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (series to be designated) (Winchester Gardens Apartments), in an amount not exceeding $6,500,000, for the uses and purposes hereinabove set forth, it makes the fiscal determination required by Section 420.509, Florida Statutes.

Accordingly, as required by Section 16(c) of Article VII of the Florida Constitution, the Board finds and determines that in no state fiscal year will the debt service requirements of the Bonds and all other bonds secured by the same pledged revenues exceed the pledged revenues, as defined in Section 420.503, Florida Statutes and described in the Trust Indenture, which are available for payment of such debt service requirements.

ADOPTED August 2, 2011

STATE BOARD OF ADMINISTRATION
1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308

TO:	Ash Williams
FROM:	Robert Copeland
SUBJECT:	Fiscal Determination
DATE:	July 20, 2011

A RESOLUTION OF THE STATE BOARD OF ADMINISTRATION OF FLORIDA MAKING THE FISCAL DETERMINATION IN CONNECTION WITH THE ISSUANCE OF AN AMOUNT NOT EXCEEDING $6,500,000 FLORIDA HOUSING FINANCE CORPORATION MULTIFAMILY MORTGAGE REVENUE BONDS, (SERIES TO BE DESIGNATED) (WINCHESTER GARDENS APARTMENTS):

The Florida Housing Finance Corporation has submitted for approval as to fiscal determination a proposal to issue an amount not exceeding $6,500,000 Florida Housing Finance Corporation Multifamily Mortgage Revenue Bonds, (series to be designated) (the "Bonds") for the purpose of providing financing for the acquisition and rehabilitation of a multifamily rental development located in Miami-Dade County, Florida (Winchester Gardens Apartments).

The Bonds shall be payable as to principal, premium (if any), and interest solely out of revenues and other amounts pledged therefor, and shall not be secured by the full faith and credit of the State of Florida.

RECOMMENDATION: It is recommended that, pursuant to the fiscal determination requirements of Section 16(c) of Article VII of the Constitution of the State of Florida, as revised in 1968 and subsequently amended, and in reliance upon information provided by the Florida Housing Finance Corporation, the Board find and determine that in no state fiscal year will the debt service requirements of the Bonds and all other bonds secured by the same pledged revenues exceed the pledged revenues available for payment of such debt service requirements. The Board does not assume any responsibility for, and makes no warranty (express or implied) with respect to any aspect of this bond issue.

cc: Janie Knight

Notice of Proposed Rule

STATE BOARD OF ADMINISTRATION
RULE NO.: RULE TITLE:
19-8.001: Purpose
PURPOSE AND EFFECT: The purpose and effect of the proposed rule will be to repeal a rule identified during the comprehensive rule review required by Executive Order 11-01 as duplicative, unnecessarily burdensome, or no longer necessary.
SUMMARY: The State Board of Administration of Florida, Florida Hurricane Catastrophe Fund, seeks to repeal the rule listed above as no longer necessary.
SUMMARY OF STATEMENT OF ESTIMATED REGULATORY COSTS: The Agency has determined that this will not have an adverse impact on small business or likely increase directly or indirectly regulatory costs in excess of $200,000 in the aggregate within one year after the implementation of the rule. An SERC has not been prepared by the agency.
STATEMENT REGARDING LEGISLATIVE RATIFICATION: The repeal of this rule is not expected to require legislative ratification pursuant to Section 120.541(3)(a)1., F.S. as there will be no impact on economic growth, job creation or employment, private-sector investment, or business competitiveness and no increase in regulatory costs.
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.
RULEMAKING AUTHORITY: 215.555(3), F.S.
LAW IMPLEMENTED: 215.555, F.S.
IF REQUESTED WITHIN 21 DAYS OF THE DATE OF THIS NOTICE, A HEARING WILL BE SCHEDULED AND ANNOUNCED IN THE FAW.
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:
19-8.001 Purpose.
Rulemaking ~~Specific~~ Authority 215.555(3) FS. Law Implemented 215.555 FS. History–New 5-31-94 Repealed______.

NAME OF PERSON ORIGINATING PROPOSED RULE: Jack E. Nicholson, FHCF Chief Operating Officer, State Board of Administration of Florida.
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: August 2, 2011.
DATE NOTICE OF PROPOSED RULE DEVELOPMENT PUBLISHED IN FAW: Not applicable.

Notice of Proposed Rule

STATE BOARD OF ADMINISTRATION
RULE NO.: RULE TITLE:

19-15.001: Insurance Capital Build-Up Incentive Program

PURPOSE AND EFFECT: The purpose and effect of the proposed rule will be to repeal a rule identified during the comprehensive rule review required by Executive Order 11-01 as duplicative, unnecessarily burdensome, or no longer necessary.

SUMMARY: The State Board of Administration of Florida seeks to repeal the rule listed above as no longer necessary.

SUMMARY OF STATEMENT OF ESTIMATED REGULATORY COSTS: The Agency has determined that this will not have an adverse impact on small business or likely increase directly or indirectly regulatory costs in excess of $200,000 in the aggregate within one year after the implementation of the rule. An SERC has not been prepared by the agency.

STATEMENT REGARDING LEGISLATIVE RATIFICATION: The repeal of this rule is not expected to require legislative ratification pursuant to Section 120.541(3)(a)1., F.S. as there will be no impact on economic growth, job creation or employment, private-sector investment, or business competitiveness and no increase in regulatory costs.
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.

RULEMAKING AUTHORITY: 215.5595(6), F.S.

LAW IMPLEMENTED: 215.5595, F.S.

IF REQUESTED WITHIN 21 DAYS OF THE DATE OF THIS NOTICE, A HEARING WILL BE SCHEDULED AND ANNOUNCED IN THE FAW.

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:

19-15.001 Insurance Capital Build-Up Incentive Program.

Rulemaking ~~Specific~~ Authority 215.5595 FS. Law Implemented 215.5595(2), (2)(c), (d), (e), (g) FS. History–New 2-22-07, Amended 6-3-07, 8-13-07, 11-25-07, Repealed _______.

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

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: August 2, 2011.

DATE NOTICE OF PROPOSED RULE DEVELOPMENT PUBLISHED IN FAW: Not applicable.

19-8.001 Purpose.

~~These rules are promulgated to implement Chapter 93-409, Laws of Florida, which creates Section 215.555 (Florida Hurricane Catastrophe Fund (“Fund”)), F.S., and directs the State Board of Administration to administer the Fund.~~

Specific Authority 120.53(1), 215.555 FS. Law Implemented 215.555 FS. History–New 5-31-94.

19-15.001 Insurance Capital Build-Up Incentive Program.

~~(1) Purpose. Section 215.5595, F.S., creates the Insurance Capital Build-Up Incentive Program ("Program") for the purposes of increasing the availability of residential property insurance covering the risk of hurricanes in Florida and mitigating premium increases. The State Board of Administration of Florida ("Board") is directed to administer the Program. This rule is promulgated to implement the Program.~~

~~(2) Scope.~~

~~(a) The Legislature has appropriated a total of $250 million for the purposes of this Program.~~

~~(b) The Board in an effort to implement this Program in a timely fashion consistent with the start of the June 1, 2006, hurricane season and consistent with the flexibility provided for in Section 215.5595(2)(h), F.S., has established an earlier implementation date of June 1, 2006, and pursuant to this rule has allocated the total $250 million, less moneys needed for administrative expenses, to be made available to Insurers applying within the time frame of June 1, 2006 until June 15, 2006. Any remaining funds which are not committed shall be available to those Insurers applying during the second time frame, June 16, 2006 until July 1, 2006. If there are funds remaining following the two initial time frames, such funds will be available for those Insurers which apply within the time frame of July 2, 2006 until June 1, 2007. The unexpended balance of the appropriation shall revert to general revenue, but not until June 30, 2007.~~

~~(c) The proceeds derived from the Surplus Note issued by the Insurer, pursuant to Section 215.5595(4), F.S., are intended to be an asset for statutory accounting purposes and not a liability on the Insurer's balance sheet.~~

~~(d) The Board's actions and determinations in administering this Program are exempt from Chapter 120, F.S., pursuant to Section 215.5595(6), F.S.~~

~~(e) An Insurer may qualify and be eligible for consideration under this Program provided that the Insurer contributes New Capital and commits to meeting the Minimum Writing Ratio for the term of the Surplus Note. Additionally, the Insurer's Surplus, New Capital contribution, and Surplus Note must total at least $14 million for those Insurers writing only manufactured housing policies, must total at least $50 million for other Insurers, and all Insurers must submit the application as adopted under this rule within the time frames referenced in Section 215.5595(2)(b), F.S.~~

~~(f) The Board may Approve an application by an eligible and qualifying Insurer for a Surplus Note, unless the Board determines that the financial condition of the Insurer and its business plan for writing residential property insurance in Florida places an unreasonably high level of financial risk to the state of nonpayment in full of the interest and principal. The Board shall consult with the Office and may contract with independent financial and insurance consultants in making this determination.~~

~~(g) If the amount of Surplus Notes requested by Insurers exceeds the amount of funds available, the Board may prioritize Insurers that are eligible and Approved, regardless of the date of application within the application time frames. Consideration shall be given to the type of insurance written, with preference given to insurers writing only manufactured housing policies, financial strength of the Insurer, the viability of the Insurer's proposed business plan for writing additional residential property insurance, and the effect on competition.~~

~~(3) Definitions.~~

~~(a) "Applicant" means the Insurer making application under the Program.~~

~~(b) "Approve," "Approving," "Approved," or "Approval" means the Insurer's application has been approved contingent upon a review and prioritization of all the applicants who may have applied for the limited funds available under the Program during the application periods specified in paragraphs (4)(e), (f), or (g) below. If the amount of the Surplus Notes requested does not exceed the funds available during these application periods, it will not be necessary for the Board to prioritize applicants prior to distributing funds, but in all cases the Insurer shall be required to contribute New Capital and provide verification of a deposit prior to the Board distributing the proceeds derived from the Surplus Note.~~

~~(c) "Board" means the State Board of Administration of Florida.~~

~~(d) "Cash" or "Cash Equivalents" means unencumbered cash or unencumbered cash equivalents as specified in Section 625.012(1), F.S. Cash Equivalents are short-term, highly liquid investments, with original maturities of 3 months or less, which are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.~~

~~(e) "Impair" or "Impaired" means the Insurer's Surplus is below the Minimum Required Surplus as specified in Section 215.5595(2)(c), F.S.~~

~~(f) "Insurer" means an authorized insurance company seeking to participate in the Program.~~

~~(g) “Insurer writing only manufactured housing” includes an Insurer that~~

~~1. Is a Florida domiciled insurer that begins writing personal lines residential manufactured housing policies in Florida after March 1, 2007, and that removes a minimum of 50,000 policies from Citizens Property Insurance Corporation without accepting a bonus, provided at least 25 percent of its policies cover manufactured housing. Such an insurer may count any funds above the minimum capital and surplus requirement that were contributed into the insurer after March 1, 2007, as new capital under this statute or;~~

~~2. Is a Florida domiciled insurer that writes at least 40 percent of its policies covering manufactured housing in Florida.~~

~~(h) “Minimum Capital Contribution” means, with respect to Insurers who apply to the Board by July 1, 2006, a contribution of New Capital to its Surplus which is at least equal to the amount of the Surplus Note. “Minimum Capital Contribution” means, with respect to all other applicants applying after July 1, 2006 and before June 1, 2007, a contribution to its Surplus that is twice the amount of the Surplus Note. For insurers writing only manufactured housing as defined in paragraph (3)(g), the New Capital Contribution is required to be equal to the amount of the Surplus Note amount subject to paragraph (3)(i), below.~~

~~(i) “Minimum Required Surplus” means, for purposes of this Program, that the Insurer’s total Surplus, after the issuance of the Surplus Note and New Capital contribution equals at least $14 million for Insurers writing only manufactured housing policies and $50 million for all other Insurers.~~

~~(j) “Minimum Writing Ratio” means a 2:1 ratio of Net Written Premium to Surplus except as to a newly formed Insurer writing only manufactured housing policies. The “Minimum Writing Ratio” for an Insurer writing only manufactured housing policies shall be the ratio provisions provided in Section 624.4095, F.S.~~

~~(k) “Net Written Premium” means direct Premium plus assumed Premium less ceded Premium.~~

~~(l) “New Capital” must be in the form of Cash or Cash Equivalents and be recorded as additional paid-in capital or new stock issued. New Capital does not include Citizens Property Insurance Corporation take-out bonuses pursuant to Section 627.3511, F.S. Except as provided below, a New Capital contribution does not constitute contributions by the Insurer made prior to the Insurer’s application date for the Surplus Note or any other funds contributed to the Insurer’s Surplus which are made for purposes other than in conjunction with the requirements of the Program. New Capital may include the initial contribution to surplus for a new Insurer if such Insurer has been formed in order to participate in the Insurance Capital Build-up Incentive Program and the capital contribution was made in conjunction with the Insurer applying for the surplus note. An insurer described in subparagraph (3)(g)1., above, may count any funds above the minimum capital and surplus requirement that were contributed into the insurer after March 1, 2007, as new capital.~~

~~(m) “Surplus Note” means the Surplus Note issued by the Insurer to the Board.~~

~~(n) “Office” means the Office of Insurance Regulation, which was created in Section 20.121(3), F.S.~~

~~(o) “Premium” means premiums relating to residential property insurance in Florida including the peril of wind.~~

~~(p) “Program” means the Insurance Capital Build-Up Incentive Program created by Section 215.5595, F.S.~~

~~(q) “Substantial Impairment” or “Substantially Impair” means that the Commissioner of Insurance Regulation (Commissioner) has solvency concerns that the Insurer may not be able to meet the obligations of its policyholders and has provided the Board with a written explanation.~~

~~(r) “Surplus” means the Insurer’s admitted assets less the Insurer’s liabilities and refers to the entire Surplus of the Insurer.~~

~~(4) Administration.~~

~~(a) The Legislature has appropriated $250 million for the Program with a limitation of one percent of this amount used for administrative cost and fees.~~

~~(b) For purposes of applications and other documentation provided to the Board the date of receipt shall be the date that the item has actually been delivered to the Board by 5:00 p.m. E.T. Any items received after 5:00 p.m. E.T. will be deemed to have been received on the next business day that is not a Saturday, Sunday, or legal holiday. Neither the United States Postal Service postmark nor a postage meter date is determinative.~~

~~(c) Incomplete applications will be returned to the Insurer and will not be considered by the Board.~~

~~(d) The submission of a completed application by an Insurer that has met all the conditions necessary for Approval is no guarantee that a Surplus Note will be executed and that funds will be available and distributed to an Insurer.~~

~~(e) Application time frame from June 1, 2006 to June 15, 2006: Applications received from June 1, 2006 to June 15, 2006, if accompanied by all the information needed to review the application and if all the Surplus Note requirements have been met, will be reviewed by the Board before any applications received after that time.~~

~~(f) Application time frame from June 16, 2006 to July 1, 2006: If there are funds remaining after the review of applications received on or before June 15, 2006, then applications received from June 16, 2006 to July 1, 2006, if accompanied by all the information needed to review the application and if all the Surplus Note requirements have been met, will be reviewed by the Board before any applications received after that time.~~

~~(g) Application time frame from July 2, 2006 to June 1, 2007: If there are funds remaining after the review of applications received on or before July 1, 2006, then applications received from July 2, 2006 to June 1, 2007, if accompanied by all the information needed to review the application and if all the Surplus Note requirements have been met, will be reviewed by the Board.~~

~~(h) Additional information may be requested by the Board as provided for in subsection (7) below.~~

~~(i) The Board shall not reserve funds based on an Insurer's application date or the date which funds are requested by the Insurer. Funds will not be committed to an Insurer until the Surplus Note is executed by both the Insurer and the Board.~~

~~(5) Statutory Requirements for an Insurer's Participation in the Program. In determining whether an Insurer has met the requirements outlined below, the Board shall consult with the Office and may consult with independent financial and insurance consultants.~~

~~(a) Insurers who apply to the Board on or before July 1, 2006, must contribute an amount of New Capital to its Surplus which is at least equal to the amount of the Surplus Note requested.~~

~~(b) Insurers who apply to the Board after July 1, 2006, other than insurers writing only manufactured housing, but before June 1, 2007, must contribute an amount of New Capital to its Surplus which is at least twice the amount of the Surplus Note requested.~~

~~(c) Insurers must submit a completed application including supplying all the required documentation to the Board. The application, Form SBA 15-1, rev. 09/07, is hereby adopted and incorporated by reference into this rule. This Form is available on the Board's website, www.sbafla.com, under "Insurance Capital Build-Up Incentive Program".~~

~~(d) Prior to the time the application, Form SBA 15-1, rev. 09/07, is submitted, the Insurer must review and accept the terms of the Surplus Note, Form SBA 15-2, rev. 09/07, which is hereby adopted and incorporated by reference into this rule. The Surplus Note is available on the Board's website, www.sbafla.com, under "Insurance Capital Build-Up Incentive Program".~~

~~(e) The principal amount of the Surplus Note issued to any Insurer or Insurer group, other than an Insurer writing only manufactured housing policies may not exceed $50 million. The principal amount of the Surplus Note issued to any Insurer or Insurer group writing only manufactured housing policies may not exceed $7 million.~~

~~(f) For Insurers, other than those writing only manufactured housing policies, an Insurer's Surplus, New Capital, and the Surplus Note must total at least $50 million as a result of participating in the Program. For an Insurer writing only manufactured housing policies, the Insurer's Surplus, New Capital, and the Surplus Note must total at least $14 million as a result of participating in the Program.~~

~~(g) Prior to the execution of the Surplus Note, the Insurer must arrange for the Board to receive a letter from a depository institution which states the amount of unencumbered Cash or Cash Equivalents that have been deposited into the Insurer's account.~~

~~(h) Prior to the execution of the Surplus Note, the Insurer must provide the Board with a letter from the Insurer's top executive officer attesting that the New Capital contribution, for purposes of the Insurer, is not subject to any liens or other encumbrances.~~

~~(i) The Insurer must commit to meeting the Minimum Writing Ratio of Net Written Premium for the term of the Surplus Note and must submit quarterly filings to the Office and the Board. The quarterly filings shall be on Form SBA 15-3, rev. 10/07, which is hereby adopted and incorporated by reference into this rule. This Form is available on the Board's website, www.sbafla.com, under "Insurance Capital Build-Up Incentive Program".~~

~~(j) Insurer's plan of operation, submitted as part of the application process, must address how the Insurer intends to reach the required Minimum Writing Ratio within sixty days of the Board distributing funds to the Insurer.~~

~~(k) Insurer shall provide documentation showing that the Insurer is currently in compliance with Section 627.0645, F.S., which requires an annual base rate filing.~~

~~(l) Only those Insurers that can demonstrate as a result of their financial condition and business plan that they do not create an unreasonably high level of financial risk to the state involving the full repayment of both interest and principal will be considered for Approval by the Board after consulting with the Office and after any other review deemed necessary by the Board.~~

~~(6) Prioritization of Applications. The Board may consult with the Office and with independent financial and insurance consultants in prioritizing Approved applications. The intent of the prioritization process is to provide the Surplus Note proceeds to those Insurers that are expected to have the greatest impact and result in the greatest benefits to the residential property insurance market in a timely fashion so as to relieve short term market pressures. Prioritization shall occur based upon the following criteria:~~

~~(a) The earlier an application is filed, the better the chance that there will be funds remaining in the Program to provide to qualified and Approved Applicants.~~

~~(b) The type of insurance written. All other prioritization factors being equal, preference will be given to Insurers writing only manufactured housing policies.~~

~~(c) The amount of an Insurer's New Capital contributions in excess of the minimum requirement.~~

~~(d) An Insurer's financial strength.~~

~~(e) The Insurer's ability to timely and expeditiously meet the Minimum Writing Ratio requirement as described in the Insurer's business plan.~~

~~(f) The viability and the level of detail and specificity associated with the Insurer's proposed business plan for writing additional residential property insurance covering the peril of wind.~~

~~(g) The effect on competition in the residential property insurance market including the number of new policies which the Insurer contemplates writing as a result of the Program.~~

~~(h) Whether the repayment of the Surplus Note will be guaranteed by a financially strong guarantor.~~

~~(i) Whether the Insurer is willing to pledge any assets as collateral for the repayment of the Surplus Note.~~

~~(j) Any other concessions an Applicant is willing to make that would enhance the purposes and effectiveness of the Program.~~

~~(7) Additional Information.~~

~~(a) In addition to Insurers submitting the Surplus Note application, SBA Form 15-1, rev. 09/07, the Board may request additional information and data prior to the time the Surplus Note is executed. Such additional information may consist of additional documentation, answers to questions that arise as a result of the review process, and additional information solicited through oral interviews.~~

~~(b) Additional information may only be solicited by the Board. The Insurer shall not unilaterally submit additional information or data past the application time frame for which the Surplus Note is being considered. If the Insurer desires to submit such additional information, the Insurer may request that a new application submission date be established and that the Insurer be considered for the next application time frame as designated in paragraph (4)(e), (f), or (g) above.~~

~~(8) Payment Conditions.~~

~~(a) Interest Rate: The Surplus Note shall accrue interest on the unpaid principal balance at a rate equivalent to the 10-year U.S. Treasury Bond rate. The rate will be adjusted quarterly for the term of the Surplus Note based on the 10 year Constant Maturity Treasury rate.~~

~~(b) Interest for the First Three Years: For the first three years of the Surplus Note, an Insurer is required to pay interest only. However, principal payments can be made during this time at the option of the Insurer. Interest payments shall begin to accrue from the date that the Surplus Note proceeds are distributed to the Insurer.~~

~~(c) Repayment Limitations: Any payment of principal or interest by the Insurer on the Surplus Note must be approved by the Commissioner, who shall approve the payment unless the Commissioner determines that such payment will result in a Substantial Impairment to the financial condition of the Insurer. If such a determination is made, the Commissioner shall approve such payment that will not Substantially Impair the financial condition of the Insurer or recommend to the Board a limited time period for the suspension of payments. The Board will seek approval of payments from the Commissioner and will notify any Insurer if a payment of principal and/or interest has been disapproved or, if a lower amount has been approved, the amount by which the usual payment is to be reduced, or whether a payment(s) have been suspended for a limited period of time. If full payments of principal and interest are not received in a timely fashion, the Board may lengthen the term of the Surplus Note and make any other adjustments with the Approval of the Commissioner that will protect the state's interest in the repayment of the proceeds.~~

~~(d) Interest shall continue to accrue even in situations where payments under the Surplus Note have been suspended as a result of the Commissioner's actions.~~

~~(9) Default: Conditions, Consequences, and Insurer Responsibilities.~~

~~(a) Conditions Resulting in Default:~~

~~1. Failure to reach the Minimum Writing Ratio within 60 days of an Insurer receiving the proceeds of the Surplus Note distributed by the Board or the failure to maintain the Minimum Writing Ratio once reached unless a supplemental agreement is provided for in the Surplus Note that allows the Insurer more time to reach the Minimum Writing Ratio due to financial considerations.~~

~~2. Failure to submit quarterly filings of Form SBA 15-3, rev. 10/07, to the Office.~~

~~3. Failure to maintain the Minimum Required Surplus except for situations involving the payment of losses resulting from a catastrophic event or a series of events resulting in catastrophic losses or where Minimum Required Surplus is reduced as a result of the accounting treatment for deferred acquisition costs or where Minimum Required Surplus is reduced as a result of the repayment of principal.~~

~~4. Misuse of Program Proceeds: The Surplus Note will be in default if proceeds received pursuant to the Surplus Note are converted into any asset not authorized under Part II of Chapter 625, F.S.~~

~~5. Failure to make a payment of interest and/or principal where the payment by the Insurer has been approved by the Office.~~

~~6. Failure to make a payment of interest and/or principal where the payment by the Insurer has not been approved by the Office, but alternative payments have been approved.~~

~~7. False or Misleading Statements: Any representations, including those made in the application and/or accompanying documentation, which are false or misleading.~~

~~8. When the Insurer pays any ordinary or extraordinary dividend when there are payments of principal or interest payments that are past due under the Surplus Note.~~

~~(b) Consequences of Default: For all defaults, the Board, in its sole discretion, may exercise any one of the following options:~~

~~1. Increase the interest rate to the maximum interest rate permitted by law;~~

~~2. Accelerate the repayment of principal and interest;~~

~~3. Shorten the term of the Surplus Note;~~

~~4. Call the Surplus Note and demand full repayment.~~

~~(c) Insurer responsibilities: The Insurer shall notify the Board when any of the above conditions resulting in default arises.~~

Specific Authority 215.5595 FS. Law Implemented 215.5595(2), (2)(c), (d), (e), (g) FS. History–New 2-22-07, Amended 6-3-07, 8-13-07, 11-25-07.

SCOTT WALLACE

Scott Wallace is the President/CEO and Executive Director of Citizens Property Insurance Corporation. In his role Mr. Wallace oversees all operations and is the liaison to Citizens' Board of Governors.

Mr. Wallace serves as Chairman for the Property Insurance Plans Service Office, Inc. (PIPSO) representing the property residual market plans throughout the United States and as the Vice Chair for Florida Commission on Hurricane Loss Projection Methodology (FCHLPM). Also serving the Jacksonville community, Mr. Wallace participates on the Dean's Council at University of North Florida's Division of Continuing Education.

Mr. Wallace joined Citizens in January 2006 as Executive Vice President of Operations. In this role he directed Underwriting & Actuarial, Product Development, Non-CAT and CAT Claims, Policy Administration and Process Improvement functions. Mr. Wallace was appointed President/CEO and Executive Director during the January 2007 Board of Governors Meeting and confirmed by the Senate in March 2007.

Mr. Wallace has over 30 years of experience in the Property & Casualty Insurance and Reinsurance industry. Prior to joining Citizens Property Insurance Corporation he held senior management positions for several member companies of the W. R. Berkley Corporation. Mr. Wallace also held senior management positions at Great American Insurance Company, Carvill America and MGIC Indemnity Corporation.

Mr. Wallace earned his B.S. Marketing Degree at Arizona State University and his professional affiliations/memberships have included: The American Association of Managing General Agents; National Association of Independent Insurers; National Association of Surplus Lines Offices; Professional Liability Underwriting Society and the Society of Insurance Research.

Members

Florida Commission on Hurricane Loss Projection Methodology
(Appointments according to s. 627.0628(2)(b), F.S.)

Name	Represents	Appointed by:
Robin Westcott	Insurance Consumer Advocate	per Statute
Randy Dumm	Insurance Finance Expert	CFO
Howard Eagelfeld	OIR Actuary	Insurance Commissioner
Bryan Koon	Director of Emergency Management	per Statute
Lorilee Medders	Expert in Statistics	CFO
Jainendra Navlakha	Computer System Design Expert	CFO
Jack Nicholson	Florida Hurricane Catastrophe Fund	per Statute
Kristin Piltzecker	Industry Actuary	CFO
Scott Wallace	Citizens Property Insurance Corporation	per Statute
Hugh Willoughby	Expert in Meteorology	CFO
Floyd Yager	FHCF Advisory Council Actuary	per Statute

Memo

TO: Ashbel C. Williams, Executive Director & CIO

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

DATE: July 21, 2011

SUBJECT: Florida Hurricane Catastrophe Fund
Cabinet Agenda for August 2, 2011

Request authority to repeal obsolete rules;
Request that the Trustees of the State Board of Administration of Florida appoint a Chair for the Florida Commission on Hurricane Loss Projection Methodology for the 2011-2012 year.

ITEM 7. – REPEAL OF THE FOLLOWING OBSOLETE RULES:

19-8.001	Purpose
19-15.001	Insurance Capital Build-Up Incentive Program

BACKGROUND:

The purpose and effect of the proposed rule amendments will be to repeal rules identified during the comprehensive rule review required by Executive Order 11-01 as duplicative, unnecessarily burdensome, or no longer necessary.

<u>19-8.001, F.A.C.</u>

Rule 19-8.001, F.A.C., reproduced below, was adopted in 1994 when the Florida Hurricane Catastrophe Fund was first being implemented. Its purpose was primarily to introduce the substantive rules and provide a legislative reference. This rule is no longer needed.

> **19-8.001 Purpose.**
> These rules are promulgated to implement Chapter 93-409, Laws of Florida, which creates Section 215.555 (Florida Hurricane Catastrophe Fund ("Fund")), F.S., and directs the State Board of Administration to administer the Fund.
>
> *Specific Authority 120.53(1), 215.555 FS. Law Implemented 215.555 FS. History–New 5-31-94.*

19-15.001, F.A.C.

In 2006, the Legislature created the Insurance Capital Build-Up Incentive Program ("Program") within a new statutory section, 215.5595, F.S., for the purpose of increasing the availability of residential property insurance covering the risk of hurricanes in Florida and to mitigate premium increases. The Program was given to the State Board of Administration of Florida ("Board") to administer.

Section 215.5595(6), F.S., provides in pertinent part as follows:

> The board shall adopt rules prescribing the procedures, administration, and criteria for approving the applications of insurers to receive funds in exchange for issuance of surplus notes pursuant to this section….

The Board adopted emergency rule 19ER06-3, Insurance Capital Build-Up Incentive Program, on May 31, 2006. This emergency rule was followed up by rulemaking and Rule 19-15.001, F.A.C. became effective in February 2007. The rule was updated and amended three times in 2007 but has not been amended since. Section 215.5595, F.S. was amended in 2007, 2008, 2009 and 2011. The Program has loaned all funds available to loan, and the Board's duties under the Program are now limited to monitoring for default and invoicing and collecting repayments of principal and interest. All provisions in Rule 19-15.001, F.A.C., are now obsolete, are included within a Surplus Note Agreement, or have been added to the law through statutory amendments. Therefore, this rule is no longer needed, and the statutory mandate to adopting rules for the specific purpose listed in Section 215.5595(6), F.S., has been fulfilled.

EXTERNAL INTEREST: None.

SIGNIFICANT POLICY ISSUES: None.

CONTROVERSIAL ISSUES: None.

ACTIONS REQUESTED: Approval to repeal these rules.

ITEM 7. ATTACHMENTS TO BE INCLUDED WITH THE SBA AGENDA

7.A. Notice of Proposed Rule for Rule 19-8.001, F.A.C.
7.B. Notice of Proposed Rule for Rule 19-15.001, F.A.C.
7.C. Rule text for Rule 19-8.001, F.A.C.
7.D. Rule text for Rule 19-15.001, F.A.C.

ITEM 8. – APPOINTMENT OF CHAIR, FLORIDA COMMISSION ON HURRICANE LOSS PROJECTION METHODOLOGY:

BACKGROUND:

Section 627.0628(2)(d), F.S., provides as follows:

> The State Board of Administration shall annually appoint one of the members of the commission to serve as chair.

On June 16, 2011, during a regularly scheduled meeting, the Florida Commission on Hurricane Loss Projection Methodology voted to recommend to the Trustees of the State Board of Administration of Florida that Scott Wallace, President, Chief Executive Officer and Executive Director, Citizens Property Insurance Corporation, be appointed to serve as Chair for the 2011-2012 year.

EXTERNAL INTEREST: None.

SIGNIFICANT POLICY ISSUES: None.

CONTROVERSIAL ISSUES: None.

ACTIONS REQUESTED: Appointment of a Chair for the Florida Commission on Hurricane Loss Projection Methodology.

ITEM 8. ATTACHMENTS TO BE INCLUDED WITH THE SBA AGENDA

8.A. Mr. Wallace's biography.
8.B. List of all Commission members.

Florida Hurricane Catastrophe Fund

Memo

TO: Ashbel C. Williams, Executive Director & CIO

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

DATE: July 21, 2011

SUBJECT: Florida Hurricane Catastrophe Fund
Cabinet Agenda for August 2, 2011

Request authority to repeal obsolete rules;
Request that the Trustees of the State Board of Administration of Florida appoint a Chair for the Florida Commission on Hurricane Loss Projection Methodology for the 2011-2012 year.

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19-15.001, F.A.C.

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EXTERNAL INTEREST: None.

SIGNIFICANT POLICY ISSUES: None.

CONTROVERSIAL ISSUES: None.

ACTIONS REQUESTED: Approval to repeal these rules.

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EXTERNAL INTEREST: None.

SIGNIFICANT POLICY ISSUES: None.

CONTROVERSIAL ISSUES: None.

ACTIONS REQUESTED: Appointment of a Chair for the Florida Commission on Hurricane Loss Projection Methodology.

ITEM 8. ATTACHMENTS TO BE INCLUDED WITH THE SBA AGENDA

8.A. Mr. Wallace's biography.
8.B. List of all Commission members.

RICK SCOTT
GOVERNOR

July 22, 2011

Mr. Ash Williams
Executive Director
State Board of Administration
1801 Hermitage Boulevard
Tallahassee, FL 32308

Dear Ash:

This letter is to inform you of my request that Ms. Kimberly Ferrell be considered for appointment to serve on the State Board of Administration Audit Committee pursuant to section 215.44(c), Florida Statutes. Please see Ms. Ferrell's attached resume for additional information.

Sincerely,

Rick Scott
Governor

cc: Ms. Kimberly Ferrell
Attorney General Pam Bondi
Chief Financial Officer Jeff Atwater

KIMBERLY FERRELL

EDUCATION

Certified Public Accountant, May 1993
Master of Accounting, Florida State University, April 1992
Bachelor of Science in Accounting, Florida State University, April 1991

EMPLOYMENT HISTORY

Florida Department of Transportation, State of Florida, Tallahassee Florida
Budget Officer, April 2010 – Present
Manage the development of the Department's legislative budget request. Ensure Departmental compliance with the general appropriations act. Function as the liaison with the Governor's Office, House, Senate and other agencies in budget related matters. Represent the Budget Office in Departmental briefings and other educational opportunities. Determine budgetary impacts of legislative changes both proposed and enacted.

Office of the Attorney General, State of Florida, Tallahassee Florida
Chief Auditor, Medicaid Fraud Control Unit, December 2005 – April 2010
Attorney General's appointee to the State Board of Administration Audit Committee. Managed statewide audit team in the conduct of fraud investigations. Responsible for investigative plans, oversight of case development, and collaboration with attorneys and law enforcement officers. Functioned as Compliance Officer, responsible for bringing the operating policies and internal controls into compliance with applicable Florida Statutes, Federal Regulations and best practices. Revision of operating procedures including implementation, training and monitoring of policies and practices related to case tracking, time tracking, cash receipts, accounts receivable, distribution of restitution, investigative costs, overpayments, and evidence inventories. Reduced Auditor General findings from nine in the year prior to employment, down to one. Developed compliance tools that are now utilized by the Federal Department of Health and Human Services as a model for other states.

Florida Department of Education, Office of Funding and Financial Reporting, State of Florida, Tallahassee Florida
Administrator, March 2005 – December 2005
Administered the public school district financial reporting and revenue distribution functions. Supervised fourteen professional staff members. Managed the calculation of the Florida Education Finance Program, Categorical and Transportation revenues; the projection of FTE students by district; revenue and FTE legislative consensus conferences; public school district financial reporting functions at the school, district and statewide levels; bill analysis and follow-up for proposed legislation impacting education; and implementation of enacted laws and rules relative to Florida's public school districts.

Educational Policy Consultant, February 2003 – March 2005
Managed the public school district financial reporting office including seven professional staff members. Responsible for financial reporting and analysis functions; statutory and federally required financial reporting; providing accounting guidance and training sessions for school district personnel; the program cost report monitoring process; the school district financial and cost accounting manual; legislative bill analysis; implementation of new financial reporting legislation; and publication of accounting guidance for school districts.

Program Specialist IV, December 2000 – February 2003
Provided technical assistance in accounting and financial reporting to Florida's public school districts. Responsible for collection and analysis of school district annual financial reports, budgets, program cost reports, and other reports required by statute and rule. Finalized data for inclusion in the finance database including follow-up with the districts to facilitate correction of errors, or omissions. Developed and implemented a comprehensive GASB 34 reporting package (governmental comprehensive annual financial report) including hands-on training for school district accountants throughout the state. Responded to requests for school district financial information from the legislature, department personnel, school districts, other agencies, and the public.

City of Quincy, Florida
Director of Finance, June 1999 – October 2000
Responsible for preparation of the fiscal year budget, monthly and annual financial statements, budget performance reporting, budget training for department managers, negotiations with contractors, facilitation of the annual financial statement audit, and financial analysis for the City Commission, City Manager, and Department Managers. Managed Accounting, Payroll and Accounts Payable.

Gadsden Community Hospital, Quincy Florida
Chief Financial Officer, November 1997 – April 1999
Staffing, budgeting, planning, policy revision, and direct supervision of Accounting, Accounts Payable, Accounts Receivable, Personnel, Data Processing and Admissions. Reorganized operations resulting in a reduction in the number of days between patient discharge and claim payment, a reduction in the amount of money held in receivables, the introduction of an unpaid claim follow-up tracking system, increased control over cash collection and patient account adjustment, compliance with regulatory requirements, the ability to present a bill at the time of service, and elimination of one full-time position.

Office of the Auditor General, State of Florida, Tallahassee Florida
Public Accounts Auditor III, July 1993 – November 1997
Conducted financial and compliance audits of state agencies. Determined the fairness of financial statement presentation and the level of compliance with applicable laws, rules and regulations. Established audit objectives, researched appropriate laws and rules, planned and performed audit testing, evaluated test results, prepared report, completed follow-up field work, and finalized audit report.