



BOARD OF TRUSTEES MEETING MINUTES

August 28, 2008

A regular meeting of the Board of Trustees was held on, Thursday August 28, 2008 at the Hotel Del Coronado in Coronado, California.

1. CALL TO ORDER

Chairperson Tim East called the regular meeting to order at 8:30 a.m.

The following Board Members were in attendance:

Tim East, *Chairperson*, The Walt Disney Company

Jill Dulich, *Chief Financial Officer*, Marriott International

Theresa Muir, So Cal Edison

William Zachry, Safeway, Inc.

Janice Murphy, Kaiser Permanente

Sean McNally, Grimmway Farms

Jim Ware, CA Dept of Industrial Relations, OSIP, *Acting Manager*

Other in attendance:

Jeff Pettegrew, Executive Director

Dan Sovocool, Legal Counsel, Thelen Reid Brown Raysman & Steiner

Quentin Hills, MMC Securities Corp.

Vishal Rana, MMC Securities Corp.

2. APPROVAL OF AGENDA AS POSTED (OR AMENDED)

Tim East asked if there were any suggested additions or deletions to the agenda, distributed in advance to the Board. Dan Sovocool asked that Board Nominations be added as item 4.C. With that change, the agenda was approved by acclamation.

3. APPROVAL OF MAY 7, 2008 MINUTES and the June 6 Board TELECONFERENCE

Vishal noted a few corrections to the May 7 Minutes relating to the MMC pre-ASP presentation stating that reference to MMC's report explaining how the Fund's operating expenses are allocated to the 2008-09 ASP should have read "DLF" assessment (not "ELP" assessment).

Motion by Bill Zachry to approve the May 7, 2008 Board Minutes. As amended. Sean McNally seconded the motion. The motion passed unanimously.

4. AUG 27 STRATEGIC PLANNING MEETING FOLLOW-UP

- a. The Board discussed the Oliver Wyman “Economic Capital Adequacy” report and presentation and noted that the study will provide a model or guideline for the Board going forward as it considers the annual configuration of the Excess Liability Protection (ELP) for the Alternative Security program (ASP) as well as the target level of member assessments for the Default Loss Fund (DFL).
- b. The subject of follow-up to the Staffin/Budget issues was moved by the Chair to a discussion item later in the meeting.
- c. Dan Sovocool went over the Board term expirations and the requirements necessary for the Board to submit its nominations to the general membership. Each of the Board members with expiring four year terms at the end of calendar year 2008 submitted their intent to be re-elected to serve on the Board from 2008-2012. These Board members include: (1) Theresa Muir; (2) Janice Murphy; and Tim East.

Motion by Bill Zachry to submit the into nomination as Board Members (2008-2012) the names of the Board members with expiring terms, as follows: Therese Muir; Janice Murphy; and Tim East. Jill Dulich seconded the motion. The motion passed unanimously.

The Executive Director was asked to follow-through with an election notice to the Fund’s member entities.

5. MMC PRESENTATIONS

A. OVERVIEW OF THE 2008-09 ASP TRANSACTIONS

Bennett Johnsen, MMC of New York, provided a written handout that summarized the following:

(1) The ASP transaction details

\$5,575 mil in the ASP & \$6,387 mil total security. The overall ASP portfolio moved from Baa2 to Baa3.

(2) Assessments

The ELP = \$18.33 mil and the DLF = \$20.09 mil

(3) Member follow-up

24 Self-Insureds contacted the Fund with 3 still pursuing rating issues. Mervyn’s has filed Chapter 11 bankruptcy and has posted \$720,000 of required \$24 million since its exclusion on July 1, 2008. Mervyn’s was revoked in 2005 and is still paying its run-out claims.

(4) Looking forward

Oliver Wyman "Economic Capital Study" to be integrated in Fund's future target liquidity and assessment strategies, including use of CDS vs. CDO hedging strategies

Focus on member financials scanning and Moody's Risk Analyst

(5) Conclusion

The Fund remains above historic projected asset levels with no ASP defaults to date since program inception on July 1, 2003 despite a very challenging economy.

B. 2008/09 REGULATION UPDATE

Vishal Rana, MMC, San Francisco, and Dan Sovocool provided the Board a handout which covered a number of regulatory issues and concerns that were identified by the Fund, MMC and legal counsel in an ASP July follow-up meeting. These are topics which the committee thought the Board should consider in recommending potential DIR Reg changes.

The topics included the following 5 subjects with the Board suggested followup action in italics:

(1) Credit Rating definitions

Dan will work with Jim Ware to avoid outdated references to various credit rating reference terminology. (Reg change)

(2) Assessments of Self-Insureds Revoked Prior to 7/1/03

Sec. 3745 Assessments inactive, but no changes to Regs.

(3) Clarify Assessments

Remove PEDS fee, create a General Admin Fee allocated to both ASP and Excluded members. (Reg change). The Board also agreed to delete Fund annual assessments to revoked self-insureds that are required to maintain solely a \$220,000 surety bond. Jim Ware indicated the surety bond must be maintained for up to 50 years to cover any IBNR issues.

(4) Failure to Submit Financial Statements

OSIP Manager needs discretion to convert members to Partial or Excluded. It's not for member entity to decide. (Reg change)

(5) Failure to Pay Assessment

Charge interest on unpaid assessments at judicial penalty rate. (Reg change)

The Board took a short break at 10:40 a.m. MMC guests departed. The Board, Executive Director and Legal Counsel remained when the meeting re-convened at 11:00 am.

6. COMMITTEE REPORTS

A. Executive Committee – Tim East, Chairperson

Tim indicated that there has not been an Executive Committee meeting since the last Board Meeting; therefore, he indicated that there was no action to report.

B. Claims Committee – Bill Zachry, Chairperson

Bill indicated that the Claims Committee recommends that the Executive Director make arrangements with Rick Sabetta of Risk Navigation Group to conduct a follow-up TPA claims audit (to the initial TPA audits of Metro and Tristar completed in Feb 2008) in early 2009 to ensure TPA contract compliance of issues such as SAS 70 certification, etc.

Bill also indicated that he plans to conduct two Calsim Committee meetings a year with each of the TPA's claims managers attending at least once a year to report to the Committee. In addition, he asked that the E.D. work with the TPA's to have them prepare periodic progress reports for the Committee and Board. Sean added that he's like to see update reports regarding the various leading claim vendors/service providers as well. Sean added that he's like Tom Veale (President of Tristar) to attend and report at the next Board Meeting in Bakersfield.

He also indicated that the Committee would like to develop a "Claim Closure" philosophy for the Fund.

Bill also noted that Mervyn's filed for Chapter 11 bankruptcy reorganization in July after being excluded from the ASP effective July 1, 2008. Because Mervyn's has only posted \$720,000 of its required \$28.6 million deposit, he asked Jim Ware if OSIP has conducted a recent audit of their claims. Jim indicated that because Mervyn's was revoked, that it had been a couple uyears since an audit, but he pledged to conduct a separate claims audit soon.

Bill made several comments about increases in the notional of several of the ASP participants and asked Jim Ware to investigate the reasons for the jumps (i.e. more claims? less excess insurance credits?). He also asked if certain industries have experienced greater increases in EFL than others.

C. Finance Committee – Jill Dulich, CFO, Chairperson

Jill Dulich reported on the status of the Fund's investments and noted that the Fund's total investments (equities and fixed income) have remained relatively flat since this time last year due to the deteriorating economy.

5. ADMINISTRATIVE MATTERS

A. Executive Director Report - Jeff Pettegrew

Jeff Pettegrew noted that he and Ming are developing written internal accounting controls and procedures and that they are documenting all of this year's Perry-Smith audit demands and requests to be prepared ahead of time and to ensure a smooth audit in 2009-10.

Theresa asked that the E.D. work with an outside resource to develop a two-page document summarizing "Key Internal Controls." Jeff noted his continuing frustration in trying to get large consulting firms to conduct this work on behalf of the Fund. Firms have said that the project is too small. He asked the Board for assistance in finding a consultant that can complete what Theresa is asking for. The Board indicated that it would assist him in identifying contacts who could serve as a consultant/resource to the Fund.

B. DIR/OSIP Report – Jim Ware, Acting Manager, OSIP

Jim Ware indicated that the revised OSIP Regs (which primarily address self-Insured Group Reg changes) will be released to the State's Office of Administrative Law by next week. After 30 days for comments, the Regs will be filed with the Secretary of State for another 30 days.

He also went to report that OSIP is conducting its first SIG audit. At that point Dan Sovocool asked if the Fund was going to get the SIG financials as requested by the E.D. Jim noted that he hasn't found that the current Regs allow them to be released.

Bill Zachry added that he was gravely concerned about the financial integrity of SIG's, especially with the news of failed SIG's in New York state. He noted that the Fund needs to champion Regs and/or legislation to protect SIG participants from "unscrupulous" administrators. The Board also expressed its support of proposed legislation (sponsored by Mark Webb) to make SIG financial information public (subject to confidentiality of claimant and member financial information).

The Board also indicated its desire to have the Fund's Legislative Advocate, George Dunn, attend a future Board meeting to discuss the upcoming Legislative Session.

C. Report from the Chairperson – Tim East

Tim East asked the Board if it were willing to fund various non-profit workers compensation organizations such as WCRI, CSIA, CCWC, etc.

Sean indicated his concern that “opening the door” to fund outside organizations could create on-going expectations of the Fund and concerns about who the Fund is supporting and why. “How do you draw the line?” Dan added that there could be a “favoritism” issue if the Board picks and chooses who to support.

The Board discussed the suggestion and decided that it would consider future funding of **specific projects** that would serve the Security Fund and its members. The E.D. will advise organizations that written requests for funding such projects will be requested from such organizations and that the organizations will have to present their projects to the Board at a Board meeting.

The Meeting was adjourned at 12:10 pm.

NEXT BOARD MEETING
Bakersfield, CA
Dec 16, 2008



Jeff Pettegrew, *Secretary to the Board*