

March 21, 2024

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

March 21, 2024

Finance & Audit Committee Meeting Agenda

Item 1.	Call to Order and Establishment of a Quorum	Jeff Klein, Committee Chair
Item 2.	Discussion and Appropriate Approval of - December 13, 2023, F&A Committee Meeting Minutes	Jeff Klein, Committee Chair
Item 3.	Discussion and Appropriate Action: - 2023 Annual Financial Audit Review	Donna Aug, Director of Finance; Marie Musalem, Calhoun, Thomson+Matza
Item 4.	Discussion and Appropriate Action: - 2024 Finance YTD update	Donna Aug, Director of Finance
Item 5.	Discussion and Appropriate Action: - Reserve Balance review	Donna Aug, Director of Finance
Item 6.	Discussion and Appropriate Action: - Investment and Cash Management Policy Annual Review	Donna Aug, Director of Finance; Carina Diaz, Frost Bank
Item 7.	Discussion and Appropriate Action: - Annual Stamping Fee Analysis	Greg Brandon, Executive Director; Cheyenne Herrera, Director of Operations; Christian Robinson, Financial Analyst
Item 8.	Adjournment	Jeff Klein, Committee Chair

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 21, 2024, at 3:04 p.m.

The meeting was held in-person, and a conference call-in number was provided in the Public Meeting Notice. Written notice of this meeting proposed agenda, and all related meeting materials were provided to the Texas Department of Insurance Deputy Commissioner of the Financial Regulation Division and designees on March 12, 2024, in accordance with the Plan of Operation, Section 2(c)(2).

Written 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 14, 2024, 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 participating members pursuant to the Plan of Operation Section 2(c)(6):

Committee Members Present:

Jeff Klein, F&A Chair

Leslie Milvo, Secretary

Jason Cables, Committee member, via teleconference

Non-Committee Members Present:

Garrett Sprowls, Board Chair
Esequiel Nathal
Nick Lawrence

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
Sharmilla S., Business Analyst, SLTX, via teleconference
Stan Strickland, General Counsel, Mitchell Williams, Selig, Gates & Woodyard, PLLC
Christian R., Sr. Data Analyst, SLTX
Barbara Lazard-Hernandez, Office of Financial Counsel, Texas Department of Insurance
John Carter, Office of Financial Regulation, Texas Department of Insurance
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

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 Previous Meeting Minutes: December 13, 2023 | Jeff Klein, Committee Chair; Donna Aug, Director of Finance

Board members were provided with a copy of the December 13, 2023, meeting minutes. Klein asked if there were any corrections or comments related to the minutes. Having none, Klein requested a motion for minute approval.

MOTION: Jason Cables

SECOND: Jeff Klein

Motion passed unanimously.

Item 3. Discussion and Appropriate Action: 2023 Annual Financial Audit Review | Donna Aug, Director of Finance; Marie Musalem, Calhoun + Thomson + Matza

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.

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.

Klein asks if there are any questions for Ms. Aug or Ms. Musalem. Hearing none, Klein asks if there is a recommendation for a motion on audit report. Ms. Aug recommended the committee accept the 2023 Annual Financial Audit Review as presented and be recommended to full board for consideration and submission to the TDI in accordance with Sections 2(b)(5) and 2(c)(5)(c) of the Stamping Office Plan of Operation.

MOTION: Leslie Milvo

SECOND: Jason Cables

The motion passed unanimously.

Item 4. Discussion and Appropriate Action: 2024 Finance YTD Update | Donna Aug, Director of Finance

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.

Investment Value – change in investment value was a decrease of approximately \$189,000 for February; 97,000 YTD.

Sprolws asks if the change in investment value was due to market conditions. Ms. Aug confirms and states that it was not a cash outlay. Klein asks if there are any other questions. Hearing none, Klein asks if there is a motion for a recommendation to the board. Ms. Aug states no.

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

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.

Ms. Aug asks for questions. Klein asks what the comparative number to the excess maximum for the previous year and asks how much it has decreased year over year. Ms. Aug explained the number for last year was about \$29,178,000 and has increased to \$32,687,513 million.

February's YTD net loss of \$240,000 resulted in a fund balance on February 29 of \$32,447,421; almost \$20 million over current maximum. Sprolws adds comment: \$240,000 net loss was due to fair market value of investments and adds it was a small sample size as it's only February. Aug agrees and adds there are also monthly expenses that are non-cash of amortization and depreciation.

Klein asks if there are any further questions. Hearing none Klein asks if there is a motion for a recommendation to the board. Aug recommended the committee make a recommendation to the board for reducing the amount of the actual reserves of the stamping office in accordance with Section 2(b)(7)(b) of the Stamping Office Plan of Operation.

MOTION: Jason Cables

SECOND: Leslie Milvo

The motion passed unanimously

Item 6. Discussion and Appropriate Action: Investment and Cash Management Policy Annual Review | Donna Aug, Director of Finance; Carina Diaz, Frost Bank Brokerage

Ms. Aug refers to the Plan of Operation regarding the investment fund. Diaz presents, findings.

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. Klein asks if SLTX has any international stock investments; Ms. Diaz confirms that all stock investments are domestic. Presentation is concluded.

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

MOTION: Leslie Milvo

SECOND: Jason Cables

The motion passed unanimously.

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

Klein asks Robinson if it takes three to four years to have conclusive analysis of when a stamping fee rate change might be necessary. Robinson indicated that market is uncertain but there is no expectation of a rate change before 2027.

Klein asks if there are any questions or further discussion. Hearing none Klein asks if there is a motion for a recommendation to the board. Brandon recommended the finance and audit committee recommend to the board that no action be taken to change the current stamping fee in accordance with Section 2(b)(7)(c) of the Stamping Office Plan of Operation.

MOTION: Leslie Milvo

SECOND: Jason Cables

The motion passed unanimously.

Item 8. Adjournment | Jeff Klein, Committee Chair

There being no further business before the committee, Klein asks for motion to adjourn.

MOTION: Jason Cables

SECOND: Jeff Klein

The meeting was adjourned at 4:01 P.M.

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Esequiel Nathal, Secretary