

BOARD OF DIRECTORS (OPEN)

AGENDA ITEM 15a

ATTACHMENT 15a-l

APPROVAL of SEPTEMBER 10-11, 2009 OPEN MEETING MINUTES

PRESENTED BY:

November 13, 2009

**STATE COMPENSATION INSURANCE FUND  
BOARD OF DIRECTORS**

**MINUTES OF OPEN SESSION MEETING**

**SEPTEMBER 10-11, 2009**

The Board of Directors of State Compensation Insurance Fund met on September 10, 2009 and September 11, 2009 in the Milton Marks Conference Center, State Building, 455 Golden Gate Avenue, San Francisco, California.

**SEPTEMBER 10, 2009**

**AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL**

The meeting was called to order on September 10, 2009 at 4:10 p.m. and the following were present: Vincent Mudd, Acting Chair; Sheryl A. Chalupa; Daniel M. Curtin; Sen. Michael J. Machado (Ret.); Francis E. Quinlan; and Steven L. Rank, Thomas Rankin and nonvoting member John C. Duncan. Absent: Jeanne L. Cain, Chair (by prior arrangement).

There was a quorum.

Also present: President and CEO Janet D. Frank; General Counsel and Corporate Secretary Carol R. Newman; Chief Counsel Suzanne Ah-Tye; Assistant Chief Counsel and Assistant Secretary Judith D. Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

**AGENDA ITEM 2: ANTITRUST ADMONITION**

Mr. Mudd 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 JUDITH D. SAPPER AND APPOINTMENT OF SUZANNE AH-TYE AS ASSISTANT CORPORATE SECRETARY**

Mr Mudd, on behalf of the Board recognized Ms. Judith D. Sapper for her outstanding work with the Board in her role as Assistant Secretary and presented her with Board Resolution No. 877 in appreciation for her diligent and conscientious service as Assistant Corporate Secretary. It is recommended by the Corporate Secretary that Ms. Suzanne Ah-Tye the Chief Counsel become Assistant Secretary. Mr. Mudd requested public comment of which there was none and he then asked for a Motion:

Motion: Ms. Chalupa

Second: Mr. Curtin

To approve Resolution No. 877 in appreciation of Judith Sapper's work as Assistant Secretary and to appoint Ms. Suzanne Ah-Tye as Assistant Secretary until such time as she resigns or is removed from this position.

AYES: 7

NOES: 0

Resolution adopted.

**AGENDA ITEM 4: PUBLIC COMMENT ON THE APPROPRIATENES OF CLOSED SESSION FOR ITEMS 5-9 ON SEPTEMBER 10 AND ITEMS 10-14 ON SEPTEMBER 11, 2009**

Mr. Mudd requested public comment of which there was none. The meeting convened immediately into Closed Session and reconvened at 12:30 p.m. on September 11, 2009 into Open Session.

**AGENDA ITEM 5: APPROVAL OF JULY 9-10; JULY 20; JULY 31; AND AUGUST 25, 2009 MINUTES** Closed Session

**AGENDA ITEM 6: FINANCIAL RESULTS AND COMPETITIVE STRATEGY**  
Closed Session

**AGENDA ITEM 7: DEVELOPMENT OF 2010 RATE** Closed Session

**AGENDA ITEM 8: ANNUAL DIVIDEND EVALUATION PURSUANT TO INSURANCE CODE SECTION 11776** Closed Session

**AGENDA ITEM 9: PENDING AND POTENTIAL LITIGATION** Closed Session

**SEPTEMBER 11, 2009**

**AGENDA ITEM 10: MARKETING PLAN UPDATE** Closed Session

**AGENDA ITEM 11: SAFETY AND SECURITY OF PERSONNEL** Closed Session

**AGENDA ITEM 12: INFORMATION TECHNOLOGY STRATEGY UPDATE**  
Closed Session

**AGENDA ITEM 13: PENDING AND POTENTIAL LITIGATION** Closed Session

**AGENDA ITEM 14: CURRENT ECONOMY AND STRUCTURAL CONSTRAINTS FOR STATE FUND** Closed Session

**AGENDA ITEM 15: CALL TO ORDER and ROLL CALL**

The meeting was called to order on September 11, 2009 at 11:55 a.m. and the following were present: Vincent Mudd, Acting Chair; Sheryl A. Chalupa; Sen. Michael J. Machado (Ret.); Francis E. Quinlan; and Steven L. Rank, Thomas Rankin and nonvoting member John C. Duncan. Absent: Jeanne L. Cain, Chair (by prior arrangement); Daniel M. Curtin.

There was a quorum.

Also present: President and CEO Janet D. Frank; Chief Financial Officer Jay Stewart; Chief Investment Officer Peter Guastamachio; General Counsel and

Corporate Secretary Carol R. Newman; Chief Counsel and Assistant Secretary Suzanne Ah-Tye; and Randall Keen, Esq. of Manatt Phelps & Phillips.

Mr. Mudd requested a moment of silence in memory of the events that occurred on September 11, 2001.

**AGENDA ITEM 16: ANTITRUST ADMONITION**

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

**AGENDA ITEM 17: CONSENT CALENDAR**

The consent calendar consisted of the following items: Approval of Open Meeting Minutes July 9-10, 2009, July 20, 2009, July 31, 2009, August 25, 2009; Renewal of Expiring October/November 2009 Insurance Policies; and Approval of Retirement Resolutions Nos. 878-880.

Retiring employees were recognized in three resolutions attached hereto and incorporated as a part of these minutes:

Resolution No. 878 in appreciation of Nancy E. Higginbotham, thanking her for serving State Fund with distinction for more than 34 years;

Resolution No. 879 in appreciation of George A. Garcia, thanking him for serving State Fund with distinction for more than 30 years;

Resolution No. 880 in appreciation of Mark A. McKissock, thanking him for serving State Fund with distinction for more than 30 years;

MOTION: Ms. Chalupa      Second: Mr. Curtin

To approve the Open minutes of July 9-10, July 20, July 31 and August 25, 2009 Board meetings as presented; the renewal of expiring October/November 2009 insurance policies; and Retirement Resolution Nos. 878-880.

AYES: 7                      NOES: 0                      Motion carried.

**AGENDA ITEM 18: FINANCIAL UPDATE—2nd QUARTER 2009**

Mr. Mudd requested Mr. Jay Stewart to report on this item. Mr. Jay Stewart, Chief Financial Officer made an oral report of 2nd Quarter 2009 financials. He reported \$627M in net written premium which is approximately 19% below budget primarily due to a continued competitive market place and reduced payrolls. He forecasts 2009 Year-end premium will be approximately \$1.25B. There were net losses of \$461M compared to a budget of \$585M. The Year-end loss ratio is forecast to be at the budgeted loss ratio of 75%. Loss adjustment expense (LAE) was \$315M which is approximately \$6M below budget due to reduced payroll as a result of the furlough and decreased IT transformational spending. Other underwriting expenses were \$218M compared to a budget of \$271M. Investment income of \$454M exceeded the budget of \$425M. Premium charge offs were \$17M as compared to a budget of \$25M. Net income was \$54M compared to the budget of \$2M as a result of higher investment income yield. Mr. Stewart

reported Balance Sheet highlights of \$21.3B in total admitted assets, cash and invested assets of \$20.6B, total liabilities of \$16.1B, and loss reserves of \$15.3B. Assets exceeded liabilities by approximately \$5.1B. Mr. Mudd requested public comment of which there was none.

**AGENDA ITEM 19: MARKET OUTLOOK AND ECONOMIC UPDATE**

Mr. Mudd requested Chief Investment Officer Mr. Guastamachio and General Re-New England Asset Management to present on the Market Outlook and Economic Update. Mr. Guastamachio introduced Mr. Chip Clark, Fixed Income Manager from General Re-New England Asset Management as one of two investment managers for State Fund. Mr. Clark reported that the recession is the longest and deepest in the post WWII period. Recent economic indicators such as manufacturing indices, housing starts, and unemployment claims indicate we have hit bottom. Cash for clunkers and inventory re-stocking should lead to positive RGDP growth in 3<sup>rd</sup> Quarter 2009. Mr. Clark noted that unemployment continues to rise, but may not worsen. There is growth in Asia, especially China. It is difficult for businesses to obtain credit, since banks are buying treasuries and not lending. The U.S. dollar is weak and diminishing as the reserve currency. The market will remain soft as companies struggle to maintain market share. However, reserves appear adequate and claims frequency will decline as payrolls shrink. The Board engaged in a question and answer discussion with Mr. Clark. Mr. Mudd requested public comment of which there was none.

**AGENDA ITEM 20a,b and c: COMMITTEE REPORTS**

Mr. Mudd requested a report from each of the Committee Chairs.

**Audit Committee**

Mr. Quinlan reported Ms. Marie Wardell is the new Manager of Internal Audit and brings 35 years of workers' compensation experience. Internal Audit has been working through a backlog of investigations and audits. They have and will continue to prioritize the audits and investigations based on risk to the organization. Mr. Quinlan also reported on a new training program for auditors to enhance their effectiveness and efficiency. Mr. Mudd requested public comment of which there was none.

**Investment Committee**

Mr. Mudd reported on the benefits State Fund has already gained in having a Chief Investment Officer in place. He also reported that the Investment Committee will continue to evaluate the economic climate and inflation impact to State Fund. Mr. Mudd requested public comment of which there was none.

**Governance Committee**

Ms. Chalupa reported that the Governance Committee considered a number of matters in which they will be recommending approval by the Board. Those matters are later agenda items. Ms. Chalupa requested Ms. Newman present the recommended Board Education and Travel Reimbursement Policy. Ms. Newman distributed the proposed Board Education and Travel Reimbursement Policy and noted particular changes the Governance Committee had requested. Though

Board members' reimbursement for education and travel is not subject to DPA imposed rules, the Governance Committee directed the General Counsel to use DPA rules as a guidepost. In addition, Board reimbursement must be for actual and necessary travel expenses incurred in the performance of his or her duties as a member of the Board under the Insurance Code provisions regarding State Fund. The Board then reviewed and discussed the policy; the pre-approved education opportunities and the process for reimbursement. Mr. Mudd requested public comment of which there was none. Ms. Chalupa then proposed the following resolution which was seconded by Mr. Curtin:

WHEREAS, the Board of Directors ("Board") of the State Compensation Insurance Fund ("State Fund") operates pursuant to a statute that authorizes each of its members to be reimbursed for "his or her actual and necessary traveling expenses incurred in the performance of his or her duties as a member" of the Board (Insurance Code sec. 11770(d)(1)); and

WHEREAS, the Board and State Fund executive staff believes that the term "necessary traveling expenses" should be more precisely defined for purposes of the Board's expense and reimbursement policies and practices; and

WHEREAS, development of a policy defining the activities that result in reimbursable expenses by State Fund to its Board members is in the best interest of the organization.

NOW, THEREFORE, BE IT RESOLVED, THAT:

The Board hereby adopts the State Compensation Insurance Fund Board Member Education and Travel Expense Reimbursement Policy that is attached hereto.

AYES: 7                      NOES: 0                      Resolution adopted.

Ms. Chalupa reported that the Governance Committee continues to review the Board Evaluation purpose and process and will have more information at the next meeting on the selection of a vendor. Ms. Chalupa also reported that after due consideration, it was decided not to recommend a Labor Relations Committee at this time.

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

**AGENDA ITEM 21: RATIFICATION OF INVESTMENT TRANSACTIONS**

Mr. Mudd requested a report on this agenda item from Fiscal and Investment Services Manager Ms. Leslie Dawe. Ms. Dawe reported on recommending the ratification of investment transactions from June 1 to July 31, 2009. Investment transactions in Attachment 21 a, b and c were made in conformance with Investment policy. For bond transactions, 17 Securities were sold which totaled \$176M in sales. There were no short term investment transactions for this period. Attachment 21 c-1 is the Compliance Report as of July 31, 2009. Though in compliance when purchased, Ms. Dawe reported there were 15 long term



investments which are not in compliance with State Fund's investment policy at this time. These bonds were downgraded by the rating agency. In August 2009, Johnson Controls, Inc was sold for \$40M. The total long term bonds not in compliance totals \$314,885,000, which is 1.6% of the total investment portfolio.

Mr. Mudd requested public comment of which there was none. The following action was taken:

MOTION: Ms. Chalupa Second: Mr. Rankin

To ratify the investment transactions for the period  
June 1 to July 31, 2009, and the Compliance Report  
of July 31, 2009.

AYES: 7 NOES: 0 Motion carried.

**AGENDA ITEM 22: STATE FUND BOARD OF DIRECTORS EDUCATION AND TRAVEL REIMBURSEMENT POLICY-Discussed under Agenda Item 20c.**

**AGENDA ITEM 23 DISCRETIONARY EMPLOYEE RECOGNITION PROGRAM**

Mr. Mudd requested Senior Vice President of Human Resources, Mr. Andreas Acker to report on State Fund's discretionary Rewards and Recognition Program. Mr. Acker reported the intent behind this new Program is to keep employees engaged with new values and competencies. There is a peer recognition component as both staff members and supervisors/managers have input into the recognition process. To date, 200 Encore Awards have been awarded. There is no added cost to the budget, as this program existed previously, but in a different form known as the PACE Award. Individual Encore awards or Team Awards can be given. Recipients receive \$250 in cash or may elect to receive this amount towards a training class.

Ms. Chalupa noted the Governance Committee discussed the Discretionary Employee Recognition Program in some detail at yesterday's Governance Committee meeting and the Governance Committee was recommending the Board adopt and ratify the Program.

Mr. Mudd requested public comment of which there was none. Ms. Chalupa moved and Mr. Curtin seconded the following resolution distributed to the Board:

WHEREAS, until April, 2009, the State Compensation Insurance Fund ("State Fund") recognized exceptional employee efforts through the President's Award for Corporate Excellence; and

WHEREAS, the President and Chief Executive Officer of State Fund determined that a more flexible awards or recognition program is needed to allow State Fund to provide additional monetary or other benefits to employees in recognition of exceptional employee performance, and that such a program would serve a public purpose because it is directed at the efficiency, retention and recruitment of State Fund employees; and

WHEREAS, State Fund engaged in a thorough process to design a new program entitled State Fund's Recognition Programs; and

WHEREAS, the California Department of Personnel Administration ("DPA") has statutory authority to establish awards or recognition programs for most state agencies pursuant to Government Code section 19823; and

WHEREAS, State Fund is exempt from Government Code section 19823 pursuant to Insurance Code section 11873; and

WHEREAS, State Fund's President and Board of Directors have broad authority and jurisdiction to manage, administer, and conduct the affairs of State Fund pursuant to Insurance Code sections 11781, 11785 and 11787; and

WHEREAS, the President and Chief Executive Officer of State Fund established and implemented State Fund's Recognition Programs in April, 2009;

NOW THEREFORE, BE IT RESOLVED, THAT:

The President and Chief Executive Officer of State Fund hereby is authorized and directed to take or to cause to be taken all such actions necessary or desirable to carry out the intent or purposes of State Fund's Recognition Programs; and

RESOLVED FURTHER, that any actions taken by the President and Chief Executive Officer of State Fund prior to the date of the foregoing resolution adopted hereby that are within the authority conferred thereby are hereby ratified, confirmed, and approved as the acts and deeds of State Compensation Insurance Fund.

AYES: 7                      NOES: 0                      Motion carried.

**AGENDA ITEM 24: STATE FUND BOARD STRATEGIC MEETING UPDATE**

Mr. Mudd requested President and CEO, Ms. Frank, report on the Board of Director's Strategic meeting scheduled for October 19-21. Ms. Frank referenced the meeting objectives, agenda and plans as developed by the Governance Committee in conjunction with Ms. Teresa Smiley of Summit Human Capital. Ms. Chalupa reported that the Governance Committee approved the agenda and recommended adoption by the full Board. Mr. Mudd requested public comment of which there was none. The Board concurred with the agenda as approved by the Governance Committee.

**AGENDA ITEM 25: AMENDMENT TO BY-LAWS- Deferred.**



**AGENDA ITEM 26: PRESIDENT'S REPORT**

Mr. Mudd called upon President and CEO Ms. Frank to provide the President's report. Ms. Frank reported that results for July 2009 are encouraging despite a tough economy and intense competition. Year to date new business and retention highlights include 98% of our goal of renewed accounts. We were at 68% of our new business goal. State Fund developed a portfolio of short and intermediate initiatives, including six regional product fairs to be held in the 4<sup>th</sup> quarter 2009. The initiatives center on target marketing, broker segmentation, business development and communication strategies. This consists of a Marketing Service Team approach. Training for the teams began in August 2009 and will roll out 4<sup>th</sup> quarter.

The subrogation cash receipts module has been implemented in the Electronic Claims File system. This will expedite processing and ability to track and record subrogation recoveries. The 2010 budgeting process has begun. Fiscal is leading a newly redesigned process for the budget. Claims and Legal are making solid progress on the ambulatory surgery center lien project. Real Estate Management is continuing efforts to downsize. State Fund's real estate currently includes 14 owned locations and 19 leased locations. There is currently 3M square feet in the real estate portfolio, and the goal is to reduce this to 2.3M square feet by allowing leases to expire.

Human Resources has designed an employee engagement survey to be administered in October. This will assist in understanding the level of employee engagement in the work and to develop plans to improve engagement.

In regard to State Fund's brand, a policyholder newsletter, COMPOnents has been published. Communications published the 2008 annual report highlighting State Fund's accomplishments and role. This report is available at State Fund's website and was also sent to brokers and members of the legislature. State Fund's website has been redesigned and will launch in November 2009. The new address is StateFundCA.com.

State Fund has established a Preferred Counsel Network. Ten law firms were chosen based on interviews, competitive rates, discounts, commitment to developing in house counsel, and expertise. Claims training on Medicare Quarterly Reporting has been developed and will be implemented 4<sup>th</sup> quarter. There were outstanding adjuster certification results as of June 30, 2009, and 99% of our adjusters and bill reviewers are certified. State Fund's Ethics and Compliance Department is on target to meet end of year 2009 goals and to ensure compliance under the NAIC Model Audit Rule.

State Fund is increasing the number of continuing education classes to brokers. One of State Fund's missions is to promote safe workplaces in California. To this end, State Fund has partnered with Cal OSHA and the CHP to host 63 safety seminars. The goal is to host 100 seminars by year's end. State Fund's Vice President of Government Relations has made 17 management presentations on current events in government affairs, which will allow management to have better

insight into current events and to allow them to discuss them accurately with employees.

**AGENDA ITEM 26b: PRESIDENT'S REPORT: Chief Information Technology Officer Replacement**

Mr. Mudd called on President and CEO Ms. Frank to report on the status of hiring a Chief Information Technology Officer. Ms. Frank reported that an offer to a candidate for Chief Information Technology Officer (CITO) has been made. A background check is currently being performed and it is expected that the new Chief Information Technology Officer will begin September 21, 2009. Mr. Mudd requested that the CITO appointment be ratified by the Board at the next meeting.

Mr. Mudd requested public comment on the President's report of which there was none.

**AGENDA ITEM 27: CHAIR'S REPORT/ COMMITTEE ASSIGNMENTS**

Acting Chair Mr. Mudd reported that it has been over 8 months since State Fund has been subject to the Bagley- Keene Open Meeting Act, and that State Fund has fully complied by being open and transparent.

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

**AGENDA ITEM 28: BOARD MEMBER REPORTS**

There were no Board Member reports.

Mr. Mudd requested public comment of which there was none

**AGENDA ITEM 29: PROPOSALS AND SUGGESTIONS FOR NOVEMBER 2009 AGENDA**

Mr. Mudd requested any proposals and suggestions for the November 2009 agenda from the Board. The Board requested the following matters be considered for the November 2009 or future meetings of the Board:

1. How to achieve a high level of service both internally and externally.
2. An update by CWCI on prescription drug abuse.
3. First Aid- What are employers required to do.
4. Back to Work Programs and benchmarks.
5. Workers' Compensation Reform and how State Fund can take the lead in making the system run more efficiently.
6. How State Fund can help policyholders through flexible payment programs.

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

**AGENDA ITEM 30: PUBLIC COMMENT**

Mr. Mudd requested public comment.

Mr. Randy Cheek, Legislative Advocate for Service Employees International Union (SEIU) Local 1000, thanked the Board of Directors for their participation in support of the employees in the furlough lawsuit. SEIU is greatly appreciative of the Board's efforts. Mr. Cheek also stated that SEIU is opposed to the sale of State Fund and State Fund assets and has been making efforts state wide to voice their concerns.

**ADJOURNMENT**

There being no further business, Acting Chair Mr. Mudd adjourned the meeting at 2:00 p.m.

The next regularly scheduled Board meeting will begin on Thursday, November 12, 2009 at 4:00 p.m. at the Milton Marks Conference Center, 455 Golden Gate Ave, San Francisco and will resume there at 8:30 a.m. on November 13, 2009 with the Open Session to begin at or about 12:30 p.m

Respectfully submitted,

Suzanne Ah-Tye  
Assistant Corporate Secretary