

September 23, 2021 Board of Directors Meeting Minutes

A Board of Directors meeting for the Surplus Lines Stamping Office of Texas was held by conference call via RingCentral.

Agenda

- Item 1. Call to Order & Establishment of a Quorum
 - Item 2. Discussion and appropriate approval of July 22, 2021 Meeting Minutes
 - Item 3. Discussion and appropriate action – Insurance Policies
 - Item 4. Discussion and appropriate action – Executive Director Update
 - Item 5. Discussion and appropriate action – Operations Department Update
 - Item 6. Discussion and appropriate action – IT Department Update
 - Item 7. Discussion and appropriate action – Finance and Audit Committee YTD Financial Update
 - Item 8. Discussion and appropriate action – 2022 Budget
 - Item 9. Adjournment
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Item 1. Call to Order | Penni Chambers, Chair of the Board

Penni Chambers, Chair of the Board of Directors, called meeting to order on September 23, 2021, at 9:01 a.m.

Meeting was held in-person and a conference call-in number was provided in the public meeting notice. Chambers stated, written notice of this meeting, the proposed agenda, and all related meeting materials were provided to the Texas Department of Insurance Deputy Commissioner of the Financial Regulation Division and her designees on September 13, 2021, in accordance with the Plan of Operation, Section 2(c)(2).

Written notice of this meeting and related agenda were provided to the Board of Directors and submitted for publication to the Office of the Secretary of State on September 16, 2021 in accordance with the Plan of Operation, Section 2(c)(1). Chambers called roll to determine participating members pursuant to Plan of Operation Section 2(c)(6):

Board of Directors:

		Term Expiration
Penni Chambers	Chair of the Board	12/31/2023
Randy Myers	Vice Chair	12/31/2022
Leslie Milvo	Secretary	12/31/2022
Lorrie Cheshier		12/31/2022
Charles Gillenwater		12/31/2022
Teri Brinson		12/31/2022 - Participated via video conference
Peter Harrison		12/31/2022 - Absent
Jeff Klein		12/31/2023 - Absent

Other Attendees:

Greg Brandon, Executive Director, SLTX
Donna Aug, Director of Finance, SLTX
Cheyenne Herrera, Director of Operations, SLTX
Sholonda Stone, Director of IT, SLTX

Denisse Orellana, Director of Human Resources, SLTX
Vanessa Moreno, Administrative Assistant, SLTX
Marcelina Gutierrez, Communication and Education Coordinator, SLTX
Stanton Strickland, General Counsel, Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C
Paul Rainey, TSLA Liaison
Courtney Williams, TDI

SLTX Staff Member Attendees:

Sharmila Subedi, Business Analyst
Dalton Moore, Senior Developer

Minutes were taken by SLTX staff.

Chambers made the following administrative housekeeping announcements before moving forward with agenda:

1. Antitrust activity or discussion are prohibited at all Stamping Office functions. This prohibition includes the exchange of information concerning individual company rates, coverages, market practices, claims settlement practices, expenses, or any other competitive aspect of an individual company's operation.
2. We will not have a public comments session. Public and media attendees listening by telephone should always mute lines.
3. Representatives of state agencies and members of the public are welcome to observe or record this Board meeting; however, must refrain from asking questions or interjecting comments during the Board's deliberations.
4. State agency personnel present may be asked questions about agency policies if those questions relate to an agenda item.
5. Members, counsel, and staff participating by conference call should identity themselves when speaking. Please mute lines when not speaking.

Item 2. Discussion and appropriate approval of July 22, 2021 Meeting Minutes

Presenter: Penni Chambers, Chair of the Board

Chambers asked the Board if there were any corrections to the July 22, 2021 meeting minutes as presented. Hearing none, Chambers recommended per the text of motion below.

MOTION: Charles Gillenwater

SECOND: Randy Myers

TEXT OF MOTION: Motion to approve the July 22, 2021 meeting minutes as presented.

Motion was retracted due to additional amendments provided by Teri Brinson.

Brinson requested to amend the list of Board of Directors to include her name and term duration.

MOTION: Teri Brinson

SECOND: Randy Myers

TEXT OF MOTION: Motion to approve the July 22, 2021 meeting minutes as amended.

Chambers asked if there were any further discussion or questions, hearing none.

All Board Members in favor.

Motion carries.

Item 3. Discussion and appropriate action – Insurance Policies

Presenter: Greg Brandon, Executive Director

Purpose of presentation was to fulfill requirement as per Plan of Operation, Section 3(a)(8). D&O policy expires on August 1, 2022. All coverage lines still apply. Cyber liability expires January 2022 and will be discussed in December BOD meeting. This renewal will be equally challenging as renewing D&O policy. Crime policy expires January 2023, and no changes are necessary. E&O coverage expires October 1, 2021 and new premium proposal decreased from \$10,973 in 2020 to \$10,493 in 2021. Business Owners policy expires October 7, 2021. Renewal premium is \$8,166, a decrease from \$11,264 in 2020. Lastly, Workers Compensation policy expires October 7, 2021 with very minimal changes

Chambers asked if there were any questions. Hearing none, asked Brandon if there were any recommendations for the Board. Brandon recommended per the text of motion below.

MOTION: Randy Myers

SECOND: Leslie Milvo

TEXT OF MOTION: Motion for the Board to approve the purchase of the three policies which renew in October.

Chambers asked if there were additional comments or questions, hearing none.
All Board Members present in favor.
Motion carries.

Item 4. Discussion and appropriate action - Executive Director Update

Presenter: Greg Brandon, Executive Director

Brandon provided company overview and introduced Gary Anderson, Policy Analyst II as a wonderful addition to the team, and expressed hope of hiring additional staff (Policy Analyst, Developer, and Financial Analyst).

Brandon provided YTD premium total of \$6.18 billion. From a premium perspective, it has been a big year for SL industry throughout the state. March, in terms of item count was the highest recorded month, might have been February if it were not for the winter storm. More than 95% of policies coming in are reflecting new stamping fee. TDI communication for Q3, 25 emails, including instruction to alter Market Data report by removing P15 Code 16 and reintegrating that premium data into Code 13.

Chambers asked for additional clarification regarding Market Data report. Brandon responded that code for workers compensation was place back where it was previously as it only applies to the admitted market. The update was initially recommended by Patty Otto, TDI.

Chambers asked if there were any other questions or discussions, hearing none. With no recommendation from Brandon for the Board, the Chair moved on the next item.

Item 5. Discussion and appropriate action – Operations Department Update

Presenter: Cheyenne Herrera, Director of Operation

Herrera began by welcoming Gary Anderson to the Operations team and provided a brief overview of his 15 years of experience in the fields. New hires from January, (Angela, Ariel, and Porschea – Policy Analyst I) continue to achieve an accuracy rate that has never fallen below 98%, and often is near 99%. Herrera expressed that the team is looking forward to the 3 new hires: Kristian, Nicholas, and Gregory – Policy Analyst I. Also, starting is a new Financial Analyst, Yuba.

Moving on to SMART, the current cost is over \$9.4 million.

Capital budget remains at \$797,813.75 for 2021 SOW (Sept – Dec). The 2022 budget include 2022 SMART SOW which reflects Development for 1Q and Maintenance & Support for 3Q. Headspring's SOW reflects an increase in the hourly cost from \$195 to \$225 per hour. Additionally, Program Manager (PM) cost is increasing as well. Given this price increase, the historically fixed cost for the PM will transition paying hourly instead of a fixed price. The 1Q will include 5 Developers and a full time PM, and the remaining Q's will utilize 2 Developers and ½ time PM. Cost of SOW is \$1,316,250, which will be split between Capital budget and Professional Services. The finalized SOW language will be presented in the October BOD meeting for discussion and approval. As previously discussed, if SLTX is unable to obtain Developers, it may be necessary to modify this SOW at some point in 2022. However, the necessity remains to be seen as we are hopeful with this next round of interviews.

Herrera discussed completion status of each SMART feature. Even through initial development is complete for several features and officially released, enhancements and process improvements are expected as additional releases continue.

Lorrie Cheshire asked how much of the policies are still paper filings. Herrera responded less than 2% are still paper filings that come to the office. Once policies have been scanned in, there is an internal workflow that processes the transactions and sends it to the operations team to complete. The influx of mail is unpredictable.

Herrera provided updates on External Filer features:

- Year to Date KPIs
- Broker Search/Edit manage user profiles (new + existing)
- Search/Edit: Insurers, Coverage and Class Codes
- Advanced Policy Search
- Broker Dashboard survey - Focus groups and various meetings have been conducted to receive wide array of positive feedback.

SMART and EFS will run concurrently until the full set of features are delivered into 2022. With one potential exception, that Sholonda Stone discussed further.

Chambers asks if there are any questions for Herrera regarding her presentation. Cheshier commented "Good job!" Chambers asked if there were any recommendations for a motion for the Board at this time. Herrera stated none.

Item 6. Discussion and appropriate action – IT Department Update

Presenter: Sholonda Stone, Director of IT

Stone thanked IT team for their hard work as they continue training and development with Headspring. Stone provided summary of training SOW, out of the \$100,000 allocated in the budget, there is a remaining balance of \$39,195.50.

Cloud Migration Update - timeline has been adjusted due to obtaining a non-profit grant through Microsoft for \$3,500 with a yearly auto renewal. The focus have been the migration of all Share drives, Microsoft Teams training, and completion of virtualization of network in Azure. Non-productive servers will migrate the week of 9/13. We are working with RSI and Headspring to move production in phases. Upon moving to test environment and completion of approved testing, we will transition to production environment. Total cost was \$60,000, of which \$20,000 went to the exploratory phase, and another \$20,000 toward the migration phase. This left a remining balance of \$20,000.

Beginning December 2021, RSI will no longer be SLTX's backup host co-location. We are working on ensuring that targeted date (December 1, 2021) for "acceptance" is met or finding an alternative solution for a new "warm site" backup location should we are unable to meet such date. Headspring will have to complete the work that was scheduled for the end of the project to be pushed up to now.

Impacts of RSI data center change:

- CUPS server, formerly an acronym for Common UNIX Printing System, is outdated and cannot be upgraded due to the customization without rework from RSI. The approximate SOW cost would be around \$78,000.
- If SLTX engaged RSI for the rework of CUPS it would add at least 90 days to the Cloud Migration project, halting the project to find another Data Center that will host the backup (warm site) location with an estimated cost of \$120,000, (not including hardware and professional service fees).

Stone recommend starting SOW with Headspring for Cloud Migration enhancements and asked if there were any questions. Brandon stated going back to previous versions will not be ideal. Stone added that if CUPS were to be upgraded, assuming it will work, it will be unsupported again within 6 to 12 months.

Headspring's purposed SOW for Cloud Optimization and Development estimated cost is calculated at \$225.00 per hour and not to exceed \$286,740.00 through contract end date. Term is estimated to begin on October 4, 2021, through December 31, 2021. The SOW would provide dedicated expertise to advise and consult with SLTX in preparation for SMART re-engineering to support Azure cloud environment. Headspring and Client will work collaboratively using an "agile" approach on monthly deliverables releases. Headspring will frequently deliver working software to Client for evaluation in short incremental stages, and parties will maintain a pace of development dictated by Client's needs.

Monthly releases may include, but are not limited to:

SMART Application Cloud Optimization

Application optimization Analysis for Azure cloud environment, as prioritized by Client

- (1) Future planning and design considerations for new Azure environment and DB schema
- (2) Create road map and deliverables for SMART re-engineering in Azure environment, If applicable
- (3) Executive summary presentation detailing cloud optimization findings of analysis
- (4) Ongoing Training and Knowledge Transfer to SLTX employees regarding cloud environment tool and development considerations

Stone asked if there were any questions. Hearing none, she moved on to IT department updates.

Switches, which are the key building blocks for any network are over 8 years old. The initial costs for this replacement: \$14,793.50. Firewall, which is a security system designed to prevent unauthorized access into or out of a computer network is over 10 years old. Initial costs for this replacement: \$6,036.90. Manufacture is no longer providing necessary patches for either due to age. Both affect stability of the office. Replacement cost was included in the 2021 budget and will be completed by Cyber7. Due to TechSoup's limited resources and high demand, Switch replacement equipment was purchased at a reduced rate \$3,342.00 compared to \$14,793.50, and Firewall replacement equipment was purchased at a reduced rate of \$308.00 compared to \$6,036.90.

To accommodate staffing needs and support new hires, 5 laptop stations were purchased with a cost of \$8,046.17, which include a TechSoup non-profit discount savings of \$1,344.95.

Chambers asked if there were any questions for Stone regarding her presentation.

Chambers asked Stone if there are any motions for the Board. Stone recommends per the text of motion below.

MOTION: Charles Gillenwater

SECOND: Leslie Milvo

TEXT OF MOTION: Motion for the Board to approve the SOW for Headspring to proceed with getting off the current system.

Chambers asked if there were additional comments or questions, hearing none.
All Board Members present in favor.
Motion carries.

At 10:21 am Chambers asked the Board to go on for a 10-minute break to resume at 10:31 am.

Item 7. Discussion and appropriate action – Finance and Audit Committee YTD Finance Update

Presenter: Randy Myers, F&A Committee Chair and Donna Aug, Director of Finance

F&A Committee met on September 22, 2021. Myers asked Aug to proceed with presentation. Aug began by providing financials through August 2021. Stamping Fees were over budget 21% for August and 35% YTD due to record breaking months. Investment income was over budget 18% for August and 30% YTD as interest and dividends were higher than budgeted. Fair Market Value of investments decreased approximately \$36,000 for August and \$287,000 YTD. Total Expenses were under budget for August at \$221,000 and almost \$2 million YTD.

Salaries and Benefits were under budget 7% for the month and 6% YTD. Professional Services were under budget by 56% for August and 57% YTD. The main component, Professional Fees - ITS, were under budget by \$290,000 YTD, due to the Cloud Migration being budgeted, but barely begun. Conference and Education were under budget around \$67,000 YTD due to COVID related restrictions. Travel and Entertainment, which include Board expenses, were under budget 97% YTD, also due to COVID restrictions. As in-person meetings resume, there will be a decrease in these funds. Occupancy and Operating expenses were under budget 31% for August and 32% YTD. The bulk of the savings is in Software License & Maintenance, due to Cloud Migration not yet being complete.

General & Administrative expenses were under budget 61% for August and 61% YTD. Contingency expense resulted in almost \$242,000 savings YTD. Amortization was under budget by over \$848,000 YTD as SMART components are being rolled out more gradually than budgeted. With total expenses being under budget and total income being over budget, net income for August was almost \$222,000 and \$2.2 million YTD. We had budgeted for losses of \$73,000 and \$901,000 respectively.

Aug asked if there were any questions, hearing none.

Aug continued with the Unrestricted, Undesignated Funds balance. August's YTD net income of \$2.2 million resulted in a fund balance of \$29.4 million on August 31st, which is almost \$21.7 million over the current maximum of \$7,756,535. At current pace, the year ending fund balance is projected to be almost \$29 million, \$21 Million over our maximum.

Aug asked if there were any questions, hearing none. Chambers asked if there were any additional questions for Myers or Aug, hearing none. Chambers asked if there were any recommendations for a motion for the Board at this time. Aug stated none.

Item 8. Discussion and appropriate action – 2022 Budget

Presenter: Greg Brandon, Executive Director and Donna Aug, Director of Finance

Brandon began discussing SLTX's historical budget perspective dating back to 2005 to provide perspective on the 2022 proposed budget. SLTX's two revenue sources are Stamping Fee, which is 95% and Investment Income, which is 5%. Brandon provided chart showcasing actual revenue have historically been greater than budgeted.

SLTX Financial Review slide showed the bulk of expenses are fixed, (building lease, payroll, benefits, etc.). Variable expenses are minimal, incorporation of utilities into lease costs and no significant costs vary based on workload (e.g., hourly labor, commissions, raw materials, etc.). Capital expenses are primarily in the new SMART system. Once project is complete, capital expenses will decrease. Average operating expense per month in 2021 is \$390,100. Net Income, SLTX never had a year where actual net income was less than the budgeted net income. Fee reduction on January 1, 2021 slowed the rate of growth in cash flow considerably. In 2019, SLTX Board dismantled the designated amount for purchase of a building and designated funds were added back to Undesignated Fund balance. Consequently, the fund balance skyrocketed placing our current excess reserves over \$20 million. Brandon also suggested reducing the contingency from 5% of total budget to 0.5% or less. Brandon then asked Aug to proceed with the proposed 2022 budget.

Aug provided a draft 2022 budget and notified board members that additional changes may occur before next meeting in October. SLTX is budgeting for a 20% increase in stamping fees going into next year. Aug thanked Christian Robinson, SLTX Data Analyst, who works hard to crunch numbers and providing appropriate data. Revenues increased by 26%. Interest and Other Income increased by 15%, due to expectation that these will be more in line with 2021 actuals, which is above budget. Overall increase in revenue of \$1.6 million or 26%. Salaries and Benefits increased 37%, this is due to addition of 7 full-time employees and leveling market adjustment. For budget purposes as 10% increase in health insurance coverages was used. This category is 48% of total expenses for 2022 versus 42% for 2021. Professional Services increased 37% or \$635,020, due to transition of Headspring from development to maintenance and support during 2022. With increase, this category represents 14% of total cost versus 13% for 2021. Conference and Education decreased 8% due to COVID. Travel and Entertainment remained unchanged from 2021. Occupancy and Operating expenses dropped by \$20,000 or 2%, due to lower expenses for office-related items (e.g., printing and postage). Additionally, software license and maintenance decreased due to non-renewal of VMware. General and Administrative expenses decreased by \$90,000. 49% increase in general insurance was offset by a decrease in depreciation and amortization, as less additional hardware is expected, and older assets become fully depreciated. This category went from 27% of total expenses in 2021 to 22% for 2022. Budgeted total expenses increased 20% or \$1.5 million over 2021. Overall, budget predicts an operating loss of almost \$1.5 million for 2022 as we operate with a stamping fee reduced by half in 2021 along with the increase in total expenses.

Aug asked if there were any questions.

Leslie Milvo asked about the item count and if it is in correlation with staffing needed. Herrera responded confirmed and added that operations team and the organization overall, has been running lean for many years. There is a lot of dedication from staff members, and we want to prevent burnout. Brandon added that SLTX has experienced a high turnover rate for years. We need to work on maintaining a healthy culture/environment and keep long term employment by making SLTX a company of choice and competitive with the market. The expectation is that we are all subject matter experts (SME) for the industry, and they are phenomenal at what they do.

Orellana thanked Brandon for taking the time and effort to listen and understand the processes that go

into running the organization and understanding that our employees are SLTX's biggest asset. Orellana added that these changes are long overdue in the organization and that we are heading in the right direction maintaining focus on our team.

Chambers asks if there are any questions from the board regarding the presentation.

Aug recommended per the text of motion below.

MOTION: Charles Gillenwater

SECOND: Randall Myers

TEXT OF MOTION: Motion for the Board to approve the submission of the 2022 proposed budget and send it to the TDI commissioner for further review.

Chambers asked if there were additional comments or questions, hearing none.

All Board Members present in favor.

Motion carries.

Item 9. Adjournment

Presenter: Penni Chambers, Chair of the Board

MOTION: Randy Myers

SECOND: Charles Gillenwater

TEXT OF MOTION: Adjournment

All Board Members present in favor.

Motion carries.

The meeting adjourned at 11:07 a.m. on September 23, 2021.



Leslie Milvo, Secretary