

March 30, 2023

Finance and Audit Committee Meeting Minutes

A Finance and Audit Committee meeting for the Surplus Lines Stamping Office of Texas was held in-person at the Courtyard Austin Pflugerville and Conference Center, 16100 Impact Way, Pflugerville, TX 78660.

Agenda

Item 1. Call to Order & Establishment of a Quorum

Item 2. Discussion and Appropriate Approval of December 14, 2022 F&A Committee Meeting Minutes

Item 3. Discussion and Appropriate Action – 2022 Annual Financial Audit Review

Item 4. Discussion and Appropriate Action – 2023 Finance YTD Update,

Item 5. Discussion and Appropriate Action – Reserve Balance Review,

Item 6. Discussion and Appropriate Action – Investment and Cash Management Policy Annual Review

Item 7. Discussion and Appropriate Action – Annual Stamping Fee Analysis

Item 8. Discussion and Appropriate Action – Review Annual Report

Item 9. Adjournment

Item 1. Call to Order | Jeff Klein, Committee Chair

Jeff Klein, Chair of the Finance and Audit Committee, called the meeting to order on March 30, 2023 at 1:00 p.m.

Meeting was held in-person. A conference call-in number was provided in the Public Meeting Notice. Written notice of this meeting proposed agenda, and all related materials were provided to the Texas Department of Insurance Deputy Commissioner of the Financial Regulation Division and designees on March 21, 2023, in accordance with the Plan of Operation, Section 2(c)(6).

Notice of this meeting and related agenda was provided to the Finance & Audit Committee and submitted for publication to the Office of the Secretary of State on March 23, 2023, in accordance with the Plan of Operation, Section 2(c)(1) and the Chapter 551 of the Tex. Gov't Code. Klein called roll to determine participation members pursuant to the Plan of Operation Section 2(c)(6):

COMMITTEE MEMBERS PRESENT

Jeffrey Klein Chair

Pete Harrison Secretary

NON-COMMITTEE MEMBERS PRESENT

Penni Chambers Board Member

ALSO PRESENT

Greg Brandon, Executive Director, SLTX

Donna Aug, Director of Finance, SLTX

Cheyenne Herrera, Director of Operations, SLTX
Sholonda Stone, Director of ITS, SLTX
Denisse Amezcua, Director of Human Resources, SLTX
Marissa Gamez, Administrative Assistant, SLTX
Marcelina Gutierrez, Communication and Education Coordinator, SLTX
Christian Robinson, Data Analyst, SLTX
Stan Strickland, General Counsel, Mitchell Williams, Selig, Gates & Woodyard, PLLC
Marie Musalem, Calhoun, Thomson, & Matza LLP
Patti Otto, Texas Department of Insurance – via teleconference
Adam Bahun, Brokerage Advisor, Frost Bank

Minutes are taken by SLTX Staff.

Klein made the following administrative housekeeping announcements before moving forward with the 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 mute lines at all times.
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 December 14, 2022, F&A Committee Meeting Minutes | Jeff Klein, Committee Chair

Jeff Klein asked committee members for questions or discussion of the December 14, 2022 F&A meeting minutes presented. Hearing none, Klein asked for a motion to approve minutes as presented.

MOTION: Peter Harrison

SECOND: Jeff Klein

TEXT OF MOTION: Approve December 14, 2022, meeting minutes as presented.

The motion passed.

Item 3. Discussion and Appropriate Action – 2022 Annual Financial Audit Review | Donna Aug, Director of Finance, Marie Musalem, Calhoun + Thomson + Matza

Donna Aug begins the presentation by introducing the independent auditors for the Stamping

Office, Calhoun + Thomson + Matza LLP and Marie Musalem who will be presenting on their behalf. Marie proceeds to review the results of the financial audit. There were two corrected misstatements: (1) To reclassify securities maturing in greater than one year on December 31, 2022 as long-term investments. (2) To record the fiduciary fund activity for the year ending December 31, 2022. There was one uncorrected misstatement: (1) To record lease liability at year-end in accordance with Governmental Accounting standards Board (GASB) Statement No. 87. Musalem reviews the Audit Wrap Up letter. Audit was conducted in accordance with highest auditing standards generally accepted in the United States. Full access to requested records and information was readily available. Management provided excellent cooperation. Audit did not identify any material inconsistencies.

Jeff Klein states for the record the audit was reviewed by both members of the committee and all SLTX staff present at the meeting. Klein asks if there are any questions. Ms. Aug points out correction on the bottom of page 8 of the audit report. The report reads "The year 2022 saw a decrease in premiums..." where it should read as "The year 2022 saw an increase in premiums.". Audit report is also labeled as "unaudited" and it should also read as "audited".

Klein asks if there are any questions or concerns for Aug or Musalem. Hearing none, Klein asks Aug if there is a recommendation for the motion on the audit report. Aug provides a recommendation per text of motion below.

MOTION: Peter Harrison

SECOND: Jeff Klein

TEXT OF MOTION: Recommend the Finance and Audit Committee approve the Audit Report as presented with the exception of the correction to the title and page 8 of the Audit Report and recommend to the full board for consideration and submission to The Texas Department of Insurance in accordance with the Stamping Office Plan of Operation Section 2(b)(5) and section 2(c)(5)(c).

The motion passed.

Item 4. Discussion and Appropriate Action – 2023 Finance YTD Update | Donna Aug, Director of Finance

Aug moves on to present the 2023 Finance YTD Update. Stamping fees were under budget around \$189K or 24% as of February 2023 and 10% YTD due to premiums reported being less than budgeted at this point in the year. Investment Income was over budget about \$5300 or 19% for February and over budget 41% for the year. This puts SLTX under budget at about \$183K for revenue budgeted for February. Salaries and Benefits were under budget 16% or about \$55k and underbudget 9% or \$85k for the year. Professional Services for February were over budget by \$86k, which was due to a SMART invoice in January, that was accidentally charged to the SMART Project and was capitalized. It was discovered and reclassified so that January was over budget, February was under, and we are about 7% over budget YTD at \$22k.

Conference & Education was under budget 59% for February and 57% YTD. Travel & Entertainment, which include Board Expenses, were under budget by 50% for the month and under budget 71% YTD. Occupancy & Operating expenses were under budget 30% or \$24,600 for February and \$40k or 24% YTD. Half of this is due to not paying rent in our new space. Other savings were in computer equipment as none was purchased and internet expenses were less than budgeted. General & Administrative expenses were under budget \$27,300 or 14% for February and under budget \$53,800 or 14% YTD. Aug stated that total expenses came in under budget about 4% for February and 12% YTD. Contingency Expense, which was not used, resulted in a \$4k savings for the month and \$9300

YTD.

SLTX had an operating loss for February of \$352,100 and \$145,500 loss YTD. Aug stated that a \$12,800 gain was budgeted for the month and a loss of \$250k was budgeted for the year. Ms. Aug stated SLTX is in a good position for the first two months of the year and concluded 2023 Finance YTD Update.

Klein asks for questions regarding this report, hearing none. Klein asks Ms. Aug if there is a recommendation regarding this report. Aug had no recommendation.

Item 5. Discussion and Appropriate Action – Reserve Balance Review | Donna Aug, Director of Finance

Aug proceeds to review the Plan of Operation regarding the Reserve Balance. Per the Plan of Operation Section 2(b)(7)(a): Projected reserves, except for funds for asset replacement, must not exceed two times the average of audited operating expenses for the five-year period immediately preceding the budget year.

The new max fund balance is \$10,598,506 for 2023. The fund balance as of February is \$18,579,610. The projected fund balance for the end of the year is expected to reach about \$29 million.

Klein asks Aug for a recommendation. Ms. Aug provides a recommendation per text of motion below.

MOTION: Pete Harrison

SECOND: Jeff Klein

TEXT OF MOTION: Recommendation to the Board for reducing the number of actual reserves of the Stamping Office in accordance with the Plan of Operations Section 2(b)(7)(b).

The motion passed.

Item 6. Discussion and Appropriate Action – Investment and Cash Management Policy Annual Review | Donna Aug, Director of Finance

Ms. Aug refers to the Plan of Operation regarding the investment fund. Aug introduces SLTX Brokerage Advisor, Alex Bahun with Frost Bank.

Bahun presents his findings. The stamping office is within all requirements with regard to investments and states a guiding principle for SLTX is for capital preservation and gaining as much income from investments as possible. 21% holds are in CDs, 47% holds are US Treasury Bills/Notes, 15% of holds are taxable domestic corporate fixed income securities, 17% holds are taxable domestic income owned through open-ended mutual funds, and 79% is the total domestic fixed income. Bahun emphasizes Frost is a trustworthy bank when compared to the Silicon Valley Bank failure.

Klein asks Mr. Bahun if the investment standards for SLTX differ from any other industry or company that Frost Bank provides. Bahun explains that it is the standard to limit overexposure for any company and having diversification is key.

Klein asks Aug for a recommendation. Aug suggests a recommendation per text of motion below.

MOTION: Pete Harrison

SECOND: Jeff Klein

TEXT OF MOTION: Motion to recommend to the board that no revisions to be made to the Stamping Office Investment and Cash Management Policy in accordance with section 2(b)(6) of the Stamping Office Plan of Operation.

The motion passed.

Item 7. Discussion and Appropriate Action – Annual Stamping Fee Analysis | Greg Brandon, Executive Director; Cheyenne Herrera, Director of Operations; Christian Robinson, Data Analyst

Cheyenne Herrera begins the presentation by giving an introduction and background to SLTX Data Analyst, Christian Robinson. Robinson was hired as a policy analyst in 2017 and was promoted in 2019 as a financial analyst. Robinson has a background in mathematics and analytics with a bachelor's in economics & mathematics from UT Austin and is currently pursuing his Masters in Analytics from Georgia Tech. Robinson currently serves as SLTX's go to expert for all things data and analytics.

Brandon states the annual meeting is the time to analyze the stamping fees as mandated by the plan of operation. There are two separate influences for the stamping fee 1) the anticipated premium volume, which directly impacts the top line income and 2) if the reserve balance exceeds two times the five year opted expenses, SLTX would need to provide a recommendation for reducing that amount. Brandon also emphasized the insurer is responsible for paying a stamping fee which then pays for the operation costs of SLTX. Furthermore, premiums are not linear and have not decreased historically. Planning language includes a requirement to develop a plan to reduce the fund balance in a reasonable time. The Commissioner initially cut the fee in half back in 2021, the target timeline that was part of that analysis was to get us back within the max fund boundary by 2034, and SLTX is still nearly \$19 million above the calculated max. Brandon asks Christian Robinson to give his findings and statements.

Robinson states there have been 9 different rate changes in SLTX's 35-year history with the majority having been made an attempt to manage the reserve fund balances. Largest increases were in 2000 when the fee was increased from .15% to .25% to pay for the EFS filing system and similarly in 2016 the rate was increased from .06% to .15% to pay for the SMART Project. There is no evidence in the data which suggests premiums will decrease in the near future. SLTX will continue to monitor the hard market and any legislation that would affect SLTX in the event of any upcoming changes.

Based on the projections outlined by Robinson, Brandon recommends the Board submit a proposal to the Commissioner of Insurance to reduce the current stamping fee of 0.075% to 0.04% starting January 1, 2024.

Klein provides his congratulations to Robinson on the Stamping Fee Analysis and asks Harrison if he has any questions. Harrison asks Robinson if the 0.05 stamping fee is a compensatory number as opposed to the 0.04 stamping fee recommend.

Robinson states that the proposed rate will help decrease the reserve fund balance and that if SLTX were to go under the maximum, it wouldn't likely be for long considering premiums are likely to continue to increase as they have in the past 10 years.

Klein asks if reducing the fee for Texas will reduce our competitiveness when compared to other states. Brandon assures Klein there is no competition between states since every state operates individually.

Klein asks if there is any further discussion regarding the stamping fee analysis. Hearing none, Klein asks Brandon for a recommendation. Brandon suggests a recommendation per text of motion below.

MOTION: Peter Harrison

SECOND: Jeff Klein

TEXT OF MOTION: Motion to recommend that the Finance & Audit Committee recommend to the full Board that there be a change made as discussed to the current stamping fee rate, effective January 1, 2024, in accordance with the Plan of Operation Section (2)(b)(7)(c).

The motion passed.

Item 8. Discussion and Appropriate Action – Review Annual Report | Greg Brandon, Executive Director

Brandon gives an overview of the Annual Report. The Plan of Operations states that the report must be presented to the board during the annual meeting and sent to the Deputy Commissioner. Brandon moves to outline each requirement to the committee while presenting data.

Klein asks Brandon if he has a recommendation. Brandon does not.

Item 9. Adjournment | Jeff Klein, Committee Chair

Klein asked for a motion to adjourn the meeting. A motion for adjournment was made by Jeff Klein.


MOTION: Jeff Klein

SECOND: Peter Harrison

TEXT OF MOTION: Adjournment

The motion passed.

The meeting adjourned at 2:29 P.M.



Peter Harrison, Secretary