

September 21, 2023

Finance & Audit Committee Meeting Minutes

A Finance & Audit Committee meeting for the Surplus Lines Stamping Office of Texas was held in-person at the SLTX Office, 1601 E Pflugerville Parkway, Pflugerville, TX 78660.

AGENDA

The following subjects will be discussed or considered and may be subject of formal action by the Board.

| September 21, 2023 Finance & Audit Committee Meeting Agenda | | |
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| Item 1. | Call to Order and Establishment of Quorum | Jeff Klein, Committee Chair |
| Item 2. | Discussion and Appropriate Approval of June 28, 2023, FA Committee Meeting Minutes | Jeff Klein, Committee Chair |
| Item 3. | Discussion and Appropriate Action: - 2023 YTD Financial Review - 2024 Proposed Budget | Donna Aug, Director of Finance |
| Item 7. | Adjournment | Jeff Klein, Committee Chair |

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Greg Brandon, Executive Director
By delegation from Chair of the Board

Item 1. Call to Order

Jeff Klein, Chair of the Board of Directors Finance & Audit Committee, called the meeting to order on September 21, 2023 at 1:05 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 September 12, 2023, in accordance with the Plan of Operation, Section 2(c)(6).

Notice of this meeting and related agenda was provided to the Board of Directors and submitted for publication to the Office of the Secretary of State on September 14, 2023, in accordance with the Plan of Operation, Section 2(c)(2) for publication in the Texas register in accordance with the Texas Open Meetings Act. All board members were notified on August 17, 2023.

BOARD OF DIRECTORS PRESENT

Jeff Klein – Committee Chair
Jason Cables – Committee Member

ALSO, PRESENT

Greg Brandon, Executive Director, SLTX
Donna Aug, Director of Finance, SLTX
Cheyenne Hererra, Director of Operations, SLTX
Sholonda Stone, Director of ITS, SLTX
Denisse Amezcua, Director of Human Resources, SLTX
Marissa Gamez, Administrative Assistant, SLTX
Stan Strickland, General Counsel, Mitchell Williams, Selig, Gates & Woodyard, PLLC
John Carter, Office of Financial Regulation, Texas Department of Insurance

SLTX Staff Members Also in Attendance

Minutes are taken by SLTX Staff.

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 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 should mute lines.
3. Representatives of state agencies and members of the public are welcome to observe or record the meeting but refrain from asking questions or interjecting comments.
4. State personnel present may be asked questions if questions are related to an agenda item.
5. Members, counsel, and staff participating by phone should identify themselves and mute lines.

Item 2. Discussion and Approval of June 28, 2023, Meeting Minutes

All Board members were provided a copy of the June 28, 2023 Meeting Minutes. Klein asked if there were corrections or comments related to the minutes.

There being no comments or discussion, Klein requested a motion to approve the June 28, 2023 minutes.

MOTION: Jason Cables

SECOND: Jeff Klein

TEXT OF MOTION: The motion passed unanimously.

Item 3. Discussion and Appropriate Action – 2023 Finance YTD Update & 2024 Stamping Office Proposed Budget

Mr. Klein asks if there are any questions or comments before the presentation, hearing none. Klein turns the floor over to Ms. Aug for her presentation.

Discussion and Appropriate Action on 2023 Finance YTD Update

Ms. Aug begins the YTD portion of the presentation. Expected Stamping fee revenue was exceeded by \$207,000 or 27% for August and 20% or \$1.26M YTD due to premiums reported greater than predicted. For interest and other income, the budget exceeded by almost \$31,000 for the month and \$149,000 for the year. Operating expenses were under budget for August almost \$53,000 or 7% and under budget by \$843,000 YTD or 13%. Salaries and benefits were under budget 6% for the month and 7% for the year, which has remained flat. Professional services were over budget 32% for the month due to the true-up from Accenture. Accenture discovered they had not been billing SLTX the increased rate, as well as some hours that were not billed according to an audit they conducted, which added \$52,000 that had not been budgeted for that month. Despite the true-up, Professional Services remained under budget 9% or \$107,000. Conference and education were under budget 85% for August and 67% YTD. Travel and entertainment, which includes board expenses, were under budget by 79% for the month and 52% YTD. Occupancy and operating expenses were under budget \$21,500 or 39% for August and almost \$177,000 YTD, due to no cost in rent for the new space, which was budgeted to begin in January and anticipated a doubling up on rent since we had 3 months left on the Las Cimas lease. Ms. Aug states that due to Ms. Stone's bargaining skills, software licenses and internet expenses were under budget. Equipment maintenance was over budget by \$3,200 for the month due to some of the additions in security that Sholonda worked out for the new space, but remained under budget for the year. General and Administrative expenses were under budget \$31,000 or 16% for August and under budget over \$222,000 or 14% YTD, majority is due to amortization which also included some prepaid items in amortization that are expensed in another category. Contingency expenses, which we are required to have in our budget, had a savings of \$3700 for the month and almost \$32,000 YTD. Operating income was \$341,000 for August and almost \$2.3 million YTD. We budgeted for a gain of \$50,000 for the month and a gain of \$47,000 YTD. Fair market value of investments increased about \$13,600 and increased \$152,000 for the year.

Jeff Klein asks Ms. Aug if there were any penalties for terminating the lease with Las Cimas. Ms. Aug clarifies by stating that the lease was not terminated and rode through the lease until March and for that are still owed the security deposit. Klein then recognizes Leslie Milvo for joining in on the meeting.

Klein asks if there are any questions regarding this portion of Donna's presentation. Hearing none, Ms. Aug continues her presentation.

As for Unrestricted, Undesignated Funds, we went in to 2023 with a fund balance of \$29.2 million, totaling \$18.6 million over the maximum for 2023, which is \$10,600,000. August's YTD net profit of \$2,451,000 resulted in a fund balance on August 31 of \$31,629,268, which is almost \$21,031,000 over our current maximum. At the current pace, our year-end fund balance is projected to be \$31.4 million YTD, which is \$20.8 million over our maximum. Ms. Aug then asks if there are any questions.

Mr. Klein asks if Aug has a recommendation on the 2023 Finance YTD Update. Ms. Aug states she has none.

Ms. Aug begins the presentation of the 2024 Proposed Budget.

2024 Stamping Office Proposed Budget

Ms. Aug begins the presentation by stating per section 3(a)(4) of the Plan of Operation, the Stamping Office must submit a proposed budget for the stamping office's operating and capital expenses and contingent expenses for the following calendar year to the board's audit and finance committee. Ms. Aug continues, on the revenue side, due to higher projected premiums for 2024, we are projecting a 35%, \$3.3M increase in stamping fee revenue, based on current stamping fee (if fee is lowered to .04%, revenue would be \$6,678,878). Interest and other income increased by 106%, because as investments mature and are reinvested, we are locking in at higher rates of return due to the interest rate increases we've seen this year. We predict an overall increase in revenue of \$3.7MM or 38%. Salaries and Benefits increased 29% or \$1.4M. As a means to attract and retain talent and as another step toward being an employer of choice, we are proposing adding a pension plan. This proposed pension cost is more than compensated for with our decrease in Professional Services. Another increase is due to merit and inflation adjustment increases, which also increases the associated payroll and labor burden. A 10% -25% increase for all lines of health coverage was used. This category is 67% of total expenses for 2024 vs. 51% for 2023. As our staff is our biggest and most valuable asset, allocating these funds for the betterment of our employees makes a lot of business sense. Professional services decreased 73% or \$1.2M. Keeping our goal of the last couple of years to reduce our dependence on 3rd party services and internalize the subject matter expertise needed to operate our business, we won't be renewing a couple of contracts. With this 73% decrease professional services represent 5% of total cost vs. 17% for 2023. Conference and Education decreased 1% and remained 1% of our budget. Travel and Entertainment decreased 20% from 2023, almost \$18,000 and remained 1% of our budget.

Occupancy and Operating expenses went down over \$128,000 or 19% for several reasons: last year we budgeted 2 lease payments for the first 3 months, so this accounts for \$87,000 of the savings, office equipment rental is \$18,000 lower due to our move to the new office and some equipment no longer being needed, maintenance and repair of equipment is down 54%, over \$10,400 for the same reason. Telephone is also expected to decrease 80%, \$11,500, and internet 81%, over \$30,000, due to our move from Ring Central to Teams and the elimination of one internet provider. We've added storage expense for the unit we are renting to store our furniture that we aren't currently using, so that added almost \$3,000 for the year. Software license and maintenance is increasing \$27,700 or 9% because we will have two databases for each environment (test, beta and live), in accordance with our retention policy. Occupancy and Operating expenses represent 6% of this budget, vs. 7% for 2023.

G&A decreased almost \$355,400 or 16%. As we comply with a new GASB requirement regarding leases and how they are presented in our financials, we must record interest, which added \$37,200. Our insurance program is budgeted to increase \$3,800 or 5%. Amortization is projected to be \$388,000 or 18% less than 2023. Partially due to the leasehold improvements for Las Cimas dropping off this past March and no LHI added for the new space. Aug states we had doubled up last year on software, so that is corrected. Total G&A is 20% of total expenses; down from 23% last year.

Contingency shows a decrease of \$1,400 or 3%, which we would expect to see with the 3% decrease in expenses. Total expenses budgeted decreased 3% or \$283,861 over 2023.

Overall, the budget predicts an operating profit of \$3.8M for 2024 as opposed to a budgeted loss of \$154,400 for 2023.

Klein asks Ms. Aug if she and the Executive Director feel that the new office's location will help retain and attract talent in the long term. Aug affirmed and stated that studies were done to determine the most optimal location to where most of SLTX employees live, and the current new building fits that bill.

Mr. Klein asks if there are any other questions. Jason Cables, asks Ms. Aug what the revenue would be at the revised stamping fee rate. Aug begins to explain when a stamping fee is changed, the

changes do not reflect every policy at the beginning of the year and that some run out at the old fee, so there is no way of calculating that. Aug goes on to explain that if the change to .04 percent occurred on January 1 and applied to all predicted premiums, the stamping fee revenue would go from \$12.6 million to \$6,679,000, which would then reflect down to the bottom line and instead of the predicted \$3.8 million, we would incur a loss of just over \$2 million, which would in turn get us closer to working off our excess.

Klein asks if there are any more questions for Donna. Hearing none, Klein asks Ms. Aug if she has a recommendation concerning the 2024 Proposed Budget. Aug makes the following recommendation per text of motion below.

MOTION: Jason Cables

SECOND: Leslie Milvo

TEXT OF MOTION: Recommend the Finance and Audit Committee refer the 2024 budget presented to the full Board for review with the recommendation that it be referred to the Deputy Commissioner of the Financial Regulation Division of TDI in accordance with section 2(b)(7) of the Surplus Lines Plan of Operation.

Motion passes.

Jeff Klein thanks the staff and leadership for all the hard work that went into creating the proposed budget. Klein moves on to the next agenda item.

Item 4. Adjournment

There being no other business before the Board Mr. Klein requested a motion to adjourn the meeting.

MOTION: Jason Cables

SECOND: Leslie Milvo

TEXT OF MOTION: The motion is approved and the meeting adjourned at 1:29 PM.



Jason Cables, Secretary