

September 22, 2023 Board of Directors Meeting Minutes

A Board of Directors 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

September 22, 2023 Board of Directors Meeting Agenda		
Item 1.	Call to Order and Establishment of Quorum	Jeff Klein, Vice Chair
Item 2.	Discussion and Appropriate Approval of June 29, 2023, Board Meeting Minutes	Jeff Klein, Vice Chair
Item 3.	Discussion and Appropriate Action: - Insurance Policies	Greg Brandon, Executive Director
Item 4.	Discussion and Appropriate Action: - Executive Director Update	Greg Brandon, Executive Director
Item 5.	Operations Director Report and Appropriate Action: - Operations Update - SMART Update	Cheyenne Herrera, Director of Operations
Item 6.	ITS Director Report and Appropriate Action: - ITS Update	Sholonda Stone, Director of ITS
Item 7.	Discussion and Appropriate Action: Finance and Audit Committee - 2023 YTD Financial Review - 2024 Proposed Budget	Jeff Klein, Committee Chair; Donna Aug, Director of Finance
Item 8.	Adjournment	Jeff Klein, Vice Chair

Item 1. Call to Order

Jeff Klein, Vice Chair of the Board of Directors, called the meeting to order on September 22, 2023, at 9:00 A.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.

Klein called roll to determine participation pursuant to the Plan of Operation Section 2(c)(6):

BOARD OF DIRECTORS PRESENT

Jeff Klein, Board Vice Chair (Acting as Chair in Absence of Garrett Sprowls)
Leslie Milvo, Secretary
Bart Koch
Esequiel Nathal
Pete Harrison
Lezlee Liljenberg
Jason Cables

BOARD MEMBERS NOT PRESENT

Garrett Sprowls
Penni Chambers

ALSO, PRESENT

Greg Brandon, Executive Director, SLTX
Donna Aug, Director of Finance, SLTX
Cheyenne Herrera, Director of Operations, SLTX – via Video and Audio
Sholonda Stone, Director of ITS, SLTX
Denisse Amezquita, Director of Human Resources, SLTX
Marissa Gamez, Administrative Assistant, SLTX
Stan Strickland, General Counsel, Mitchell Williams, Selig, Gates & Woodyard, PLLC
Paul Rainey, TSLA Liaison – via Audio
Caitlyn Vane, Office of Financial Counsel, Texas Department of Insurance – via Audio
Barbra Hernandez, Office of Financial Counsel, Texas Department of Insurance
John Carter, Office of Financial Regulation, Texas Department of Insurance – via Audio
Shirley Bowler, Member of the press with TSLR – via Audio

SLTX Staff Members Also in Attendance

Toby Pick, Operations Manager, SLTX – via Audio
Sharmilla Subedi, SLTX
Yuba Dahl – SLTX
Catherine Hull, SLTX – via Audio
Lourdes, SLTX – via Audio
Angela Gonzalez, SLTX – via Audio
Christian Robinson, SLTX – via Audio
Porshea Jefferies, SLTX – via Audio
Dalton Moore, SLTX – via Audio
Ariel Rosario, SLTX – via Audio

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 29, 2023, Meeting Minutes

All Board members were provided a copy of the June 29, 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 29, 2023, minutes.

MOTION: Jason Cables

SECOND: Leslie Milvo

TEXT OF MOTION: The motion passed unanimously, and minutes are approved.

Item 3. Discussion and Appropriate Action – Insurance Programs Summary

Jeff turns the floor to Brandon for the Insurance Programs Summary. Brandon reviews two policies that renew in January and then four more renewing in October. Brandon requested a motion to renew each of the policies as presented. Brandon explains that SLTX does not have any bonds where most companies utilize a fidelity bond for fiduciary protection of 401(k) requirements and instead utilize the crime policy for that protection.

Cyber Liability, which renews in January, had the most substantial change in 2022 resulted in layering in the program, costs went from \$8,625 to \$17,113 and the deductible went from \$5,000 to \$50,000.

The crime policy is a 3 yr policy term that expires early 2026. Brandon explains that SLTX does not have a lot of exposure or risk regarding losses that a crime policy typically covers, however, is used in lieu of a fidelity bond, all more cost effective and provides more coverage than a fidelity bond could.

D&O renewal process was smooth, thanks to PLUS brokers efforts on the renewal. SLTX was previously granted an extension at the current rate for both primary and excess, so we were able to move everything to an October renewal back in 2022. There are no changes to coverage on this policy for the 2023-24 renewal.

Brandon moves on to coverage for Professional Liability. Errors & Omissions coverage renewal premium was also flat, Brandon thanks PLUS once again for getting the program to come in flat. There are no changes to coverage limits or the deductible.

Business Owners policy went down thanks to Marsh. No changes in liability limits. Changes to owners coverage were due to moving to a smaller facility.

Workers Compensation policy did go up in premium which is directly related to payroll. If payroll goes up, premium goes up. Rates have come in relatively flat.

Jeff Klein asks for clarification on the difference between D&O and Professional Liability. Greg stated

that it's mainly errors & omissions. Brandon also mentions that D&O is specifically for the board whereas Professional Liability is for operations.

Klein asks if there is any other discussion or questions for Greg regarding the policies presentation. Hearing none, Klein asks Brandon for a recommendation.

Greg makes the following recommendation per text of motion below.

MOTION: Lezlee Liljenberg

SECOND: Esequiel Nathal

TEXT OF MOTION: Recommend that the Board approve the proposed Insurance Program as presented and grant Greg Brandon, the Executive Director, authority to finalize and purchase the coverage as presented.

The motion passes.

Item 4. Executive Director Report and Appropriate Action

Klein opens the floor to Executive Director, Greg Brandon to present the next agenda item, the Company Update.

Company Overview

Mr. Brandon opened his presentation with the Organizational Chart. SLTX currently has 27 team members, all performing very admirably, and we continue learning and developing both our strengths and weaknesses as a team.

Discussion Topics

Greg continues with the presentation stating that there are four topics that the board should keep in mind as the meeting progresses.

First topic: TDI published notice of recommendation on 10/22/23 (the day of this meeting) to decrease the stamping fee to 0.04% on January 1, 2024, as recommended by the board last spring. The 20-day comment period runs through 5:00pm on October 12th. Brandon mentioned the importance of this notice since the proposed budget was created reflecting the stamping fee of 0.075% and that revisions to the revenue forecast will need to be made to reflect this change but has no impact on expenses.

Second topic: Capital Expenses. All capital expenses were eliminated from the budget last year when SMART was moved to our professional services budget as an expense item.

Third topic: Introduced an increase in HR and Admin budget line item due to a proposed cash balance pension.

Fourth topic: The new Building. Brandon explains the intent for the smaller new office is as a communal and collaborative space. SLTX will primarily remain a work-from-home commitment.

Before Brandon moves on, he briefly thanks Sholonda for her efforts in with the IT work needed in the new building, including, setting up wireless printing, security for the office, network installation, as well as getting all workstations work-ready and much more behind the scenes.

Business Report - Premium

Moving on to Premium Brandon presented YTD through August. YTD premium is at about \$9.9 billion, and August is at \$1.3 billion in premium.

Business Report - Item Count

August item count was up substantially. YTD totals through August were up nearly 760,000 items (758,403), and the total items for August were up at 114,124 for the month, which is the all-time record item count for any month. Brandon explains that 46% of that growth is due to property coverage, 38% from liability.

Lezlee Liljenberg asks if the item count is related to a market anomaly. Brandon indicated that he can only speculate that there are spikes as summer closes and people go back into work or back to school. Again, Brandon emphasizes that this is speculative and there has not been any effort spent outside of Christian Robinson's initial analysis to figure out why August is high, that statistically speaking it's not unusual to see a spike in August.

With this, Brandon concludes the ED company updates and states he does not have a recommendation for the board at this time. Brandon opens the floor back to Mr. Klein.

Mr. Klein opens to the Board and asks if there are any comments or questions for Mr. Brandon. – hearing none, Klein moves onto the next agenda item.

Item 5. Operations Report and Appropriate Action – Operations and SMART Update

Mr. Klein opened the floor for Cheyenne Herrera to continue with this agenda item.

Herrera shared a team update indicating that the team is doing an outstanding job and added that overall performance remains outstanding as they continue growing their knowledge based with the company's standard of a "hands-on approach." Herrera also pointed out that the team is well above the 97% accuracy rate, with some members currently at 99%-100%.

Herrera states on a bi-annual basis, the operations department sends the Comptroller data and biannual data for Q1 & Q2 was transmitted via FTP, file transfer protocol. The 2022 TWIA, or the Texas Windstorm Insurance Association report was finalized and delivered to TWIA's actuarial in August. TWIA report is generated annually and reflects property premium written by the company or insurer for the previous year.

Moving on to SMART Actual Billables (August 2023), Herrera mentioned that the focus on this portion was the "actual" portion. This reflects the billable dollar figures for the months of June-August 2023. Herrera continued by indicating that each row provides the Board with a breakdown of cost by hours / dollars for each "epic" or category of work that Accenture completed each month.

Herrera continued by indicating that the "all-in" cost for SMART since its initial development years in 2016 (roughly 7 years' worth of development and spending) reached \$13.13M. Herrera also calls out the "Agreed Upon Credit/True-up" which was billed to SLTX for \$52,112 due to an issue with Accenture's billing SLTX the correct cost and or number of hours between January and July. Everything has since been "squared away" regarding the correct billing.

Moving to the Budget Recap, Herrera mentioned that a different look at the previous information presented, SLTX spent \$687K on the Statement of Work (SOW) previously approved by the Board, and the \$392,375K is the remaining balance for the 2023 SOW. Herrera added that it is expected to utilize most of the remainder amount, however, as we transition away from Accenture at the end of 2023, there is a possibility that a portion of the amount is not spent, even with the true-up amount applied.

Mr. Klein asks Herrera if she's gotten any inquiries about the SMART software from any other stamping offices in other states. Herrera states that she has not and mentions other states primarily use SLIP.

Continuing with the SMART status, Herrera added that the team has released all external features. She also added that a few internal features are still in progress, along with some automation of existing manual internal and external features. SLTX will continue communication with the users and will release articles when new SMART features are available or updated.

Herrera added that most users have reported the following:

- User guides and videos are helpful and appreciated.
- The system is very helpful and more user friendly and EFS; feedback has been positive overall.
- SMART was "much easier than anticipated."
- Looking forward to upcoming "enhancements."

Mr. Klein asks if there are any questions for Ms. Herrera. Hearing none, Mr. Klein asks what policy audit is specifically. Herrera explains that policy audits are SLTX's way of measuring and confirming the accuracy of manual and online filers, by doing a random sampling of policies checking for accuracy of what was entered.

Herrera provides an update regarding the stamping fee rate change and TDI's notice of that recommendation and is considering the written comment period through October 12th, at 5pm. However, there will be new and renewal business that is effective January 1st, 2024, on October 3rd, 2023, and adds a reminder that SLTX allows a 90-day advanced window to make filings. To accommodate the comment period, the 90-day window will be reduced, and external stakeholders will be notified via email and SLTX's public facing website.

Continuing on with SMART, Herrera talks about the educational videos and the need for a third-party vendor to create the videos going forward. Herrera presents a sample video from the vendor of choice and mentions she will be presenting in December an agreement with LemonLight to create future training videos.

Herrera concludes the presentation. Mr. Klein asks the board for questions or comments, hearing none. Klein asks Herrera if there is a recommendation for the board, Herrera states there are none. Mr. Klein moves on to the next board item.

Item 6. ITS Director Report and Appropriate Action

Klein opens the floor for Ms. Stone to initiate the IT presentation.

Ms. Stone opened the presentation by giving an IT Staff update. The Development team is in a great position and how well the team collaborates to get tasks completed. Stone quickly gives commendation to Senior Developer, Dalton Moore, for his ongoing efforts and hard work. Stone mentions there may be a need to hire one more person to help with technical debt, next year.

Ms. Stone continues with SLTX system changes. Stone states that no major changes occurred this quarter and have continued to progress the MariaDB transition to Azure. SLTX would be going from a server-based system to Azure, for ease of use, long term use.

Continuing with the IT update, Stone updates the board on the new office setup, setting up the infrastructure for employees to return to the office if needed. The transition has been seamless so far.

Mr. Klein included the Board by asking if there were any further questions or discussions related to Ms. Stones presentation – hearing none Mr. Klein asked Ms. Stone if she had any recommendations to the board at this time. Ms. Stone indicated that she had none.

There being no other business before the Board, Mr. Klein moved to the next agenda item.

Item 7. Discussion and Appropriate Action – Finance & Audit Committee Meeting

Klein begins the presentation by giving a brief update on the Finance & Audit Committee meeting that was held On September 21, 2023. Mr. Klein stated that Donna Aug, Director of Finance, presented the 2023 YTD Update and the 2024 Stamping Office Proposed Budget to the committee. The Committee voted to accept and refer the 2024 Proposed Budget, as presented, to the Board to consider for submission to the Deputy Commissioner of the Financial Regulation Division of TDI in accordance with the Surplus Lines Stamping Office Plan of Operation.

Mr. 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, as Cheyenne mentioned earlier, 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 due to some of the addition in security that Sholonda worked out for the new space. 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're 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. 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, 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 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 go down 80%, to \$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.

Board Member, Jason Cables, asks how the new stamping fee would affect the proposed budget. Ms. Aug states that if the stamping fee is approved, we wouldn't realize that change immediately. No new numbers are available yet, Christian Robinson will be going over numbers so that income projections are considered but assuming the change is approved for January 1, 2024, it would be \$6.7 million versus what we're initially predicting now which is \$12.6 million. Which would translate into the bottom line of instead of an income of \$3.8 million, we would project a loss of over \$2 million at - \$2,083,955. Ms. Aug stated that this would be the correct direction needed to burn off excess off the maximum fund balance.

Leslie Milvo, of the Finance & Audit Committee, asks if Ms. Aug could go over a bit more of the proposed pension plan and asks if it's a true pension plan or if it is more of a 401k. Ms. Aug stated that SLTX already offers a 401k and that it isn't a true pension plan. Brandon adds that it's not a traditional pension plan either and that it would be a cash balance. He also adds that it is managed differently than a traditional pension plan and does not create future liabilities that a traditional pension would. Brandon also mentions that more information about semantics and administration and expenses would be discussed at a later date, most likely in December, and the reason for adding it into the budget was to see the maximum financial impact on the company.

Mr. Klein thanks Leslie for her questions and asks if the board has any other questions or discussion over the 2024 proposed budget. Hearing none, Klein asks Ms. Aug for a recommendation. Ms. Aug gives the following recommendation per text of motion below.

MOTION: Jason Cables

SECOND: Leslie Milvo

TEXT OF MOTION: Recommend that the Board referred the 2024 Proposed Budget as presented to the Deputy Commissioner of the Financial Regulation Division of TDI, in accordance with Section 2(b)(7) of the Surplus Lines Stamping Office Plan of Operation.

The motion passes.

Item 8. Adjournment

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

MOTION: Jason Cables

SECOND: Esequiel Nathal

TEXT OF MOTION: The motion is approved, and meeting adjourned at 10:25 AM.

Leslie Milvo

Leslie Milvo, Secretary