



BOARD OF TRUSTEES MEETING MINUTES

May 7, 2008

A regular meeting of the Board of Trustees was held on, Wednesday, May 7, 2008 at The Hotel Vitale, San Francisco, 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

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

Brian Roland, Controller/Treasurer

Sundy Johnson, Executive Assistant

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

Robert Dolinko, Thelen Reid Brown Raysman & Steiner

Quentin Hills, MMC Securities Corp.

Vishal Rana, MMC Securities Corp.

2. CLOSED EXECUTIVE SESSION

The Board convened in Executive Session to discuss litigation issues.

The Regular meeting re-convened at 9:15 a.m.

3. 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. The agenda was approved by acclamation.

4. **APPROVAL OF FEBRUARY 5, 2008 MINUTES**

Motion by Jill Dulich to approve the Feb 5, 2008 Board Minutes. Theresa Muir seconded the motion. The motion passed unanimously.

5. **BOARD CONSIDERATION OF A RESOLUTION REGARDING CREDIT RATING POLICY.**

MMC led a discussion with the Board relating to the need to formalize the Fund's ASP participating member entity rating policy, particularly with respect to split-ratings wherein a lower split rating should disqualify a self-insured entity from participation in the ASP. Whereas sections 15220(2)(2) and 15220(h)(1) and (2) provide that the Security Fund may request that the Manager [OSIP] may exclude otherwise eligible members, a draft resolution was prepared by Dan Sovocool, Thelen Reid Brown Raysman & Steiner, to address the issue of Split ratings.

Motion by Theresa Muir to approve the proposed Board resolution regarding the Fund's Credit Rating Policy. Bill Zachry seconded the motion. The motion passed unanimously.

6. **ECONOMIC CAPITAL ADEQUACY POLICY**

In follow-up to the Board discussion at the February meeting, MMC and consultants from Oliver Wyman, Mark Ames, Partner, and Ugur Koyluoglu, PhD, outlined a proposed Economic Capital Study for the Fund. Such a project would link various risks (i.e. events) with capital needs to fulfill the Fund's mission of paying workers comp claims of defaulting members. The report would cover the following:

- (1) Credit Risk (members)
- (2) Market Risk (economic environment/investments)
- (3) Operating Risk (earning volatility)

As they noted in their presentation, "Real world stress scenarios are abstract adjunct to measure economic capital. Time horizons, confidence levels and solvency standards are integral parts of the 'stress period'."

The Board asked questions about the timing and costs associated with the project including a \$42,000 built-in travel and expense component, then the consultants from Oliver Wyman were excused.

Jeff Pettegrew suggested to the Board that he negotiate the fees with Oliver Wyman and attempt to get a fixed fee contract that includes all

travel and expenses within the fee. Jeff suggested that he arrange a teleconference in the coming weeks with the Board once he negotiated new terms and conditions for the O/W Economic Capital Study. The Board noted their agreement.

The Board took a break at 10:40 a.m. and resumed at 11:00 a.m.

7. MMC ASP MARKETING MATERIALS UPDATE

Quentin Hills provided a PowerPoint presentation which he said would be used to market the Fund's ASP to investors and counter-parties. He also updated the Board with respect to the nations' economic climate and its impact on the worsening credit risks associated with member entities. He noted that MMC expects member defaults to exceed the 5-6.5% historical average. He sought Board approval to use the materials he presented.

Motion by Bill Zachry to approve the MMC marketing material. Jill Dulich seconded the motion. The motion passed unanimously.

8. MMC DISCUSSION REGARDING MEMBER ASSESSMENTS

Quentin Hills asked the Board to approve a Resolution which would include the Security Fund's G&A costs in the DFL portion of the assessments (as allowed by the Regs)

9. 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 indicated that there had not been any Claims Committee Meetings since the last Board Meeting. He noted, however, that after seeing the notional amounts of the Fund remain flat and even reduced since reform measures passed several years ago, we're now starting to see overall increases in the members workers comp claim estimated future liabilities.

Bill went on to report that the Claims Committee would be looking at Bill Review services to see if the Fund needs to send out an RFP for such

services. He added that David Donn was reviewing the cost-effectiveness of the Fund's current service providers and will assist in the review process.

Bill was asked about the issue of a formal audit of the Fund's TPA's (Metro and Tristar). He noted that the detailed *Risk Navigation Group* (Rick Sabetta) audit was completed 12 months ago, so he envisioned working with the E.D. to plan an interim audit in the coming 12 months to make sure things are on track. It was suggested that \$35,000 be put in the 2008-09 budget to reflect such an update audit.

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. She did note that the Finance Committee will be meeting again with outside investment advisors (through John Liddle at Smith Barney) to explore alternative investment strategies that *may* be considered "down the road."

There was a discussion among the Board regarding the adoption of the Board's investment policy, but Janice indicated that she had some additional concerns about the language, so prospective changes to the current Security Fund investment policy was tabled for discussion at the next Board meeting.

Tim noted the need in the interim to have the Fund's current investment policy approved as it is required by audit standards to have the investment policy approved each year.

Motion by Bill Zachry to approve the Fund's existing Investment Policy. Jill Dulich seconded the motion. The motion passed unanimously.

D. Audit Committee – Janice Murphy, Chairperson

Janice Murphy noted that, despite Brian Roland's sudden resignation, the 2008-09 financial audit is on schedule to begin around the week of August as it was last year. Mike Soza (working in concert with David Becker) of Perry Smith, LLP is scheduled to do a more comprehensive risk based audit this year in compliance with the Audit Standards Board new guidelines. David's experience will help facilitate a smooth audit process since there is no Controller/Treasurer at the time being and since Mike Soza is new to the Fund.

E. RFP/RFQ Committee – Jill Dulich, Chairperson

Jill Dulich reported that the RFP Committee has no service provider contracts up for consideration during the rest of calendar year 2008. She noted, however, that the Funds Audit Firm; Investment Advisor; David Donn and the Fund's Bill Review service provider may be considered for RFP's in 2009.

F. Credit Committee – Janice Murphy, Chairperson

Janice Murphy reported that the Credit Committee was expecting more progress in the Moody's/Balenz member financial scanning project, but Jeff Pettegrew noted that he discovered that Brian Roland had not scanned as many member reports as he had reported. Brian had already reported problems with the Moody's and Balenz software systems before he resigned. Jeff noted that he would be re-examining the project once he and Ming got through the ASP and annual audit. MMC will provide member financials to Moody's for the 2008-09 ASP at no additional charge.

5. ADMINISTRATIVE MATTERS

A. Executive Director Report - Jeff Pettegrew

Jeff Pettegrew noted that he and Ming were going through all of the Fund's financial and accounting records to insure that the Fund continues to operate smoothly until a staffing arrangement is made to replace the Controller/Treasurer function.

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

Jim Ware attended the meeting to update the Board on Department of Industrial Relations (DIR) and Office of Self Insurance Plans (OSIP) current activities and concerns. He summarized some of the key changes in the Department's *Self Insured Group* Regs, and also discussed the DIR "mission" retreat with John Duncan and the expected State budget cuts.

Jim indicated that OSIP continues to conduct claims audits of self-insured entities including "special audits." He noted that he is in constant contact with the Executive Director and that OSIP will devote audit resources to any potential problem arising from issues like deteriorating creditworthiness. He added that his auditors are looking for uniformity in claims reserving practices.

Theresa asked about the value of OSIP claim audits, and whether or not there were ways that OSIP could use their claim auditing resources better. Bill Zachry noted his concern about the overall adequacy of a self-insured's reserving practices versus the small claim sample chosen by OSIP.

The Board wondered if some organization such as CWCI could develop an issue paper covering this area of concern. Jeff Pettegrew noted that he will work with various parties and Jim Ware to see if there is a way to obtain an objective evaluation of the claims auditing process and to perhaps see if there may be other alternatives that could ultimately be used to assure member compliance to the reserving Regs and *best practices*.

Lunch was served at 12:15 p.m. The Meeting resumed at 1:05 p.m.

At the conclusion of lunch, the Executive Director introduced Bob Weis, the Principal Partner of CFOs2GO. Jeff recommended that the Board approve the hiring an interim controller/consultant from CFOs2GO to replace Brian Roland until a more permanent staffing solution can be considered. Bob Weis answered questions about his firm's expertise and nature of services including the fact that they can also assist the Fund in screening and selecting a staff position.

Following the annual audit, Jeff noted that he hopes to be able to work with both the Perry-Smith auditor and CFOs2GO to determine what would be an optimum staffing model moving forward.

Motion by Jill Dulich to approve utilizing a consultant controller from CFOs2Goat \$175 per hour up to \$96,000. Bill Zachry seconded the motion. The motion passed unanimously.

G. NEXT BOARD MEETING

**Hotel del Coronado
Coronado, CA**

August 27 Board Strategic Planning

9:00 a.m. to 3:00 p.m.

Economic Capital Study (Oliver-Wyman)

Internal Staffing Issues/Recommendations

Carver Model (Closed Session)

CLOSING DINNER

(Hosted by MMC)

**August 28 Board Meeting
9:00 am to 1:00 pm**

H. Adjournment

Sean McNally moved to adjourn the meeting. William Zachry seconded the motion. The motion passed unanimously. The Board Meeting adjourned at 1:40 pm.

A handwritten signature in black ink, appearing to read "Jeff Pettegrew". The signature is written in a cursive style with a large initial "J".

Jeff Pettegrew, *Secretary to the Board*