

**STATE COMPENSATION INSURANCE FUND
GOVERNANCE COMMITTEE**

MINUTES OF OPEN SESSION MEETING

JANUARY 20, 2011

The Governance Committee met on January 20, 2011 at One Leidesdorff, 344 Pine St, San Francisco, California.

AGENDA ITEM 1: ROLL CALL

The meeting was called to order at 10:00 a.m. and the following Members were present: Lawrence E. Mulryan, Chair; Sheryl Chalupa; and Daniel M. Curtin.

Also present: President and CEO Tom Rowe; General Counsel and Corporate Secretary Carol R. Newman; and Deputy Chief Counsel and Assistant Corporate Secretary Judith D. Sapper joined at agenda item 3.

There was a quorum.

General Counsel and Corporate Secretary Carol Newman requested a point of order that Mr. Mulryan will now serve as the Governance Chair as well as the Board Chair as has been State Fund Board practice with the newly formed Governance Committee in 2009. Ms. Newman asked for a motion to ratify and recommend to the Board that Mr. Mulryan serve as Governance Chair.

MOTION: Mr. Curtin Second: Ms. Chalupa

To approve Lawrence Mulryan as the Chairperson of the Governance Committee.

Mr. Mulryan requested any comments from the Committee or public, of which there were none, and then called for the vote.

YES: 2 NO: 0 ABSTAIN: 1 (Mr. Mulryan)

Motion carried.

AGENDA ITEM 2: APPROVAL OF NOVEMBER 18, 2010 OPEN MEETING MINUTES

MOTION: Mr. Curtin Second: Ms. Chalupa

To approve the minutes of the November 18, 2010 Open meeting of the Governance Committee as presented.

YES: 3 NO: 0 Motion carried.

AGENDA ITEM 3: UPDATE ON BOARD ORIENTATION AND TRAINING

Ms. Valerie Lampson, Learning and Development Manager, was called to discuss a proposal for Board training as requested at the January 2011 Committee meeting. She distributed a draft Directors' Development Program handout outlining training for new Directors and continuing education for all Directors. The new Director orientation and training will be conducted within six months of appointment to meet the statutory training requirements for State Fund Board Members. Ms. Lampson recommended a multimedia training approach of webinars and live presentations with specialized material for the Audit, Governance, and Investment Committee members and for each Chairperson. Training opportunities will continue to be featured on the Board training and approval log. Ongoing education will continue with one or two day training sessions supplemented by topics at certain Board meetings. The training agenda and potential speakers will be developed through interviews with select Board Members. The Committee agreed with the recommendations for developing agenda topics and managing logistics through Board and the Committee Chairs.

AGENDA ITEM 4: RATIFICATION OF APPOINTMENT OF TOM CLARK AS CHIEF OPERATING OFFICER

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. He recommended Tom Clark for the position as he had three decades of experience at State Fund including most recently overseeing Field Operations. Mr. Mulryan requested a motion to ratify the appointment of Tom Clark as the Chief Operating Officer. Ms. Newman read the proposed motion.

MOTION: Mr. Curtin Second: Ms. Chalupa

To ratify the appointment of Tom Clark to serve as the 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 recommend that the Board of Directors 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 Committee discussion and public comment of which there were none. Mr. Mulryan called for the vote.

YES: 3 NO: 0 Motion carried.

AGENDA ITEM 5: UPDATE ON GOVERNANCE, COMPLIANCE, AND ETHICS INITIATIVES

Ms. Barbara Simmons, Governance & PRO Manager, was called to present the draft Code of Conduct, Incompatible Activities and Business Ethics policies for approval as requested by the Committee at the November 2010 meeting. Ms. Simmons explained the Code of Conduct was developed through a work group of subject matter experts including outside legal review. State Fund's Executive Committee has approved the draft Code. The Code of Conduct is intended for daily use for decision making as a best practice recommended by the U.S. Sentencing Commission for an effective Ethics & Compliance program. Board approval of the Business Ethics policy is recommended by U.S. Sentencing Commission guidelines.

State Fund has four key policies supporting the Code of Conduct: Privacy & Confidentiality; Non-Business Use of State Fund Facilities; Complaint Reporting & Anti-Retaliation; and Statement of Economic Interests & Financial Disclosure; as well as two anonymous hotlines for employees.

Ms. Simmons noted the financial disclosure required by the Fair Political Practices Commission has been increased to cover almost half of all State Fund employees. The disclosures are handled by the HR Department with review by an independent unit to note any incompatible activities that must be addressed by HR. The Code of Conduct will be supported by training, annual certification, periodic review, and metrics measuring success in deployment.

The Incompatible Activities policy requires the Board approval under the California Government Code and includes all statutory and specific to State Fund elements. The Government Code also requires State Fund provide a 30-day employee public comment period, and submit a summary of all comments to the Department of Public Administration for final approval. Comments and proposed recommendation of the Code of Conduct, Business Ethics and Incompatible Activities policies will be submitted at the March 2011 meeting to the Governance Committee and the Board for full review and adoption.

Mr. Mulryan requested the Corporate Secretary read the proposed motion directing staff to implement the Code of Conduct and Business Ethics and Incompatible Activities policies.

MOTION: Ms. Chalupa

Second: Mr. Curtin

To direct staff to undertake the following activities with respect to the Code of Conduct, Business Ethics policy and the Incompatible Activities policy (collectively, the "Policies"):

Take all actions necessary or as required by law or by applicable memoranda of understanding with respect to providing notice of the

forthcoming adoption of the Policies to the unions representing State Fund employees;

Upon completion of the actions described above, provide the Policies, including any updates or amendments, to the Governance Committee for the Governance Committee's further consideration and recommendation to the Board of Directors.

Mr. Mulryan requested public comment. Kathleen Collins, State Fund employee and union representative for SEIU Local 1000, made public comment asking how comments on the proposed Code of Conduct would be collected and suggesting a public mailbox be created. There was no further public comment and Mr. Mulryan called for the vote.

YES: 3

NO: 0

Motion carried.

Ms. Simmons was excused.

AGENDA ITEM 6: BOARD MEMBER UPCOMING SPEECHES OR ARTICLES

Mr. Mulryan requested Board members identify any upcoming speeches and articles. Ms. Newman explained the procedure for Board members to provide workers' compensation-related speech and article information to State Fund's Communications Department for notification to the Governance Committee. Mr. Zachry reported on an upcoming presentation on the impact of early childhood experiences on the workers' compensation process and chronic pain and medical functional restoration; and a Risk & Insurance magazine article on the importance of early investigation and correct communication with treating physicians on causation and compensability issues. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 7: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 10-15.

Mr. Mulryan requested public comment on the appropriateness of closed session agenda items 10-15 of which there was none.

AGENDA ITEM 8: PUBLIC COMMENT

Mr. Mulryan requested public comment of which there was none. The Governance Committee immediately convened into Closed Session at 10:40 a.m.

AGENDA ITEM 16: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 12:05 p.m. following the conclusion of the Closed Session and the following Members were present: Lawrence E. Mulryan, Chair; Sheryl Chalupa; and Daniel Curtin.

Also present: President and Tom Rowe; General Counsel and Corporate Secretary Carol R. Newman; and Deputy Chief Counsel and Assistant Corporate Secretary Judith D. Sapper.

There was a quorum.

AGENDA ITEM 17: RECOMMENDATION ON CHIEF RISK OFFICER AND CHIEF FINANCIAL OFFICER

Mr. Mulryan stated that following a national search, Daniel Sevilla had been selected for the position of Chief Financial Officer and Ken Van Laar for the position of Chief Risk Officer, and requested Ms. Newman read the proposed motion recommending Board ratification of their appointments.

MOTION: Mr. Curtin Second: Ms. Chalupa

To recommend that the Board of Directors 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 Financial 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: 3

NO: 0

Motion carried.

AGENDA ITEM 18: PROPOSALS AND SUGGESTIONS FOR MARCH 2011
AGENDA

Mr. Mulryan requested proposals and suggestions for the March 2011 agenda and public comment of which there were none.

The next Governance Committee meeting is scheduled for March 17, 2011 at 10:00 a.m. in San Francisco, California.

ADJOURNMENT

There being no further business before the Governance Committee, the meeting adjourned at 12:10 p.m.

Respectfully submitted,

Judith D. Sapper,
Asst. Corporate Secretary