

**STATE COMPENSATION INSURANCE FUND  
GOVERNANCE COMMITTEE**

**MINUTES OF OPEN SESSION MEETING**

**NOVEMBER 17, 2011**

The Governance Committee met on November 17, 2011 at 333 Bush 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; Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini; and Board Liaison and Assistant Corporate Secretary Hilda B. Padua.

**AGENDA ITEM 2: APPROVAL OF SEPTEMBER 14, 2011 OPEN MEETING MINUTES**

MOTION: Ms. Chalupa

Second: Senator Machado

To approve the minutes of the September 14, 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: BOARD MEMBER EDUCATION AND TRAVEL REIMBURSEMENT POLICY**

Vera De Martini, Assistant Corporate Secretary, presented proposed revisions to the Board Member Education and Travel Expense Reimbursement Policy clarifying that the cap on authorized training is based on a calendar year, may be exceeded with prior approval of the Board of Directors, and does not apply to training provided by either the National Association of Corporate Directors (“NACD”) or State Fund. Other clarifying changes include that the Board authorizes approved training and a list of authorized training opportunities will be given to Board members every six months; attendance by more than a majority of Board or Committee members at educational or social events where State Fund business is not discussed does not constitute a Bagley-Keene (“Open Meeting”) Act violation; and the Travel Expense Reimbursement Policy may be amended by the Board from time to time. There was a further recommendation to amend Exhibit A to recognize a Board member’s discretion regarding reasonable

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expenses for food and beverages while on State Fund business and delete the reference to alcoholic beverages.

MOTION: Mr. Curtain

Second: Ms. Chalupa

To recommend the Board of Directors approve the amended and revised Board Member Education and Travel Expense Reimbursement Policy, with the additional amendment as presented and is attached hereto and incorporated herein by reference.

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

YES: 5

NO: 0

Motion carried.

**AGENDA ITEM 4: UPDATE ON DIRECTORS TRAINING**

Andreas Acker, SVP of Human Resources, reviewed Insurance Code Section 11770(e), the statute mandating Board of Director subject matter training and requiring that it be provided by persons or entities not affiliated with State Fund, although training by State Fund on topics required to be completed by all State Fund employees, such as preventing sexual harassment in the workplace, annual fraud prevention and ethics training is permitted. Mr. Acker requested members to forward information on completed training so that State Fund will have a complete and accurate record of Board training. He also noted that Learning and Development is collaborating with the National Association of Corporate Directors (“NACD”) to develop customized training for members to be offered at the March 29-30, 2012 meeting. It was recommended that management work with a few Board members on the training agenda and logistics. Mr. Mulryan and Senator Machado, who recently attended an NACD conference found it very valuable regarding issues facing all Board members particularly in the area of enterprise risk management.

**AGENDA ITEM 5: GOVERNANCE UPDATE**

Barbara Simmons, Program Manager of Governance, Compliance and Privacy provided an overview of the May 2011 re-launch of the Privacy Office whose goal is to protect State Fund’s own and others’ private and confidential information. The Privacy Office is charged with identifying, evaluating, reporting, and mitigating privacy issues and is aligned with the goal of strong corporate governance and its framework.

In November 2011 the Chief Information Technology Officer issued a message to all State Fund personnel regarding controls (i.e. filters to capture email leakage) to eliminate email transmission of proprietary or confidential information outside of State Fund. The Privacy Office developed an Information Disclosure Notice that will be sent annually to policyholders and inserted into all new business packages. State Fund joined the Copyright Clearinghouse to both help State Fund register its own copyright for its insurance policy template, the Code of Conduct and safety materials, among others, and in order to get permission to use materials belonging to other members.

In December 2011 the Privacy Office will release its intellectual property policies and procedures and in Q1 2012 the office will provide training on privacy and copyright issues.

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There was a discussion about monitoring online postings, blogs or other social media discussions either about or emanating from State Fund which is handled by the Communications department with a focus on web searches bringing information to State Fund. Ms. Simmons also reported that revisions of Corporate Policies, in order to reduce the portfolio and make the policies more understandable, remain on track.

**AGENDA ITEM 6: OVERVIEW OF DILIGENT BOARDBOOKS**

Shaun Coyne, Chief Information Technology Officer, introduced Diligent Boardbooks, the cloud based, secure, SAS 70 auditable, solution being considered to improve State Fund's efficiency and ease in producing, transmitting and accessing Board of Director materials. Michael Thompson, a Diligent Boardbooks representative, presented an overview of the easy to use "looks like a book and works like a book" system which can be viewed securely on most mobile devices with key word search capabilities, document archive resources, easy navigation, bookmarking and annotation tools, and has user security and data encryption. There was discussion regarding staffing, production efficiencies and cost saving to be realized if Diligent Boardbooks is implemented. Ms. Newman noted that State Fund's goal is to go live using the tool for production of the February 16-17, 2012 meetings, with user training prior to that date. Contract negotiations are ongoing but the estimated cost is expected to be less than \$50,000 implementation fee based on licensing seats and initial training to include all directors, executives, legal counsel and administrative staff supporting the Board. There will be a smaller annual fee for software maintenance, diagnostics and support.

**AGENDA ITEM 7: APPROVAL OF 2012 BOARD SCHEDULE AND LOCATION**

Ms. Padua reviewed the proposed Board & Committee Meeting Schedule and Location for 2012, noting the reduction in the number of meetings from six (6) to four (4) quarterly meetings, with two (2) meetings scheduled for training and strategic planning in March and October respectively. The 2012 proposed dates are February 16-17; March 29-30, May 17-18; August 16-17; October 3-5; and November 15-16.

MOTION: Ms. Chalupa

Second: Senator Machado

To recommend the Board of Directors approve the Board & Committee Meeting Schedule and Location for 2012 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 8: BOARD MEMBER UPCOMING SPEECHES OR ARTICLES**

Ms. Padua reported that there were no reported upcoming speeches or articles.

**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, of which there was none.

**AGENDA ITEM 10: PUBLIC COMMENT**

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

**AGENDA ITEM 17: CALL TO ORDER AND ROLL CALL**

The meeting was called to order at 12:00 p.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.

There was a quorum.

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

Mr. Mulryan reported that the Governance Committee wanted to take action on a matter in the Open Meeting regarding Chief Operating Officer Tom Clark's 2011 performance and associated performance compensation. Based on his performance, Mr. Mulryan asked for a motion to recommend to the Board of Directors approval of Mr. Clark's performance compensation.

MOTION: Senator Machado                      Second: Ms. Chalupa

In recognition of Tom Clark, Chief Operating Officer's performance in 2011, the Governance Committee recommend to the Board implementing the 2<sup>nd</sup> Year performance pay structure with the base annual salary of \$180,000, a recruitment and retention differential decrease to \$27,000 (15% of base) effective December 1, 2011 and annual incentive performance award target to remain at 15% of the base salary up to \$27,000; and further, the 2012 annual incentive performance award shall be subject to approval by the Board and based on the Chief Operating Officer's achievement of specifically defined metrics and performance goals.

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

YES: 5                      NO: 0                      Motion carried

**AGENDA ITEM 18: PROPOSALS AND SUGGESTIONS FOR FEBRUARY 16, 2012 AGENDA**

Mr. Mulryan requested suggestions for agenda items for the February 16, 2012 Governance Committee meeting other than the standing agenda items, of which there were none.

Mr. Mulryan also requested public comment of which there was none, and he noted that the next Governance Committee meeting is scheduled for February 16, 2012 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,

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Vera C. De Martini,  
Assistant Corporate Secretary

## DISCUSSION DOCUMENT FOR GOVERNANCE COMMITTEE

### Summary of Proposed Changes to State Compensation Insurance Fund Revised Board Member Education and Travel Expense Reimbursement Policy

Approved:

Board of Directors September 11, 2009  
Governance Committee September 10, 2009  
[Proposed] Revisions Approved:  
Board of Directors November 17, 2011  
Governance Committee November 17, 2011

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*The following summarizes the proposed revisions to the Amended State Compensation Insurance Fund ("State Fund") Board Member Education and Travel Expense Reimbursement Policy, to be adopted by State Fund's Board of Directors as the Amended Board Member Education and Travel Expense Reimbursement Policy ("the Travel Expense Reimbursement Policy"). Section and paragraph references are to the numbered paragraphs in the Travel Expense Reimbursement Policy.*

#### **Paragraph Number**

#### **Summary of Proposed Changes**

#### **Section II. Guidelines**

##### **Paragraph B.1. – Limitation on Attendance by Board Members.**

Corrects a typographical error in the second sentence to clarify that calendar cap on authorized training is based on a calendar year, and a Board member may attend and receive reimbursement for more than two approved educational programs in any given calendar year with prior approval or ratification of the Board. The revision further excludes training provided to the Board by the National Association of Corporate Directors ("NACD") or State Fund from the cap on the number of courses permitted in any calendar year.

#### **Section II. Guidelines**

##### **Paragraph B.2. – Limitation on Attendance by Board Members.**

Sets out that the Board authorizes the training that shall be approved by the Board and requires that a list of such authorized training opportunities be provided to Board members at least once every six months.

#### **Section II. Guidelines**

##### **Paragraph B.3. – Limitation on Attendance by Board Members.**

Clarifies that attendance by more than a majority of the members of the Board or a Committee at educational seminars, conferences or social events where State Fund business is not discussed does not constitute a violation the Bagley-Keene ("Open Meeting") Act.

#### **Section III. Policy Review**

The revision eliminates scheduled reviews and revision of the Travel Expense Reimbursement Policy every three years and instead allows flexibility to amend the Travel Expense Reimbursement Policy, as needed from time to time, by majority vote of the Board.

#### **Exhibit A –**

##### **Expense Reimbursement Schedule**

The revision eliminates reference to alcoholic beverages in paragraphs entitled "Hotels" and "Meals".

## **DISCUSSION DOCUMENT FOR GOVERNANCE COMMITTEE**

### **STATE COMPENSATION INSURANCE FUND BOARD MEMBER EDUCATION AND TRAVEL EXPENSE REIMBURSEMENT POLICY**

#### **APPROVED:**

Board of Directors September 11, 2009  
Governance Committee September 10, 2009

#### **REVISION APPROVED:**

Board of Directors - November 17, 2011  
Governance Committee - November 17, 2011

#### **I. Purpose.**

The State Compensation Insurance Fund (“State Fund”) Board of Directors (the “Board”) recognizes the importance of each of its members’ participation in regular Board and Committee meetings, and their regular education regarding topics pertinent to State Fund. In addition, as required by California Insurance Code section 11770, State Fund seeks to ensure that Board members are properly trained to perform their duties and are, on an ongoing basis, exposed to up-to-date information regarding best practices in the numerous subject matters that are pertinent to the operation of the State Fund, including, without limitation, the duties and obligations of members of a board of directors, corporate governance, ethics, board of director legal issues, insurance, finance and investment, and information technology.

In furtherance of these purposes and to establish uniform and clear guidelines for the reimbursement for Board members’ travel-related expenses incurred as a result of their performing State Fund duties, the Board adopts this Board Member Education and Travel Expense Reimbursement Policy (the “Travel Expense Reimbursement Policy”).

This Travel Expense Reimbursement Policy is intended to be applied and interpreted in compliance with the relevant provisions of the California Insurance Code and California Government Code, all other applicable law, and in harmony with State Fund’s mission statement, policies and guidelines.

#### **II. Guidelines.**

State Fund shall reimburse Board members for their actual and necessary travel expenses incurred while participating in Board and Committee meetings, training programs that have been pre-authorized by the Board, and in the performance of any other appropriate State Fund duties. The purpose of this Travel Expense Reimbursement Policy is to set forth approval procedures, to impose certain limitations on travel expense reimbursements, and to promote prudent and cost effective travel.

##### **A. Approval.**

Travel on State Fund business within California need not be approved in advance as long as overnight accommodations are not provided. The Board hereby approves for purposes of authorizing reimbursement under this Policy, and their current cost, the actual and necessary costs for attendance at the regular and special Board and/or Committee meetings.

Reimbursement of travel expenses for Board members to attend an educational program, or other business for State Fund that includes overnight accommodations, requires the prior approval of the Board, except under exigent circumstances when such approval cannot be

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obtained in advance; provided, however, that State Fund will not pay for overnight accommodations in locations that are within fifty (50) miles of a Board member's residence and business office, unless the Board member attends at least two days of a program or meeting and one of the following circumstances apply i) the length of at least one of the official days, as listed on the official agenda, is nine (9) hours or longer; or ii) there is a reasonable expectation that additional reading, course work, or State Fund-related work will be required at the beginning or end of the program or meeting day; or iii) the meeting commences at or before 8:30 a.m. Board attendance at conferences outside of the United States are generally disfavored.

**B. Limitation on Attendance by Board Members.**

1. A Board member is authorized to attend up to two (2) approved educational programs that require overnight accommodations each calendar year. A Board member may attend and receive reimbursement for more than two approved educational programs in any given calendar year with prior approval or ratification of the Board. Attendance by Board members at any educational programs provided by NACD ("National Association of Corporate Directors") or that are sponsored or organized by State Fund are excluded from this limitation.

2. A list of educational programs that the Board approves are authorized for reimbursement under this Policy. The list of these authorized Board training opportunities shall be provided to every member of the Board on a periodic basis, and not less than once every six months.

3. A majority of Board members, or of a Standing Committee of the Board, may not meet together for business purposes unless there is public notice of the meeting in accordance with the Bagley-Keene Act. Attendance by more than a majority of the members of the Board or a Committee at educational conferences and seminars and social activities at which State Fund business is not discussed, is not a violation of this provision.

**C. Authorized Expenses.**

Board members shall be entitled to reimbursement, either directly or through business expense reimbursement requests submitted by State Fund employees on a Board member's behalf, for travel expenses and for all other necessary expenses incurred in connection with State Fund business on the terms set forth herein and as reflected in the schedule attached as Exhibit A to this Policy.

Meals provided by State Fund to Board members while they are conducting State Fund business (and thus not paid for by State Fund through reimbursement requests) are excluded from the attached schedule's limitations.

The Board hereby authorizes State Fund to sponsor educational training programs for the Board at a calendar year expense to State Fund not to exceed the amount that will be included in a Training Budget to be adopted by the Board annually.

**D. Claims for Reimbursement.**

Reimbursement for travel by a Board member shall be submitted on State Fund's Expense Reimbursement Forms, which shall be reviewed and approved (or disapproved) by the President, or the President's designee, in accordance with the provisions of this Travel Expense Reimbursement Policy. All claims should be submitted within sixty (60) days following the completion of travel. In no event will a claim for reimbursement be approved if submitted ninety (90) days after the end of the calendar year in which the expense was incurred. Board members shall reimburse State Fund for all advances or reimbursements made in excess of allowable expenses within ninety (90) days from the date State Fund submits a refund request.



**E. Expenses for Traveling Companions.**

Under no circumstances shall State Fund pay or provide reimbursement for the expenses of a family member or traveling companion of a Board member; provided, however, that reimbursable expense that would be the same if incurred by a State Fund Board member without a traveling companion (e.g., for a taxi) need not be reduced from the full actual cost.

**F. Limitations on Expense Allowance.**

Reimbursement for expenses shall not exceed that which is reasonable and necessary for travel to the precise destination and date of the covered occurrence, whether by private automobile or common carrier. Expense costs for extra days prior to or after a conference and/or meeting will be reimbursed only if such extension results in the same or lower overall trip costs in accordance with this Travel Expense Reimbursement Policy.

**G. Travel and Lodging Cancellations.**

Board members are responsible for the timely cancellation of or change to any registration to a conference where fees may be charged and/or travel and lodging reservations are made on their behalf. Board members shall be responsible for the costs of any fees charged as a result of the failure to timely cancel or resulting from changes to said reservations, unless cancellation is due to State Fund business and unless otherwise approved, on a case-by-case basis, by the President.

**H. Travel Expense Reports.**

The President shall report all travel expenses reimbursed to Board members by State Fund on the consent calendar that is submitted to the Board at each regular Board meeting. All travel expense reimbursements to Board members are subject to review and a determination by the Board that the payments are in accordance with the provisions of this Travel Expense Reimbursement Policy.

**I. Gifts of Travel and Education.**

Prior to accepting or using payment or reimbursement for travel from any source other than State Fund or a Board member's employer, it is recommended that a Board member obtain the advice of counsel to ensure that such payment complies with the provisions of the Political Reform Act and the implementing regulations adopted by the Fair Political Practices Commission. Board members shall be responsible for tracking and properly reporting any such payments on the Board member's Form 700-Statement of Economic Interests.

All proposed gifts or payments for travel to State Fund must be approved in advance by the Board after obtaining advice from the General Counsel as to whether such payment complies with the provisions of the Political Reform Act and the implementing regulations adopted by the Fair Political Practices Commission.

**J. Travel Arrangements.**

All hotel arrangements for which reimbursement will be sought shall be made through or coordinated with the office of the President.

**III. Policy Review.**

This Travel Expense Reimbursement Policy may be amended from time to time by majority vote of the Board.

## **EXHIBIT A -- EXPENSE REIMBURSEMENT SCHEDULE**

### **Airline Travel**

Board members shall be reimbursed for actual and necessary expenses for airfare for approved travel on State Fund business. Any scheduled U.S. or recognized international air carrier may be used for domestic or international travel. A fully refundable coach class ticket shall be purchased, which shall be at competitive prices. If a restricted or excursion class ticket is purchased at the request of a Board member and the ticket is subsequently cancelled, the Board member shall be required to reimburse State Fund for the cost of the ticket, unless a credit voucher for future travel is issued by the air carrier; charges incurred because of urgent State Fund business or the cancellation of a meeting or event by the organizing entity are exempt from this requirement.

If savings can be realized on the airfare by having a Board member extend his or her stay to include a Saturday night, at his or her option, said Board member may extend his or her stay in order to realize such savings. State Fund shall reimburse the cost associated with the additional lodging and meals resulting from an extended itinerary, not to exceed the savings in airline fare.

If, at the conclusion of a business-related trip, it would be impractical for a Board member to return home the same day and arrive home prior to 10:00 p.m. California time due to the distance that must be traveled, or the unavailability of a return flight, the Board member may lay over for one additional night and State Fund shall reimburse the costs associated with the additional lodging and meals resulting from the extended stay.

### **Hotels**

Actual expenses for lodging in a standard class of hotel shall be reimbursed by State Fund. Whenever possible, a request for a government or conference rate should be made. If State Fund has obtained a negotiated rate at a preferred hotel for a particular event, Board members may not be reimbursed for more than the amount of that negotiated rate. While meals charged to the hotel bill shall be reimbursed in accordance with this Travel Expense Reimbursement Policy, State Fund shall not reimburse expenses related to tobacco, in-room movies, barber/beauty shop, gifts, magazines, personal telephone calls and mini-bar charges. In the case of an extended trip or an emergency situation, laundry and dry cleaning expenses may be reimbursed. Cancellation fees incurred because of urgent State Fund business or the cancellation of a meeting or event by the organizing entity are exempt from this requirement.

Original hotel receipts must be submitted along with a completed State Fund Expense Reimbursement Form to obtain reimbursement.

### **Meals**

A Board member will be reimbursed for the cost of meals, either directly or through an expense statement submitted by a State Fund employee, up to \$60.00 total per day. Meal expenses in excess of the total daily limit are at the expense of the Board member. The meal limit is not a per diem. Meal expenses on the day of travel may be claimed (i) for breakfast if the departure is prior to 6 a.m., and/or (ii) for dinner if arrival is completed after 7:00 p.m.

A Board member shall be reimbursed for a gratuity of up to 20% of the cost of the meal. A Board member must provide a receipt for any meal that exceeds \$25.00.

When a meal is provided to Board members at a State Fund meeting or other State Fund function, or is included in the cost of a conference registration fee, mode of travel (e.g. airfare), or other State Fund-paid activity, Board members will not be entitled to reimbursement for that meal.

**Automobile Mileage**

A Board member who uses his/her personal automobile for transportation on State Fund business may be reimbursed for the actual mileage driven on business and shall report such mileage on a State Fund Expense Reimbursement Form. Reimbursement shall be made at the per-mile rate allowed by the Internal Revenue Service.

**Parking and Tolls**

Parking and tolls will be reimbursed at current rates. A receipt is required for amounts over \$25.00.

**Public Transportation**

Use of taxis, hired cars and public transportation for State Fund business shall be reimbursed at actual rates; provided, however, those Board members are encouraged to use the most economically reasonable form of public transportation that is reasonably available to them. A receipt is required for amounts over \$25.00.

**Car Rentals**

The use of a rental car by a Board member shall be reimbursed when it is economically reasonable to rent a vehicle rather than use taxis, hired cars or public transportation. Rental car discounts must be used whenever possible and appropriate. If available, midsize or smaller vehicles should be requested, unless several Board members will be using the vehicle together. Receipts are required for all car rentals.

**Incidental Business Expenses**

Incidental business expenses reasonably incurred in connection with State Fund business, such as telephone, fax, internet access, and similar business expenses, shall be reimbursed as necessary and appropriate. Receipts are required in each instance of such business expense.

**Porterage**

Maximum reimbursement for porterage is \$10.00 per day of travel. Receipts are not required for porterage.