Quarter 1 Annual Board of Directors Meeting
Surplus Lines Stamping Office of Texas
June 25, 2020

Rosemarie Marshall, Chair of the Board, called the Quarter 1, Annual meeting of the Board of Directors of the Surplus Lines Stamping Office of Texas to order on June 25, 2020 at 9:09am. The meeting location was the SLTX office located at 805 Las Cimas Parkway, Suite 300, Austin, Texas 78746.

Agenda

Item 1. Call to order, establishment of a Quorum
Item 2. Discussion and Approval of the following
  • May 21, 2020 Special Meeting Minutes
  • June 10, 2020 Special Meeting Minutes
Item 3. Finance and Audit Committee Report and RPF recommendations
Item 4. Executive Director Report
Item 5. Update and Discussion of the operations of the Finance Department
Item 6. Update and Discussion of the Operations Department
Item 7. Update and Discussion on the SMART system
Item 8. Stamping Fee analysis review and appropriate action
Item 9. Update and Discussion on Policy Limits
Item 10. Update and discussion of the IT department
  • IT Update focused on adjustments made for WFH environment and include broad discussion for migration to the cloud.
Item 11. Weaver Report Update
Item 12. Legal RFP Review
Item 13. Review and Discussion of revised Plan of Operation
Item 14. Adjournment

Marshall stated that written notice of this special meeting to the Board and to the Commissioner or his delegate was provided on Monday, June 1, 2020. Marshall called the roll to determine which members are participating by telephone conference pursuant to Plan of Operations Section C.(6):

• Rosemarie Marshall Term expires 12/31/2020
• Penni Nelson, Vice Chair Term expires 12/31/2020
• Teri Brinson, Secretary Term expires 12/31/2021
• Lorrie Cheshier Term expires 12/31/2019
• Charles Gillenwater Term expires 12/31/2019
• Peter Harrison  Term expires 12/31/2020
• Leslie Milvo  Term expires 12/31/2021
• Randall Myers  Term expires 12/31/2021
• Kori Johanson  Term expires 12/31/2022

Marshall also confirmed participation by conference call of the following Stamping Office management staff, counsel, consultants, liaisons of Texas Department of Insurance staff and others.

Greg Brandon, Executive Director, SLTX
Donna Aug, Director of Finance, SLTX
Cheyenne Herrera, Director of Operations, SLTX
Denisse Orellana, Director of HR, SLTX
Sholonda Stone, Director of IT, SLTX
Marcelina Gutierrez, Communications Coordinator, SLTX
Ashley Corpus, Administrative Receptionist, SLTX
Don Meyer, past Interim Executive Director
Alex Gonzales, General Counsel
Paul Rainey, TSLA Liaison
Moya McKenna, TDI
Nicholas Souza, Comptroller

This meeting was held by conference call pursuant to the Governor’s Proclamation of March 16, 2020. A conference call-in number was provided to members of the public in the public meeting notice.

Minutes were taken by Brinson with the assistance of the staff.

Marshall made the following administrative housekeeping announcements before moving forward with the agenda.

1. Antitrust activity or discussion are prohibited at all Stamping Office functions. This prohibition includes the 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. We will not have a public comments session. Public and media attendees listening by telephone should mute their lines at all times.

3. Representatives of state agencies and members of the public are welcome to observe or record this Board meeting, but please refrain from asking questions or interjecting comments during the Board’s deliberations.

4. The state agency personnel present may be asked questions about their agency’s policies if those questions relate to an agenda item.

5. Members, counsel, and staff participating by conference call should identity themselves when speaking. Please mute your lines when not speaking.
Item 2. Discussion and Approval of the following: May 21, 2020 Special Meeting Minutes, June 10, 2020 Special Meeting Minutes.

Marshall announced the minutes for the May 21, 2020, special meeting and the June 10, 2020, special meeting were distributed to the full board for review prior to the meeting.

Marshall asked for any objections or comments to the May 21, 2020 minutes. Hearing none, she asked for a motion to approve the minutes.

Nelson made the first motion and Milvo seconded; the motion passed.

Marshall asked for any objections or comments to the June 10, 2020 minutes. Hearing none, she asked for a motion to approve the minutes.

Nelson made the first motion and Harrison seconded; the motion passed.

Item 3. Finance and Audit Committee Report and RPF recommendations

Nelson began with a review of the Finance and Audit Committee meeting held June 24, 2020. The committee discussed the 2019 full year and 2020 year to date financials. The committee was also presented a stamping fee analysis and rate revision presentation. In addition, the committee discussed the recent RFP submitted to multiple firms. Nelson stated 15 firms received the RFP and SLTX received 4 responses. Nelson indicated two of the 4 were declinations and the other two were submissions. After deliberation between committee members, it was decided that Calhoun, Thomson & Matza, LLP would be the best candidate to conduct the audit. Nelson stated the committee recommend the board select Calhoun to perform the 2020 audit.

Cheshier questioned how the committee came to their decision.

Nelson indicated Calhoun’s cost associated with their qualifications appeared more reasonable.

Cheshier inquired about time restraints concerning the completion of the audit.

Nelson stated she was not aware of a specific timeframe at the moment. Marshall indicated a timeline will be outlined in the Plan of Operation once one is adopted by TDI.

Marshall asked for recommendations from the committee.

Nelson recommended the Finance and Audit Committee move to engage Calhoun, Thomson & Matza, LLP to perform the 2020 Financial Audit and consulting services therein, not to exceed the annual fee of $32,000 for the audit and $2000 for the Form 990.

Marshall asked to amend the motion to state the Board of Directors move to engage Calhoun, Thomson & Matza, LLP to perform the 2020 Financial Audit and consulting services therein, not to exceed the annual fee of $32,000 for the audit and $2000 for the Form 990.

Marshall announced she will be calling roll for the vote. All board members approved the motion with the exclusion of Gillenwater. The motion passed.

Marshall asked Nelson if she had any further actions. Nelson had no additional actions.

Item 4. Executive Director Report
Brandon commenced his presentation with a general company overview and indicated his primary focus moving forward will be ongoing training for the SLTX staff. In addition, filing vacant positions with quality employees remains top priority.

Brandon moved to review collected data that included total premium and item count. He confirmed May brought a record-breaking month for total premium. He also indicated item count has declined but premium continues to increase. Additional data was presented to the board as well as an update on the work from home status of the SLTX staff. Brandon addressed the possibility of leasing a larger office. Should social distancing remain in place, additional space may be required to accommodate the six feet rule. Brandon stated his staff will continue to work from home until further notice. All decisions will be made with the staff’s health placed as top priority and no permanent plans have been decided.

Marshall asked the board if they had any questions for Brandon.

Marshall asked Brandon to share any procedures put in place for training a new policy analysis from home.

Brandon explained that an interview and training process has not been established. Further planning and discussion is needed to develop a sufficient and safe method for all parties involved.

Marshall asked for additional questions. Hearing none, she advanced to the next agenda item.

**Item 5. Update and Discussion of the operations of the Finance Department**

Aug reviewed the 2019 unaudited financials stating the budget was 32% above projections. Moving forward, a more in-depth analysis will be conducted to decrease the chance of inaccuracy. Investments were up significantly as well as a large increase in change in investment fair market value. Aug stated most expenses were under budget. Salaries/benefits were down due to staff exits as well as open positions which were not filled. Professional services were above projections due to increase activity in 2019. Aug also reviewed the multiple deposits made to the unrestricted undesignated fund balance.

In addition, Aug reviewed 2020 financial information. She mentioned the Schwab brokerage account was dissolved and rolled into Frost bank for a more conservative investment approach. Aug then reviewed 2020 salaries/ benefits and travel.

Marshall requested the travel and education expenses be separated when reporting the line items to the board in the future.

Aug asked for additional comments or questions. Hearing none, she proceeded to with an update on audits involving RSM and Weaver. Aug stated RSM has agreed to complete form 990.

Marshall asked if Aug had any recommendations for the board. Donna stated she had none for the board.

**Item 6. Update and Discussion of the Operations Department**

Herrera began her presentation with a general update on the operations team. New employees were introduced to her team and duties were reallocated among the existing staff. Herrera previously spoke with Brandon and the Operations Manager, Toby Pick regarding the reallocation of work among the policy analysts. The current goal is to increase the audit count among the existing staff without interrupting workflow. Another goal is to increase outreach starting with agents who have yet to file limits. Reinvesting in stakeholder relationships was also listed as top priority. Herrera assured the board all statutory requirements are being met.
Chesher inquired about the late filers and if there was any correlation to agents who did not file limits. Herrera explained agents who do not report limits are not considered late filers. Their policies are processed as normal, but agents are made aware of the issue.

Chesher also asked if brokers who were not familiar with limits had any consistent characteristics. Herrera noted there was not apparent relation she could see.

Marshall asked the board for additional questions. Hearing none, Herrera advanced the next agenda item.

**Item 7. Update and Discussion on the SMART system**

Herrera elaborated on the SMART System details by presenting a breakdown by modules of the SMART project which detailed hours and billables for each. Herrera noted there were uncategorized past billables that were paid but not broken down. She explained the reason was primarily due to the dashboard and A/R. Herrera stated the entire project is at approximately $6.55M.

Marshall asked if the uncategorized section of the billables would be separated moving forward for 2020.

Herrera confirmed all sections will be broken down going forward. She then reviewed the total expenses year-to-date and 2020 SOW from Headspring. She stated her team is currently developing a method to run reports more efficiently. She also stated a Senior Developer position is now reposted despite a small delay. The goal for the Senior Developer will be to provide support to her team, rather than relying on Headspring.

Marshall asked if the remaining budget for the technology project will be affected negatively if a Senior Developer is not hired in a timely matter.

Herrera stated the budget is set with no expectations to go over.

Herrera reviewed the current status of the SMART system and the added enhancements. User feedback from beta users’ needs to be collected. She stated all feedback is helpful and there are scenarios which cannot be duplicated by a computer. Herrera also reviewed the API and stated she is waiting on data feedback. She reviewed the SMART Connector status and the internal filing. Furthermore, Herrera stated Adobe Flash will no longer be supported and the technology team as made it a priority to find an alternative solution.

Marshall asked if there were any questions and asked if Herrera had recommendations for the board. Herrera nor the board had any further comments.

**Item 8. Stamping Fee analysis review and appropriate action**

Robinson began by providing historical background on the stamping fee and reviewed the dollars allocated to the unrestricted and undesignated fund balance. He explained possible projections should the stamping fee remain the same and the consequences associated with leaving the rate as is.

Robinson proposed the stamping fee be lowered to 0.075%. He explained that the decrease would allow expenses to outpace revenue and keep flexibility in case of changes in the market. He stated many factors could arise but considered his recommendation to be the best option.

Robinson stated a flat rate fee was evaluated and discussed. The option was deemed impractical due to the immense amount of reprogramming necessary. In addition, a lower stamping fee rate was considered as well. Further research highlighted countless issues with a lower rate, such as the drastic decline of the fund balance.
Herrera added that many agents would be burdened by anything lower than Robinson’s recommendation. Furthermore, numerous small premium policies may not require payment of a stamping fee.

Marshall asked for questions from the Finance and Audit Committee and the board. With no additional questions a motion was read.

Marshall asked for a motion to accept the Finance and Audit Committee’s recommendation that the Board of Directors approve a reduction in the Stamping Fee to .075% and send that recommendation to the Commissioner for final approval?

Gillenwater made the first motion and Milvo seconded, the motion passed unanimously.

With respect to the recommendation, Lorrie asked about the timeline for the approval process and the implementation date.

Gonzales stated a publication and hearing may be necessary. As for the implementation date, one will not be required at time of submission to the Commissioner.

Marshall requested a roll call for the vote. Each board member was required to vote, and the motion passed. Johanson was not included in the vote.

**Item 9. Update and Discussion on Policy Limits**

Herrera had prior discussions with TDI and TSLA to help define policy limits and ensure the definition benefited the industry. A training guide to assist agents apply the correct limits were also discussed. Herrera stated many agents filed without reaching compliance but went back to correct the filing.

Herrera review the multiple filing options and noted compliance was better all-around without additional outreach to agents. However, her team will continue to contact agents to accurately pinpoint the reasoning behind those not in compliance.

Marshall expressed her appreciation for the detail of the presentation.

**Item 10. Update and discussion of the IT department - IT Update focused on adjustments made for WFH environment and include broad discussion for migration to the cloud.**

Stone reviewed security actions taken and a summary of the recent updates. Stone indicated the business contingency plan is continuously tested.

Stone reviewed several significant departmental changes. She stated SLTX previously used multiple forms of software for communication. Stone asked the board if there were any questions before moving on. Hearing none, she proceeded with her presentation.

Stone announced that SLTX purchased new software to replace all existing methods of communication. The purpose of the transition was to create an easy all-around communication platform for the organization. Further departmental updates were needed to implement security policies for employees to work from home. Stone asked the board for any questions.

Stone discussed the additional remediation needs for the SMART System. She indicated further penetration testing is needed. She stated the dollar amount for completion will need to be established and presented to the board at a later date.

Stone reviewed major events SLTX recently faced. An unplanned power outage occurred which required all system to be powered down without the loss of data. An emergency power outage was also experience at SLTX’s co-location which caused the failure of a server.
Stone shared software cost in detail with the board. She is currently researching options to extend contracts with VMware for 3 years rather than month to month as a cost saving option. Another change was the separation of the technology department. Stone indicated the department is now separated into two teams. Regarding the separation, a budget for both teams needs to be established.

Aug added to Stone’s statement stating certain line items were unable to be identified. Moving forward with the budget all line items will be split equally and identified.

Stone reminded the board that a Senior Developer position is posted but the right candidate has not yet applied.

Stone asked the board for questions. Hearing none, she advanced to her next topic.

Stone once again reviewed the power outages SLTX experienced and issues with losing a server. Stone was able to address the problem and identify a solution in time. Stone advised the board that if a similar incident were to occur again an additional server will need to be purchased. Configurations were also needed to the VPN; the issue was also resolved.

Stone moved to discuss the option of Cloud migration. Stone shared research she collected regarding cloud migration. She listed several benefits of switching which included overall cost savings and enhanced security.

Brandon requested the board consider conducting a formal RFP to transition to cloud migration.

Marshall asked if Stone had a recommendation for the board.

A recommendation was read that Sholonda Stone, Director of ITS and her team begin a formal RFP for the consideration of moving to cloud migration.

Nelson made the first motion, Gillenwater seconded and the motion passed unanimously. Marshall also called roll for the vote. The motion passed with the exclusion of Harrison and Johanson who did vote.

**Item 11. Weaver Report Update**

Brandon reviewed the past audits conducted by Weaver & Tidwell. He announced the final draft of the two audits were received but he has not read the document. Brandon reviewed the scope of the two audits as a reminder to the board. He noted several recommendations on the initial draft were set in motion. Brandon stated a few recommendations were placed on hold due to the Plan of Operation being under revision. He also went over the preliminary findings and noted there were conversations with Weaver to implement recommendations. Brandon stated he will report back when he reviews the final document from Weaver.

Marshall asked Brandon for a recommendation. Brandon indicated he no recommendations.

**Item 12. Legal RFP Review**

Marshall stated the item will be tabled til a response is received from TDI.

**Item 13. Review and Discussion of revised Plan of Operation**

Marshall stated she there has been no response from TDI. She had no further comments

**Item 14. Adjournment**

Marshall asked for a motion to adjourn.

Nelson made the first motion, Harrison seconded, and the motion passed unanimously.

The meeting adjourned at 12:45 p.m.
Teri Brinson, Secretary