

September 27, 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

September 27, 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 June 28, 2024 Board Meeting Minutes	Garrett Sprowls Board Chair
Item 3.	Discussion and Appropriate Action: Insurance Policies	Greg Brandon Executive Director
Item 4.	Executive Director Report & Appropriate Action	Greg Brandon Executive Director
Item 5.	Operations Director Report & Appropriate Action	Cheyenne Herrera Operations Director
Item 6.	ITS Director Report & Appropriate Action	Sholonda Stone ITS Director
Item 7.	Discussion & Appropriate Action: Employee Handbook Revisions	Denisse Amezcua Human Resources Director
Item 8.	Discussion & Appropriate Action: Finance & Audit Committee - 2024 YTD Financial Review - 2025 Proposed Budget	Jason Cables Committee Chair; Donna Aug Director of Finance
Item 9.	Discussion & Appropriate Action: Board Orientation & Training Committee Annual Charter Review	Lezlee Liljenberg Committee Chair
Item 10.	Discussion & Appropriate Action: Remaining 2024 Board Meeting Dates	Garrett Sprowls Board Chair
Item 11.	Adjournment	Garrett Sprowls Board Chair

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

Garrett Sprowls called the meeting to order on September 27, 2024, at 10:00 A.M.

Meeting was held in-person. A conference call-in number and teleconference link was provided in the Public Meeting Notice. Written notice of this meeting and related agenda was provided to the Board of Directors and submitted to the Secretary of State on September 20, 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
Jason Cables

Pete Harrison, Absent
Bart Koch
Jeff Klein
Nick Lawrence, Absent
Lezlee Liljenberg
Leslie Milvo, Absent
Esequiel Nathal

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 Amezquita, Director of Human Resources, SLTX
Marissa G., Administrative Assistant, SLTX
Sharmilla S., Business Analyst, SLTX
Stan Strickland, General Counsel, Mitchell Williams, Selig, Gates & Woodyard, PLLC
Paul Rainey, TSLA Liaison, RSI International, Inc., via teleconference
Barbara Lazard-Hernandez, Office of Financial Counsel, Texas Department of Insurance
Andrew Guerrero, Office of Financial Regulation, Texas Department of Insurance

SLTX Staff Members Also in Attendance

Ariel R., Policy Analyst II, SLTX, via audio
Catherine H., Lead Policy Analyst, SLTX, via audio
Christian R., Sr. Data Analyst, SLTX, via audio
Dalton M., Sr. Lead Developer, SLTX, via audio
Jennifer D., Policy Analyst, SLTX, via audio
Kristian P., Policy & Data 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
Toby P., Operations Manager, SLTX, via audio
Tyler P., Policy Analyst II, SLTX, via audio
Porschea J., Policy Analyst I, SLTX, via audio
Yuba D., Financial 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 June 28, 2024, Meeting Minutes | Garrett Sprowls, Board Chair

Board members were provided with a copy of the June 28, 2024, meeting minutes. Sprowls asked for any corrections or comments. Having none, Sprowls requested a motion for minutes approval.

MOTION: Jason Cables

SECOND: Jeff Klein

Motion passed unanimously.

Item 3. Discussion and Appropriate Action: Insurance Policies | Greg Brandon, Executive Director

Greg Brandon provided an overview of various insurance policies.

Cyber Liability Policy - Current premium is \$13,500, covering \$3 million on primary and \$2 million on excess with a \$50,000 deductible. Renewal indications are expected in late November or December.

Fidelity Coverage - Total premium for three years was \$5,066, with no additional cost for extending coverage for the new pension. Renewal in 2026.

Directors and Officers (D&O) Policy - Current premium is \$41,674, with a renewal premium of \$43,129, covering employment practices and fiduciary liability.

Liability Insurance - Current premium is \$10,493, with a slight decrease to \$10,489 for renewal.

Business Owners Program - Current premium is \$7,457, with a renewal premium of \$7,300.

Workers' Compensation - Premiums are based on payroll with a \$1 million liability limit and no deductible.

Brandon concludes presentation. Sprowls asked for any questions or comments. Having none, Sprowls asks Brandon if there is a recommendation for the Board. Brandon recommended the board approve proposed insurance programs as presented and grant the Executive Director the authority to finalize and purchase the coverage as presented.

MOTION: Jason Cables

SECOND: Lezlee Liljenberg

Motion passed unanimously.

Item 4. Executive Director Report and Appropriate Action | Greg Brandon, Executive Director

Brandon presents the Executive Director Report.

Organization Structure - The organization will maintain its current structure, relying on four pillars with a budgeted workforce of 27 employees for 2025.

New Hires & Hiring Plans - Three new policy analysts were hired on July 8, bringing valuable insurance experience. There are plans to recruit a front-end developer to strengthen the IT team, ideally before the holiday season.

Retirement Announcement - Gary, a Policy Analyst II with over 15 years of experience in surplus lines, will retire in early December. His contributions have significantly influenced the organization's hiring strategies.

Premium - YTD premium totals have surpassed \$11.1 billion, marking record monthly premiums.

Item Count - The organization has processed nearly 880,000 items through August, also a record.

Policy Count - The total number of policies processed this year has risen to 550,000.

Brandon makes a note on the volume of data and material processed through the organization monthly and gives thanks to staff for digesting such effort. Brandon concludes his presentation.

Sprowls asked for any questions or comments. Having none, Sprowls asks Brandon if there is a recommendation for the Board. Brandon stated he did not.

Item 5. Operations Director Report and Appropriate Action | Cheyenne Herrera, Director of Operations

Cheyenne Herrera presents the Operations Director Report to the Board.

New Hires - Three new policy analysts (Jennifer, Robin, and Ruben) joined on July 8, bringing valuable insurance experience. Their training is progressing well, and they are expected to advance quickly.

Employee Performance - The overall performance of staff remains outstanding, with a strong emphasis on individual and professional development goals.

Retirement Announcement - Gary, a Policy Analyst II, will retire in early December, marking a significant milestone as the first non-executive employee to retire from the organization.

Statutory Deliverables - Monthly and quarterly reports to the Texas Department of Insurance (TDI) are ongoing. The 2023 annual late filing report was submitted in March and is currently in enforcement.

Insurer Analysis - Seven new insurer recommendations have been completed, with two more in progress. This year, a total of 15 new insurers or syndicates are now eligible to write business in Texas.

SMART System Updates - Continuous improvements are being made to the SMART system, including technical debt releases. Upcoming features will enhance correction workflows with full delete capabilities and an update feature.

Training Initiatives - Staff members are actively pursuing designations and additional training, which is enhancing overall capabilities.

Herrera concludes her presentation. Sprowls asked for any questions or comments. Having none, Sprowls asks Herrera if there is a recommendation for the Board. Ms. Herrera stated she did not.

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

Sholonda Stone presents the ITS Director Report.

SMART System Development - The ITS team is actively working on transitioning SMART to a serverless environment. This change aims to minimize downtime during updates, ensuring continuous service availability. Ongoing enhancements and process improvements are being implemented to optimize system performance.

Staff Updates - The current development team comprises Dalton, Jay, Rayne, Kenneth, and Rodolfo, who provide IT support. Recent training initiatives include:

- Developers attended the KCDC training, marking a significant milestone in professional development.
- Rodolfo participated in Microsoft's Tech Mentor Training, enhancing his skills.
- The team has adopted Udemy for online training, replacing the previous platform, Pluralsight.

Upcoming Training - One developer is scheduled to attend QCon in San Diego, a prominent tech conference. Sholonda will participate in Microsoft Live 360 training in Orlando in November.

Azure Subscription Update - The ITS department has transitioned from a Microsoft Customer Agreement (MCA) to an Enterprise Agreement (MCAE). This strategic move is expected to yield a cost reduction of 30-60% on Azure resources. The new agreement also provides access to dedicated support and future credits, enhancing resource management.

Security Measures - The team conducts daily reviews of logs and vulnerability scans to identify and address anomalies. Recent statistics indicate:

- An average of 2,312 page views on the SLTX website over a ten-day period.
- 437 attempted cyber-attacks were blocked, with 330 IP addresses identified as malicious.
- Approximately 4,000 emails are processed daily, with 2,000 blocked and 3,000 successfully delivered.

Overall Team Performance - Sholonda expressed appreciation for the team's performance and adaptability in managing IT operations and maintaining security protocols. The ITS team is effectively navigating challenges and demonstrating commendable performance in their operations.

Ms. Stone concludes her presentation. Sprowls asked for any questions or comments. Having none, Sprowls asks Stone if there is a recommendation for the Board. Stone stated she did not.

Item 7. Discussion and Appropriate Action: Employee Handbook Revisions | Denisse Amezcua, Director of Human Resources

Denisse Amezquita presented proposed revisions to the employee handbook, highlighting the need for updates aimed at aligning the document with TDI's best practices, updated labor requirements, and the evolving needs of the organization.

Historical Context - The previous handbook was last revised in 2019 during a leadership transition, but it did not adequately incorporate internal feedback.

Revisions Process

Collaboration - Leadership worked collaboratively to ensure that policies accurately reflect operational realities, company culture, and incorporate feedback, fostering trust among team members.

Legal Review - The process was temporarily paused in early 2024 to focus on a full legal review, and the pension plan. Two labor law attorneys from Mitchell Williams were engaged to provide comprehensive legal guidance.

Policy Evaluation - A detailed evaluation of existing policies was conducted, leading to the combination of some policies, the introduction of new ones, and the elimination of those deemed unnecessary, particularly regarding previous building management.

Structure and Clarity - The revised handbook is organized into four main sections for clarity:

- Culture
- Business Guidelines
- Pay and Employment Guidelines
- Legal

Feedback and Communication - The revision process emphasized exceptional communication and significant feedback from legal advisors, resulting in a well-informed final document.

Compliance and Next Steps - The revisions comply with Section 2(b)(2) of the Plan of Operation, ensuring that policies are reviewed by the Deputy Commissioner of the Financial Regulation Division. Following board approval, it will be submitted to the TDI for final review and open to comments. The revised handbook has an implementation date set for January 1, 2025.

Ms. Amezquita concludes her presentation. Sprowls asked for any questions or comments. Having none, Sprowls asks if there is a recommendation for the Board. Amezquita recommended a motion for the Board to approve the proposed employee handbook revisions as presented, with an implementation date of January 1, 2025, unless comments from TDI were received, at which point those will be presented to the board.

MOTION: Bart Koch

SECOND: Esequiel Nathal

The motion passed unanimously.

Item 8. Discussion and Appropriate Action: Finance & Audit Committee | Jason Cables, Committee Chair; Donna Aug, Director of Finance **YTD Financial Update**

Jason Cables states the Finance & Audit Committee met on September 26, 2024, and opens the floor for Donna Aug to present.

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 – under budget 13% 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 – under budget 20% 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 Lemon light SOW was paid in January but budget reflects equal monthly amounts.

Conference and Education – under budget 60% 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 – under budget \$93,600 or 203% 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 – over budget \$99,300 or 62% for August; Over \$99,100 or 8% YTD, which was in interest and amortization expense due 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. 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 operating expenses audited 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. Sprowls asks Aug if she has a recommendation for the board. Aug states she did not. Aug continues her presentation for the 2025 Proposed Budget.

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

Budgeted Salaries & Benefits –an increase of 7% or \$447,600 for 2025. The increase is due to merit raises for the staff, which increases associated labor burden. An 8%-30% increase for all lines of health insurance coverages 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 Cyber 7 reducing cost of contract due to a decrease in servers that needed support. Accounting and audit see 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 –an 8% decrease or almost \$8,300 and remained 1% of the budget.

Travel & Entertainment –an increase of 31% or \$22,150 from 2024 and remained 1% of the budget. 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 –a decrease of 27% 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 decreased \$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 – an increase of 7% 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 of this year (\$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 – increase of \$2,000 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%. Expected increase in revenue more than compensates for the increase in budgeted expenses.

Ms. Aug asks if there are any questions. Mr. Cables asks for clarification regarding insurance policies noting that the budget proposed a decrease in cost of renewals but mentioned that the renewals on Mr. Brandon's presentation were largely flat. Brandon clarified that the price decrease is a projection of what will happen in October 2025, not for what needs to be purchased this year.

Mr. Sprowls asks for any other questions or comments. Hearing none, Sprowls asks Ms. Aug if there is a recommendation for the Board. Aug recommended that the Board refer to the 2025 Proposed Budget as presented to the Deputy Commissioner of the Financial Regulation Division, TDI, in accordance with Section 2(b)(7) of the Surplus Lines Stamping Office Plan of Operation.

MOTION: Jason Cables

SECOND: Jeff Klein

The motion passed unanimously.

Item 9. Discussion and Appropriate Action: Board Orientation & Training Committee Annual Charter Review | Lezlee Liljenberg, Committee Chair

Ms. Liljenberg stated the Board Orientation and Training Committee met on September 27, 2024, and reviewed the committee charter under Section 2(c)(11) of the Surplus Lines Stamping Office Plan of Operation. Each Board Committee must have a charter, and the Board must review the charters at least annually. Liljenberg stated that no changes have been made.

Mr. Sprowls asks if there is a recommendation for the Board. Ms. Liljenberg stated she did not.

Item 10. Discussion and Appropriate Action: Remaining 2024 Board Meeting Dates | Garrett Sprowls, Committee Chair

Tentative dates for the next board meetings were set for October 29, 2024, at 2 P.M. central, to accommodate budget adoption and other agenda items, and December 13, 2024, for the committee meetings and Board meeting.

Mr. Sprowls asks if there are any questions or concerns. Hearing none, Sprowls asks if there is a recommendation for the Board. There was no recommendation.

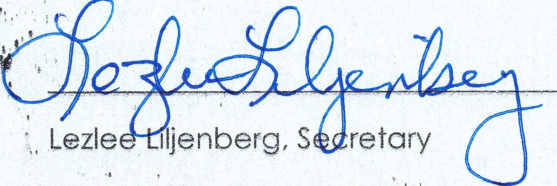
Item 11. Adjournment | Garrett Sprowls, Committee Chair

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

MOTION: Esequiel Nathal

SECOND: Jason Cables

The motion passed unanimously, and the meeting adjourned at 11:27 AM.



Lezlee Liljenberg, Secretary