

GOVERNANCE COMMITTEE MEETING (OPEN)

AGENDA ITEM 5

ATTACHMENT 5-I

MINUTES OF November 12, 2009 OPEN GOVERNANCE COMMITTEE
MEETING

PRESENTED BY: Jeanne Cain

January 21, 2010

**STATE COMPENSATION INSURANCE FUND
GOVERNANCE COMMITTEE**

MINUTES OF OPEN SESSION MEETING

NOVEMBER 12, 2009

The Governance Committee met on November 12, 2009 in the Auditorium of the Milton Marks Conference Center, State Building, 455 Golden Gate Avenue, 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: Jeanne Cain, Chair, Sheryl Chalupa, Daniel Curtin and Sen. Michael Machado. (Ret.)

Also present: Interim President and CEO Doug Stewart; General Counsel and Corporate Secretary Carol Newman; Chief Counsel and Assistant Corporate Secretary Suzanne Ah-Tye and Randall Keen of Manatt, Phelps and Phillips LLP.

There was a quorum.

AGENDA ITEM 2: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 3 AND 4

Ms. Cain requested public comment of which there was none.

The Governance Committee immediately convened into Closed Session.

AGENDA ITEM 3: APPROVAL OF SEPTEMBER 10, 2009 CLOSED GOVERNANCE COMMITTEE MINUTES Closed Session.

AGENDA ITEM 4: LABOR RELATIONS STRATEGY Closed Session.

AGENDA ITEM 5: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 10:55 a.m. following the conclusion of the Closed Session and the following Members were present: Jeanne Cain, Chair; Sheryl Chalupa; Daniel Curtin; and Alternate Sen. Michael Machado (Ret.).

Also present: Interim President and CEO Doug Stewart; Sr. Vice President of Human Resources and Organizational Development Andreas Acker; General Counsel and Corporate Secretary Carol Newman; Chief Counsel and Assistant Corporate Secretary Suzanne Ah-Tye; and Randall Keen of Manatt, Phelps & Phillips LLP

There was a quorum.

AGENDA ITEM 6: APPROVAL OF THE SEPTEMBER 10, 2009 OPEN GOVERNANCE COMMITTEE MEETING MINUTES

MOTION: Mr. Curtin Second: Ms. Chalupa

To approve the minutes of the September 10, 2009 Open Governance Committee Meeting minutes as presented.

AYES: 3 NOES: 0 Motion carried

AGENDA ITEM 7: BOARD MEMBER SELF PERFORMANCE EVALUATION PROCESS

Ms. Cain called upon Assistant Chief Counsel Judith Sapper to present on the Board Evaluation Process. The Governance Committee charter specifies that Committee to conduct Board evaluations to make the Board stronger and more effective in its role. As such, the Committee directed staff to explore the retention of a third party vendor to conduct confidential evaluations through questionnaires or interviews of Board members. Ms. Sapper reported that a Request for Information (RFI) was issued on October 13, 2009, and of the 8 potential vendors, 6 vendors responded. After a scoring process based on price, evaluation methodology, customization, completion time, and reporting format, staff narrowed down the candidate pool to three vendors. One vendor conducts evaluations through an on-line service and the other two vendors conduct evaluations through personal interviews. The Committee discussed the importance of face to face interviews which will result in a more in depth interview process. The Committee also discussed when the evaluation process should begin, and how the performance evaluations can be useful in recruitment and training.

MOTION: Ms. Chalupa Second: Ms. Cain

To direct staff to select and engage a vendor who will conduct Board evaluations through a confidential interview process to be implemented by May 2010.

AYES: 3 NOES: 0 Motion carried.

Ms. Cain requested public comment of which there was none. Mr. Curtin left the meeting.

AGENDA ITEM 8: BOARD DELEGATION OF AUTHORITY TO PRESIDENT

Ms. Cain called upon General Counsel Carol Newman to provide a background report and proposal for retained and delegated Board Authority. Mr. Curtin returned to the meeting. Ms. Newman discussed the proposed resolution in detail, noting that some of the functions and duties are required by statute and some were implemented over time as reflected in the Board minutes from the last five years. The Board engaged in a full discussion on the various topics that the President should regularly report on to the Board. Also discussed were duties that are not delegable to the President as required by the Insurance Code. The Committee also discussed and considered the total aggregate amount of procurement contracts requiring Board approval.

MOTION: Ms. Chalupa Second: Mr. Curtin

To recommend to the full Board the approval of the following Resolution:

RESOLUTION OF DELEGATED AUTHORITY

WHEREAS, the Board of Directors desires to reaffirm its authorization and direction to the President of State Compensation Insurance Fund ("State Fund") to take or to cause to be taken all such actions necessary or desirable in connection with the administration, management, and conduct of the business and affairs of State Fund;

NOW, THEREFORE, BE IT RESOLVED:

That the Board of Directors hereby affirms its delegation to the President of State Fund, subject to conditions that the Board may from time to time prescribe, the powers, functions, and duties conferred by law on the Board of Directors in connection with the administration, management, and conduct of the business and affairs of State Fund. The President may exercise those powers and functions and perform those duties with the same force and effect as the Board of Directors. The President shall continue to regularly advise the Board of Directors on the business and affairs of State Fund, including but not limited to the following topics:

- Key operational matters
- Financial status and issues
- Legal issues affecting State Fund, the Board of Directors or officers
- Legislative issues specific to or affecting State Fund
- Marketing plan
- Information Technology strategic plans
- Human resources issues
- Internal audits

BE IT FURTHER RESOLVED that, notwithstanding the foregoing, the President shall continue to obtain the advice of the Board of Directors, and present to the Board of

Directors for its ratification of actions taken pursuant to the Board of Directors' delegated authority on the following topics:

- Appointment of the chief financial officer, chief operating officer, chief information technology officer, chief investment officer, chief risk officer, and general counsel, and the setting of their salaries
- Investment decisions
- Major corporate policy initiatives

BE IT FURTHER RESOLVED that, notwithstanding the foregoing, the Board of Directors shall make all final decisions on the following topics, unless otherwise specifically delegated by the Board of Directors:

- Selection and appointment of the President/Chief Executive Officer*
- Approval of the strategic plan
- Selection of State Fund's public accountants**
- Approval of the annual budget
- Adoption and amendment of investment and cash management policies
- Dividend declarations*
- Acquisition and sale of real estate, and major lease transactions
- Selection of an external auditor (currently delegated to the Audit Committee)
- Approval of audit engagement fees
- Approval of the annual audit plan, major changes to the plan, and the annual update of the biennial audit plan
- Adoption of, and approval of changes to, State Fund's by-laws, Conflict of Interest Code,*** Enterprise Risk Management Plan, Code of Ethics, Code of Conduct, charters of the committees of the Board of Directors, and/or other compliance policies and guidelines required by law**
- Adoption of rate decisions
- Selection of appointed actuary**
- Selection of investment advisors
- Procurement contracts with a total aggregate value in excess of \$25,000,000; contracts with a lesser value may still require the advice and consent of the Board of Directors pursuant to any of the other topics listed herein
- Banking management

* Required by laws specific to State Fund

** Required by laws applicable to insurance companies generally in California

*** Required by laws applicable to state agencies in California.

AYES: 3

NOES: 0

Motion carried.

AGENDA ITEM 9: EXECUTIVE TERMS OF EMPLOYMENT

Ms. Cain called on Senior Vice President of Human Resources and Organizational Development Andreas Acker to report on compensation of employees in State Fund's

exempt positions. At a Board meeting on July 9, 2008, The Board approved the salary and recruitment and retention (R&R) differential for Jan Frank, the former President of State Fund, and delegated to the President, the authority to set the salary, R & R differential and bonus potential provided to the exempt positions. The President subsequently set the R & R differential up to 25% of base salary and annual bonus of up to 15% of base salary. Also, the maximum leave accrual available to Exempt Positions is 640 hours.

MOTION: Ms. Chalupa

Second: Sen. Machado

To recommend to the full Board the following resolution ratifying and approving the salary schedule for Exempt Employees:

**PROPOSED RESOLUTION RATIFYING AND APPROVING
SALARY SCHEDULE FOR EXEMPT EMPLOYEES**

WHEREAS, the Board of Directors ("Board") of the State Compensation Insurance Fund ("State Fund") is authorized by California Insurance Code section 11785 to set the salary for State Fund's president ("President"), chief financial officer, chief operating officer, chief information technology officer, chief investment officer, chief risk officer and general counsel ("Exempt Positions"); and

WHEREAS, at its July 9, 2008 meeting, prior to the applicability of the Bagley-Keene Open Meeting Act to State Fund, the Board approved the annual salary for its President, Jan Frank, and delegated to the President the authority to set and adjust the salaries (including but not limited to bonus payment potentials) for employees in the Exempt Positions other than for herself; and

WHEREAS, pursuant to that delegated authority, the President set the salaries for the Exempt Positions other than for herself, including recruitment/retention ("R&R") differentials, which R&R differential is stated as a percentage of annual base salary and is not included in the calculation of retirement benefits; and

WHEREAS, State Fund may, through an administrative action, limit the amount of maximum amount of leave accrual available to the Exempt Positions to 640 hours; and

WHEREAS, the Board appointed its former Chief Risk Officer Doug Stewart to the position of Interim Chief Executive Officer/President as of October 26, 2009, until the Board selects a new Chief Executive Officer/President, and now seeks to set the salary for that position; and

WHEREAS, the Board seeks to ratify the President's actions pursuant to the President's delegated authority with respect to the annual base salary, R&R

differentials and bonus potential (collectively, "Salary") for all current and former employees in the Exempt Positions from July 8, 2008 through the present, and to authorize the interim President and any new President to set R&R differentials for the Exempt Positions, other than for himself or herself, within the range of 0-25% of annual base salary, as individual circumstances of individuals appointed to those Positions warrant.

NOW, THEREFORE,

It is RESOLVED, that the Board hereby ratifies and approves each component of Salary identified in the attached Exempt Position Salary Schedule; and

RESOLVED FURTHER, that the Board hereby authorizes the interim President and any future President to set R&R differentials for the Exempt Positions, other than for himself or herself, within the range of 0-25% of annual base salary, as individual circumstances of individuals appointed to those Positions warrant; and

RESOLVED FURTHER, that the Board authorizes the interim President and any future President to take any administrative action necessary to limit the amount of leave accrual available to the Exempt Positions to 640 hours; and

RESOLVED FURTHER, that any future changes in the components of Salary identified in the Exempt Position Salary Schedule will be presented to the Board for prior approval or for ratification within a reasonable period of time after the change.

AYES: 3 NOES: 0 Resolution carried

EXEMPT POSITION SALARY SCHEDULE AS OF JULY 9, 2008

Position	Annual Base Salary	R&R Differential	Annual Bonus Potential
Chief Executive Officer/President	\$450,000	22% of base salary	40% of base salary
Interim Chief Executive Officer/President	\$400,000 (as of October 26, 2009)	22% of base salary (as of October 26, 2009)	10% of base salary (as of October 26, 2009)
Chief Financial Officer	\$285,000	7.5% of base salary	15% of base salary
Chief Information Officer	\$350,000 (before May 25, 2009) \$300,000 (as of Sept. 21, 2009)	23% of base salary (before May 25, 2009) 25% of base salary (as of September 21, 2009)	15% of base salary
Chief Risk Officer	\$275,000 (before October 26, 2009) TBD (after October 26, 2009)	25% of base salary (before October 26, 2009) TBD (after October 26, 2009)	15% of base salary (before October 26, 2009) TBD (after October 26, 2009)
Chief Operating Officer	\$180,000	15% of base salary	15% of base salary
General Counsel	\$285,000	7.5% of base salary	15% of base salary
Chief Investment Officer	\$225,000	7.5% of base salary	15% of base salary

AGENDA ITEM 10: NATIONAL SEARCH FOR PRESIDENT AND CEO

Ms. Cain reported on the search for a new President and CEO of State Fund. Ms. Cain reported that she previously used the RFP process to obtain an executive search firm to conduct a candidate search for ex-President Janet Frank. The RFP process should be used again for a national search outlining the services to be performed which include preparation of an overall work program and timeline, key milestones, periodic reports. A thorough nationwide search will include conducting in-person interviews, background investigations, reference checks, credit checks and in-depth written profiles on the candidates. The search firm must refer at least three highly qualified candidates for the position of President and CEO and must facilitate the interview process with the Board. It is desirable for the candidates to be receptive to relocating to San Francisco.

Ms. Cain reported that the position specifications will be sent to the recruitment firms which outline the President's specific duties. The specifications will include the delegated authority set forth in the resolution under agenda item 8.

MOTION: Ms. Chalupa Second: Mr. Curtin

To recommend that the full Board of Directors:

- 1) Authorize the Chairperson to initiate and conduct an RFP process to select an executive search firm, and to present her recommendations for the selection of an executive search firm to the Governance Committee; and
- 2) Authorize the Governance Committee to select an executive search firm for consideration and approval by the full Board of Directors at the Board's regular meeting in January.

AYES: 3 NOES: 0 Motion carried.

Ms. Cain requested public comment of which there was none.

AGENDA ITEM 11: COMMITTEE MEMBER PRESENTATIONS

There was no presentation for this standing agenda item and no public comment.

**AGENDA ITEM 12: PROPOSALS AND SUGGESTIONS FOR JANUARY 2010
AGENDA**

There were no additional proposals or suggestions for the January 2010 agenda. Ms. Cain requested public comment of which there was none.

AGENDA ITEM 13: PUBLIC COMMENT

Ms. Cain requested public comment of which there was none.

The next Governance Committee meeting is scheduled for January 21, 2010 at 10:00 a.m. in San Francisco, California.

ADJOURNMENT

There being no further business before the Governance Committee, the meeting adjourned at 12:40 p.m.

Respectfully submitted,

Suzanne Ah-Tye
Assistant Corporate Secretary