

March 27, 2025

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 27, 2025 Finance & Audit Committee Meeting Agenda | | |
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| Item 1. | Call to Order and Establishment of a Quorum | Jason Cables, Committee Chair |
| Item 2. | Discussion and Appropriate Approval of - December 13, 2024, F&A Committee Meeting Minutes | Jason Cables, Committee Chair |
| Item 3. | Discussion and Appropriate Action: - 2024 Annual Financial Audit Review | Donna Aug, Director of Finance; Marie Musalem, Calhoun, Thomson+Matza |
| Item 4. | Discussion and Appropriate Action: - 2025 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; Alex Bahun, Frost Bank |
| Item 7. | Discussion and Appropriate Action: - Annual Stamping Fee Analysis | Greg Brandon, Executive Director; Cheyenne Herrera, Director of Operations; Christian Robinson, Senior Data Analyst |
| Item 8. | Adjournment | Jason Cables, Committee Chair |

Item 1. Call to Order | Esequiel Nathal, Committee Chair

Esequiel Nathal, acting Chair of the Finance & Audit Committee, called the meeting to order on March 27, 2025, at 3:45 p.m.

A conference call-in number was included in the Public Meeting Notice. Written notice of the meeting was sent to the Texas Department of Insurance, including the Deputy Commissioner of the Financial Regulation Division and her designees, on March 17, 2025, as required by the SLTX Plan of Operation, Section 2(c)(2).

The meeting notice and agenda were submitted to the Office of the Secretary of State on March 19, 2025, in accordance with Section 2(c)(1) of the Plan and Chapter 551 of the Texas Government Code. All board members were notified on March 12, 2025. Nathal then called roll to confirm member participation per Section 2(c)(6) of the Plan.

Committee Members Present

Esequiel Nathal, Acting Chair

Nick Lawrence, Committee Member

ALSO PRESENT

Greg Brandon, Executive Director, SLTX
Donna Aug, Director of Finance, SLTX
Ronnie Ford, Director of Finance, SLTX
Cheyenne Herrera, Director of Operations, SLTX, via Teams
Sholonda Stone, Director of ITS, SLTX, via Teams
Marissa G., Administrative Assistant, SLTX
Toby P., Operations Manager, SLTX, via Teams
Christian R., Sr. Data Analyst, SLTX
Yuba D., Financial Analyst, SLTX, via Teams
Michael Nored, General Counsel, Mitchell Williams, Selig, Gates & Woodyard, PLLC
Jeff McWhirt, General Counsel, Mitchell Williams, Selig, Gates & Woodyard, PLLC
Marie Musalem, CPA, Calhoun, Thomson + Matza, LLP
Alex Bahun, Brokerage Advisor, Frost Investment Services, Frost Bank
David Dodd, Office of Financial Counsel, Texas Department of Insurance
Andrew Guerrero, Company Licensing & Registration Office, Texas Department of Insurance

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 making 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, Meeting Minutes | Esequiel Nathal, Committee Chair; Donna Aug, Director of Finance

Board members received a copy of the December 13, 2024, meeting minutes. With no corrections or comments, Nathal moved to motion for a vote on minutes.

Motion: Nathal | Second: Lawrence | Approved Unanimously

Item 3. Discussion and Appropriate Action: 2024 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, representing Calhoun + Thomson + Matza LLP, reported that the 2024 audit was conducted in accordance with U.S. generally accepted auditing standards. SLTX management provided full access to all requested information and demonstrated strong cooperation. No material weaknesses in internal controls were identified, though the firm did not issue an opinion on the effectiveness of those controls.

Three corrected misstatements were noted:

1. A routine adjustment reclassifying \$19,226,277 in securities maturing after one year as long-term investments.
2. A \$383,805 entry to record fiduciary fund activity for the year ending December 31, 2024.

3. An \$88,872 adjustment to reclassify the current portion of lease liability at year-end. The engagement letter dated September 29, 2024, outlines audit responsibilities, professional standards, and SLTX's obligations, including maintaining auditor independence. Following the presentation, Chair Nathal asked questions. Hearing none, the presentation continued.

Musalem concluded the presentation. Chair Nathal asked if there were any questions for Ms. Aug or Ms. Musalem; none were raised.

Recommendation: Donna Aug recommended the committee accept the 2024 Annual Financial Audit Review as presented and refer it to the full board for approval and submission to the Texas Department of Insurance, per the SLTX Plan of Operation.

Motion: Lawrence | Second: Nathal | Approved Unanimously

Item 4. Discussion and Appropriate Action: 2025 Finance YTD Update | Donna Aug, Director of Finance

Ms. Aug presented financials:

- **Stamping Fee Revenue:** \$31,300 (7%) over budget for February and \$165,600 (17%) over YTD.
- **Investment Income:** Exceeded projections by \$6,500 (6%) for the month and \$11,500 (5%) YTD due to stronger returns.
- **Operating Expenses:** \$101,500 (14%) under budget for February and \$61,700 (4%) under YTD.
- **Salaries and Benefits:** \$68,900 (17%) under budget for the month and \$16,800 (1%) under YTD.
- **Professional Services:** \$8,600 (14%) under in February due to timing of legal and audit fees, but \$5,440 (5%) over budget year-to-date because of the full January payment to LemonLight, originally planned to be spread over the year.
- **Conference and Education:** \$1,600 (39%) under in February and \$8,500 (76%) under YTD, due to timing of events.
- **Travel and Entertainment:** \$432 (39%) under for the month and \$3,800 (68%) under for the year.
- **Occupancy and Operating:** \$16,600 (36%) under budget in February and \$23,500 (29%) under YTD.
- **General and Administrative:** \$1,900 (1%) under for February and \$6,200 (2%) under YTD.
- **Contingency Funds:** not used, resulting in savings of \$3,500 for the month and \$8,400 YTD.
- **Operating Income:** for February was \$4,600. YTD, the organization recorded a loss of \$222,000, which is better than the budgeted loss of \$461,000. The budgeted loss for February alone was \$134,800.
- **Investment Value:** increased by approximately \$120,700 in February and \$61,750 YTD.

Ms. Aug concluded the presentation. Nathal asked if there were any questions or recommendations. Hearing none, no motion or recommendation was made.

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, excluding funds for asset replacement, must not exceed twice the average audited operating expenses over the past five years.

Fund Balance:

At the start of 2024, the fund balance was \$32.2 million, which is \$17.7 million over the allowed maximum of \$14,503,577. As of February, the year-to-date net loss of \$160,245 brought the balance to \$32,045,739, still \$17.5 million above the limit.

Ms. Aug asked if there were any questions. Hearing none, the presentation concluded.

Nathal then asked if there were any further questions. Hearing none, he asked for a motion.

Recommendation: Ms. Aug recommended a reduction in the Stamping Office's reserves to the board, in line with Section 2(b)(7)(b) of the Plan of Operation.

Motion: Lawrence | Second: Nathal | Approved Unanimously

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

Ms. Aug referenced the Plan of Operation regarding the investment fund and introduced SLTX's brokerage advisor, Alex Bahun from Frost Brokerage.

Bahun's Presentation:

- 60% of holdings are in CDs
- 16% in U.S. Treasury Bills/Notes
- 7% in taxable domestic corporate fixed income
- 17% in taxable domestic income via mutual funds
- Total domestic fixed income: 40%

Bahun briefly discussed projected investment income and recent articles on potential federal rate cuts, stating the portfolio remains well-positioned. He asked if there were any questions. Hearing none, the presentation concluded.

Nathal asked for any questions or discussion. Hearing none, he asked Ms. Aug for a recommendation.

Recommendation: Ms. Aug recommended making no changes to the SLTX Investment and Cash Management Policy, per Section 2(b)(6) of the Plan of Operation.

Motion: Lawrence | Second: Nathal | Approved Unanimously

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

Herrera provided a brief background on Robinson, noting his role as Sr. Data Analyst at SLTX prior to his presentation. Robinson referenced the Plan of Operation, which requires the Board to recommend to the Commissioner of Insurance whether to adjust the stamping fee. The fee was recently reduced to 0.04%, effective January 1, 2024.

Historical Changes:

The stamping fee has changed approximately every 3.6 years. Key changes include:

- Increased to 0.15% in 2017 for SMART project costs
- Reduced to 0.075% in 2021
- Reduced again to 0.04% in 2024

The most recent reduction resulted in a \$2.5 million reduction in the difference between the reserves and the maximum balance, supporting its effectiveness.

Reserve Balance:

Current reserves exceed the maximum limit by about \$18 million. The maximum is defined as twice the five-year average operating expenses audited.

Breakeven Analysis:

The breakeven rate is the rate needed to maintain, not reduce the reserve balance. The current 0.04% rate is intended to reduce reserves.

Realized Rate vs. Stamping Fee Rate:

The realized rate in the previous year was 0.045%, slightly higher than the official rate due to timing differences in policy filings.

Future Projections:

If current trends continue, the reserve balance may not reach the allowable maximum until the 2030s. Projections assume 7% annual expense growth and a 4% investment return.

Robinson emphasized the importance of ongoing monitoring and recommended revisiting the fee if there are significant changes in premiums, expenses, or investment income.

Nathal asked questions or discussion, hearing none, the presentation concluded.

Recommendation: Herrera recommended taking no action on the current stamping fee, per Section 2(b)(7)(c) of the Plan of Operation.

Motion: Lawrence | Second: Nathal | Approved Unanimously

Item 8. Adjournment | Esequiel Nathal, Acting Committee Chair

With no further business, the meeting adjourned at 4:39 PM.

Motion: Nathal | Second: Lawrence | Approved Unanimously

A handwritten signature in black ink, appearing to read 'Esequiel Nathal', is positioned above a horizontal line.

Esequiel Nathal, Secretary