



BOARD OF TRUSTEES MEETING MINUTES February 5, 2008

A regular meeting of the Board of Trustees was held on, Tuesday, February 5, 2008 at The Hotel Vitale, San Francisco, California.

1. CALL TO ORDER; ROLL CALL

Chairperson Tim East called the regular meeting to order at 9:02 a.m.

The following Board Members were in attendance:

Tim East, *Chairperson*, The Walt Disney Company
Jill Dulich, *Chief Financial Officer*, Marriott International
William Zachry, Safeway, Inc.
Janice Murphy, Kaiser Permanente
Sean McNally, Grimmway Farms
Mark Johnson, CA Dept of Industrial Relations, OSIP

Other in attendance:

Jeff Pettegrew, Executive Director
Brian Roland, Controller/Treasurer
Sundy Johnson, Executive Assistant
Jim Ware, CA Dept of Industrial Relations, OSIP
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. There were none.

Tim East moved to approve the agenda. Jill Dulich seconded the motion. The motion passed unanimously.

3. APPROVAL OF December 7, 2007 MINUTES

Jill Dulich moved to approve the Minutes. William Zachry seconded the motion, the motion passed unanimously.

4. 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 Zachry updated the Board on the Claims Committee by stating that the committee is currently waiting on the RFP process on the Fund's Claims TPA's to be completed. Once that process is finalized around March 1, the Claims Committee will look into other indirect claims management service provider arrangements utilized by the Fund.

It was mentioned that a continued effort on the part of Tristar to clean up the existing backlog of files has been making good progress, since the previous committees meeting with them. Jeff Pettegrew added that over 200 files – approximately 20% of Tristar's claims - were closed in the past 12 months.

Bill Zachry also made mention that as the Chairman of the Fraud Commission he had asked Tom Veale, President of Tristar, to attend and speak on workers comp claims fraud issues. Mr. Veale's public testimony is still resonating throughout industry since it served to indentify a number of potential gaps and conflicts involving fraudulent issues. Bill offered to share the Fraud Commission PowerPoint presentation on this topic with anyone interested.

C. Finance Committee – Jill Dulich, CFO, Chairperson

Jill Dulich reported that the Finance Committee is requesting Board approval of the current, investment policy, with no changes to be made due to an Auditor recommendation that the Board formally adopt its investment policy each year even if there are no changes.

Janice Murphy raised question relating to the Board's current investment policies with respect to an objective of what is deemed an *acceptable level of risk*. Janice suggested - as she indicated -based upon her expertise, that the Board's policy be reviewed with regard to investment safety and preservation of capital. In noting that the current investment policy reflects more of a fixed income cash management policy, Janice suggested that SEC and NAIC rating tier standards be adopted into the policy as well. She also thought that it would be better to less specific in some of the objectives stated since more general guidelines are sufficient in most cases.

Tim East agreed that the current investment policy should be reviewed with John Liddle at the Finance Committee's next meeting with regard to the questions raised. Jill Dulich agreed to put the current investment policy approval request on hold until the next board meeting in May 2008. In the meantime, the Finance Committee will recommend revisions to the policy at its next meeting.

D. Audit Committee – Janice Murphy, Chairperson

Janice Murphy summarized the last Audit Committee meeting. She noted that the review of the internal controls from the financial auditor's perspective had been completed. The committee reviewed the final audit and various recommendations on September 28, 2007 with David Becker at its meeting in Oakland.

Janice reported that there were no significant deficiencies or material weaknesses found within the audit. Accordingly, the committee expressed appreciation to Brian Roland for both a timely and smooth 2007 audit.

Janice went on to note that there were only three minor recommended adjustments noted in the audit. Two issues related to the Fund's actuarial report. One issue addressed the on-going process (since BRS) of how receivables from "old form" surety bonds - which do not pay the Fund in a lump sum as current Regs require - are booked. Brian Roland noted that there is no documentation from BRS that supports how the surety bond receivables were initially set up. Brian is working with David Becker to help the Fund to adopt a new financial procedure as each TPA provides estate receivables from surety bond companies as well as from excess insurers. As part of the process the TPA's have been asked to document each invoice associated with a receivable in an effort to determine and average percentage of what is ultimately paid to the Fund behalf of the individual estates.

All other comments made during the committee's audit review were minor suggestions for internal controls to reflect more of a SOX risk-based assessment for future audits.

David Becker of Perry Smith, LLP is scheduled to do a risk based audit this year in compliance with the Audit Standards Board by rotating Perry-Smith, LLP partner, Mike Sosa into the audit process. Mike Soza, as Jeff noted, was introduced to the Board at its prior evening dinner meeting.

E. RFP/RFQ Committee – Jill Dulich, Chairperson

Jill Dulich reported that the RFP Committee has scheduled two full days of interviews of the finalists picked as the Fund's top candidates for TPA and

Actuarial services in San Francisco at Thelen Reid Brown Raysman & Steiner offices on February 13th and 14th, 2008.

Jill noted that they will prepare a defined set of questions to be posed to candidate firms by committee members that will enable the committee to gauge the responses to create uniformity and consistency within the interview process. Once the interviews are completed, the committee will review its findings and issue its recommendations to the Board after all necessary reference checks are completed. A summary of the committee's recommendations will be prepared within a few days by the Executive Director and sent out to the entire Board for its review and approval. With Board approval, the E.D. will work with legal counsel and the chosen service providers to execute their respective service agreements with an effective date of March 1, 2008.

In answer to a Board question, Jeff Pettegrew confirmed - after discussions with legal counsel - that the Fund is not required to "bid out" its service providers, nor is it required to post or publish its reasoning for service provider selections.

F. Credit Committee – Janice Murphy, Chairperson

Janice Murphy reported that the Credit Committee's meeting in September 2007 focused on two things: (1) How to keep abreast of the credit environment by staying up-to-date with the current contacts the Fund has as well as conferences, and (2) How to manage the Fund's credit risks when the associated controls relating to the risk are essentially missing.

It was recommended that Dan Sovocool work with the E.D. to look in to revising the DIR/OSIP regulations. In addition, the committee recommended getting some clarification of the various ratings agency "red flags" that may give cause for an increased deposit assuming a self-insured's credit rating fell below a determined level. Janice also noted the committee's desire to review Fund member credit reports on a quarterly basis as prepared by Jeff, Brian and Emilie Cortes regarding future risk. Jeff and Brian are working on the member credit reporting criteria and will present a sample of how the reports will look to the committee when completed.

5. ADMINISTRATIVE MATTERS

A. Executive Director Report - Jeff Pettegrew

1. Jeff Pettegrew reported an update on the Fund's most recent defaulting estate, National RV. He noted that all workers comp files of the "excluded" estate were turned over to Metro within 10 days of the DIR-declared

default. The portfolio of claims included 142 “stated” open claims and over 3000 closed claims (since 1988). He added that the post default audit is scheduled for late February by OSIP. The estate’s active claims were loaded into iVOS and the system is working perfectly. Sylvia Lipe is the assigned claims manager at Metro handling National RV exclusively. The Fund has also received a little over \$5.5 million dollars from OSIP that National RV had posted. This compares to approximately \$2.7 million in claim file expected future liabilities (less admin costs & IBNR) at this point.

2. Jeff also reported that The Security Fund’s new web site is up and running. He added that several updates are being added as material is edited by Jeff and approved by Dan Sovocool. A printed sample of the Fund’s new website pages were circulated to the Board.

3. Jeff’s annual work plan includes developing a new Fund member Power Point presentation for its membership that will be designed to communicate the short and long-term strategic and financial objectives of the Fund as well as its accomplishments. The intent, as in prior years, is to conduct a presentation in the north and south portions of the state during the upcoming months. Jill Dulich recommended a *minimum* 45 day notice to Fund members to allow them sufficient time for scheduling their attendance. All Board members expressed agreement.

4. Jeff also reported on the Fund’s 2008-09 Directors and Officers (D&O) insurance renewal. The Fund’s broker, Marsh, went out and canvassed the marketplace. After comparing other policy terms and conditions and pricing, the Fund was able to switch its D & O coverage from ACE to AIG. This move provided minor coverage enhancements and reduced the Fund’s annual premium by nearly \$50,000.

5. In closing, Jeff noted that the lawsuit by the Fund against Rexhall was “on-hold” since that the trial court date had been vacated by the court. With the DWC audit findings expected to be released at any moment, the litigation has reached a standstill. Jeff expects legal counsel to update the Board as new information is provided from Dan Sovocool.

B. Controllers Report – Brian Roland

Besides the audit issues already addressed with the audit committee reports, Brian said the only update to report is that the progress of inputting the private company’s financials into the Balenz software is steadily coming along. Data input from the self-insured’s financial documents is taking longer than originally expected due to the difficulty in inputting for the various non-profit companies whose financials are different than the module Balenz software provides the Fund for input. Once a significant number of companies have been added, a test report will be run to view the reports entered into Moody’s Risk Analyst system.

C. DIR/OSIP Report – Mark Johnson, Manager, OSIP

Mark Johnson and Jim Ware both attended the meeting to update the Board on Department of Industrial Relations (DIR) and Office of Self Insurance Plans activities and concerns.

OSIP is currently having trouble with their IT department when accessing the private self insured's data base, which has prevented OSIP from any execution of commands. Investigation is currently underway to resolve this virus issue and to get the data base back up and running.

The department has hired a new supervisor to replace Ken Swanson who is retiring after 26 years with SIP. In addition, OSIP has plans to hire two additional auditors.

D. QUENTIN HILLS - MMC SECURITIES (MMC) REPORT

Quentin Hills and Vishal Rana of MMC, as a pre-ASP update, reported on the current credit market conditions:

Uncertainty surrounding sub-prime mortgage exposures and its ripple effect through the credit market has created extremely volatile credit market conditions. This has led to a major re-pricing of credit risks across the Board with a significantly larger increase for non-investment grade companies.

Moody's anticipates completing review of financial guarantors in the next 2 to 4 weeks, likely resulting in downgrades for key players: Ambac; MBIA; FGIC; and XL Capital Assurance. Guarantors have indicated that they will continue to operate in the event that a downgrade does occur. The 3 to 6 month market expectations point out that elevated spreads will continue to persist and possibly expand in the uncertain economic environment

E Litigation Report

Jeff Pettegrew reporting on behalf of Dan Sovocool who is out due to a trial commitment, that both the HomeBase and Bethlehem Steel litigated cases are now closed and all monies from both settlements have been received by the Fund.

F. Closing Comments

Bill Zachry had closing comments in regards to the Fund's current marketing of new ASP members. He noted that currently, new private self-insured entities are required to wait 3 years before becoming a participating member in the ASP. He suggested that the Fund consider changing this Reg or policy to allow new ASP members automatically into the Fund unless otherwise stated by the Security Fund, therefore

changing the currently policy of the exact opposite, where the new members are excluded to the waiting period unless otherwise stated. Bill Zachry in conjunction with other board members support the request to have this issue placed on the agenda of the May board meeting as a topic of discussion.

G. Next Board Meeting

Wednesday, May 7, 2008

(following the SIGFA Annual Meeting hosted by the Fund May 5-6)

9:00 am to 4:00 pm

Hotel Vitale, San Francisco, CA

H. Adjournment

Sean McNally moved to adjourn the meeting. William Zachry seconded the motion. The motion passed unanimously. The Board Meeting adjourned at 11:40 pm.

Sundy Johnson

Sundy Johnson, Executive Assistant



Jeff Pettegrew, *Secretary to the Board*