

NOTICE

Attached please find

- Agenda covering the meeting of the Compensation Committee of the Board of Directors of the California Housing Finance Agency

Tuesday, June 24, 2008

THE MEETING WILL TAKE PLACE AT THE:

The Westin San Francisco Market Street
50 Third Street
San Francisco, California
(415) 974-6400

COMPENSATION COMMITTEE

4:00 p.m.

- For further information, prior to the meeting, please contact:

JoJo Ojima
California Housing Finance Agency
P.O. Box 4034
Sacramento, California 95812-4034
(916) 322-3991



BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

Compensation Committee
Amended Agenda

The Westin San Francisco Market Street
50 Third Street
San Francisco, CA 94103
June 24, 2008

4:00 PM

1. Roll Call.
2. Chairman's comments.
3. Discussion and possible recommendation to the CalHFA Board of Directors regarding succession planning, including succession planning for the Executive Director position.
4. Discussion and possible recommendation to the CalHFA Board of Directors regarding the development of compensation policies and procedures.
5. Public testimony.
6. Adjournment.

State of California

MEMORANDUM

To: Compensation Committee

Date: 6-17-08

From: Tom Hughes, General Counsel
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Policies and Procedures

Attached is a copy of the minutes of the December 14, 2006 meeting of the Compensation Committee. Staff has attached these minutes for the convenience of the Committee because they contain a brief summary of the suggestions made by Watson Wyatt regarding the creation of compensation policies and procedures. Those comments appear on the third page of the minutes.

California Housing Finance Agency
Board of Directors
Minutes of the Compensation Committee
Thursday, December 14, 2006

Burbank Airport Marriott
2500 Hollywood Way
Burbank, California

The meeting of the Compensation Committee of the Board of Directors of the California Housing Finance Committee was held on December 14, 2006, at Burbank, California. Present were Committee Chairman John Courson and Committee members Edward Czucker and John Morris. Staff present were Theresa A. Parker, Executive Director; Thomas C. Hughes, General Counsel, Sandy Casey-Herold, Deputy General Counsel, and Jo Jo Ojima. Also present for the Agency were Steve Spears, Special Advisor to the Executive Director, and Pat Meehan, salary consultant to CalHFA.

The meeting was called to order at 9:37 am. Chairman Courson made the opening comments. The Chair stated that the purpose of the meeting was to have Watson Wyatt Worldwide present to the Committee the compensation survey which they have conducted, and to set one or more additional Committee meetings in order to produce salary recommendations to the full Board.

At 9:41 am, Executive Director Theresa A. Parker addressed the Committee. Ms. Parker discussed the retention of Watson Wyatt Worldwide to conduct an independent compensation survey for the Agency. Ms. Parker also informed the Committee that Pat Meehan had been hired as a consultant to work directly with Watson Wyatt Worldwide on behalf of the Agency. Ms. Parker indicated that Ms. Meehan had substantial personnel experience as a former manager with the State. Ms. Parker also described the review of the report's methodology by the Department of Personnel Administration.

At 9:43 am, General Counsel Thomas C. Hughes addressed the Committee. Mr. Hughes described to the Committee regarding the Agency's review of potential conflicts of interest issues. Mr. Hughes indicated that there were two primary ethics laws that potentially affected staff in connection with the Committee proceedings. The first is the Political Reform Act, as administered by the Fair Political Practices Commission. The second is Government Code section 1090, regarding financial interests in contracts. Mr. Hughes informed the Board that as to the Political Reform Act, the FPPC has enacted a rule [Title 2, CCR section 18702.4 (a) (3) and (b) (3)] that specifically permits government employees and consultants to be involved in actions "relating to their compensation or the terms or conditions of their employment or contract". With respect to Government Code section 1090, Mr. Hughes reported that public employees can similarly be involved in their own salary and employment discussions so long as their

employment contract was not made by them in their official capacity. However, to avoid the appearance of impropriety, Mr. Hughes advised the Board that he was recusing himself from advising the Committee or the Board in connection with any legal issues concerning the salary survey. Mr. Hughes informed the Committee that Deputy General Counsel Sandy Casey-Herold was present and would be advising the Board as to such matters. Mr. Hughes indicated that he would continue to be able to advise the Board on general issues relating to open meeting laws or similar procedural issues that do not relate to the survey or compensation.

At 9:47 am, the Chair proceeded to item 3 on the agenda, the presentation of the report by Watson Wyatt Worldwide. Attending for Watson Wyatt Worldwide were Michael Oclaray, senior consultant, and Brent Miller, compensation consultant. Mr. Miller explained that Watson Wyatt Worldwide were independent consultants hired by the Agency to conduct the survey. Mr. Miller explained the process, and that the survey was independent. He indicated that in preparing the survey, they did not deal directly with the individuals whose positions were subject to the survey. Mr. Miller then further explained the methodology involved in the survey. He indicated that Watson Wyatt Worldwide had followed Department of Justice reporting methodology by listing salaries at the 25th, median and 75th percentiles.

Mr. Miller explained that at times, Watson Wyatt Worldwide requested that the Agency provide it with certain information, such as the identities of other state and local housing finance agencies that the Agency believed were most comparable to CalHFA, but that Watson Wyatt Worldwide was not under any compulsion to accept such information, and in all cases independently determined that the choices used in the survey were appropriate according to standard methodology. Mr. Miller indicated that for each of the entities on the custom survey, they considered the core business of the entity, organization size, asset size, demographics and geography.

Mr. Miller also discussed the custom portion of the survey, as well as the portion that included published data for similar for-profit and non-profit entities. He discussed the review by Watson Wyatt Worldwide of correlation between the published and custom data, and reported that DPA had reviewed such methodology.

Committee members Edward Czucker and John Morris asked questions about the total compensation numbers as shown by the survey, and the benefit packages. Chairman Courson indicated that the Board needs to decide for any given position, whether they believe that the custom data, the for-profit data or the non-profit data, represents the most appropriate measure of compensation.

The Committee members, Mr. Miller and Mr. Oclaray then discussed retirement packages and other benefits offered by employers as a percentage of total compensation, and the effect of such packages on salary determination. The Committee and Mr. Miller and Mr. Oclaray then reviewed and discussed appendices to the report.

At 10:25 am, Chairman Courson opened the meeting up to any questions. The Committee members then discussed the next steps in the process, and the information that the Committee members believed that they needed in order to make individual recommendations to the Board.

Mr. Morris asked whether the Committee could get additional information regarding benefits that made up a portion of total compensation. Ms. Meehan then discussed the statewide survey that the Department of Personnel had conducted in connection with state positions, and how the DPA had dealt with the issue of comparing benefits packages. Ms. Meehan indicated that the DPA had prepared the salary survey without being able to correlate benefits packages between different employers, because it was too difficult to get a useful “apples-to-apples” comparison. Ms. Meehan also indicated that the California Public Employee Retirement System had taken the same approach when it developed its compensation policies. Mr. Miller then informed the Committee that the detail needed to do a direct comparison between benefits packages for the survey was not realistically available, and that the value of such additional information would be questionable. Mr. Miller indicated that attempting to collect that information would not be the recommended approach in conducting the survey. Chairman Courson asked if the collection of benefit information would make a material difference to the data on the chart on page 30 of the report. Mr. Miller indicated that it would not. He told the Committee that the macro methodology in the survey provides a very good view of the market. He believed that Watson Wyatt Worldwide would not be able to get a great deal of information on the overall mix of salary and benefits that would be useful for the survey.

The Committee then asked Deputy General Counsel Casey-Herold whether the report was a public document, and she indicated that it was.

Mr. Oclaray then discussed whether or not such additional benefit information would make the positions more competitive. He indicated that the Committee could conclude that the cash compensation for the executive positions at CalHFA was below market without such information. He suggested that the Board develop a compensation philosophy for future years. He suggested that such a policy establish the market for talent, and decide whether the custom, for-profit or non-profit data best represents that market. He further suggested that at first, the Board establish an enterprise wide policy, and later refine it for individual positions. Mr. Courson noted that the Committee now had the similar compensation policy that CalPERS had established. Mr. Oclaray indicated that the Committee might want to use a blended market rate using appropriate elements of the custom, for-profit and non-profit data contained in the survey.

Mr. Morris then asked why Watson Wyatt Worldwide compared CalPERS and CalSTRS to CalHFA, since they have a larger asset size as compared to CalHFA. Ms. Parker indicated that the Agency was asked by Watson Wyatt Worldwide which public entities that CalHFA felt comparable to, and that the Agency believed that CalPERS and CalSTRS were comparable in the sense that both are California state entities that recruit financial talent and can set salaries. The Committee then discussed CalPERS and

CalSTRS salary issues. Mr. Morris discussed potentially comparing survey respondents by the size of their operating budgets.

Chairman Courson then indicated that the Board would create a range of salaries, and then based upon the performance evaluations prepared by Executive Director Parker, would set salaries for management positions. The Committee would conduct a performance evaluation of the Executive Director and would recommend a salary to the Board. Chairman Courson indicated that there would be a two step process. The first step would be the global approach, consisting of determining the appropriate market and salary range for each position. The next step would be to have the Executive Director discuss the performance evaluations of each person and to recommend a salary level for that person.

The Committee then asked about the specific salary levels set by individual HFA's that were included in the survey. Watson Wyatt Worldwide indicated that that information was collected by Watson Wyatt Worldwide and considered in the report, but that salary information was not specifically identified by HFA name in the report because of the way that information was collected. Ms. Parker indicated that those HFA's were public agencies and that the information was publicly available and could be collected and provided to the Committee. The Committee then asked that any such information be collected and provided to the Committee to extent possible.

Ms. Meehan indicated that salary information considered should be part of the survey under the statute. The Committee and Watson Wyatt Worldwide discussed the HFA information. Watson Wyatt Worldwide informed the Committee that the salaries of the surveyed HFA's were part of the custom survey data collected, and that if the identifying information was publicly available, it could be included by name and maximum salary. Chairman Courson indicated that the ranges would be set in accordance with information contained in the survey.

The Committee discussed the procedure for setting the next meetings. The Committee asked if persons to be evaluated could be present in closed session. Deputy General Counsel Casey-Herold indicated that such persons could be present in closed session, but that they also had a right to request that the action be conducted in open session.

The Committee asked generally if meetings could be conducted telephonically under the open meeting laws. Mr. Hughes informed the Committee that the law permitted such meetings, but with certain limitations, including that all locations at which Board members were present needed to be accessible to the public.

Chairman Courson indicated that the Committee was considering the dates of January 9, 10, or 11 for the next Committee meeting, at which the Committee would set ranges for salaries. Mr. Courson indicated that individual evaluations would be conducted at a meeting on the evening of January 17, in closed session. He indicated that the closed sessions would be attended by the Executive Director. Mr. Hughes reminded the

Committee members that the open meeting laws require that minutes of closed sessions be kept to determine the matters discussed.

There were no public comments. Chairman Courson adjourned the meeting at 11:45 am.

Thomas C. Hughes
Secretary

State of California

M E M O R A N D U M

**To: Members of the Compensation Committee
Of the CalHFA Board of Directors**

Date: June 11, 2008

From: Tom Hughes, General Counsel
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Disclosure of Potential Conflict of Interest

The purpose of this memo is to disclose to the Committee the existence of potential conflicts of interest by the General Counsel at meetings of the Committee which consider matters which could affect the salary of the General Counsel.

By statute, the General Counsel serves as the Secretary of the Board of Directors, and provides legal counsel to the Board.¹ The General Counsel performs the same role with respect to committees formed by the Board. As the Committee knows, the 2007 amendment to Health & Safety Code section 50909 gave the Board the power to set the salaries of key exempt positions, specifically including the General Counsel. The Board has formed the Compensation Committee to formulate recommendations to the full Board regarding salaries, compensation policies and procedures, and other similar issues.

In previous meetings of the Committee in 2006 and 2007, I disqualified myself from representing or advising the Committee and Board in connection with matters which might affect the salary of the General Counsel. I did so largely because I wanted to avoid both any actual conflict of interest, as well as any appearance of any impropriety in connection with the initial proceedings of the Agency under the new statute. However, the Agency will need to consider on an ongoing basis whether the General Counsel shall continue to be disqualified in future meetings, or whether after disclosure of the potential conflict, the General Counsel should continue in connection with the representation provided by statute.

At the outset, the State Bar has enacted Rules of Professional Responsibility that govern the conduct of attorneys. Rule 3-310 ("Avoiding the Representation of Adverse Interests") prohibits attorneys from accepting or continuing representation of a client without providing written disclosure to the client, when the attorney has a "legal, business, financial or professional interest in the subject matter of the representation".² This memo is intended to disclose the potential conflict as required by the State Bar rule.

The potential for a conflict of interest appears to be inherent in the unusual situation created in which an attorney who is statutorily named to represent a client, must also advise that client on matters which could affect the attorney's salary as an employee of the client. Apart

¹ Health & Safety Code section 50911 (a)

² Rule of Professional Responsibility 3-310 (B) (4). A copy of the Rule is attached.

from the general nature of the representation, there are of course specific issues upon which the attorney may be required to provide advice which could create such a conflict. For example, at the upcoming June 24, 2008 meeting, the Committee will consider whether to recommend to the full Board whether to adopt a performance based bonus plan. Because the authority of the Board to create such a plan is a function of statute, the General Counsel would be in the position of providing advice regarding that statute. The advice of counsel could influence whether the Committee proposes such a plan, which if enacted could directly affect the compensation of the General Counsel. This is one example of the type of potential conflict that may arise. The potential conflicts may be different depending on the specific matters raised at future meetings.

I believe that the Committee, after the required disclosure, may effectively consent to the representation by the General Counsel despite the potential for conflict. Alternatively, the Committee may seek to have another staff attorney from the Agency provide representation, or may elect to hire outside counsel to provide such representation. The Committee may also elect to address the question on a case by case basis, instead of globally. Because this issue will continue to arise at each future meeting of the Compensation Committee, and of the Board when it considers the Committee's recommendations, I believe that the Committee should consider, as part of its mission to develop policies and procedures regarding compensation, a policy or procedure regarding the participation by the General Counsel in light of the potential for the conflicts of interest described in this memo. I would note that the recent amendments to the Compensation Committee charter adopted by the Board require the Committee to create procedures that avoid "the appearance of conflicts of interest to the extent reasonably possible, while permitting the involvement of staff in a way reasonably necessary to accomplish its purposes and duties under this charter". The Committee will need to decide how to best balance those competing goals, in this instance as well as others.

I would ask that the Committee take up the issue of a policy or procedure that addresses the role of the General Counsel in the compensation process, prior to taking up any agenda item that might affect the salary of the General Counsel. That will be necessary to know whether the General Counsel should continue to provide advice during the meeting. If any Committee member would like to have another attorney attend the June 24 meeting in the event that the Committee feels that the General Counsel should be disqualified from participation, I would suggest that the member contact the Executive Director to make such arrangements. In addition, I believe that the full Board will need to make a similar determination at its July meeting.

Rule 3-310. Avoiding the Representation of Adverse Interests

(A) For purposes of this rule:

(1) "Disclosure" means informing the client or former client of the relevant circumstances and of the actual and reasonably foreseeable adverse consequences to the client or former client;

(2) "Informed written consent" means the client's or former client's written agreement to the representation following written disclosure;

(3) "Written" means any writing as defined in Evidence Code section 250.

(B) A member shall not accept or continue representation of a client without providing written disclosure to the client where:

(1) The member has a legal, business, financial, professional, or personal relationship with a party or witness in the same matter; or

(2) The member knows or reasonably should know that:

(a) the member previously had a legal, business, financial, professional, or personal relationship with a party or witness in the same matter; and

(b) the previous relationship would substantially affect the member's representation; or

(3) The member has or had a legal, business, financial, professional, or personal relationship with another person or entity the member knows or reasonably should know would be affected substantially by resolution of the matter; or

(4) The member has or had a legal, business, financial, or professional interest in the subject matter of the representation.

(C) A member shall not, without the informed written consent of each client:

(1) Accept representation of more than one client in a matter in which the interests of the clients potentially conflict; or

(2) Accept or continue representation of more than one client in a matter in which the interests of the clients actually conflict; or

(3) Represent a client in a matter and at the same time in a separate matter accept as a client a person or entity whose interest in the first matter is adverse to the client in the first matter.

(D) A member who represents two or more clients shall not enter into an aggregate settlement of the claims of or against the clients without the informed written consent of each client.

(E) A member shall not, without the informed written consent of the client or former client, accept employment adverse to the client or former client where, by reason of the representation of the client or former client, the member has obtained confidential information material to the employment.

(F) A member shall not accept compensation for representing a client from one other than the client unless:

(1) There is no interference with the member's independence of professional judgment or with the client-lawyer relationship; and

(2) Information relating to representation of the client is protected as required by Business and Professions Code section 6068, subdivision (e); and

(3) The member obtains the client's informed written consent, provided that no disclosure or consent is required if:

(a) such nondisclosure is otherwise authorized by law; or

(b) the member is rendering legal services on behalf of any public agency which provides legal services to other public agencies or the public.

RESOLUTION 08-17

RESOLUTION REVISING COMPENSATION COMMITTEE CHARTER

WHEREAS, the California Housing Finance Agency (the "Agency") has adopted Resolution 06-16 approving the charter of the Compensation Committee; and

WHEREAS, the compensation process in 2006 and 2007 was reviewed by outside counsel and various recommendations have been made for changes to that process; and

WHEREAS, the Board adopted Resolutions 08-09, 08-10 and 08-11 at the March 19, 2008 Board meeting; and

WHEREAS, Resolutions 08-09 and 08-10 directed that certain changes be made to the Compensation Committee charter adopted by resolution 06-16, and

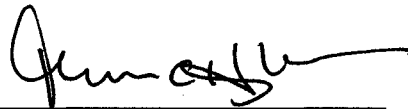
WHEREAS, the Board has reviewed the revised charter attached hereto,

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The attached "Compensation Committee Charter Revised May, 2008" is approved and adopted.

I hereby certify that this is a true and correct copy of Resolution 08-17 adopted at a duly constituted meeting of the Board of Directors of the Agency held on May 14, 2008, at Burbank, California.

ATTEST:



Secretary

California Housing Finance Agency
Compensation Committee Charter
Revised May, 2008

Mission

The Compensation Committee (the "Committee") is a committee of, and reports to, the Board of Directors of the California Housing Finance Agency (the "Board"). Through this Charter, the Board delegates certain responsibilities to assist the Board in fulfilling its oversight responsibilities in the compensation of key exempt management with the Agency. In performing its duties, the Committee will recommend to the Board compensation policies and procedures designed to attract and retain the best personnel to allow the Agency to achieve its goals and remain competitive in the marketplace.

Membership

The Committee will be comprised of no fewer than three voting members of the Board, to be selected by the Chair of the Board to serve on a rotational basis with staggered terms. The Committee Chair will be designated by the Board Chair.

Authority

The Committee was established by Board Resolutions 06-16 and revised by Resolution 08-17. The Committee will act in an advisory capacity to the Board. Staff of the Agency will serve as a resource to Committee. The Committee has the authority to conduct any review appropriate to fulfilling its responsibilities. All employees of the Agency are directed to cooperate as requested by members of the Committee and the Committee will have complete access to Agency records and data.

Meetings

The Committee will meet as often as its members determine is necessary, but not less frequently than twice each calendar year. The committee will report its proceedings and recommendations to the full Board, at the first regular meeting of the Board following a Committee meeting. All meetings of the Committee shall be open public meetings subject to the same notice and agenda procedures as are regular meetings of the Board. Any personnel evaluations may be held in closed session to the extent permitted or required by the Bagley-Keene Act; provided, however, that discussions of compensation issues shall take place in open session.

Minutes

Minutes of each meeting will be prepared and sent to all members of the Board. The Committee minutes need not be verbatim. Minutes of the Committee will be presented to the Committee for review and approval at the next meeting of the Committee. Minutes of Committee meetings are public records unless exempted under the California Public Records Act or other applicable law.

Duties

The Committee will conduct the following activities:

1. Make recommendations to the full Board to enable the Board to carry out its duties and functions under Health and Safety Code section 50909;
2. Periodically cause to be conducted salary surveys that will form the basis of the design of a compensation plan that will attract and retain senior executive personnel qualified to lead the Agency in its mission and maintain its competitive posture in the marketplace. Such surveys will be conducted by independent outside advisors based on a comparison of compensation plans and compensation levels of other state and local housing finance agencies, other comparable agencies of the State of California, non-profit housing agencies, for-profit institutions and other relevant labor pools;
3. The Committee shall review any proposed contracts to engage consultants needed to carry out its duties under this Charter, including the outside advisor conducting the salary survey required by Health & Safety Code section 50909. The Committee shall make recommendations regarding such contracts to the Board, and the Board shall consider such recommendations. In the event that the Board approves any such contract, the Board shall direct the Executive Director to sign such contract on behalf of the Agency;
4. It shall be the policy of the Board and Committee to avoid any conflicts of interest in connection with the exercise of its duties. In carrying out its responsibilities under this Charter, the Committee shall endeavor to create a balanced process that avoids the appearance of conflicts of interest to the extent reasonably possible, while permitting the involvement of staff in a way reasonably necessary to accomplish its purposes and duties under this charter.
5. Periodically review and evaluate, with the assistance of Agency management, staff and outside advisors, the structure and level of Agency compensation of those senior executives whose salaries are established by the Board pursuant to section 50909;

5. Annually review the performance of the Executive Director;
6. Based on the annual review of the Executive Director's performance and the results of the salary surveys conducted by independent outside advisors, make a recommendation to the Board for the compensation level of the Executive Director;
7. Annually review that portion of the Agency's budget containing the compensation of key exempt management and recommend to the Board approval or amendments to those compensation levels. The Committee's recommendation will be based on a review of performance evaluations completed by the Executive Director and the results of the salary surveys conducted by outside advisors;
8. Review and discuss management succession at least annually;
9. Review legal and regulatory matters that may have a material impact on the Agency's compensation philosophy, structure and plans.

Other Committee Duties

In addition to the duties outlined above, the Committee annually will also:

1. Conduct a review of its performance, including a review of its compliance with this Charter;
2. Review and assess the adequacy of this Charter taking into account all legislative, regulatory and contractual requirements applicable as well as any best practices, and, if appropriate, will recommend Charter amendments to the Board.