

**STATE COMPENSATION INSURANCE FUND  
GOVERNANCE COMMITTEE**

**MINUTES OF OPEN SESSION MEETING**

**JULY 14, 2011**

The Governance Committee met on July 14, 2011 at the Omni San Francisco Hotel, Telegraph Hill Room, 500 California Street, 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 A. Chalupa; Daniel M. Curtin, Sen. Michael J. Machado (Ret.); and Thomas E. Rankin.

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Dan Sevilla; Chief Risk Officer Ken Van Laar; General Counsel and Corporate Secretary Carol R. Newman; and Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini.

**AGENDA ITEM 2: APPROVAL OF MAY 12, 2011 OPEN MEETING MINUTES**

MOTION: Mr. Rankin

Second: Ms. Chalupa

To approve the minutes of the May 12, 2011 Open meeting of the Governance Committee as presented.

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

YES: 5

NO: 0

Motion carried.

**AGENDA ITEM 3: UPDATE ON DIRECTORS TRAINING**

Ms. Valerie Lampson, Learning and Development Manager, reported that discussions were underway to have Mr. John L. Petersen, a noted futurist, economist and founder of the Arlington Institute, address the members at the strategic board meeting. Mr. Petersen's qualifications include both government and political experience at the National War College, the Institute for National Security Studies, the Office of the Secretary of Defense, and as a member of the National Security Council staff at the White House. It is anticipated that Mr. Petersen's address will focus on trends outside of the workers' compensation industry. There was discussion about other qualified potential individuals, such

as Mr. Steven Levy, may be able to provide insights regarding the California workers' compensation insurance industry landscape as well as address global market issues affecting State Fund's and other carriers' delivery of services. Ms. Lampson was asked to explore having more than one futurist participate in the presentation to the members to meet the diverse interests of the members.

Ms. Lampson also discussed the new training procedures implemented to simplify recording of member completed training and recommended that a semi annual review of member training status be performed. There was discussion regarding how to make the State Fund training enrollment and tracking forms more user friendly and to more easily capture government rate training discounts. Ms. Lampson indicated that forms will be revised to reflect requested changes.

#### **AGENDA ITEM 4: EXECUTIVE TRAVEL REIMBURSEMENT POLICY UPDATE**

Mr. Mulryan noted that this item dropped from the agenda since there will not be a change in the Executive Travel Reimbursement Policy.

#### **AGENDA ITEM 5: CODE OF CONDUCT UPDATE**

Ms. Simmons provided an update on the rollout of the new State Fund Code of Conduct, which was published to the organization in June 2011. The Code of Conduct is online in an interactive format and can be easily downloaded. The online training module was launched mid-June and in early July State Fund met with the Service Employees International Union (SEIU) regarding the Code and Conduct and published Frequently Asked Questions (FAQs) for employees' easy reference. Compliance training organization-wide is due to be completed by August 1, 2011 and is on target.

#### **AGENDA ITEM 6: UPDATE ON AWARD RECOGNITION PROGRAM**

Mr. Acker provided a general overview of State Fund's employee performance recognition programs which include on the spot recognition of superior service with a "BRAVO" award, recognition of exceptional performance through the "ENCORE" award for individuals, leaders and project teams which has a monetary value of \$250, as well as regular company recognition of employee sustained service at anniversary dates on an initial 3 and subsequent 5 year intervals. Mr. Acker noted that participation in these employee recognition programs declined somewhat in 2011 from 2010 levels. He also noted that the recognition programs were undergoing review, revision and process improvements which will enhance web-based participation and permit instant publication throughout the organization.

#### **AGENDA ITEM 7: 2012 BOARD SCHEDULE AND LOCATION**

Mr. Mulryan asked Ms. Newman to present the proposed changes to the 2012 Board Schedule and Location. Ms. Newman noted that, in response to an inquiry

from a board member, consideration was being given to changing board meetings from a bi-monthly to a minimum quarterly schedule. The change effected would result in a reduction from the six fixed schedule meetings to no less than four fixed schedule meetings annually. Importantly, this change would align the scheduled meetings with State Fund's production of its financial reports and permit real time reporting of findings and results, while retaining the Board's flexibility to call additional, supplemental or emergency meetings as dictated by work driven requirements.

Mr. Mulryan requested public comment and Mr. Randall F. Cheek, Legislative Advocate, SEIU Local 1000, observed that reducing the number of meetings from six to four would result in a lack of transparency and deprive the public of learning opportunities available only through more frequent public meetings. Mr. Cheek also noted that discussions regarding State Fund's geographic transitions might be foreclosed due to the proposed change, and he asked where future Board meetings would be held and whether State Fund's costs would increase as a result of paying for additional meeting space. He further noted that the change appeared to be contradictory to the 2008 Legislature's desire to expand both the size of the Board and governance oversight of State Fund activities.

Senator Machado noted that circumstances have evolved over the past three years, and such improvements must be recognized, and that the Board is now dealing with more strategic rather than operational issues as State Fund is operating in a significantly different market place. Additionally, he observed that such a proposed schedule change reflects the Board's need and desire to be more strategic given the current economy, have more time to prepare for meetings, and deploy resources more efficiently and effectively to achieve its goals. There was further discussion that the current By-Laws require six meetings whether agenda driven or not, and the proposal sets a minimum number of meetings, but doesn't prevent the Board from scheduling additional meetings to assure that agenda issues are adequately addressed. Meetings would be held in the new 333 Bush Street San Francisco location.

Mr. Rowe observed that State Fund although neutral with respect to the proposed change wanted to support the Board in its efforts to productively conduct business and see its constituencies served, was respectful of its obligations for transparency under the Bagley Keene Open Meetings Act and the California Public Records Act, and did not view a change to a minimum number of meetings as a decline in either services or transparency. Mr. Mulryan observed that the same information would be transmitted to the Board whether it was shared in four or six meetings.

Mr. Mulryan asked for a Motion to recommend amending the By-Laws and reduce the number of board meetings from six to at least four annually.

MOTION: Senator Machado

Second: Ms. Chalupa

To recommend to the Board of Directors to amend the By-Laws to reduce the number of board meetings from six to at least four meetings annually.

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

YES: 5

NO: 0

Motion carried.

### **AGENDA ITEM 8: PERFORMANCE BASED RETENTION TOOL**

Mr. Mulryan reported that in furtherance of the Board's determination that it should investigate whether to adopt a performance based incentive plan for the Exempt Positions in lieu of the current annual bonus program, State Fund took steps to identify consultants who could properly advise the Board on such a plan design. The selected consultant would need to understand the competitive pressures from the private sector where many of State Fund CEA Exempt positions previously worked, but also the many challenges faced due to State Fund's unique quasi-government entity status. State Fund solicited proposals from four experienced companies and received two responsive proposals. After speaking with representatives from each of the responding companies, Mr. Mulryan concluded that both were capable of providing the services requested by the Board, and he asked for revised costs estimated from each. Based on the submissions and qualifications apparent as a result of his conversations, Mr. Mulryan observed that the low bidder appeared well-qualified to provide the needed services at a lower cost, and he requested a motion recommending that the Board authorize him to negotiate with the low bidder to enter into a contract on behalf of the Board.

MOTION: Mr. Curtain

Second: Senator Machado

To recommend that the Board of Directors authorize Chairperson Mr. Mulryan to negotiate with the low bidder to enter into a contract to advise on the design and implementation of a performance based incentive plan retention tool for the CEA Exempt Positions to replace the current annual bonus program.

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

YES: 5

NO: 0

Motion carried.

### **AGENDA ITEM 9: BOARD MEMBER UPCOMING SPEECHES OR ARTICLES**

Mr. Mulryan asked Board members to identify any upcoming speeches and articles. Ms. Newman reported that Mr. Zachry, who was unable to attend the meeting, had advised that his article titled "25 Things to Consider about Your Future Claims System" would be published in the July 2011 release of the "Risk & Insurance" online magazine. Mr. Mulryan requested public comment of which there was none.

**AGENDA ITEM 10: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 13-15.**

Mr. Mulryan requested public comment on the appropriateness of closed session agenda items 13-15, of which there was none.

**AGENDA ITEM 11: PUBLIC COMMENT**

Mr. Mulryan requested further public comment of which there was none. The Governance Committee immediately convened into Closed Session at 9:48 a.m.

**AGENDA ITEM 16: CALL TO ORDER AND ROLL CALL**

The meeting was called to order at 11:40 a.m. following the conclusion of the Closed Session and the following Members were present: Lawrence E. Mulryan, Chair; Sheryl A. Chalupa; Daniel M. Curtin, Sen. Michael J. Machado (Ret.); and Thomas E. Rankin.

Also present: President and Chief Executive Officer Tom Rowe; Chief Financial Officer Dan Sevilla; Chief Risk Officer Ken Van Laar; General Counsel and Corporate Secretary Carol R. Newman; and Assistant Chief Counsel and Assistant Corporate Secretary Vera De Martini.

There was a quorum.

**AGENDA ITEM 17: PROPOSALS AND SUGGESTION FOR SEPTEMBER 14, 2011 AGENDA**

Mr. Mulryan requested proposals and suggestions for the September 2011 agenda. There was discussion regarding including a Governance Compliance Report in the proposed Standing Agenda Items for 2012.

Mr. Mulryan also requested public comment of which there were none, and he noted that the next Governance Committee meeting is scheduled for September 14, 2011 at noon in Napa, California.

**ADJOURNMENT**

There being no further business before the Governance Committee, the meeting adjourned at 11:50 a.m.

Respectfully submitted,

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Vera C. De Martini,  
Asst. Corporate Secretary