

June 23, 2022 Board of Directors Meeting

Meeting Minutes

A Board of Directors meeting for the Surplus Lines Stamping Office of Texas was held in-person, on June 23, 2022, beginning at 9:00 a.m. and lasting until adjournment.

Agenda

- Item 1. Call to Order & Establishment of a Quorum
- Item 2. Discussion and appropriate approval of March 30, 2022 & March 31, 2022 Meeting Minutes
- Item 3. Discussion and appropriate action – Finance & Audit Committee Report
 - a. 2022 YTD Financial Update
- Item 4. Executive Director Report and appropriate action – Company Update
- Item 5. Operations Director Report and appropriate action – Operations Update, SMART Update, Records Retention Policy Review and Approval
- Item 6. ITS Director Report and appropriate action – ITS Update
- Item 7. Adjournment

Item 1. Call to Order | Charles Gillenwater, Chair of the Board

Charles Gillenwater, Chair of the Board of Directors, called meeting to order on June 23, 2022, at 9:00 a.m.

The meeting was held at the Surplus Lines Stamping Office of Texas, 805 Las Cimas Parkway, Suite 300, Austin, Texas 78746. A quorum of the Board of Directors was present at this location.

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 June 13, 2022, in accordance with the Surplus Lines Stamping Office of Texas - Plan of Operation, Section 2(c)(2). Written Notice of this meeting and the related agenda were submitted to the Office of the Secretary of State on June 16, 2022, for publication in the Texas Register in accordance with the Texas Open Meetings Act.

Gillenwater called roll to determine participating members via telephone conference pursuant to Plan of Operation Section 2(c)(6):

Board of Directors Present:

Charles Gillenwater	Chair of the Board
Leslie Milvo	Vice Chair
Penni Chambers	Secretary
Lorrie Cheshier	
Peter Harrison	
Bart Koch	
Jeff Klein – attending by phone	
Garrett Sprowls	
Lezlee Liljenberg	

Other Attendees:

Greg Brandon, Executive Director, SLTX
Donna Aug, Director of Finance, SLTX
Cheyenne Herrera, Director of Operations, SLTX
Denisse Amezcuita, Director of Human Resources, SLTX
Sholonda Stone, Director of IT, SLTX
Marissa Gamez, 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
Patty Otto, TDI – attending by phone
John Carter, TDI
Shirley Bowler, Reporter – attending by phone

SLTX Staff Member Attendees:

Minutes were taken by SLTX staff and the Board Secretary.

Gillenwater 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 March 31, 2022 Meeting Minutes

Presenter: Charles Gillenwater, Chair of the Board

Gillenwater asked the Board if there were any corrections or further discussions regarding the March 31, 2022 meeting minutes. Hearing none, Gillenwater recommended per the text of motion below.

MOTION: Penni Chambers

SECOND: Garrett Sprows

TEXT OF MOTION: Motion to approve the March 31, 2022 meeting minutes as presented.

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

All board members in favor.

Motion carries.

Item 3. Discussion and appropriate action – Finance and Audit Committee Report

Presenter: Bart Koch, Committee Member and Donna Aug, Director of Finance

a. YTD Financial Update

Koch briefed the Board regarding the Finance and Audit Committee review of the YTD financials and

stated there are no motions to present at this time. He asked Aug to provide her statements from the June 22nd F&A Committee Meeting.

Donna Aug began by providing January through May 2022 financials. Aug reported Stamping Fees were over budget 43% for May and 7% YTD due to premiums reported being greater than budgeted this year. Investment income was over budget almost 100% for May and over budget 23% YTD. Total expenses were under budget for May \$134,000 or 19% and under nearly \$386,000 YTD. Salaries and Benefits were under budget 11% for May and 7% YTD. Professional Services were under budget by 59% for May and 30% YTD due to Headspring/Accenture SOW initially transitioning to Maintenance & Support at the end of Q1, but SOW amendment changed start to the beginning of Q4.

Conference and Education were under budget 46% for May and 58% YTD. Travel and Entertainment, which includes Board expenses, were under budget by 78% for May and 80% YTD. Occupancy and Operating expenses were under budget \$10,000 or 16% for May and \$36,000 or 10% YTD. The bulk of savings is in internet expense due to co-location from RSI being cancelled and also no expense in computer equipment. General and Administrative expenses were under budget \$2,000 or 1% for May and \$3,400 YTD. Contingency Expense, which was not used, resulted in \$3,500 savings for the month and \$18,000 YTD. Aug explained SLTX had almost \$379,000 operating income for May and almost \$263,000 in income YTD. We had a budgeted loss of \$52,000 for May and a loss of \$378,000 YTD.

Aug asked if there were any questions, hearing none.

Aug explained going into 2022, Unrestricted, Undesignated Funds balance was \$28.8 million, which was \$20,000,000 over new maximum for 2022, which is \$8,806,266. May's YTD net loss of \$543,000 resulted in a fund balance of \$28.3 million on May 31st, which is \$19.5 million over the current maximum. At current pace, year ending fund balance is projected to be upwards of \$27.5 million, \$18.7 million over the maximum.

Aug asked if there were any questions, hearing none. Gillenwater asked the board if there were any comments or questions regarding Aug's report, hearing none. Gillenwater asked if there was a recommendation for a motion. Aug stated none at this time. Gillenwater moved on to the next agenda item.

Item 4. Discussion and appropriate action – Company Business Updates, Executive Director Update **Presenter: Greg Brandon, Executive Director**

Brandon stated there have not been any structural changes in regard to the way the company is managed. Focus remains on creating a workplace culture that values its employees and focuses on their development with the goal of providing a very stable work environment. SLTX is currently transitioning its 401K administration services over to OneAmerica, which is a part of the Edward Jones network. Reason for transition is to lower cost structure and have better fiduciary liability protection and more personalized services from local experts. Transition will be complete in July.

Brandon also explains the lease for the SLTX office is up for renewal in March 2023 and leadership is currently analyzing options.

Regarding premiums, it has been a great year for Surplus Lines in Texas as they continue to increase. YTD premium is just over \$4.4 billion, 21% higher than 2021 and higher than any premium SLTX has ever had in a full year prior to 2013, due to substantial amount of premium coming in. Brandon also noted April as a milestone month with premiums exceeding \$1 billion for the first time in SLTX history. Monthly item count is at nearly 440,000 for May, 6% higher than 2021 for the same calendar stretch. Items recorded for March hit a new record exceeding over 100,000 items submitted in a month. 37% of the submissions were due to new business, 30% due to renewals, and 33% were non-policy transactions.

Average premium is about \$10,000 per policy per year, which is up nearly 20% from 2021.

Brandon reported communication exchange with TDI and reported to the Board the following: 15 emails in April and 8 emails in May. Topics included: insurers, monthly or quarterly reports, requests or approvals for late filing adjustments, data requests for market segment data, and 2021 policy count report disputes. Draft presentations for this meeting were distributed on June 13th in accordance with Plan of Operation, Section 2(c)(2). The next quarterly meeting with TDI is scheduled for July 7, 2022.

Brandon asked if there were any questions. Hearing none, Brandon stated no recommendation for motion for the board.

Item 5. Discussion and appropriate action – Operations Department Update

Presenter: Cheyenne Herrera, Director of Operations

Herrera gives team update stating primary training for all Policy Analysts is complete, with each of the newest policy analysts settling into their roles as all analysts continue to take on additional tasks as their role and skill set allow. As stated in previous updates, each Policy Analyst's accuracy continues to be exceptional with majority of the team averaging above 99% accuracy. Overall goal continues to be ongoing education and to focus experience with transactional or specific situational scenarios as they arise during daily 'data entry' processing, policy audits, monthly outreach communications and emails, and phone support. Herrera reports increase in users interested and have begun utilizing SMART. Team has sharpened sales pitches and take opportunities to highlight new features and process improvements included in SMART. Herrera reports on SMART Project budget which now includes a new category for Cloud Optimization as a part of what was discussed in the SOW amendment. Herrera mentions the transition of maintenance and support from Q1 to Q4 in SOW amendment.

Herrera continues with the SMART status on June release, stating two additional Data Entry Transaction types were added: Insurer/Company Change Endorsements, and Renewal Policy Replacing Binder. Herrera adds that the release of external filer transactions is based on frequency (i.e., transactions with largest number of entries primarily; those with fewer to be released later). Core functionality that continues to exist within EFS is the ability to make corrections to pending or errored items (within API filings only) late filing reports, and a small number of data entry transactions or features. Some processes will replace existing internal (MIS) functionality and will be accessible to External Users.

Herrera goes on to recap the individual and group trainings as follows: May had 4 group sessions with 64 attendees; 15 individual agency trainings. June held 9 sessions with 74 attendees; 5 individual agency trainings. Group sessions are aimed at going over general features and individual training is geared towards how SMART features may pertain to individual agency's business needs. Herrera offers the board to join any of the group trainings as a demonstration of what's been on-going to help users of SMART understand its features. Herrera also reports feedback from trainings, has been all-round positive, citing ease of use amongst attendees. Herrera mentions usage of SMART continues to grow monthly while aggressively marketing existing features.

Herrera explains all transactions filed in 2021 (over 1 million) for API side, 100% of the transactions have already been released in SMART. Herrera states 95-97% of data entry transactions can be processed within SMART (based on transactions available before May release and total number of transactions reported in 2021). Additional transactions have since been released but far less frequently utilized. Herrera adds 8% of May filings were made through SMART, representing nearly 20% of online filing agencies. Month to date for June had nearly 10% filings made through SMART: nearly 24% of the online filing agencies. Herrera concludes by stating that once additional automated or API filers come on board, filings will substantially increase. Herrera asked if there were any questions, hearing none.

Herrera updated the board on the SMART logo noting all of its variances; stating within the July release,

all logos would be implemented into SMART. Herrera added SMART logos would also be implemented into SLTX's public facing website to draw more attention to SMART. Herrera asked if there were any questions regarding the SMART logos, hearing none.

Herrera moves on to Record Retention Policy. Herrera states original records retention policy was part of the Stamping Office Employee Handbook and, in 2019, was separated to be its own stand-alone policy along with other policies such as Investment Policy and Procurement Policy. The purpose of reviewing and updating policies was to make sure policies could be sent to the Department of Insurance as per the Plan of Operation, while focusing on clarifying sections and categorizing appropriately. Documents and deliverables required by Administrative Code or by Department of Insurance were also carefully reviewed and sectioned out for update of Records Retention Policy. Legal Counsel and SLTX leadership reviewed proposed changes to schedule and required records in consideration of TSLAC's requirements.

General counsel, Stan Strickland, clarifies TSLAC is referring to Texas State Library and Archives Commission and states SLTX is exempt from that statute but was used as a guideline for retention of records. Herrera continues presentation referring to the schedules proposed, noting that schedule for the Department of Operations had majority of changes. Herrera explains clarification in language between Texas Insurance Code and the Texas Administrative Code to clearly understand its references on retention schedule. Herrera reiterated proposed changes to the schedule were in alignment with TSLAC's established retention schedule requirements. Only few changes were made to the retention policies; none of the policies transitioned from a lesser retention period to permanent. However, there were very few sections transitioned to permanent, some transitioned to 7 or 5 years, or less time. Herrera mentions one of the considerable changes made within the operations department, was changing the required time insurance documents needed to be retained. Current policy states SLTX is required to retain those records for 1 year. Herrera explains a quarter of information needed to report annually is lost due to current retention policy. Proposed change would retain insurance documents for 5 years to resolve such issues should they arise.

Board member, Jeff Klein, asks if it would be helpful to add an extra column on the schedules of the proposed retention policy to distinguish which records are essential and non-essential. Strickland comments that the proposed changes were intended to capture general categories and, in those categories, getting into specific documents is possible; distinguishing records would be additional information to assist departments and could be done if desired but not necessary to have. Board member, Jeff Klein, thanks Stan for his clarification and explanation.

Board member, Garrett Sprows, asks for clarification of the term 'insurance documents' as it relates to the proposed changes for the operations department retention schedule mentioned earlier. Herrera explains that the term would include any documents filed or submitted to SLTX, related to filing but not necessarily for filing. Herrera continues presentation stating that given the Records Retention Policy and schedule have been under development for some time, no records have been destroyed since the review process begun with the understanding that some schedules would likely change. Once retention policy and schedules are approved and adopted a large number of physical records and some digital will be destroyed, significantly reducing ongoing off-site storage costs. SLTX maintains 578 boxes (with nearly 500 belonging to operations department) at 50 cents per box. Herrera asks if anyone has any questions. Board member, Lorrie Cheshier, asks for clarification on 2nd item in Executive Director Record Retention Schedule, pertaining to BOD meeting recordings, and asks if this allows for Executive Director to record and have access to closed sessions. Director of Human Resources, Denisse Amezcua, clarifies that Executive Sessions are not recorded. Cheshier then asks if policy data is not available to employees since schedule mentions that the access type is restricted. Herrera refers to the Records Retention Policy on page 3 of the PDF where she clarifies that restricted access is not in relation to the type of access the public has to those records. Herrera further explains that only the

Executive Director, the Department head in custody, and any employee (authorized by department head in custody) and with official business need may have access to records with a "restricted" classification.

Cheshier asks whether the retention policy restricts employees from listening to the BOD recordings. Brandon explains SLTX is technically required to post recordings on SLTX's public facing website and anyone can have access to what is posted there. The restriction is for the management of internal resources, meaning that our analysts aren't responsible for distributing the recordings, only redirecting them to the SLTX website. Board member, Garrett Sprowls, asks what constitutes an open-records request since analysts are most likely to receive requests and would they need to be forwarded to the appropriate person. Herrera responds and verifies that any request, open-records or not, goes up the chain of command through an internal documentation system to keep track of all requests, even if informal, so multiple employees are not working on the same request.

Cheshier asks if Record Retention Policy is distributed to the board at the beginning of their term or included in the new board orientation forms. Strickland explains that any older retention policies along with the new one, once approved, will be included since all members of the board will be expected to be familiar with the policies should any open records request come across them.

Herrera asks the board if anyone has any questions. Board member, Penni Chambers, thanks Herrera for her diligent efforts in developing and reviewing the Records Retention Policy to which Herrera also thanks Stan Strickland and his team for his help and perspective as well. Board member, Lezlee Liljenberg, added comment regarding who determines the term "as needed" as it pertains to the Records Retention Policy. Herrera refers to the policy which states the executive director and consultation with management will render decisions on the retention of records. Such decisions would take into consideration the record type, value, legal considerations, and instances where it's not finite. Brandon comments "as needed" records will ultimately be up to his discretion. Herrera asks if there are any further questions, hearing none.

Charles Gillenwater asks Herrera if there is a recommendation to the board at this time. Herrera recommends the board adopt the proposed records management policy as presented. Gillenwater recommended per the text of motion below.

MOTION: Pete Harrison

SECOND: Lorrie Cheshier

TEXT OF MOTION: Motion to approve and adopt the proposed records management policy as presented.

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

All board members in favor.

Motion carries.

Item 6. Discussion and appropriate action – IT Department Update

Presenter: Sholonda Stone, Director of ITS

Stone updates board on developers hired in November stating they have been coming along well, as well as receiving praise from Headspring, now Accenture, about progress and how well they are able to work with the team at Accenture. Stone takes a moment to thank her team for the hard and long hours that they've committed to the SMART project thus far.

Stone goes over IT impacts and states server upgrades to server systems and to the main database that hosts SMART and EFS currently will be starting in July. Stone explains it is a requirement since Headspring has done a lot of development but has had issues with the current version of MariaDB that is in place.

An upgrade is necessary to keep progress of SMART development on track.

Stone explains that a renewal to VEEEAM, not a planned renewal, is needed due to a lack of internal backup within MariaDB once upgraded. Stone further explains it is a system that is currently in place and functions with Azure. Stone states the renewal cost is down from \$16,000 to \$6,000.

Stone continues presentation reminding the board the end of life for MIS and EFS is still approaching. An extension is in place with Microsoft but as a reminder to everyone that the system may kill over and may not be able to be resuscitated. Stone asks if anyone has any questions, hearing none. Gillenwater asked if there were any recommendations for a motion in respect to this item. Stone stated none at this time. Gillenwater moved on to the next agenda item.

Item 7. Adjournment

Presenter: Charles Gillenwater, Chair of the Board

Gillenwater asked for a motion to adjourn the meeting.

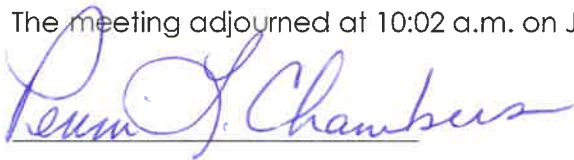
MOTION: Pete Harrison

SECOND: Penni Chambers

TEXT OF MOTION: Adjournment

Motion carries.

The meeting adjourned at 10:02 a.m. on June 23, 2022.



Penni Chambers, Secretary