STATE COMPENSATION INSURANCE FUND
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Date: March 7, 2011

AGENDA ITEM 3a

TO: MEMBERS, BOARD OF DIRECTORS

I.	**SUBJECT:**	Approval of January 20-21, 2011 Open Meeting Minutes
II.	**PROGRAM:**	Legal Department
III.	**RECOMMENDATION:**	Action: To approve.

Attached January 20-21, 2011 Open Meeting Minutes of the Board of Directors is presented for consideration and approval at the Board meeting of March 17, 2011.

Suzanne Ah-Tye

Chief Counsel and Assistant Corporate Secretary

Attachment

STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS

MINUTES OF OPEN SESSION MEETING

January 20-21, 2011

The Board of Directors of the State Compensation Insurance Fund met on January 20, 2011 at One Leidesdorff, Main Floor, 344 Pine Street, San Francisco, California and January 21, 2011 at the Omni Hotel, 500 California Street, San Francisco, California.

January 20, 2011

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on January 20, 2011 at 2:00 p.m. and the following were present: Lawrence E. Mulryan, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Donald E. Garcia; Sen. Michael J. Machado (Ret.); Francis E. Quinlan; Steven L. Rank; Thomas E. Rankin; Scott K. Reid; James S. Richardson and William M. Zachry. Non voting member John C. Duncan was absent by prior arrangement.

There was a quorum.

Also present: President and CEO Thomas E. Rowe; General Counsel and Corporate Secretary Carol R. Newman and Suzanne Ah-Tye, Chief Counsel and Assistant Corporate Secretary.

Mr. Mulryan welcomed the public to the meeting and stated that he looked forward to working with everyone as the new Board Chair. General Counsel and Corporate Secretary Carol Newman requested a point of order, indicating that as with our prior Board Chair, Mr. Mulryan will also serve as the Governance Chair. The Governance Committee ratified Mr. Mulryan as the Governance Chair and requests the Board also ratify Mr. Mulryan as the Governance Chair.

MOTION: Mr. Richardson Second: Ms. Chalupa

To ratify the selection of Lawrence Mulryan as the chairperson of the Governance Committee.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 10 NO: 0 ABSTAIN: 1 (Mr. Mulryan) Motion carried.

AGENDA ITEM 2: ANTITRUST ADMONITION

Mr. Mulryan called attention to and requested the Board members read State Fund's Antitrust Admonition which is included in each Board member's meeting materials.

AGENDA ITEM 3: RECOGNITION OF OUTGOING BOARD CHAIR JEANNE L. CAIN

Mr. Mulryan called attention to and read Resolution No. 952 honoring outgoing Board Chairwoman Jeanne L. Cain, who served on the Board since July 6, 2004 and demonstrated leadership, courage and commitment through hard work and dedication, and advanced the best interests of the State Compensation Insurance Fund to become a stronger organization. Mr. Mulryan requested Board discussion of which there was none.

MOTION: Mr. Curtin   Second: Ms. Chalupa

To adopt Resolution No. 952 honoring Ms. Cain as presented.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 11   NO: 0   Motion carried.

AGENDA ITEM 4: CONSENT CALENDAR

Mr. Mulryan referred to the Consent Calendar matters which are included with each member's agenda noting particularly the approval of the November 18-19, 2010 Open Meeting Minutes, the Board Member Training Opportunities and Approval of Planned Board member Training and Travel Expense Reimbursement for the period November 1, 2010 through December 31, 2010, and Retirement Resolutions Nos. 953-965. Mr. Mulryan requested whether any Board member had any additional comments on the items on the Consent Calendar of which there were none.

MOTION: Mr. Curtin   Second: Sen. Machado

To approve the Consent Calendar as presented.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 10   NO: 0   ABSTAIN: 1 (Mr. Reid)   Motion carried.

AGENDA ITEM 5: PRELIMINARY YEAR END 2010 RESULTS

Interim Chief Financial Officer Dan Sevilla reported that final financial information is not yet available for year end 2010. It is expected that net earned premiums for 2010 will slightly exceed $1.1B. State Fund will complete the 2010 financial year end procedures and will file the statutory annual statement in February. Year end results for 2010 will be presented at the March Board meeting. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 6a: RATIFICATION OF INVESTMENT TRANSACTIONS - Bond Transactions

Treasury and Investments Program Manager Stephanie Chan, on behalf of the Investment Committee, recommended the ratification of investment transactions from October 1, 2010 to November 30, 2010. Investment transactions for the period were made in conformance with State Fund's Investment Policy at the time of purchase. During the months of October and November, State Fund purchased 23 bonds totaling $383.8M. During this same time period, State Fund sold 37 bonds totaling $307.7M. Year- to-date through November 30, 2010, State Fund has recognized a net gain of approximately $21.2M. The book value of State Fund's portfolio as of November 30, 2010 was approximately $18.8B.

MOTION: Mr. Rankin   Second: Ms. Chalupa

To ratify the investment transactions from October 1, 2010 to November 30, 2010.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 11   NO: 0   Motion carried.

AGENDA ITEM 6b: RATIFICATION OF INVESTMENT TRANSACTIONS - Compliance Report

Ms. Chan, on behalf of the Investment Committee, presented the Compliance Report showing out of compliance holdings as of the end of November 2010. State Fund's investments were made in accordance with the Investment Policy and met the required credit rating standards at the time of purchase. There is one Taxable Municipal Issuer, Southern California Public Power Authority, which exceeded State Fund's "Per Issuer" limit of 0.5% by approximately $5M. There is no credit issue with this bond. The per issuer limit for highly rated bonds (double A or better) has been increased to 1% effective 1/1/11. This bond will not be in the compliance report at the next meeting. The Rancho Cucamonga bond is currently rated below single 'A.' This issue is insured by MBIA. MBIA's financial strength rating was subsequently downgraded to below A- and Moody's does not rate the underlying issuer. The bond was in compliance at the time of purchase. One of the Oregon State Bonds totaling $25M is on the list because this bond does not carry a rating. At the end of November 2010, the total value of the bonds listed on the Compliance Report is $139M which represents less than 1% of State Fund's total investments. State Fund's Investment Managers conducted a credit analysis of all bonds listed on the Compliance Report and made a recommendation to Executive Management to hold these securities as of November 30, 2010. This recommendation was accepted.

MOTION: Sen. Machado Second: Mr. Richardson

To ratify the Compliance Report for the period October 1, 2010 to November 30, 2010.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 11 NO: 0 Motion carried

AGENDA ITEM 8: INFORMATION TECHNOLOGY OVERVIEW OF ORGANIZATION AND FUNCTION (Taken out of order)

Chief Information Officer Shaun Coyne presented an overview of Information Technology's Organization and Function. IT Strategy is to align with State Fund's business strategies. IT will provide support to core operations including Claims, Policy, Underwriting, Legal and Finance. State Fund has legacy technologies which are currently not sustainable. Now, IT has a centralized model with the goal of a common architecture which will allow greater flexibility for business units. Another goal is to reduce data centers. In 2009 there were six data centers, and in 2011 there will be two data centers. The Vacaville and Riverside data centers are now active sites. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 7a: PERSONNEL MATTERS - Update on Staffing

Mr. Mulryan introduced Senior Vice President of Human Resources Andreas Acker and commented that the topic of the geographic strategy was one that the Board takes seriously, acknowledging the difficulty and impact on employees. Mr. Acker reported that as of 11/30/10 there were 7385 employees at State Fund and at year end the employee count will be approximately 7300. In 2010 there were 374 separations resulting in a 4.7% turnover rate and 243 retirements out of the 374 separations, which is up from past years. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 7b: PERSONNEL MATTERS - Geographic Strategy from Staff Perspective

Mr. Acker reported there have been discussions of the geographic realignment with staff. Discussions centered on the consolidated claims and field locations to regional centers. In discussing the geographic realignment, Executive and Human Resources staff emphasized greater efficiencies, better customer service, savings from a reduced real estate footprint, and building sustainable locations. It was important to management to provide employees as much notice about the geographic realignment as possible, with some offices receiving up to 22 months notice. Responses from employees have varied from anger and frustration to acceptance for the necessary changes. State Fund's HR staff is making efforts to assist employees and is providing information about other state agencies, job fairs, interviews, relocation expenses and geographic information. A "transitions" webpage is also posted on State Fund's intranet site to help employees. Mr. Mulryan requested discussion from the Board. The Board raised the issue of Union involvement and Mr. Acker stated that preliminary discussions took place with the unions, and further discussions will also occur. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 9a: PRESIDENT'S REPORT - Geographic Strategy from Brokers and Other Stakeholders Perspective

President and CEO Thomas E. Rowe reported on the reaction of outside stakeholders, including brokers, agents and policyholders, in anticipation of the Geographic Strategy announcements. Generally, reaction has been positive, with outside stakeholders noting that the long notice period takes into consideration their concerns regarding ongoing business needs as well as consideration for the State Fund workforce. Outside stakeholders noted that State Fund was providing employees an opportunity to remain at State Fund should employees be willing to relocate. State Fund acknowledges that some employee cannot move, nevertheless, the Geographic Strategy Plan is essential to reduce expenses. Mr. Mulryan requested Board discussion. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 10: APPROVAL OF REAL ESTATE PROPOSED TRANSACTIONS

Senior Vice President of Human Resources Andreas Acker presented on the proposed approval of real estate transactions. Real Estate transactions will need to take place as a result of the Geographic Strategic Plan. This will involve selling State Fund owned buildings which include San Francisco, San Jose, Santa Rosa and Oxnard. Real Estate Management (REM) will be doing an evaluation of selling the buildings versus leasing parts of the buildings. For State Fund's leased buildings, (Burbank, Glendale, San Diego and the San Francisco warehouse) an evaluation will need to be done on vacating buildings, negotiating early terminations and finding other suitable space. For the San Francisco warehouse, there are plans not to renew the current lease, but to find space in

Vacaville to house the warehouse operations. When the Plan is fully implemented, it is anticipated that $200M in operating costs will be saved. Exit costs, such as the sale of property and costs for potential early termination of leases are built into the anticipated $200M savings.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called attention to the Proposed Resolution available to the public at the front table. Mr. Mulryan requested that the Corporate Secretary, Ms. Newman, read the Proposed Resolution regarding Delegating Authority for Real Estate Transactions. There was Board discussion regarding the Proposed Resolution with recommendations that the resolution include clear language of the savings of $200M in annual costs to be achieved by 2013 and thereafter. Also, the Board recommended adding language to the Resolution that the President shall continue to obtain the consent of the Chair of the Board of Directors prior to entering into real estate transactions and further that the President shall obtain ratification from the Board for transactions that exceed $35M in expenditures. Mr. Mulryan requested the Corporate Secretary, Ms. Newman, read the resolution with the amendments.

MOTION: Mr.Richardson Second: Mr. Quinlan

RESOLUTION DELEGATING AUTHORITY FOR REAL ESTATE TRANSACTIONS

WHEREAS, State Compensation Insurance Fund (“State Fund”) is implementing a Geographic Consolidation Strategic Plan which will reduce State Fund’s real estate footprint and consolidate operations into areas of the state where it is more economical to do business; and

WHEREAS, State Fund expects by 2013 and thereafter to save nearly $200 million in annual operating costs, delivering a more efficient and agile insurer, better prepared to effectively manage the cost of workers’ compensation for all Californians;

NOW, THEREFORE, BE IT RESOLVED:

That the Board of Directors delegates to the President of State Fund, subject to conditions that the Board may from time to time prescribe, the following powers, functions, and duties conferred by law on the Board of Directors in connection with the administration, management, and conduct of the business and affairs of State Fund:

1. Enter into agreements to downsize or obtain early releases from current real property lease agreements.

2. Enter into agreements for appropriate and reasonable future use or disposal of underutilized State Fund real property, including but not limited to, the sale, sale/leaseback, and leasing or subleasing of such property.

3. Enter into agreements to purchase or lease property for relocation of corporate headquarters in San Francisco; location of warehouse space in the Vacaville area; and relocation of regional offices throughout the State of California.

The President may exercise these powers and functions and perform these duties with the same force and effect as the Board of Directors.

BE IT FURTHER RESOLVED that the President shall:

1. Obtain the best available terms for each transaction;

2. Utilize the services of one or more real estate consultants to provide advice on the local real estate market and the best terms available for the relevant transactions;

3. Continue to regularly advise the Board of Directors on status of these 2011 real property negotiations and transactions.

BE IT FURTHER RESOLVED that, notwithstanding the foregoing, the President shall continue to obtain the consent of the Chair of the Board of Directors prior to entering into any such transaction;

BE IT FURTHER RESOLVED that, notwithstanding the foregoing, the President shall present to the Board of Directors for its ratification of actions taken pursuant to the Board of Directors' delegated authority on any transaction in which State Fund will likely expend a total amount exceeding $35M for the purchase or lease and tenant improvements of a facility.

Mr. Mulryan requested public comment. Mr. Randall Cheek, legislative advocate for SEIU, made public comment and pointed out that the Geographic Strategy Plan is a Three Year Plan and as such, there was no urgency to vote on the Resolution regarding real estate. Mr. Mulryan called for the motion again, as amended and read by the Corporate Secretary.

MOTION: Mr. Richardson Second: Mr. Curtin

YES: 11 NO: 0 Motion carried

AGENDA ITEM 11: REPORTS BY THE CHAIRS OF COMMITTEE ACTIVITIES

AGENDA ITEM 11a: GOVERNANCE COMMITTEE

i. Update on the Chief Risk Officer and Chief Financial Officer Search

Mr. Mulryan stated that the Governance Committee discussed the candidates for the Chief Risk Officer and the Chief Financial Officer positions and will defer the vote until Friday, January 21, 2011.

ii. Ratification of Appointment of Chief Operating Officer Tom Clark

President and CEO Thomas E. Rowe stated that an extensive internal and external search was conducted with multiple candidates for the Chief Operating Officer position. The Governance Committee recommends Tom Clark for the COO position, as Mr. Clark was a stand out candidate with three decades of experience working at State Fund. Mr. Mulryan requested a motion to ratify the appointment of Tom Clark as the Chief Operating Officer.

MOTION: Ms. Chalupa Second: Mr. Richardson

To ratify the appointment of Tom Clark as Chief Operating Officer effective December 2, 2010, at a base annual salary of $156,000, a recruitment and retention differential of $39,000 on an annual basis, and a potential discretionary annual incentive performance bonus of up to $23,400, subject to approval by the Board, and based on the Chief Operating Officer's achievement of specifically defined metrics and performance goals; and to ratify all actions taken by the President and CEO of the State Compensation Insurance Fund as were necessary to appoint Tom Clark to serve as the Chief Operating Officer.

Mr. Mulryan requested Board discussion of which there was none. Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 11 NO: 0 Motion carried.

iii. Update on Board Orientation and Board Training

Mr. Mulryan requested if there was Board discussion on Board Orientation and Board Training and indicated that Learning and Development Program Manager Valerie Lampson was present if there were any questions. There was no discussion. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 11b: AUDIT COMMITTEE

Mr. Quinlan reported that he met with Ms. Leigh Wilson, KPMG Engagement Partner, who submitted a formal engagement letter which was executed by the Audit Chair and approved by the Audit Committee. In regard to California Department of Insurance (CDI) findings, 114 out of 145 are fully remediated. This report is posted on the CDI website. The remaining 31 findings are partially remediated. There is an audit regarding E-Commerce and State Fund's transactions with vendors. The audit is being conducted to ensure there are controls in place to protect against security risks. The Audit Committee was also briefed on the Model Audit Rule (MAR) implementation. With the focus on internal controls and monitoring, there were 141 internal controls that passed testing. There were 28 controls that contain some discrepancies. The Acting CFO provided the Committee with a briefing on the additional disclosures regarding State Fund's unfunded pension and OPEB (other post employment benefits plan) liability.

The Committee also reviewed the completed audits which include audits on server security, Control Self Assessment for Information Security, Bill Review, and Medical Vendor File Reviews. The 2011 Internal Audit Plan has been approved with the focus on audits involving the highest risks. Mr. Mulryan requested Board discussion. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 11c.i: INVESTMENT COMMITTEE - Portfolio Benchmark for 2011

Sen. Machado reported that as of November 30, 2010, the performance of investment managers Conning Asset Management and General Re-New England Asset Management has exceeded the benchmark. Sen. Machado reported that the Investment Committee recommends that the full Board adopt the Investment Benchmark as presented in the Investment Policy Statement and Guidelines Resolution allowing State Fund to diversify, strengthen its investment portfolio and invest in corporate bonds effective January 1, 2011.

MOTION: Mr. Rankin   Second: Mr. Zachry

To approve Resolution No. 967, Investment Policy Statement and Guidelines Resolution attached hereto and incorporated herein by reference.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 11   NO: 0   Motion carried

AGENDA ITEM 12: REPORT BY CHAIR OF BOARD ACTIVITIES

Mr. Mulryan reported that as the new Chairman of State Fund's Board, he was enthused to deliver a strategy to operate efficiently, price fairly, and deliver excellent services. State Fund has identified five key goals that will guide State Fund in 2011 and beyond. The goals include: (i) developing and implementing a pricing plan that maintains an incurred loss ratio of 75% while consistently and efficiently assigning the right price to each risk; (ii) delivering superior claims outcomes including improving organization process and performance of medical networks; (iii) reducing the expense ratio; (iv) developing leadership capabilities; and (v) maintaining strong governance, risk management and compliance practices. Mr. Mulryan also introduced and welcomed new Board member Scott Reid. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 13: BOARD MEMBER REPORTS

There were no Board member reports.

AGENDA ITEM 14: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 17 THROUGH 22

Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 15: PUBLIC COMMENT

Kenny Sims, Research Analyst for SEIU Local 1000, made public comment on State Fund's Geographic Reorganization Plan. Mr. Sims acknowledged that the economic recession has had an impact on State Fund's business. The Union's top priority is to ensure that State Fund remains the state's most reliable provider of workers' compensation insurance. State Fund has announced a Three Year Geographic Reorganization Plan with the stated goal of reducing State Fund's office space and consolidating programs. The impact to SEIU's members will result in the relocation of thousands of employees over long distances. The impact to SEIU membership and SEIU's concerns are further set forth in the SEIU Local 1000 handout and chart provided by Mr. Sims to Board members which is attached hereto and incorporated herein by reference.

Kathleen Collins, State Fund employee and union representative for SEIU Local 1000, also made public comment. Ms. Collins stated that the geographic reorganization is in addition to the MOU which provides for a 4.62% cut in pay due to the Personal Leave Program. This cut amounts to $17M in savings for State Fund. Ms. Collins emphasized the human side of the hardships facing employees, with some families being split because they work in different functions. Ms. Collins also noted the impact the geographic plan could have on disabled employees.

Mr. Mulryan requested further public comment of which there was none.

ADJOURNMENT

There being no further business, Chair Mulryan adjourned the meeting at 3:20 p.m.

January 22, 2011

The Board of Directors of the State Compensation Insurance Fund continued their Open Session on January 22, 2011 at the Omni Hotel, 500 California Street, San Francisco, California.

AGENDA ITEM 23: CALL TO ORDER AND ROLL CALL

The meeting was called to order on January 22, 2011 at 11:35 a.m. and the following were present: Lawrence E. Mulryan, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Donald E. Garcia; Sen. Michael J. Machado (Ret.); Francis E. Quinlan; Steven L. Rank; Thomas E. Rankin; Scott K. Reid; James S. Richardson; William M. Zachry and non voting member John C. Duncan. There was a quorum.

Also present: President and CEO Thomas E. Rowe; Acting Chief Financial Officer Dan Sevilla, General Counsel and Corporate Secretary Carol R. Newman, Executive Office Operations Manager Hilda Padua and Chief Counsel and Assistant Corporate Secretary Suzanne Ah-Tye.

AGENDA ITEM 24: RATIFICATION OF APPOINTMENT OF CHIEF RISK OFFICER AND OF CHIEF FINANCIAL OFFICER

President and CEO Thomas E. Rowe reported that a national search was conducted for Chief Risk Officer and Chief Financial Officer. Multiple candidates were reviewed and interviewed by the Executive Committee members. Mr. Rowe announced that Ken Van Laar was selected as Chief Risk Officer and Daniel Sevilla was selected as Chief Financial Officer. Mr. Van Laar comes to State Fund with considerable experience in casualty, actuarial and underwriting. Mr. Sevilla has served as Acting CFO since October 2010 and is highly qualified. The Governance Committee has recommended that the appointments be ratified.

MOTION: Mr.Zachry Second: Mr. Curtin

To ratify the appointment of the following officers:

Daniel Sevilla to serve as the Chief Financial Officer, effective as of January 11, 2011, at a base annual salary of $288,000, a recruitment and retention differential of $14,400 on an annual basis, and a potential discretionary annual incentive performance bonus of up to $43,200, subject to approval by the Board, and based on the Chief Financial Officer's achievement of specifically defined metrics and performance goals; and Ken Van Laar to serve as the Chief Risk Officer, effective as of February 1, 2011, at a base annual salary of $288,000, a recruitment and retention differential of $14,400 on an annual basis, and a potential discretionary annual incentive performance bonus of up to $43,200, subject to approval by the Board, and based on the Chief Risk Officer's achievement of specifically defined metrics and performance goals.

To ratify all actions taken by the President and CEO of the State Compensation Insurance Fund as were necessary to appoint Daniel Sevilla to serve as the Chief Financial Officer and Ken Van Laar to serve as the Chief Risk Officer.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 11 NO: 0 Motion carried

AGENDA ITEM 25: PROPOSALS AND SUGGESTIONS FOR MARCH, 2011 AGENDA:

There were no proposals or suggestions for the March, 2011 Agenda. Mr. Mulryan requested public comment. Randal Cheek, Legislative Advocate for SEIU Local 1000, made public comment and invited the State Fund Board and its Executives to the SEIU Annual Legislative Reception on February 2, 2011 at 5:30 p.m. in the basement of the Capitol in Sacramento.

There being no further business, Chair Mulryan adjourned the meeting at 11:40 a.m. The next regularly scheduled Board meeting will begin on Thursday, March 17, 2011 at 2 p.m. in San Francisco, California.

Respectfully submitted,

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Suzanne Ah-Tye
Assistant Corporate Secretary

Resolution No. 967

BOARD OF DIRECTORS

STATE COMPENSATION INSURANCE FUND

INVESTMENT POLICY STATEMENT & GUIDELINES RESOLUTION

WHEREAS, the Board of Directors of the State Compensation Insurance Fund (State Fund) is required to invest and reinvest the moneys of the State Fund which are in excess of current requirements in securities authorized by law for the investment of funds of private insurance carriers, in accordance with Sections 11787 and 11797 of the Insurance Code; and

WHEREAS, the State Fund is a non-tax paying entity; and

WHEREAS, the opportunities to acquire or dispose of such securities are such that it is impracticable to obtain the advice and determination of the Board in advance of each separate transaction; and

WHEREAS, the Board deems it to be prudent policy to establish standards which can be applied administratively to the selection and purchase of securities; and

RESOLVED, by the Board of Directors of the State Fund in regular meeting assembled at San Francisco on January 20, 2011 that:

A. All purchases must meet the following criteria and any further detailed criteria for the specific mandate.

1. The preservation of State Fund's principal and surplus, while maximizing income, will be the primary and underlying criteria for the selection and retention of securities.
2. State Fund assets will be managed and controlled in a manner consistent with prudent business practices.
3. The long-term objective is to exceed established benchmarks.

B. The President or Chief Investment Officer, and in their absence, either the Chief Financial Officer or Chief Risk Officer, are hereby authorized to purchase or sell, exchange, or otherwise dispose of at the market, securities which are authorized by law for the investment of the funds of private insurance carriers provided the type of security to be acquired is described hereafter in this section and meets the conditions and standards set forth in Sections C, D, E and F as approved by the Board of Directors. Any Investment Manager approved by the Board of Directors and under contract with State Fund may purchase and sell securities on behalf of State Fund per the terms, limitations and guidelines set forth in this INVESTMENT POLICY STATEMENT & GUIDELINES RESOLUTION under the primary direction of the Chief Investment Officer and, in his/her absence, the direction of the aforementioned officers in this section.

C. Long Term Fixed Income Investments

Allowable securities include the following assets and with Board approval can include other asset classes as allowed under applicable regulations.

1. Bonds, notes, certificates of indebtedness, or other obligations for which the faith and credit of the United States of America are pledged.

2. Obligations of US Government Agencies and Government Sponsored Entities (GSEs).

3. Obligations of the Dominion of Canada, or of any province of the Dominion of Canada, or obligations for which are pledged the faith and credit of the Dominion of Canada, or of any province or city of the dominion which are payable in US dollars.

4. Mortgage-backed securities (MBS) issued by the US Government Agencies and GSEs, including pass-throughs, PAC CMOs (Planned Amortization Class Collateralized Mortgage Obligations), TAC CMOs (Targeted Amortization Class Collateralized Mortgage Obligations), VADM CMOs (Very Accurately Defined Maturity Collateralized Mortgage Obligations) and Sequential pay CMOs, but excluding such mortgage derivatives as inverse floaters, interest only strips, principal only strips, and “support bonds.”   No direct sub-prime or Alt-A MBS are allowed.

5. Publicly traded fixed income securities issued by a corporation organized under the laws of the United States or any State thereof including securities issued under Rule 144(a).

6. General obligations of any State for which the faith and credit of the State are pledged for the payment of principal and interest.

7. Obligations issued under authority of law by any county, municipality, or school district in any State, or in any province of the Dominion of Canada or in any political subdivision of the Commonwealth of Puerto Rico, including bonds of any county water district.

D. Cash and Cash Equivalents

Maintain short-term funds to obtain a reasonable level of earnings by participating in the following:

1. Bonds, notes, certificates or indebtedness, or other interest bearing obligations for which the full faith and credit of the United States of America are pledged.

2. Obligations of US Government Agencies and GSEs.

3. Commercial Paper issued by a corporation organized under the laws of the United States or any State.

4. Certificates of Deposit (CDs) issued by domestically chartered banks and savings and loans. The institution’s charter is acceptable if granted by a state or national regulatory body. This includes domestically chartered branches of foreign banks, commonly referred to as Yankees.

5. Mutual Fund(s) that reflect similar criteria to those listed in D.1. through D.4.

6. State Treasurer’s Pooled Money Investment Fund (PMIF).

7. Interest-bearing bank accounts.

E. Credit Rating Standards and Limitations

1. To monitor compliance, the investment manager will assign a credit rating to each security using the following logic: a) If one nationally recognized statistical rating

organizations (NRSO) rates the security, the rating will apply; b) If two NRSRO rate the security, the lower rating will apply; c) If all three NRSRO rate the security, the second lowest will apply; d) When considering the credit rating of the municipal securities, the higher of the financial guarantor or the underlying credit will be used.

2. The weighted credit rating of the fixed income portfolio shall average at least Aa2/AA/AA, at Moody's, S&P and Fitch, respectively, at all times.

3. There is no per issuer limit of US Treasuries and US Agencies.

4. The investment manager shall not purchase corporate securities rated below A2/A/A by two or more NRSRO without prior approval of the Chief Investment Officer.

5. The purchase of split-rated corporate securities where the lowest rating is A3 or A- is permitted only upon consent of the Chief Investment Officer before purchase (example: A3/A/A or A2/A/A-).

6. Single corporate issuer rated Aa3/AA- or better may not exceed 1.00% of the book value of the portfolio. Single corporate issuer rated below Aa3/AA- may not exceed 0.75% of the book value of the total portfolio, including the Cash Management Holdings. Only those holdings in each manager's positions exceeding the thresholds as of April 1, 2009 that resulted from the division of the portfolio are exempt from this limitation.

7. Corporate securities in aggregate shall not exceed 45% of the total portfolio, including the Cash Management Holdings.

8. The investment manager shall not purchase municipal securities rated below A2/A/A by two or more NRSRO without prior approval of the Chief Investment Officer.

9. The purchase of split-rated municipal securities where the lowest rating is A3 or A- is permitted only upon consent of the Chief Investment Officer before purchase (example: A3/A/A or A2/A/A-).

10. Single municipal issuer rated Aa3/AA- or better may not exceed 1.00% of the book value of the portfolio. Single municipal issuer rated below Aa3/AA- may not exceed 0.75% of the book value of the total portfolio, including the Cash Management Holdings. Only those holdings in each manager's positions exceeding this threshold as of April 1, 2009 that resulted from the division of the portfolio are exempt from this limitation. Ultimate credit obligor will be used to define a single municipal issuer.

11. Municipals in aggregate shall not exceed 20% of the total portfolio, including the Cash Management Holdings.

12. The aggregate total of corporates and municipals shall not exceed 55% of the total portfolio, including the Cash Management Holdings.

13. MBS issued by the US Government Agencies and GSEs shall comprise no more than 45% of the total portfolio, including the Cash Management Holdings. No single MBS pool may exceed 1.00% of the total portfolio, including the Cash Management Holdings. MBS will include all Agency MBS, CMOs and CMBS for the aforementioned limits.

14. No single Canadian political subdivision may exceed 0.75% of the book value of the portfolio. Canadian political subdivisions in aggregate shall not exceed 5% of the total portfolio, including the Cash Management Holdings.

15. Securities issued and/or guaranteed by the US Government, US Agencies, and GSEs are recognized as Aaa/AAA entities if they have not been otherwise rated by the rating agencies.

16. Securities issued and/or guaranteed by the Government of Canada and political subdivisions must be rated Aa3/AA- or better by a NRSRO.

17. Securities issued and/or guaranteed by a State or political subdivision must be rated A3/A-or better by a NRSRO.

18. Securities issued by a qualifying corporation must be rated A3/A- or better by a NRSRO.

19. When calculating the sector limits, the Cash Management Holdings will be included. This number may be provided to the Investment Manager on a monthly basis.

20. 15% or more of the portfolio shall be maintained in securities maturing in five years or less.

21. The duration of the portfolio will be managed within a strategic range of 3.0 to 6.5, which is reviewed and approved by the Board annually. An operational target within the duration range will be established and reviewed by the Chief Investment Officer periodically.

22. The performance of the portfolio will be compared to the return of the benchmark noted in section F. At a minimum, the benchmark will be reviewed and reauthorized by the Board on an annual basis.

23. Purchases of Commercial Paper must be rated A1/P1 by two nationally recognized rating services and split rating is not allowed. Eligible Commercial Paper may not exceed 180 days' maturity, or represent more than 10 percent of the outstanding paper of an issuing corporation. No single Commercial Paper issuer may exceed 10% of the Total Cash Management Holdings. Eligible Commercial Paper is further limited to issuing corporations having shareholders' equity in excess of $10 Billion. Commercial Paper holdings are limited to a maximum of 70% of the Total Cash Management Holdings.

24. Shares in any one mutual fund may not exceed 3% of State Fund's total assets, or 50% of the total Cash Management Holdings, whichever is less. Total investment in all mutual funds may not exceed 7% of State Fund's total assets.

25. The terms for any CDs should never exceed a year. CDs per issuer may not exceed $50 million or 10% of the total Cash Management Holdings. CDs are further limited to issuing corporations having shareholders' equity in excess of $10 Billion. CD holdings are limited to a maximum of 30% of the Total Cash Management Holdings. CD issuers must be rated A1/P1 by two nationally recognized rating services.

26. Balances maintained in the PMIF will be monitored regularly by the Cash Management Unit of Fiscal & Investment Services, and reported to the Cash Management and Investment Committee on a monthly basis.

27. If any of the above mentioned rules are breached, the Investment Manager will conduct an analysis and present it with a recommendation to the Chief Investment Officer.

F. Performance Benchmark

1. The benchmarks are for individual mandates and the overall portfolio for fixed income is Barclay's U.S. Treasury Intermediate Index: 12.5%, Barclay's U.S. Agency Intermediate Index: 15%, Barclay's Taxable Municipal Index: 12.5%, Barclay's U.S. Corporate A or better Intermediate Index: 25%, and Barclay's Fixed Rate MBS Index: 35%.

RESOLVED, that this Resolution No. 967 shall replace Investment Resolution No. 951 effective January 1, 2011.

SCIF Board Meeting, San Francisco
Open Session Comments (January 19, 2011)
RE: 3 Year Geographic Reorganization Plan

Good Afternoon. My name is Kenny Sims. I am a Senior Research Analyst at SEIU Local 1000.

I am here to talk about the 3-Year Geographic Reorganization Plan announced recently by SCIF's leadership.

First I would like to acknowledge that this recession has hit this insurance market very hard – costs keep rising while premium keeps dropping. Since 2007, all workers' compensation insurance providers have faced historically unique challenges to stay solvent in this market.

For SCIF as the insurer of last resort, this recession has affected its overall business even more, as the majority of the 1.3 million jobs that have been lost in California were in high-loss/high-risk industries, like construction. In better times, these employers would have turned to SCIF for their insurance policies.

In the wake of these economic contractions, restructuring SCIF to make it more economically and operationally efficient makes perfect sense. For the Union, one of our top priorities is that SCIF remain California's most reliable provider of workers' compensation insurance.

The stated goal of the 3 year geographic reorganization plan is to reduce SCIF office space and consolidate various programs. From the few details we know about the plan, we know it will mean the relocation of thousands of state fund employees over hundreds of miles across California.

Please refer to the map that illustrates the actual relocation of programs to other offices and to the table that calculates the straight line distances between where programs are currently located to where they are scheduled to be moved.

In the table, for example, you can see that, for the 187 employees represented by SEIU in Burbank – top row – they will have to either relocate to Fresno 200 miles away or more than 500 miles away to Redding.

In the offices slated to close, SEIU represents about 2,400 employees, or about 35 percent of SCIF's current workforce. All of these will have to move to keep their jobs.

In the offices scheduled for transfers, SEIU represents another 2,700 employees, or about 40 percent of the workforce. A good majority of these employees will have to move to keep their jobs.

Please keep in mind that these numbers are only for SEIU represented employees and it doesn't even include supervisors and managers.

It's a conservative estimate that 60 percent, or three out of every five people, in SCIF's entire workforce will be uprooted by this plan.

Without a doubt, this is the most massive restructuring of any department in the state of California in decades.

SCIF leadership has said that the urgency and magnitude of this plan is necessary because of State Fund's combined losses and expenses ratio of $1.71 for each dollar in premiums.[i]

Furthermore, the plan, as it's currently designed, is supposed to allow SCIF to operate more efficiently and keep expenses at reasonable levels – to mandates that are at the core of its charter.[ii]

According to Harrison Jerome, the Chief Operating Officer, after closures and relocations, state fund's office footprint will shrink by approximately 336,000 square feet, [iii] which is about 11 percent of SCIF's current 3 million square feet. The estimated savings, according to the COO – who is citing a real estate analysis conducted by REM – will be around $28 million over the next three years.[iv]

Yet if we apply $28 million in savings over three years to the current combined losses and expenses ratio of $1.71, it would reduce that loss by one cent—one cent. That is, if this plan is interpreted simply as a strategy to reduce office space and consolidate programs, it will achieve estimated savings that are less than what is the total in uncollected premiums for 2009, and very likely 2010.

On other occasions, SCIF leadership has stated that this plan will generate overall savings of $200 million over three years, a far greater dollar amount than the COO's $28 million in savings.

It would seem the extra $172 million can only be attained through staff layoffs—-a point that SCIF management has been denied on multiple occasions.

From our perspective, we see no other way to achieve $200 million in savings. Yet, any conversation over layoffs or forced attrition has never taken the center stage of this plan – it continues to officially be a footprint reduction strategy, even though office reductions will only achieve a very small share of the savings.

BTW – When we apply $200 million in savings over three years to the combined losses and expenses ratio of $1.71, this ratio drops by 5 and 6 cents.

The Union's goal here is to begin a conversation with the Board. This will allow us to better inform and represent our members during the next three years. We understand that SCIF needs to reduce costs. I would like remind the Board that during the Union's most recent contract negotiations, we worked with -- a not against --the state to achieve savings it needed while maintaining services. SCIF's well-being and the well-being of its employees depends cooperation and transparency from both sides during these challenging times.

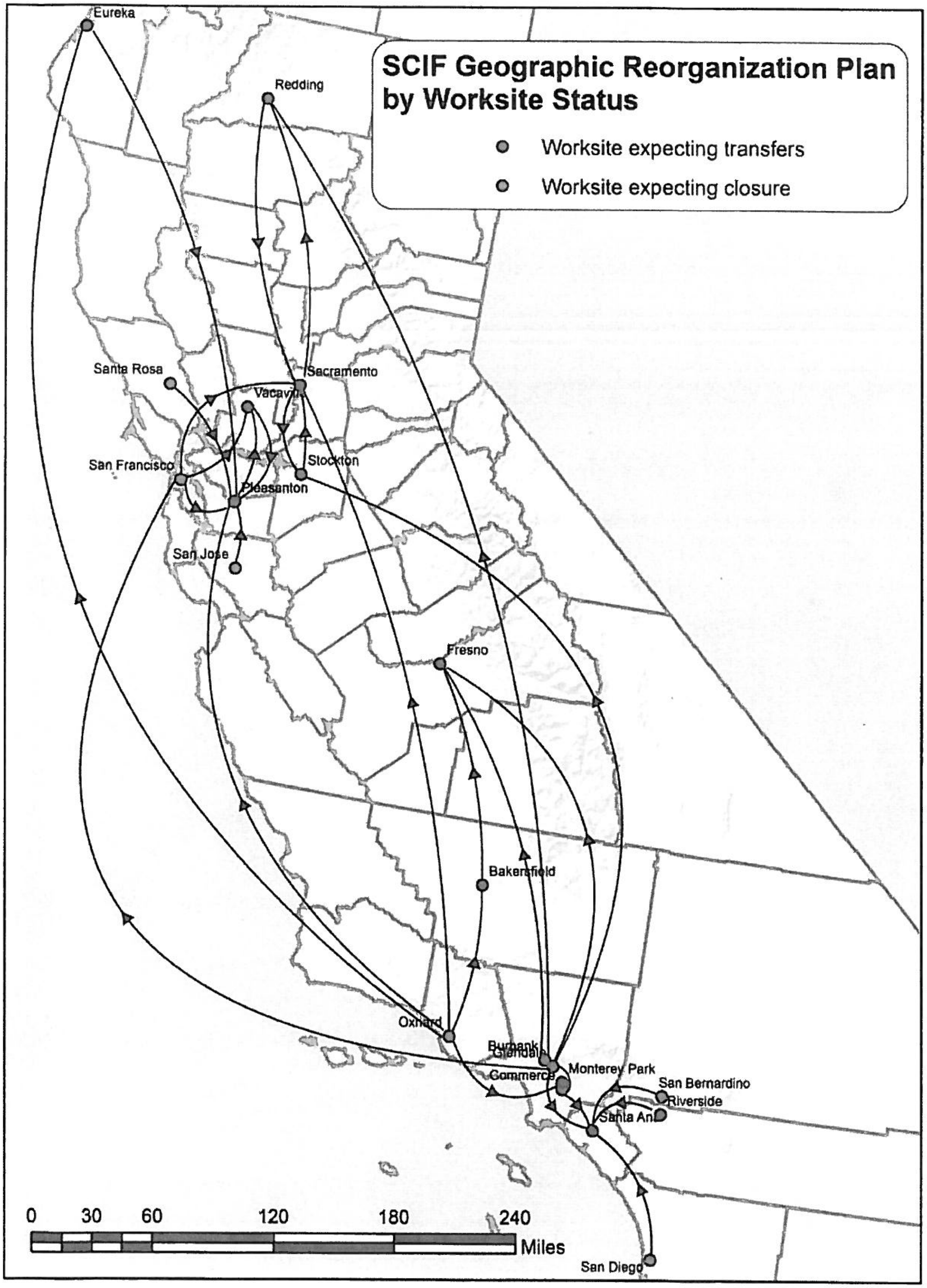
So, I will leave you with two questions meant to open future dialogue between the Union and the SCIF Board:

First, If the plan is exclusively a reorganization plan – and not a layoff strategy--, but savings from office space reductions amount to only 14 percent of the announced savings, then what are the mechanisms that will allow the State Fund to achieve the additional $172 million, or 86 percent of its estimated savings over three years?

Second, how does the SCIF Board plan to maintain the same level of service under a plan that will uproot close to 60 percent or perhaps even more, of its total work force?

References

[i] "State Fund Announces 3-year Geographic Strategy". Internal SCIF memo dated 12/08/2010. http://worksite.scif.com/PrintVersion/StateFundNews_012910ThreeyrStrategy.html (Accessed 12/09/2010)
[ii] State Compensation Insurance Fund. "2011-2013 Geographic Strategy: Questions and Answers." (12/28/2010) http://orgdevelopment.scif.com/PrinteVersion/20112013GeoStrategyQA.html (Accessed 12/28/2010).
[iii] Jerome, Harrison, Chief Operating Officer. "State Fund to Reduce Real Estate 'Footprint'." Letter sent to SCIF staff describing the reorganization plan. http://worksite.scif.com/PrintVersion/StateFundNews_012910RealEstateReduced.html (Accessed 12/13/2010)
iv Ibid.


SCIF Geographic Reorganization Plan by Worksite Status
Worksite expecting transfers
Worksite expecting closure
Eureka
Redding
Santa Rosa
Sacramento
Vacaville
San Francisco
Stockton
Pleasanton
San Jose
Fresno
Bakersfield
Oxnard
Burbank
Glendale
Commerce
Monterey Park
San Bernardino
Riverside
Santa Ana
San Diego
0 30 60 120 180 240
Miles

Straight Line Distances Between Offices													
City	Affected SEIU Workers	Bakersfield	Eureka	Fresno	Monterey Park	Pleasanton	Redding	Sacramento	Santa Ana	Stockton	Vacaville	Glendale	San Francisco
Burbank	187			200			492						
Commerce	83								25			11	
Glendale	410			205					58	315			341
Oxnard	229	75	528		60	282		328					
San Bernardino	57								9				
San Diego	199								69				
San Francisco	873					29		75			49		
San Jose	218					33							
Santa Rosa	129					66							
Bakersfield	95			111									
Eureka	60					246							
Pleasanton	453										47		
Redding	2							143					
Riverside	317								38				
Sacramento	196						143			44			
Stockton	143							44					
Vacaville	413					47							

Table 3. Specific Site-to-site Move Distances between SCIF Offices