

## December 13, 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

December 13, 2023 Board of Directors Meeting Agenda		
Item 1.	Call to order; Establishment of Quorum	Garrett Sprowls, Board Chair
Item 2.	Discussion and approval of previous meeting minutes - October 27, <a href="#">2023 Meeting Minutes</a>	Garrett Sprowls, Board Chair
Item 3.	Discussion and Appropriate Action: - Finance and Audit Committee Report and YTD Financial Review	Jason Cables, Committee Member Donna Aug, Director of Finance
Item 4.	Discussion and appropriate action - Cyber Insurance Policy Renewal	Greg Brandon, Executive Director
Item 5.	Discussion and Appropriate Action: - Executive Director Update	Greg Brandon, Executive Director
Item 6.	Discussion and Appropriate Action: - Operations Director Update - 2024 <a href="#">Lemonlight Video Content Proposal</a>	Cheyenne Herrera, Director of Operations
Item 7.	Discussion and Appropriate Action: - ITS Director Update	Sholonda Stone, Director of ITS
Item 8.	Executive Session - Discussion and deliberation of the performance, compensation, and benefits of the Executive Director of the Surplus Lines Stamping Office of Texas (Personnel matters – Texas Govt. Code §551.074). - Discussion and review of the proposed pension benefit (Personnel matters and Consultations with Attorney – Texas Govt Code §§ 551.071(2) and 551.074). - Discussion and review of General Counsel contract (Consultations with Attorney - Texas Govt Code §551.071(2)).	Garrett Sprowls, Board Chair
Item 9.	Board Vote on Executive Session Items - Discussion and appropriate action regarding the performance, compensation, and benefits of the Executive Director of the Surplus Lines Stamping Office of Texas. - Discussion and appropriate action regarding the proposed pension benefit - Discussion and appropriate action regarding General Counsel contract	Garrett Sprowls, Board Chair
Item 10.	Discussion and Appropriate Action: - Review committee charters	Lezlee Lijenberg, Committee Chair Penni Chambers, Committee Chair Garrett Sprowls, Board Chair
Item 11.	Adjournment	Garrett Sprowls, Board Chair

## **Item 1. Call to Order**

Garrett Sprowls, Chair of the Board of Directors, called meeting to order on December 13, 2023, at 1:01 P.M.

Meeting was held in-person. A conference call-in number was provided in the Public Meeting Notice. Written 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 December 6, 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 November 14, 2023.

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

### **BOARD OF DIRECTORS PRESENT**

Garrett Sprowls, Board Chair  
Jeff Klein, via teleconference  
Bart Koch  
Leslie Milvo  
Penni Chambers  
Lezlee Liljenberg, via teleconference  
Esequiel Nathal, via teleconference  
Jason Cables  
Pete Harrison, via teleconference

### **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 Amezquita, Director of Human Resources, SLTX  
Marissa Gamez, Administrative Assistant, SLTX  
Stan Strickland, General Counsel, Mitchell Williams, Selig, Gates & Woodyard, PLLC  
Barbara 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 Press with TSLR, via audio

### **SLTX Staff Members Also in Attendance**

Toby Pick, Operations Manager, SLTX, via audio  
Sharmilla Subedi, Business Analyst, SLTX, via audio  
Christian Robinson, Data Analyst, SLTX, via audio  
Dalton Moore, Senior Developer, SLTX, via audio  
Catherine Hull, Lead Policy Analyst, SLTX, via audio  
Shantell Jackson, Sr. Lead Policy Analyst, SLTX, via audio

Minutes taken by SLTX Staff.

Administrative housekeeping announcements:

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. No public comments. Public and media attendees should mute lines.
3. Representatives of state agencies and members of the public are welcome to observe or record but refrain from asking questions or interjecting comments.
4. State personnel present may be asked questions 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 October 27, 2023, Meeting Minutes**

Board members were provided with a copy of the October 27, 2023, meeting minutes. Sprowls asked for any corrections or comments. Having none, Sprowls requested a motion for minute approval.

**MOTION: Penni Chambers**

**SECOND: Pete Harrison**

Motion passed unanimously.

## **Item 3. Discussion and Appropriate Action: Finance & Audit Committee Report; YTD Financial Review**

Cables opened the floor for Ms. Aug's presentation for November 2023 and YTD financials.

**Stamping Fee** - 9%, or \$67,000 over budget and 18% or \$1.5 million under budget YTD due to premiums.

**Investment income** - 317% or \$89,000 under budget for November and 93% or \$333,500 under YTD, due to higher earnings on investments.

**Operating Expenses** - 7% or \$50,500 under budget for November and \$1,073,000 – 12% YTD.

**Salaries and Benefits:** 18%, \$61,600 under budget for November and 9% - \$384,000 YTD due to 2 open positions and 2 separations.

**Professional Services** - 33%, \$61,600 over budget in November due to Accenture resources and billing. \$5,700 was unbudgeted for video production costs. A small amount for the overage was due to fee for tax return preparation budgeted in a later month. YTD under budget 5% - \$70,000.

**Conference and Education** - 8% of \$165 under budget for November and 53% or \$45,000 YTD.

**Travel and Entertainment:** 74% or \$4,500 under budget for the month and 55%, \$50,000 YTD.

**Occupancy and Operating** - \$5,000 or 11% over budget for November and under budget \$173,500 or 27% YTD. YTD savings due to rent budgeted for several months.

**Software license and maintenance** - \$12,500 over budget for November due to a Microsoft invoicing credit error in 2022. YTD savings in software and license and internet expense.

**General and administrative** - \$30,000 or 16% under budget for November and under budget \$308,000 or 15% YTD due to double budgeting for amortization.

**Contingency** - \$2,600 savings for the month and \$43,000 YTD.

**Operating income** - \$287,000 for November and \$3,166,000 YTD. \$80,600 gain was budgeted for the month and \$254,500 YTD. Fair market value investments increased approx. \$321,500 for November and \$274,800 YTD.

Aug asks for questions from the Board. Hearing none; Aug continues with presentation.

**Fund balance analysis** - Fund balance was \$29.2 million; \$18.6 million over maximum for 2023, and \$10,600,000 with November's YTD net profit of nearly \$3,441,000. This resulted in a balance of \$32,216,000 for the month. Roughly \$21,617,000 over maximum. The number is expected to decrease when lower stamping fees go into effect. Ms. Aug concludes.

Sprowls asks for questions or further discussion. Hearing none; Mr. Sprowls asks if there is a recommendation for the board. No recommendations from Ms. Aug.

Presentation concluded.

## **Item 4. Discussion and Appropriate Action: Cyber Insurance Policy Renewal**

Presented by Greg Brandon

As per the Plan of Operations: The Stamping Office must purchase bonds and insurance covering the Stamping Office, its directors, officers, employees, and agents of the stamping office, and its properties and activities as it deems appropriate. The Stamping Office must prepare a detailed summary of bonds and insurance policies to include coverage, policy dates, premium, and limits for review and approval by the board at the third-quarterly board meeting and prior to procurement or renewal.

Cyber liability policy - Renews in January 2024. Premium estimate for 2024 is only up a couple hundred dollars, no changes in coverage or limits and full prior acts remain the same. After concluding, Brandon asks the board for questions. Mr. Sprowls then asks the board if there is any further discussion or questions and moves to Brandon for any recommendation for a board motion. Brandon recommends per text of motion below.

**MOTION: Jason Cables**

**SECOND: Leslie Milvo**

**TEXT OF MOTION:** Board approves Cyber Insurance Policy Renewal as presented. The motion passed unanimously.

Presentation concluded.

#### **Item 5. Discussion and Appropriate Action: Executive Director Update**

Presented by Greg Brandon

SLTX's performance, transitions, record-breaking premium, and item counts. Brandon also acknowledged team members' contributions and promotions. He thanked the team for a wonderful year and highlighted three major transitions: office move, EFS shutdown, and moving SMART.

Premiums have set records in 2023 with \$1.1B in premium for the month of November. A large portion (62%) attributed to renewal policies, 32% to new business, and almost 6% to non-policy transactions. YTD is at \$13.3B.

Jeff Klein asks if SMART can handle the ever-increasing item count. Brandon indicates that SMART was built with the flexibility to take a lot and provides example how SMART was tested with 4000 items on the first day of transitioning.

Mr. Sprowls asks for further discussion or questions on this item. Hearing none, Sprowls asks for a recommendation for the board from Brandon. Brandon stated there was none.

Presentation concluded.

#### **Item 6. Discussion and Appropriate Action: Operations Director Update; 2024 LemonLight Video Content Proposal**

Presented by Cheyenne Herrera

**Staff** - Herrera acknowledged the hard work and dedication of her team, highlighting excellent performance and high accuracy rates. The team is currently in the process of finalizing goals for 2023 and promotions are expected in 2024.

**SMART** – Herrera provided an update on SMART's development status and discussed the upcoming transition from external vendor providing development for the SMART, to SLTX's internal team. Additionally, discussed the current stage for the two educational / training videos produced by LemonLight. Herrera expressed satisfaction with the vendor's work and excellent communication throughout the process. One video has been completed and is available on the website.

**LemonLight Client Services Agreement** - Outlined details of video production for 2024. \$55,800 would be allocated for four videos, totaling 10 minutes of content. The delivery timeline would depend on kick-off date and response times. Team plans to work on multiple videos simultaneously to maximize efficiency.

Presentation concluded.

Sprowls asks if there is any further discussion on this item. Hearing none, Sprowls asks if there is a recommendation for the board. Herrera makes the following recommendation per text of motion below.

**MOTION: Esequiel Nathal**

**SECOND: Penni Chambers**

**TEXT OF MOTION:** Recommend the board approve the Lemon Light Client services agreement as presented and authorize Garrett Sprouse, board chair, to execute the agreement.

Motion passed.

### **Item 7. Discussion and Appropriate Action: ITS Director Update**

Presented by Sholonda Stone

**Staff** - Stone expressed her pride in the Development team and announced a potential new hire for the team.

**Database and Software** – SLTX transitioned from MariaDB to MySQL due to concerns related stability and future of MariaDB. Stone explained that transition process is time-consuming but necessary to ensure compatibility and security. Stone had no recommendations for the board.

Presentation concluded. There was no recommendation to the board for this item.

### **Item 8. Discussion and Appropriate Action: Executive Session**

Presented by Garrett Sprowls

Item 8 of the meeting agenda is an executive session, which is a closed session where the board will discuss and deliberate on certain matters.

#### **Closed Session: Performance, Compensation, and Benefits of the Executive Director**

This discussion falls under Personnel Matters, as outlined in the Texas Government Code section 551.74. Only board members, legal counsel, TDI representatives, and necessary executive staff will be participating in this executive session.

#### **Closed Session: General Counsel Contract Renewal**

This discussion falls under the consultation with an attorney, as outlined in the Texas Government Code section 551.712. Again, only board members, legal counsel, TDI representatives, and necessary executive staff will be participating in this executive session.

Board goes into Executive Closed Session at 1:48 p.m. and reconvenes at 2:43 p.m.

### **Item 9. Board Vote on Executive Session Items**

#### **Executive Director's Compensation**

Mr. Sprowls asks for further discussion or questions on this item. Jason Cables makes motion to recommend Greg Brandon, Executive Director receive an 8% increase in base salary, with 4% being merit and 4% for inflationary factors, a 25% bonus, and a deferred compensation package of \$30,500, as per IRS 401K tax guidelines, which is \$23,000 for 2024 and \$7,500 for catch up.

**MOTION: Jason Cables**

**SECOND: Lezlee Liljenberg**

Motion passed unanimously.

### **General Counsel Contract Renewal**

Mr. Sprowls asks for further discussion or questions on this item. Jeff Klein, Vice Chair, comments that Stan Strickland's conduct as outside counsel, his relationship with the industry and the TDI, and his service to the board directly has been exemplary.

Bart Koch makes motion to approve the renewal of the general counsel contract as discussed.

**MOTION: Bart Koch**

**SECOND: Jeff Klein**

Motion passed unanimously.

### **Proposed Pension Benefit Discussion**

Presented by Greg Brandon and Albert Wostal of OneAmerica.

Brandon mentioned the need to attract and retain talented employees and demonstrated a historical perspective on employee retention, and turnover, emphasizing the importance of long-term staffing, he then listed goals for developing a retirement plan to promote tenure and attract talent.

Albert Wostal of One America presented different plan designs that included an enhanced 401K, a traditional pension, and a cash balance pension.

The following key items were discussed, analyzed, and considered:

#### **Enhanced 401k Plan**

- Maximum flexibility with discretionary contributions.
- Limited annual contributions due to IRC section 402 G.
- Inability to allocate based on tenure.
- Budget constraints due to limitations.

#### **Traditional Pension Plan**

- Based on age, tenure, and pay.
- Employer funding over lifetime.
- Complexity and cost of design and maintenance.
- Risks of underfunding and investment returns.

#### **Underfunded Pension Funds & Comparison with State Plans**

- Examples of underfunded state pension plans, funding sources and investment risks.
- Challenges for quasi-governmental entities in managing pension funds.
- Comparisons of voluntary and mandatory contributions, differences in employee benefits and funding structures and additional benefits like medical coverage in state plans.

#### **Cash Balance Plan**

- Different from traditional pension with simpler rules.
- Employer-funded with tenure-based allocation.
- Investment and funding exposure limitations.
- Flexibility in distribution options and budget management.

#### **Plan Structure and Tax Considerations**

- Explanation of 401k and 403b similarities.
- Impact of funding limits and tax rules on plan selection.
- Budget implications and contribution estimates for the new plan.

#### **Cash Balance Plan Details**

- Band-based allocation for employees based on tenure.

- Flexibility in adjusting allocations to meet budget constraints.
- Actuarial considerations and vesting schedules.
- Impact of termination on vested amounts.

### **Quasi-Governmental Entities' Cash Balance Plan Challenges**

The plan faces challenges due to ERISA limitations, such as a 50-year vesting requirement, making it difficult to align with certain state-run plans. Quasi-governmental hospitals tend to use cash balance plans and other retirement options to attract and retain employees, especially doctors in remote areas. The plan aims to provide benefits to all employees, unlike traditional cash balance plans that focus on a few individuals.

### **Plan Structure and Long-Term Benefit**

The plan's benefits are solely based on tenure, not on the employee's current salary. The plan is designed to provide a deferred income raise, promoting stability and budgeting predictability. Cost-of-living adjustments can be incorporated in the future to address inflation and ensure the plan's effectiveness over time.

### **Employee Retention and Turnover**

Retaining employees has been a long-standing challenge for the organization, and the plan aims to address this issue. The need for studying employee turnover reasons and competition with other industries, such as tech and biomedical companies, was highlighted. The plan's structure and benefits need to be effectively communicated to younger employees to ensure its attractiveness.

### **Employee Termination and Vesting**

Employee contributions are based on vesting, and employees have options to take lump sum distributions or roll over funds into tax-qualified accounts upon termination.

The plan's goal is long-term retention, and vesting is determined based on the employee's tenure. The organization does not intend to retain underperforming employees solely due to the benefit, emphasizing the need for a well-functioning workforce.

### **Plan Implementation and Impact on Existing Employees**

The plan's implementation is prospective, not retroactive, and impacts existing employees based on their future tenure under the new structure. Existing employees would be placed in tiers based on their years of service, aligning with the organization's long-term retention strategy. The plan's structure aims to provide a long-term benefit without immediate financial implications for existing employees.

### **Undesirable Retention Strategy: 'Velvet Handcuffs'**

'Velvet handcuffs' were discussed as a potential retention strategy to incentivize employees to stay based on a strong benefits plan regardless of performance targets.

The effectiveness of 'velvet handcuffs' in retaining talent was questioned, and the need for additional information and studies to assess its impact on retention was raised.

### **Financial Sustainability of Proposed Program**

The proposal was assessed against four tests, including meeting the emphasis on human and capital, attracting and retaining talent, providing security to employees, and affordability. It was confirmed that the organization has the funding to support the proposed program for the next ten years, with considerations for annual expense evaluations and adjustments. The potential variables that could impact the long-term sustainability and cost of the program were discussed, including staff size, regulations, and tech services.

### **Comparison with Industry Standards**

Concerns were raised about the double-dipping effect of funding a defined benefit plan and a 401(k) plan without a match. The comparison of the proposed benefits with industry standards, especially in the quasi-governmental space, was highlighted, emphasizing the need to consider competitive offerings from similar entities. The ability to unilaterally make course corrections in the funding mechanism in the future was confirmed, with a focus on protecting employees and avoiding negative impacts on morale.

Sprowls asks if there are any other questions or discussion. Hearing none, decision was made to review further and add the proposed pension plan to the next meeting agenda in March.

**Item 10. Discussion and Appropriate Action: Review Committee Charters**

Presented by Garrett Sprowls

Committee charters, including the Executive Committee, Financial and Audit Committee, Board Training and Orientation Committee, and Plan of Operations Committee, were reviewed.

A motion was made for approval of all committee charters as previously written, subject to the update to the date and chair signature.

**MOTION: Jason Cables**

**SECOND: Leslie Milvo**

Motion passed unanimously.

**Item 11. Adjournment**

Presented by Garrett Sprowls

There being no further business before the board, Sprowls asks for a motion to adjourn. Meeting adjourned at 4:30 p.m.

**MOTION: Jeff Klein**

**SECOND: Bart Koch**

Motion passed unanimously.

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Leslie Milvo, Secretary