

Finance and Audit Committee Meeting Minutes

September 22, 2021

A Finance and Audit Committee meeting for the Surplus Lines Stamping Office of Texas was held in-person at the Surplus Lines Stamping Office of Texas, 805 Las Cimas Parkway, Suite 300, Austin, TX 78746.

Agenda

- Item 1. Call to Order & Establishment of a Quorum
- Item 2. Discussion and Appropriate Approval of June 23, 2021 F&A Meeting Minutes
- Item 3. Discussion and Appropriate Action – YTD Financial Update
- Item 4. Discussion, Review, and Appropriate Action – Proposed 2022 Budget
- Item 5. Adjournment

Item 1. Call to Order | Randy Myers, Committee Chair

Randy Myers, Chair of the Finance and Audit Committee, called meeting to order on September 22, 2021 at 3:04 p.m.

Meeting was held in-person and a conference call-in number was provided to members of the public in the Public Meeting Notice. Notice of this meeting was published in the Texas Register on September 16, 2021, in accordance with the Chapter 551 of the Tex. Gov't. Code.

Myers stated that all Committee members and the Commissioner of Insurance, and delegate, were sent notice of meeting on September 13, 2021, via email in accordance with Section 2(c)(2) of the Surplus Lines Stamping Office Plan of Operation. Myers called roll to determine participating members:

COMMITTEE MEMBERS PRESENT

Randy Myers	Committee Chair	12/31/2022
Charles Gillenwater	Vice-Chair	12/31/2022
Jeff Klein	Secretary - Absent	12/31/2023

NON-COMMITTEE MEMBERS PRESENT

Penni Chambers, Chair of the SLTX Board - Term Expiration: 12/31/2023

ADDITIONAL 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
Courtney Williams, Texas Department of Insurance
Sharmila Subedi, Business Analyst, SLTX

Minutes were taken by SLTX staff.

Myers 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 but 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 identify themselves when speaking. Please mute lines when not speaking.

Item 2. Discussion and appropriate approval of June 23, 2021, F&A Meeting Minutes

Presenter: Randy Myers, Committee Chair

Myers asked if there were any questions or corrections to the minutes. Hearing none, Myers motioned to accept the minutes as presented.

MOTION: Randy Myers

SECOND: Charles Gillenwater

TEXT OF MOTION: Approve June 23, 2021, F&A Meeting minutes as presented.

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

All committee members in favor.

Motion Carries.

Item 3. Discussion and appropriate action – YTD Financial Update

Presenter: Donna Aug, Director of Finance

Donna Aug began by providing January through August 2021 financials. Stamping Fees were over budget 21% for August and 35% YTD due to having record breaking months. Investment income was over budget 18% for August and 30% YTD as interest and dividends came in 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, which was not used, 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.

Randy Myers commented that with new Stamping Fee rate, this should start gradually decreasing. Greg Brandon added that SLTX did predict the funds would not have any immediate decrease. Next item will show historical data of timing of fee changes.

Myers asked if any committee members had any further questions or comments, hearing none. With no recommendations by Aug, Myers moved on to the next agenda item.

Item 4. Discussion, review, and appropriate action – Proposed 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 a 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 revenues 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, due to utilities being incorporated into lease costs and no significant costs that vary based on workload (e.g., hourly labor, commissions, raw materials, etc.). Capital expenses are primarily in the new SMART program. Once project is complete, capital expenses will decrease. Average operating expense per month in 2021 is \$390,100. As for Net Income, SLTX has never had a year where actual net income was less than budgeted net income. Fee reduction on January 1, 2021 slowed the rate of growth in cash flow considerably. In 2019, SLTX Board retracted from purchasing a building and those designated funds were added back to the Undesignated Fund balance. Consequently, the fund balance skyrocketed placing our current excess reserves over \$20 million. Brandon also suggests reducing the contingency from 5% of total budget to 0.5% or less and reminded the F&A Committee that the Plan of Operation requires final budget approval before November 1st.

Brandon asked Donna Aug to proceed with the proposed budget details for 2022.

Aug stated that there may be changes by next month as numbers are finalized to ensure precise budgeting. STXL's Financial Analyst, Christian Robinson's statistics project premiums to be higher in 2022,

therefore, revenues were 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. There is an overall increase in revenue of \$1.6 million or 26%. Salaries and Benefits increased 37%, due to 7 additional full-time employees and leveling market adjustment for some staff members.

Charles Gillenwater asked if SLTX is fully staffed, if not, how many employees are needed to be fully staffed. Denisse Orellana responded there are currently 23 individuals, 29-30 employees are needed to have a good standing operation. Positions needing to be filled at this time are Developer, Financial Analyst, and Policy Analyst.

Gillenwater inquired about salary increases. Orellana clarified that a high increase will not apply to all staff members, rather this increase is for budget purposes, considering new FTE's as well, however, 37% increase is in the overall HR Admin budget, which encompasses more than just salaries and benefits. She assured the F&A Committee that extensive in-depth research went into each positions' job description when determining increase amounts. Given that the information is confidential as it is personnel matters, and cannot be disclosed publicly, Orellana mentioned that the research and all data was provided and discussed in detailed with the Executive Committee to ensure they had all the supporting information. When comparing similar exempt, non-exempt, paid job descriptions as well as the constant market change and increase in cost-of-living adjustment (COLA) in Austin and surrounding cities, SLTX employees are underpaid. This is an important item that we as an organization should have been working on many years ago. SLTX has remained "behind" in the market in relation to salaries. We pay our front-line employees the equivalent of a receptionist in the Austin area. Employees are our biggest asset and to cease high turnover while ensuring that SLTX is an employer of choice, we must stay competitive with the market by ensuring we foster a long-term employment environment that includes a healthy work environment/culture, competitive pay, cost of living adjustment, educational, and conference related opportunities.

Myers commented that the cost of living alone in Austin, TX has risen more than 30%. Brandon added that if SLTX is expected to be subject matter experts in this field, we must be passionate about retaining employees with better opportunities within SLTX. Orellana added that the COLA adjustment in the month of May (alone) in Austin was 6%. That is a significant increase for just one month, and it continues to increase.

Aug continued with the proposed draft budget. A 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 primarily to the expectation of Headspring transitioning from development to maintenance and support during 2022. With this 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 VMware not being renewed. General and Administrative expenses decreased by \$90,000. The 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 next year. Budgeted total expenses increased 20% or \$1.5 million over 2021. Overall, the budget predicts an operating loss of almost \$1.5 million for 2022 as we are still operating with a stamping fee that was reduced by half in 2021 along with the increase in total expenses.

Aug asked if there were any questions, hearing none.

Myers asked if any committee members wished to further discuss or had other questions for Greg Brandon or Donna Aug. Hearing none, Myers asked if there were any recommendations for the Committee? Brandon recommended per the text of motion below.

MOTION: Charles Gillenwater

SECOND: Randy Myers

TEXT OF MOTION: Motion for the Finance & Audit Committee to accept the 2022 proposed budget to submit to TDI for review and present to the full Board at the September 23, 2021 Board Meeting.

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

All committee members in favor.

Motion Carries.

Item 5. Adjournment

Presenter: Randy Myers, Committee Chair

Myers asked for motion to adjourn meeting.

MOTION: Randy Myers

SECOND: Charles Gillenwater

TEXT OF MOTION: Adjournment

Motion carries.

The meeting adjourned at 4:13 p.m.



Charles Gillenwater, Vice Chair

Interim Secretary in absence of Jeff Klein