

**September 26, 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**

<b>September 26, 2024 Finance &amp; Audit Committee Meeting Agenda</b>		
Item 1.	Call to Order and Establishment of Quorum	Jason Cables, Committee Chair
Item 2.	Discussion and Appropriate Approval of June 28, 2024, FA Committee Meeting Minutes	Jason Cables, Committee Chair
Item 3.	Discussion and Appropriate Action: - 2024 YTD Financial Review - 2025 Proposed Budget	Donna Aug, Director of Finance
Item 4.	Adjournment	Jason Cables, Committee Chair

**Item 1. Call to Order – Jason Cables, Committee Chair**

Jason Cables called the meeting to order on September 26, 2024, at 2:00 P.M.

A conference call-in number and teleconference link were provided in the Public Meeting Notice. Written notice of this meeting and related agenda were provided to the committee members on September 5, 2024, and submitted to the Secretary of State on September 19, 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.

**COMMITTEE MEMBERS PRESENT**

Jason Cables, Board Chair  
Esequiel Nathal  
Nick Lawrence

**OTHER BOARD MEMBERS PRESENT**

Garrett Sprows, Board Chair

**ALSO PRESENT**

Greg Brandon, Executive Director, SLTX  
Donna Aug, Director of Finance, SLTX  
Cheyenne Herrera, Director of Operations, SLTX, via teleconference  
Sholonda Stone, Director of ITS, SLTX  
Denisse Amezcua, Director of Human Resources, SLTX  
Marissa G., Administrative Assistant, SLTX  
Stan Strickland, General Counsel, Mitchell Williams, Selig, Gates & Woodyard, PLLC

Barbara Lazard-Hernandez, Office of Financial Counsel, Texas Department of Insurance  
Andrew Guerrero, Company Licensing and Registration Office, Texas Department of Insurance

**SLTX Staff Members Also in Attendance**

Toby P., Operations Manager, SLTX, via audio  
Tyler P., Policy Analyst II, SLTX, via audio  
Yuba D., Financial Analyst, SLTX, via audio  
Catherine H., Lead Policy Analyst, SLTX, via audio  
Kristian P., Policy & Data Analyst, SLTX, via audio  
Ariel R., Policy Analyst II, SLTX, via audio  
Jennifer D., Policy Analyst, SLTX, via audio  
Robyn P., Policy Analyst, SLTX, via audio  
Ruben O., Policy Analyst, SLTX, via audio  
Shantell J., Sr. Lead Policy Analyst, SLTX, via audio  
Porschea J., Policy Analyst II, 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 June 28, 2024, Meeting Minutes | Jason Cables, Committee Chair**

Committee members were provided with a copy of the June 28 meeting minutes. Cables asked for any corrections or comments. Having none, Cables requested a motion for minutes approval.

**MOTION: Esequiel Nathal**

**SECOND: Nick Lawrence**

Motion passed unanimously.

**Item 3. Discussion and Appropriate Action: 2024 YTD Financial Review | Jason Cables, Committee Chair; Donna Aug, Director of Finance**

Cables opens the floor to Donna Aug to present the 2024 YTD Financial Update.

**2024 YTD Financial Review**

**Stamping Fee** – 2%, or \$12,775 over for August; over 1%, or \$43,200 YTD.

**Investment Income** – 86%, or %51,750 over for August; 54%, \$297,300 over YTD due to earning more on investment than was projected.

**Operating Expenses** - \$66,200 or 10% under for August; \$1,420,00, 22% under for the year.

**Salaries and Benefits** – 13% under budget or \$52,300 for the month; 29% or \$1,230,00 YTD due to being short on staff by 5 than what was budgeted for the year. Pension plan funding was planned for January 2024 but did not occur until September 2024.

**Professional Services** – 20% under budget or \$6,000 for August; under 7% or almost \$22,800 YTD. In ITS, underage is due to RSI not being engaged since rollover to new database, along with MIS ending

sooner than expected. In Operations, 50% of LemonLight SOW was paid in January but budget reflects equal monthly amounts.

**Conference and Education** – 60% under budget or \$4,700 for August and 67% or \$48,500 for the year due to timing of and quantity of budgeted conferences/trips.

**Travel and Entertainment** – 92% or \$5,600 under for the month; 50% or \$28,000 for the year.

**Occupancy and Operating** – \$93,600 or 203% under budget for August; under \$145,000 or 38% YTD.

Due to a reclassification of lease expense to amortization, per GASB 87 which dictates that the leases be capitalized, which includes the office space, copier, and mail meter.

**General and Administrative** – \$99,300 or 62% over budget for August; Over \$99,100 or 8% YTD, due to interest and amortization expense related to the reclass of lease expense as previously discussed, which also booked associated interest expense YTD.

**Contingency** – not used resulting in \$3,200 savings for the month; \$31,700 savings YTD.

**Operating Income** - \$217,800 operating income for the month; \$1,015,000 operating income YTD. Budgeted operating income for the month was \$87,000 and a loss of \$749,000 through August.

Aug asks for questions from the Board. Cables asks for clarification regarding the reclassification of the lease expense. Ms. Aug confirms that the expense has been recorded just reclassified into a different account per GASB 87.

### **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** – Beginning fund balance at the start of 2024 was almost \$32.7 million, \$20,150,000 over the maximum for the year, which is \$12,537,946. August's YTD net income of \$1,380,300 resulted in a fund balance on August 31 of \$34,068,000, which is \$21,529,826 over the current maximum.

Ms. Aug asks if there are any questions. Cables asks Aug if she has a recommendation for the board. Aug states she did not. Aug continues her presentation.

### **2025 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.

**Revenue** – 4% or \$284,800 increase in stamping fee revenue, based on current stamping fee, which as of August represents 77% of filings.

**Interest and Other Income** –40% increase or \$319,000 due to higher interest rates this year, which reinvested maturities will realize. Projecting an overall increase in revenue of \$602,800 or 7%.

**Budgeted Salaries & Benefits** – 7% increase or \$447,600 for 2025. This is due to staff merit raises, which increases associated labor burden. An 8%-30% increase for all lines of health insurance coverage was used, along with funding the maximum allowed to pension plan. Salaries and benefits are 69% of total expenses for 2025 vs. 67% for 2024.

**Professional Services** –10% decrease or \$45,130 due to reduction of Cyber 7 contract and a decrease in servers. Accounting and audit saw a slight increase due to administrative fees associated with the pension. Professional services represent 4% of the total budget vs. 5% for 2024.

**Conference & Education** – 8% decrease or almost \$8,300 and remained 1% of the budget.

**Travel & Entertainment** –31% increase or \$22,150 from 2024 and remained 1% of the budget. The increase is due to SLTX developers attending one additional conference and sending two developers and Sholonda to WISA in Florida, which is more expensive than the local conference.

**Occupancy & Operating Expenses** –27% decrease or \$153,550, which is attributable to lease expenses being represented in amortization, per GASB 87. With office lease expense of \$119,600 to be removed, along with the copier and postage machines, maintenance and repair of equipment is down 38%, over \$3,300 since lower costs expected. Software license and maintenance decrease \$31,360 or 9% due to reduction in servers that resulted in a lower Azure monthly. Occupancy and Operating represent 4% of this budget, vs. 6% for 2024.

**General & Administrative** – 7% increase or \$139,200. Insurance program is budgeted to decrease approximately 7%. Amortization is projected to increase \$132,000 or 8% from 2024, partially due to the leasehold improvements (\$188,770) added for the new office in March 2024 (\$21,000 amort for the year). Also due to amortizing 3 capital leases, per GASB 87. Depreciation is projected to increase \$10,650 or 26%, due to computer equipment additions. Total G&A is 21% of total expenses, up from 20% last year.

**Contingency** – \$2,000 increase or 4%, which is expected with the 4% increase in expenses. Total budgeted expenses are projected to increase 4% or \$404,000 over 2024. Overall, the budget predicts an operating loss of \$1,089,505 for 2025 as opposed to a budgeted loss of (\$1,288,200) for 2024, a change of about \$200,000 or 15%. The expected increase in revenue more than compensates for the increase in budgeted expenses.

Cables asks if there are any questions. There was a conversation related to the actuarial calculations for the pension contributions, noting that the 2023 contribution was received, with the 2024 number still pending.

Discussion on how long the organization can continue to pay beyond the annual contribution to the pension. It was mentioned that the actuaries have not provided a specific number for long-term funding but estimated it could be between \$7 million - \$10 million. The organization has flexibility in how to fund the pension, with a focus on maximizing contributions while monitoring high reserve balances. The IRS rules and their implications for non-profits were also discussed, emphasizing the unique considerations for their pension funding strategy.

Cables asks Ms. Aug if she has a recommendation. Aug recommended that the Finance and Audit Committee refer the 2025 Proposed Budget as presented to the full Board for review with the recommendation that it be referred to the Deputy Commissioner of the Financial Regulation Division of the TDI in accordance with Section 2(b)(7) of the Surplus Line Stamping Office Plan of Operation.

**MOTION: Nick Lawrence**

**SECOND: Esequiel Nathal**

The motion passed unanimously.

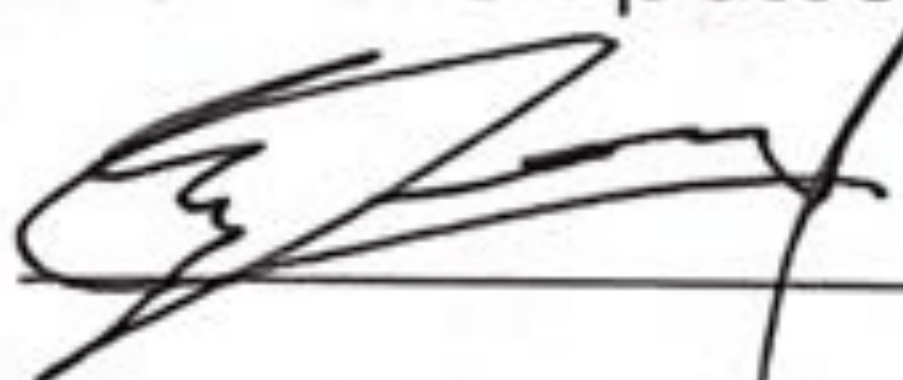
#### **Item 4. Adjournment | Jason Cables, Committee Chair**

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

**MOTION: Jason Cables**

**SECOND: Nick Lawrence**

The motion passed unanimously, and the meeting adjourned at 2:35 PM.



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Esequiel Nathal, Secretary