

**March 22, 2024**

**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**

**March 22, 2024  
Board of Directors Meeting Agenda**

Item 1.	Call to Order and Establishment of Quorum	Garrett Sprowls, Board Chair
Item 2.	Discussion and Appropriate Approval of December 13, 2023, Meeting Minutes	Garrett Sprowls, Board Chair
Item 3.	F&A Committee Report	Jeff Klein, Committee Chair
	(a) Discussion and Appropriate Action: - Annual Financial Audit Review	Donna Aug, Director of Finance;
	(b) Discussion and Appropriate Action: - 2024 Finance YTD Update - Reserve Balance Update - Investment and Cash Management Policy Annual Review	Donna Aug, Director of Finance; Carina Diaz, Frost Bank
	(c) Discussion and Appropriate Action: - Annual Stamping Fee Analysis	Greg Brandon, Executive Director; Cheyenne Herrera, Director of Operations; Christian Robinson, Financial Analyst
Item 4.	Discussion and Appropriate Action: - Annual review of Plan of Operation and Proposed Amendments	Jeff Klein, Committee Chair
Item 5.	Operations Director Report and Appropriate Action: - Operations Update - SMART I Indate	Cheyenne Herrera, Director of Operations
Item 6.	ITS Director Report and Appropriate Action: - ITS Update	Sholonda Stone, Director of ITS;
Item 7.	Executive Director Report and Appropriate Action: - Review and Approval of Annual Report - Company Update	Greg Brandon, Executive Director
Item 8.	Discussion and Appropriate Action: - Proposed Pension	Greg Brandon, Executive Director
Item 9.	Election of 2024 Officers	Garrett Sprowls, Board Chair
Item 10.	Committee Appointments	Board Chair
	(a) Appointment of Finance & Audit Committee Members	Board Chair
	(b) Appointment of Board Training Committee Members	Board Chair
	(c) Appointment of Plan of Operation Committee Members	Board Chair
Item 11.	Adjournment	Board Chair

## **Item 1. Call to Order – Garrett Sprowls, Board Chair**

Garrett Sprowls, Chair of the Board of Directors, called meeting to order on March 22, 2024 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 and related agenda was provided to the Board of Directors and submitted for publication to the Office of the Secretary of State on March 14, 2024, 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.

### **BOARD OF DIRECTORS PRESENT**

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

### **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 Amezcuita, Director of Human Resources, SLTX  
Marissa G., Administrative Assistant, SLTX  
Stan Strickland, General Counsel, Mitchell Williams, Selig, Gates & Woodyard, PLLC  
Paul Rainey, TSLA Liaison, RSI International, Inc.  
Barbara Lazard-Hernandez, Office of Financial Counsel, Texas Department of Insurance  
John Carter, Office of Financial Regulation, Texas Department of Insurance  
Julia Coffey, Financial Advisor, Edward Jones  
Albert Wostal, Regional Sales Director Retirement Services, OneAmerica  
Marie Musalem, CPA, Calhoun, Thomson + Matza, LLP  
Carina Diaz, Financial Advisor, Frost Investment Services, Frost Bank  
Shirley Bowler, Member of Press with TSLR, via audio

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

Toby P., Operations Manager, SLTX, via audio  
Sharmilla S., Business Analyst, SLTX, in-person  
Christian R., Sr. Data Analyst, SLTX, via audio  
Dalton M., Sr. Lead Developer, SLTX, via audio  
Catherine H., Lead Policy Analyst, SLTX, via audio  
Shantell J., Sr. Lead Policy Analyst, SLTX, via audio  
Ariel R., Policy Analyst II, SLTX, via audio  
Kristian P., Policy & Data Analyst, SLTX, via audio  
Yuba D., Financial Analyst, SLTX, via audio  
Jay O., Sr. Developer, SLTX, via audio  
Porschea J., Policy Analyst II, SLTX, via audio  
Angela G., Policy Analyst I, SLTX, via audio  
Tyler P., Policy Analyst II, SLTX, via audio  
Nathan O., Sr. Policy Analyst, SLTX, via audio

Kenneth A., Sr. Developer, SLTX, via audio  
Rodolfo C., IT Support Specialist, 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 December 13, 2023, Meeting Minutes | Garrett Sprowls, Board Chair**

Board members were provided with a copy of the December 13, 2023, meeting minutes. Sprowls asked for any corrections or comments. Having none, Sprowls requested a motion for minutes approval.

**MOTION: Esequiel Nathal**

**SECOND: Jeff Klein**

Motion passed unanimously.

## **Item 3. F&A Committee Report | Jeff Klein, Committee Chair**

### **(a) Discussion and Appropriate Action: Annual Financial Audit Review – Donna Aug, Director of Finance; Marie Musalem, Calhoun, Thomson + Matza LLP**

Sprowls opens floor to committee chair. Committee met, heard presentations, and voted affirmatively on recommendations related to 2023 Financial Audit, 2024 Financial YTD Review, Reserve Balance Analysis, Annual Review of Stamping Office Investment Policy and Annual Stamping Fee Analysis.

Per section 2(c)(5)(c) of the Plan of Operation, the first regular meeting of the board in the calendar year is designated as the annual meeting during which the board must review operating expenses, schedule the fees and annual report for submission to the deputy commissioner of the Financial Regulation Division, or the deputy commissioner's designee.

### **Annual Financial Audit**

Marie Musalem, on behalf of Calhoun + Thomson + Matza LLP 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 with excellent cooperation from management. Audit did not identify any material weakness in internal controls and Calhoun, Thomson, + Matza do not express an opinion on effectiveness of SLTX's internal control.

The engagement letter dated September 22, 2023, describes responsibilities in accordance with professional standards and certain regulatory authorities. This letter also stipulates responsibilities of SLTX with respect to independence as agreed to by SLTX. Refer to letter for further information.

Musalem asks if there are any questions. Klein asks if the corrected misstatements did not escalate to deficiency in control. Ms. Musalem adds they did not.

Sprowls asks if there were any further questions. Hearing none, Sprowls asks Aug if there is a recommendation for the motion on the audit report. Ms. Aug recommended the Board to approve the 2023 Annual Financial Audit Review as presented and be submitted 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).

**MOTION: Jason Cables**

**SECOND: Lezlee Liljenberg**

The motion passed unanimously.

**(b) 2024 Finance YTD Update; Reserve Balance Update; Investment and Cash Management Policy; Annual Review | Donna Aug, Director of Finance**

Sprowls opened the floor for Ms. Aug's presentation.

**Stamping Fee** - 6%, or \$27,000 under budget and 4% or \$47,000 over budget YTD due to premiums.

**Investment Income** - 19% or \$14,000 over budget for February; 26% or \$38,000 YTD, due to higher earning investments.

**Operating Expenses** - 16% or \$108,000 under budget for February; \$896,000 – 37% YTD.

**Salaries and Benefits**- 15%, \$61,600 under budget for February; 46% - \$829,000 YTD due to 2 open positions, 2 separations and budgeted annual pension approved last year.

**Professional Services** - 37%, \$16,000 under budget for February and 2% - \$2800 YTD.

**Conference and Education** - 100%, \$6,900 under budget for February and 48%, \$5,400 YTD.

**Travel and Entertainment** - 31%, \$1000 under budget for February and 59%, \$3,700 YTD.

**Occupancy and Operating** - 28%, \$14,500 under budget for February and 23%, \$23,000 YTD with savings contributed from software, computer equipment and printing.

**General and Administrative** - 3%, \$4,500 under budget for February and 3%, \$10,500 YTD.

**Contingency** - 100%, \$3,300 savings for February and 100%, \$12,000 YTD.

**Operating Income** - \$204,840 operating loss for February and \$240,090 loss YTD. \$110,800 loss was budgeted for February and a budgeted loss of \$1,123,680 through the year.

Aug asks for questions from the Board. There were none.

**Fund Balance Analysis**

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.

**Fund Balance** - Almost \$32.7 million; \$20,150,000 over the maximum for the year, which is \$12,537,946. February's YTD net loss of \$240,000 resulted in a fund balance on February 29th of \$32,447,421; almost \$20 million over current maximum.

Sprowls asks for questions or further discussion. Hearing none; Mr. Sprowls asks if there is a recommendation for the board. Ms. Aug recommended the Board submit a written plan to the Texas Department of Insurance to continue the currently adopted plan for reducing amount of the actual reserves in accordance with SLTX Plan of Operation Section 2(b)(7)(b).

**MOTION: Jeff Klein**

**SECOND: Jason Cables**

The motion passed unanimously.

**Investment and Cash Management Policy Annual Review | Donna Aug, Director of Finance; Carina Diaz, Frost Brokerage**

Ms. Aug refers to the Plan of Operation regarding the investment fund.

Diaz presents,  
44% holds are in CDs,  
29% holds are US Treasury Bills/Notes,  
10% of holds are taxable domestic corporate fixed income securities,  
17% holds are taxable domestic income owned through open-ended mutual funds,  
56% is the total domestic fixed income.  
Diaz includes articles surrounding sentiments around federal rate cuts and asks if there are any questions. Hearing none, presentation is concluded.

Sprowls asks if there are any questions or further discussion. Hearing none, Sprowls asks Aug if there is a recommendation for the board. Ms. Aug recommended the Board make no revisions to SLTX Investment and Cash Management Policy in accordance with the Plan of Operation Section 2(b)(6).

**MOTION: Pete Harrison**

**SECOND: Bart Koch**

The motion passed unanimously.

**(c) Annual Stamping Fee Analysis – Cheyenne Herrera, Director of Operations; Greg Brandon, Executive Director; Christian Robinson, Sr. Data Analyst**

Brandon references Plan of Operation, which requires board to submit written recommendation to Commissioner of Insurance to lower, raise, or take no action on the stamping fee. Stamping fee was recently reduced to 0.04% effective of January 1, 2024.

Historical stamping fee data was provided by Robinson. Consistent fee rate from 2007 to 2016 at 0.6%. Undesignated fund balance as of end of 2023 was \$32.7 million, \$20.2 million above the maximum threshold. Breakeven rate over last three years was about 0.063%. The recent increase in revenue per transaction led to stamping fee rate changes over last five years. Robinson notes gap between stamping fee rate and realized rate is due to transaction processing lag when stamping fee goes into effect; can take six months to a year before impact is realized.

Conversation related to operating expenses leveling due to SMART no longer a capital expense but in relative expense the pension would be part of operating expenses. No voting or action necessary.

Sprowls asks for questions or further discussion. Hearing none, Sprowls asks if there is a recommendation for the board. Brandon recommended the board recommend TDI no action be taken to change the current stamping fee rate in accordance with Section 2 (b)(7)(C) of the SLTX Plan of Operation.

**MOTION: Esequiel Nathal**

**SECOND: Pete Harrison**

The motion passed unanimously.

**Item 4. Discussion and Appropriate Action: Annual Review of Plan of Operation & Proposed Amendments | Jeff Klein, Committee Chair**

Klein begins by noting SLTX Plan of Operation Section 2 (c)(5)(B) requires that the board review the plan of operation and propose any amendments if any during the first regular meeting of the board.

The Plan of Operation Committee conducted a thorough review in 2021 and recommended numerous amendments. The board approved recommended amendments and forwarded recommendations to the Texas Department of Insurance for consideration. Klein mentions former committee chair, Penni Chambers, Greg Brandon, and Stan Strickland met to discuss the recommendations with TDI staff and were given guidance. Klein stated the Plan of Operation has since been reviewed and the committee voted not to conduct any further amendments and to

allow prior recommendations to stand and continue discussions with TDI concerning recommended amendments under consideration and such others that TDI may propose.

Sprolws asks if there are any questions or further discussion. Hearing none, Sprolws asks if there is a second to this motion.

**MOTION: Jeff Klein**

**SECOND: Jason Cables**

The motion passed unanimously.

### **Item 5. Operations Director Report & Appropriate Action | Cheyenne Herrera, Director of Operations Operations Team Update**

Reports 97% accuracy and thanked team for hard work.

Open policy analyst positions to be posted; goal to hire talent with insurance experience. Currently evaluating and reviewing operations training manual.

#### **Annual Policy Count Report**

This report is used to report policy count to TDI in response to standing data call for complaint ratio for or by insurers to be calculated by TDI. Report was completed for 213 of 294 eligible surplus lines insurers, reported to TDI ahead of March 1<sup>st</sup> deadline. The remaining 81 insurers self-reported.

#### **2023 Annual Late Filing Report**

Generated on Monday, March 18, 2024. 553 agents of 1,000 had one or more late filing.

Mathematically, 22,181 out of 780,254 policies were reported late. Herrera highlighted 533 certified mailers sent for this report; physical preparation included printing and stuffing and took 47.5 hours to complete over 2 days. Ms. Herrera asks if there are any questions.

Klein asks Ms. Herrera if late filing percentage over last decade has remained constant or if it has gotten better. Herrera stated the percentage has stayed relatively the same.

#### **SMART Update**

We will no longer engage with external vendors for SMART's development. SLTX's development team is fully responsible for development of all features, process improvements and automation necessary to continue SMART's rollout and expected growth.

#### **SMART Cost**

All-in cost for SMART, including all vendors, was \$13.51 million, noting budget through 2022 was capital expense and 2023 was solely for maintenance and support. EFS was decommissioned in May 2023 with goal of having all development and maintenance in-house where technology can grow without need to rely on outside vendors. Herrera asks if there are any questions.

Sprolws asks if current team can handle all in-house development and maintenance or if SLTX will be hiring to complete team. Ms. Stone confirms one more developer position but no current rush to fill position as we are looking to hire preferred talent. Hiring without caliber of talent or experience needed would disrupt current working team.

Sprolws asks if there are any questions or further discussion. Hearing none Sprolws asks Herrera if there is any recommendation for the board. Herrera stated no.

### **Item 6. ITS Director Report and Appropriate Action | Sholonda Stone, Director of ITS ITS Update**

Ms. Stone presented milestones the ITS department is working on, to include:

**SMART System Upgrade:** Transition to serverless model for flexibility and versatility allowing for seamless upgrades, patches without system downtime.

**SMART System Backlog**, which is the ongoing backlog of enhancement and work to be completed; as it continues to grow the team's focus is to complete necessary tasks.

**Website Refresh and Internalization.** The current website has limitations and hosted by a third party which the team plans to change the underlying platform of the website to make it more versatile and internalize the hosting to gain control over updates and security.

**SMART Enhancements, SMART Connector, and Process Improvements** are the ongoing enhancements and process improvements necessary for SMART connector and to stay updated with technology changes.

Mr. Klein asks Stone if any other stamping office took interest in the SMART system. Stone states that Florida Surplus Lines Stamping Office expressed interest in how the team is internalizing spending and maintaining the system, and how they may consider internalizing their own system development. Staff that met with the FLSO discussed internalizing talent and development, emphasizing the importance of education and training for developers.

### **Staff Updates**

Dalton M., Sr. Lead Developer,

Kenneth A., Sr. Developer,

**New** - Rayne O. Sr. Developer

**New** - Jay O. Sr. Developer

**Open Position** - Senior Developer

### **System Changes**

- MariaDB transition to Azure MariaDB update.
- Change in Database structure to MySQL Azure.
  - Azure change to initial End of Life of MariaDB in Azure.
    - No additional database creation after January 2024
    - Database End of Life changed to September of 2025

Stone states reason for choosing MySQL is it's Compatibility with current SMART setup with minimal changes (i.e. Queries, code, and add-ins) and ease of database transition from MariaDB to MySQL.

Sprowls asks if there for questions or further discussion. Hearing none, Sprowls asks if there is a recommendation for the board. Ms. Stone states no.

### **Item 7. Executive Director Report and Appropriate Action | Greg Brandon, Executive Director Review and Approval of Annual Report**

Brandon begins review of 2023 Annual Report. Brandon recalls Plan of Operation holds several requirements. Section 2(c)(5)(c) requires board review the Annual Report during the Annual Meeting. Brandon outlines each requirement to the board while presenting data covering transactions, operations, conditions, and financials.

Sprowls asks if there for questions or further discussion. Hearing none, Sprowls asks if there is a recommendation for the board. Brandon recommended the board approve the annual report as presented and submit to the TDI in accordance with Section 2(c)(5)(c) of the Stamping Office Plan of Operation.

**MOTION: Bart Koch**

**SECOND: Esequiel Nathal**

The motion passed unanimously.

### **Company Update**

Review of the organization's structure was given. SLTX currently has 25 employees with openings in operations, IT, and a budgeted in HR but not actively hiring for that position.

## **Premium and Item Count**

Premium for 2024 - \$2,048,199,419 YTD, with record breaking premiums for both January and February, historically. Item count was substantially higher for both January and February and is highest in SLTX's history at 185,649 items YTD.

Sprolws asks if there are any questions. Hearing none Sprolws asks Brandon if there is a recommendation for the board. Brandon stated no.

## **Item 8. Discussion and Appropriate Action: Proposed Pension | Greg Brandon, Executive Director**

Brandon initiates proposed pension discussion as a continuation from December's meeting highlighting goal for such pension is to build a culture of success for future employees as excess and surplus lines subject matter experts. Brandon adds Ms. Milvo requested comparative data on other quasi-governmental entities' pension plans at December meeting.

**Comparison of Retirement Plans:** Albert Wostal of OneAmerica presented options such as traditional defined benefit pension plans and cash balance pension plans, highlighting pros and cons. Discussion revolved around 401K plan and the desire to reduce turnover and provide benefits to employees.

**Comparison of Other Organizations' Plans:** Wostal compared retirement plans of various quasi-governmental entities in Texas: Texas Windstorm Insurance Agency, Texas Mutual Insurance Company, Texas Property and Casualty Insurance Company, and Texas Association of School Boards; unique features of each plan, including auto-enrollment, matching contributions, and changes made over time, were discussed.

**Comparison Challenges:** Difficult to find exact comparisons with other organizations due to varying sizes, incomes, and expenses and limited options for joining existing systems like TRS and ERS, leading to loss of control over benefits.

**Challenges and Changes in Pension Systems:** Discussion focused on challenges faced by public pension systems, such as underfunding and demographic issues. Specific examples included transition from traditional defined benefit plans to cash balance plans and impact of changing contribution requirements and retirement eligibility criteria.

**401k Plan Flexibility:** 401k plan offers contribution flexibility but has limitations in meeting all desired criteria. Highly compensated individuals deferring at high rate may get cut off due to maximum contribution limits. Maximum dollar amount for individual contribution is \$69,000 for the year, or \$76,500 for individuals over 50.

**Traditional Defined Benefit Plan:** Considers tenure, pay, and age, but may not meet all criteria. Allow flexibility in adjusting contributions based on excess cash on hand. Payout options include annuitization and lump sum distribution, with underfunding risks due to investment performance.

**Cash Balance Defined Benefit Plan:** Cash balance plan is a hybrid of 401k and traditional defined benefit plan. Unique structure based on tenure, providing maximum control over funding and distribution options.

**Escrow Option for Entities:** Entities are increasingly choosing the escrow option due to budgetary ease. For-profit entities are also utilizing escrow more frequently due to cash flow fluctuations.

Sprolws encouraged questions or discussion. Milvo thanks Wostal for work on presentation and states a concern: giving all employees same amount could foster mediocrity amongst the lower wage earners and breed resentment for higher paid earners. Wostal responds that plan is based on tenure and not all employees would get the same amount as it is tiered in structure. Brandon adds that performance management and tenure promotion are key considerations for plan and can be adjusted and revisited based on organizational needs.

Sprolws asks if there are any further questions. Hearing none Sprolws asks for a motion to consider or approve a cash balance pension plan, defined benefit plan as discussed in this meeting and brought by Albert with details on specific numbers, vesting conditions, additional components, and



plan options to be defined in future by finance and audit committee with consideration of full board, and an annual review to be as apart of the finance audit committee meeting.

**MOTION: Lezlee Liljenberg**

**SECOND: Jeff Klein**

The motion passed unanimously.

**Item 9. Election of 2024 Officers | Chair of the Board**

The SLTX Board of Directors held an election of the 2024 board members. The members and positions are as follows:

Jeff Klein nominates Garrett Sprowls as Board Chair.

**Chair – Garrett Sprowls (All BOD members voted unanimously)**

Sprowls nominates Jeff Klein as Vice Chair.

**Vice Chair – Jeff Klein (All BOD members voted unanimously)**

Sprowls nominates Lezlee Liljenberg as Secretary.

**Secretary – Lezlee Liljenberg (All BOD members voted unanimously)**

**Item 10. Committee Appointments | Garrett Sprowls, Chair of the Board**

**(a) Appointment of Finance & Audit Committee Members**

Chair – Jason Cables

Nick Lawrence

Esequiel Nathal

**(b) Appointment of Board Training Committee Members**

Chair – Lezlee Liljenberg

Bart Koch

Jeff Klein

**(c) Appointment of Plan of Operation Committee Members**

Chair – Jeff Klein

Pete Harrison

Leslie Milvo

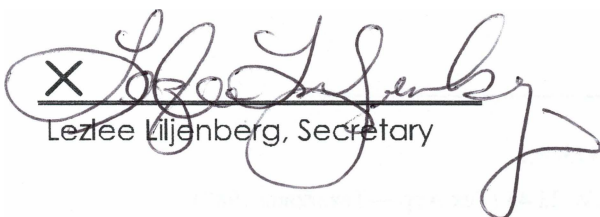
**Item 11. Adjournment | Garrett Sprowls, Chair of the Board**

There being no further business before the board, Sprowls ask for a motion to adjourn.

**MOTION: Bart Koch**

**SECOND: Lezlee Liljenberg**

The meeting adjourned at 11:53 A.M. on March 22, 2024.

X   
Lezlee Liljenberg, Secretary