

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

December 14, 2011

The Board of Directors of State Compensation Insurance Fund met by teleconference on December 14, 2011. Teleconference locations were:

Teleconference location: 333 Bush Street 7th Floor Board Room San Francisco, CA 94104	Teleconference location: 2275 Gateway Oaks Drive, Sacramento, CA 95833
Teleconference location: 1750 E. 4 th Street, Santa Ana, CA 92705	Teleconference location: 9801 Camino Media Bakersfield, CA 93311

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on December 14, 2011 at 9:05 a.m. and the following were present:

San Francisco: Lawrence E. Mulryan, William M. Zachry
Sacramento: Sen. Michael J. Machado (Ret.); Thomas E. Rankin; and Scott K. Reid
Santa Ana: Donald E. Garcia
Bakersfield: Sheryl A. Chalupa

Christine Baker (Ex-Officio) – Absent by prior arrangement
Daniel M. Curtin – Absent by prior arrangement
Francis E. Quinlan – Absent by prior arrangement
Steven L. Rank – Absent by prior arrangement

There was a quorum.

Also present in San Francisco: President and CEO Thomas Rowe; Chief Financial Officer Dan Sevilla; General Counsel and Corporate Secretary Carol Newman; and Assistant Corporate Secretary Hilda Padua.

AGENDA ITEM 2: ANTITRUST ADMONITION

Chair Mulryan called attention to State Fund's Antitrust Admonition which is included in each member's packet.

AGENDA ITEM 3: FINDING THAT 10-DAY NOTICE REQUIREMENT WOULD CAUSE SUBSTANTIAL HARDSHIP

Chair Mulryan noted that in order to hold a Special Meeting, the Board must find that the 10-day notice requirement under the Bagley-Keene Act would cause a substantial hardship. Chair Mulryan read a proposed resolution and finding:

WHEREAS, under existing facts and circumstances, State Fund believes it has substantial exposure to potential litigation; and

WHEREAS, the Board has an immediate need to discuss potential litigation that may affect State Fund; and

WHEREAS, the delay necessitated by providing notice 10 days prior to a meeting as required by Government Code Section 11125 would not allow the Board of Directors to confer with staff and legal counsel on a timely basis;

NOW, THEREFORE, BE IT RESOLVED:

That the Board of Directors finds that the delay necessitated by providing notice 10 days prior to a meeting as required by Government Code Section 11125 would cause a substantial hardship on the State Compensation Insurance Fund and its Board of Directors.

Mr. Mulryan requested Board comment from San Francisco, Sacramento, Santa Ana and Bakersfield. There were no Board comments.

Mr. Mulryan requested any speaker cards or public comments from Sacramento; San Francisco, Santa Ana or Bakersfield. Mr. Garcia indicated no public comment from Santa Ana; Ms. Chalupa indicated no public comment from Bakersfield; Senator Machado indicated no public comment from Sacramento; and Mr. Mulryan noted there were no public comments from San Francisco.

MOTION: Ms. Chalupa SECOND: Mr. Zachry

To adopt the proposed resolution and finding.

Roll call vote:

Lawrence Mulryan:	Aye
William Zachry:	Aye
Donald Garcia:	Aye
Sen. Michael J. Machado:	Aye
Thomas Rankin:	Aye
Scott Reid:	Aye
Sheryl Chalupa:	Aye

The motion carried.

The meeting convened immediately into Closed Session at approximately 9:15 a.m. for a discussion on agenda Item 4.

The Board reconvened into Open Session at approximately 9:35 a.m. Mr. Mulryan confirmed through a roll call that all locations and all Board Members present during the 9:00 a.m. roll call were present.

AGENDA ITEM 4: POTENTIAL LITIGATION Closed session.

AGENDA ITEM 5: REPORT ON DECLARATION OF DIVIDEND PLAN

Chair Mulryan requested Hilda Padua to project the proposed resolution on the screen in San Francisco location and send to each Board member's State Fund address the resolution. Mr. Mulryan confirmed receipt of the resolution in each location, Sacramento, Santa Ana and Bakersfield. Mr. Mulryan then requested Carol Newman, General Counsel to read the resolution.

WHEREAS, pursuant to California Insurance Code section 11775, the State Compensation Insurance Fund ("State Fund") is required to be fairly competitive with other insurers, and should be neither more nor less than self-supporting; and

WHEREAS, pursuant to California Insurance Code section 11776, State Fund is required to ascertain the actual loss experience and expense on or about the first of January in each year for the year preceding; and

WHEREAS, if, after ascertaining the actual loss experience and expense, State Fund determines that assets exceed liabilities, necessary reserves, and a reasonable surplus for the catastrophe hazard, State Fund may declare a cash dividend or credit on the renewal premium of, each employer who has been insured with State Fund in the preceding year; and

WHEREAS, pursuant to Insurance Code section 11777, any such cash dividend or credit is to be in an amount which the Board of Directors of State Fund ("Board") in its discretion considers to be the employer's proportion of divisible surplus; and

WHEREAS, State Fund has projected the actual loss experience and expense for calendar year 2011, and has projected that assets will exceed liabilities, necessary reserves, and a reasonable surplus for the catastrophe hazard and has concluded that it has divisible surplus of approximately \$50 million, or 5.2% of 2011 estimated annual premium ("EAP"); and

WHEREAS, a cash dividend or credit on renewal premium for policyholders who obtained or renewed a State Fund policy in 2011, conditioned on a final audit and timely payment of premiums would recognize good policyholder performance;

NOW, THEREFORE, BE IT RESOLVED:

That based on the projected loss experience and expense for calendar year 2011, the Board has determined that assets exceed liabilities, necessary reserves, and a reasonable surplus for the catastrophe hazard, and that there is divisible surplus of approximately \$50 million, or 5.2% of 2011 estimated annual premium (EAP); and,

BE IT FURTHER RESOLVED that, the Board of Directors hereby approves and adopts the 2011 Dividend Plan as amended, which will provide qualifying policyholders who have obtained or renewed a policy in 2011 (2011 Policy) with either a credit against the policyholder's 2012 policy premium payment or a cash dividend payment; which credit or payment shall be based upon the policyholder's 2011 estimated annual premium (EAP); and,

BE IT FURTHER RESOLVED that the amount of any additional premium owed and/or paid by a policyholder, and any refund of premium by State Fund to a policyholder, as a result of an audit on the policyholder's 2011 Policy shall be excluded in the calculation of the policyholder's credit or payment;

BE IT FURTHER RESOLVED that the qualification for a cash dividend or credit on renewal shall be explicitly conditioned upon:

- 1) the completion of a final audit on the policyholder's 2011 Policy within 18 months of the 2011 Policy's renewal date or effective date;
- 2) at the time of the payment of the cash dividend or credit on renewal the policyholder is current with all premium payments; and
- 3) compliance with the policyholder's policy requirements, as determined by the President.

BE IT FURTHER RESOLVED that the President of State Fund is hereby granted the authority to establish the necessary policies and procedures to implement the 2011 Dividend Plan, such policies and procedures to include but not be limited to, the calculation of the proper cash dividend or credit for each policyholder, the timing and form of the credit or cash dividend payment, and the determination of whether renewing policyholders may receive a cash dividend instead of a credit.

BE IT FURTHER RESOLVED that the President of State Fund is hereby granted the authority to take all actions necessary to implement the 2011 Dividend Plan pursuant to this resolution.

MOTION: Mr. Zachry

SECOND: Ms. Chalupa

To adopt the proposed resolution.

Roll call vote:

Lawrence Mulryan:	Aye
William Zachry:	Aye
Donald Garcia:	Aye
Sen. Michael J. Machado:	Aye

Thomas Rankin:	Aye
Scott Reid:	Aye
Sheryl Chalupa:	Aye

The motion carried.

AGENDA ITEM 6: ADJOURNMENT

There being no further business, Chair Mulryan adjourned the meeting at approximately 9:45 a.m.

Respectfully submitted,

Hilda Padua
Board Liaison and Assistant Corporate Secretary