

**STATE COMPENSATION INSURANCE FUND
GOVERNANCE COMMITTEE**

MINUTES OF OPEN SESSION MEETING

MARCH 17, 2011

The Governance Committee met on March 17, 2011 at the Milton Marks Conference Center, State Building, 455 Golden Gate Ave, San Francisco, California.

AGENDA ITEM 1: ROLL CALL

The meeting was called to order at 10:05 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; Chief Financial Officer Dan Sevilla; General Counsel and Corporate Secretary Carol R. Newman; and Assistant Chief Counsel and Assistant Corporate Secretary Pro Tem Vera C. De Martini.

There was a quorum.

AGENDA ITEM 2: APPOINTMENT OF VERA DE MARTINI AS SECRETARY PRO TEM

Mr. Mulryan asked for a motion to appoint Assistant Chief Counsel Vera De Martini as Secretary Pro Tem pending her appointment as Assistant Corporate Secretary at the March 18, 2011 Open Board meeting.

MOTION: Ms. Chalupa Second: Mr. Curtin

To appoint Assistant Chief Counsel Vera De Martini as Secretary Pro Tem.

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

YES: 3 NO: 0 Motion carried.

AGENDA ITEM 3: APPROVAL OF MARCH 17, 2011 OPEN MEETING MINUTES

MOTION: Ms. Chalupa Second: Mr. Curtin

To approve the minutes of the March 17, 2011 Open meeting of the Governance Committee as presented.

YES: 3 NO: 0 Motion carried.

AGENDA ITEM 4: UPDATE ON DIRECTORS TRAINING

Mr. Mulryan invited Ms. Valerie Lampson, Learning and Development Manager, to provide an update on the training program for new Directors and continuing education for all Directors. Training will be provided by State Fund and external personnel, will meet all statutory requirements along with topics requested by the Directors, and will be given at the Board Strategic Meeting scheduled for September 13-15, 2011 for increased efficiency. Ms. Lampson noted the National Association of Corporate Directors (NACD) has excellent training options for the Directors that will continue to be noted in the pre-approved training schedule. Ms. Lampson was excused.

AGENDA ITEM 5: CODE OF CONDUCT, BUSINESS ETHICS AND INCOMPATIBLE ACTIVITIES POLICIES REPORT AND RECOMMENDATION

Ms. Barbara Simmons, Governance Manager, was invited to present an update on the draft Code of Conduct, Incompatible Activities and Business Ethics policies. The Code of Conduct and policies were posted for the 30 day comment period and 40 responses were received, summarized, posted, and addressed. Ms. Simmons outlined the revisions to the Code of Conduct based on the comments. In addition the Incompatible Activities Policy appeals process regarding outside employment was changed to coordinate with applicable collective bargaining agreements. A discussion ensued. Ms. Simmons noted the Incompatible Activities Policy will remain in draft form until approved by the Department of Personnel Administration.

Mr. Mulryan requested a motion to recommend to the Board of Directors approval of the Code of Conduct and Business Ethics and Incompatible Activities policies.

MOTION: Ms. Chalupa

Second: Mr. Curtin

To recommend to the Board of Directors approval of the Code of Conduct, Business Ethics and Incompatible Activities policies.

Mr. Mulryan requested public comment. Kathleen Collins, State Fund employee and union representative for SEIU Local 1000, made public comment asking whether the revised Code of Conduct would be redistributed for further employee review. She noted many employees have additional employment and requested greater specificity on what activities are incompatible, and expressed concern about initial reporting on the Statement of Economic Interest form. Randall Cheek, Legislative Advocate for SEIU Local 1000, made public comment on the Department of Insurance as a contact and resource under the Code of Conduct section concerning state agencies. 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: GOVERNANCE COMMITTEE CHARTER

Ms. Newman reported on recommended changes to the Governance Committee Charter. The Charter was completed last year for the first time following legal review and input from the Board and Governance Chairpersons. The proposed changes included expanding the number of Committee members from 3 to 5; provide more particularity on the Committee meetings, duties and powers; add a statement regarding unrestricted access to management; and outline the role of the Committee in overseeing governance reviews, assessments and examinations, as well as Board policies.

Mr. Mulryan requested a motion to adopt the Governance Committee Charter as amended.

MOTION: Ms. Chalupa Second: Mr. Curtin

To adopt the Governance Committee Charter as amended.

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

YES: 3 NO: 0 Motion carried.

AGENDA ITEM 7: INTERNAL COMMITTEE STRUCTURE/ENTERPRISE RISK COMMITTEE AND OPERATIONS COMMITTEE

Mr. Mulryan invited Chief Operating Officer Tom Clark to review changes to project governance and internal committee structures. Mr. Clark discussed the Enterprise Governance Committee and the Strategic Operations Committee oversight of key strategic initiatives. One Strategic Governance Committee with six members of the Executive Committee has been created to streamline the process for managing project priorities and expenses. The Functional Steering Committees have been disbanded and projects costing less than \$250,000 now will be overseen by the executive responsible for the functional area rather than the Strategic Governance Committee. This change will increase accountability of the sponsoring executive. Mr. Clark was excused.

AGENDA ITEM 8: BOARD MEMBER UPCOMING SPEECHES OR ARTICLES

Mr. Mulryan requested Board members identify any upcoming speeches and articles. Mr. Zachry reported on an upcoming Risk & Insurance magazine article on benefit notices; presentations on counterfeit drugs; nanotechnology, privacy and data security in worker's compensation; and speeches on early childhood adverse experiences, and the functional restoration process. Mr. Mulryan requested public comment of which there was none. Mr. Zachry was excused.

AGENDA ITEM 9: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 12-16.

Mr. Mulryan requested public comment on the appropriateness of closed session agenda items 12-16. Mr. Randall Cheek, Legislative Advocate of SEIU Local 1000 expressed concern for transparency purposes on closed session discussion of agenda item 15, Review of President and Exempt Executives 2010 Performance Against Objectives and agenda item 16, Overview of Exempt and Leadership Positions and Performance Expectations. Mr. Mulryan requested Ms. Newman to explain the necessity for these agenda items being in closed session. Ms. Newman noted the performance objectives discuss the strategy of State Fund but the amount of compensation will be discussed and voted on in the open Board session. Item 16 is an initial strategic discussion that involves personnel matters.

AGENDA ITEM 10: PUBLIC COMMENT

Mr. Mulryan requested public comment of which there was none. The Governance Committee immediately convened into Closed Session at 10:35 a.m.

AGENDA ITEM 17: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 11:50 a.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; Chief Financial Officer Dan Sevilla; General Counsel and Corporate Secretary Carol R. Newman; and Assistant Chief Counsel and Assistant Corporate Secretary Pro Tem Vera De Martini.

There was a quorum.

AGENDA ITEM 18: RECOMMENDATIONS TO BOARD REGARDING COMMITTEE ASSIGNMENTS

Mr. Mulryan indicated the recommended Committee appointments were available as a handout. In addition to the current Governance Committee members Sen. Machado and Mr. Rankin have been added. Mr. Reid has been added to the Investment Committee. Ms. Chalupa has been asked to serve as an Alternate to the Audit Committee as a result of Mr. Richardson's resignation. Mr. Mulryan requested a motion to recommend to the Board the State Fund Committee appointments.

MOTION: Mr. Curtin Second: Ms. Chalupa

To recommend that the Board of Directors approve the appointments to the State Compensation Insurance Fund Board Committees as presented for the period of

March 18, 2011 through the March 2012 Board meetings unless there is a resignation by a Committee member or removal by the Board Chair; in such an event the Board Chair will make a new appointment to be ratified at the next Board meeting.

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

YES: 3 NO: 0 Motion carried

AGENDA ITEM 19: RECOMMENDATIONS TO BOARD REGARDING PRESIDENT AND EXEMPT EXECUTIVES COMPENSATION

Mr. Mulryan reported on the proposed compensation packages and bonuses for exempt Executive Committee members for 2010. Mr. Mulryan requested a motion to recommend the President's and Exempt Executives' Compensation to the full Board for a vote at the March 18, 2011 meeting and make the Resolution on compensation available to the public at the meeting.

MOTION: Ms. Chalupa Second: Mr. Curtin

To recommend to the Board of Directors the President's and Exempt Executives' Compensation as presented.

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

YES: 3 NO: 0 Motion carried

Mr. Mulryan also requested a motion to investigate expanding the bonus pool to include CEA and Program Manager positions.

MOTION: Ms. Chalupa Second: Mr. Curtin

To recommend to the Board of Directors that the President take all actions necessary to investigate expanding the bonus pool to include CEA and Program Manager positions.

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

YES: 3 NO: 0 Motion carried

Mr. Mulryan also requested a motion regarding a performance based retention tool for the exempt executive positions.

MOTION: Ms. Chalupa Second: Mr. Curtin

To recommend to the Board of Directors that the President and CEO of State Fund be authorized to take all actions necessary to develop a performance based retention tool for the exempt executive positions, consistent with his recommendations, for further consideration by the Board of Directors.

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

YES: 3

NO: 0

Motion carried.

AGENDA ITEM 20: PROPOSALS AND SUGGESTIONS FOR MAY 2011
AGENDA

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

The next Governance Committee meeting is scheduled for May 12, 2011 at 10:00 a.m. in San Francisco, California.

ADJOURNMENT

There being no further business before the Governance Committee, the meeting adjourned at 11:55 a.m.

Respectfully submitted,

Vera C. De Martini,
Asst. Corporate Secretary Pro Tem