

# Texas Windstorm Insurance Association

2023 Budget Overview to  
Board of Directors  
November 2, 2022



# TWIA 2023 Budget – Key Assumptions

The 2023 Budget was based on the following assumptions:

- Rate change: No increase in rates is reflected in the current draft of the 2023 budget. The 5% rate increase that was effective January 1, 2022, is reflected in the premium projections provided by the Actuarial team.
- Premiums have been increasing prior to the Florida carrier insolvencies. Projections reflect increased premiums from Weston policies in August and September 2022. Additional insolvencies can be expected due to Hurricane Ian but any Texas impact is speculative and excluded from this budget.
- The number of policies in force is projected to increase from the forecast of 221,803 policies at December 31, 2022 to 232,209 at year end 2023, an increase of 10,406 policies or 4.7%.
- Depopulation was not factored in the 2023 projections due to immateriality
- Loss and loss adjustment expense ratios used are based on actuarial review
- Hurricanes are not included in the budget

# TWIA 2023 Budget – Key Assumptions (cont)

- Commissions: Budgeted at \$89.6 million using current rate of 16.0% for new and renewal policies.
- Premium taxes, licenses and other fees: 1.86%
- Investment yields: based on approximately 2% on invested cash
- \$500 million line of credit: assumed to be renewed on June 1, 2023, with same inception fees (\$500K) and commitment fees at 47.5 BPS.
- Debt Service: Class 1 bonds were fully paid off in May 2022.
- Employee merit increases are budgeted at 4%.
- Operating expenses are based on detailed zero-based departmental budgets. Project ELEVATE was completed in April 2022. This resulted in a return to more normal allocations to TFPA.
- Expenses were budgeted prior to any additional policies related to Florida insolvencies.

# 2023 Budgeted Income Statement

	A	B	C	D	E	F
	For the twelve months ended December 31,					
	Forecast - 2022	Budget - 2022	Variance - 2022	Budget - 2023	B2023 vs B2022	B2023 vs F2022
<b>Premiums Written:</b>						
1 Direct	\$511,134	\$429,521	\$81,613	\$560,179	\$130,658	\$49,045
<b>Premiums Earned:</b>						
2 Direct	\$443,419	\$410,923	\$32,496	\$542,293	\$131,370	\$98,874
3 Ceded	(131,367)	(102,064)	(29,303)	(225,544)	(123,481)	(94,177)
4 Net	312,052	308,859	3,193	316,749	7,889	4,696
<b>Deductions:</b>						
6 Losses and LAE Incurred	42,091	69,187	(27,096)	92,171	22,985	50,081
7 Operating Expenses	33,961	33,711	249	35,256	1,545	1,296
8 Commission Expense	81,715	68,723	12,991	89,629	20,905	7,914
9 Ceding commissions / brokerage	(5,533)	(2,365)	(3,168)	(8,849)	(6,485)	(3,316)
10 Premium / Maintenance Tax	9,495	7,989	1,506	10,402	2,412	906
11 Total Deductions	161,728	177,246	(15,518)	218,608	41,363	56,880
12 <b>Net Underwriting Gain or (Loss)</b>	150,324	131,614	18,711	98,140	(33,473)	(52,184)
<b>Other Income or (Expense):</b>						
14 Gross Investment Income	2,493	212	2,281	4,278	4,067	1,785
15 Line of Credit Fees and Other Investment Expenses	(2,357)	(2,440)	83	(2,359)	81	(2)
16 Interest Expense on Debt	(5,488)	(12,359)	6,871	0	12,359	5,488
17 Total Other Income or (Expense)	(5,352)	(14,587)	9,235	1,919	16,506	7,271
18 <b>Net Income (Loss)</b>	<b>\$144,972</b>	<b>\$117,027</b>	<b>\$27,946</b>	<b>\$100,060</b>	<b>(\$16,967)</b>	<b>(\$44,913)</b>

Direct Premiums written projected to grow by \$49M (9.6%) from \$511M in 2022 to \$560M in 2023 budget.

Ceded Premiums for 2022/23 reinsurance were \$122.8M at purchase date. Additional exposures from the addition of Weston policies and recent growth trends increased the estimated cost of reinsurance to a total of \$131.4 million. For 2023, the current estimate is \$225.5 million.

Investment income reflects higher yields as Money Market Mutual Fund rates recover to historical levels.

Detail schedules for key line items are provided on subsequent pages.

# 2023 Budgeted Surplus and Key Ratios

		A	B	C	D	E	F
		For the twelve months ended December 31,					
		Forecast - 2022	Budget - 2022	Variance - 2022	Budget - 2023	B2023 vs B2022	B2023 vs F2022
1	<b>Surplus (Deficit) Account:</b>						
2	Beginning Surplus (Deficit)	(24,584)	(99,242)	74,658	27,859	127,102	52,444
3	Net Income (Loss)	144,972	117,027	27,946	100,060	(16,967)	(44,913)
4	Change in nonadmitted assets - Other	658	(647)	1,305	2,964	3,610	2,305
5	Statutory Fund Cost	(93,187)	(62,627)	(30,561)	(100,060)	(37,433)	(6,872)
6	<b>Ending Surplus (Deficit)</b>	<b>\$27,859</b>	<b>(\$45,489)</b>	<b>\$73,348</b>	<b>\$30,823</b>	<b>\$76,312</b>	<b>\$2,964</b>
7							
8	<b>Key Operating Ratios:</b>						
9	Direct:						
10	Loss & LAE Ratio	9.5%	16.8%	(7.4%)	17.0%	0.2%	7.5%
11	UW Expense Ratio:						
12	Acquisition	17.8%	17.9%	(0.0%)	17.9%	(0.0%)	0.0%
13	Non Acquisition	7.7%	8.2%	(0.5%)	6.5%	(1.7%)	(1.2%)
14	UW Expense Ratio	25.5%	26.1%	(0.6%)	24.4%	(1.7%)	(1.1%)
15	<b>Direct Combined Ratio</b>	<b>35.0%</b>	<b>42.9%</b>	<b>(7.9%)</b>	<b>41.4%</b>	<b>(1.5%)</b>	<b>6.4%</b>
16							
17	Ending Balance in CRTF	188,605	254,779	(66,174)	292,171	37,392	103,566

# Texas Windstorm All Expenses by Category Summary (000's)

	A	B	C	D	E	F	G	
	For the twelve months ended December 31,					B2023 vs B2022	B2023 vs F2022	
	Forecast - 2022	Budget - 2022	Variance - 2022		Budget - 2023	Inc (Dec)	Inc (Dec)	
1	Personnel Expenses	28,586	32,899	(4,313)	26,665	(6,234)	(1,921)	1
2	Professional & Consulting Services	9,747	9,928	(181)	8,829	(1,099)	(918)	2
3	Hardware/Software Purchases & Licensing	3,659	4,099	(440)	3,856	(243)	197	3
4	Rental & Maintenance - Office/Equipment	1,543	1,617	(75)	1,004	(613)	(538)	4
5	Travel Expenses	158	262	(104)	194	(67)	36	5
6	Postage, Telephone and Express	913	916	(4)	1,081	164	168	6
7	Capital Management Expenses	6	14	(8)	0	(14)	(6)	7
8	Depreciation	2,182	2,109	73	3,069	960	887	8
9	Other Operating Expenses	1,615	1,546	69	1,891	345	276	9
10	<b>Gross Operating Expenses</b>	<b>48,408</b>	<b>53,391</b>	<b>(4,982)</b>	<b>46,589</b>	<b>(6,801)</b>	<b>(1,819)</b>	10
11	<b>Less: Adjustments/Allocations</b>							11
12	Capitalization of Fixed Assets	1,699	2,489	(790)	0	(2,489)	(1,699)	12
13	Reimbursement of Depopulation Servicing Expense	4	15	(11)	0	(15)	(4)	13
14	Allocation To ULAE	12,472	16,841	(4,369)	11,081	(5,760)	(1,391)	14
15	Allocation To Investing	272	335	(63)	252	(83)	(20)	15
16	<b>Total Adjustments/Allocations</b>	<b>14,448</b>	<b>19,679</b>	<b>(5,232)</b>	<b>11,333</b>	<b>(8,346)</b>	<b>(3,114)</b>	16
17								17
18	<b>Net Operating Expense - UW Operations</b>	<b>33,961</b>	<b>33,711</b>	<b>249</b>	<b>35,256</b>	<b>1,545</b>	<b>1,296</b>	18

# PREMIUM PROJECTIONS

# Premium Budget – Policies in Force

## Policies in Force

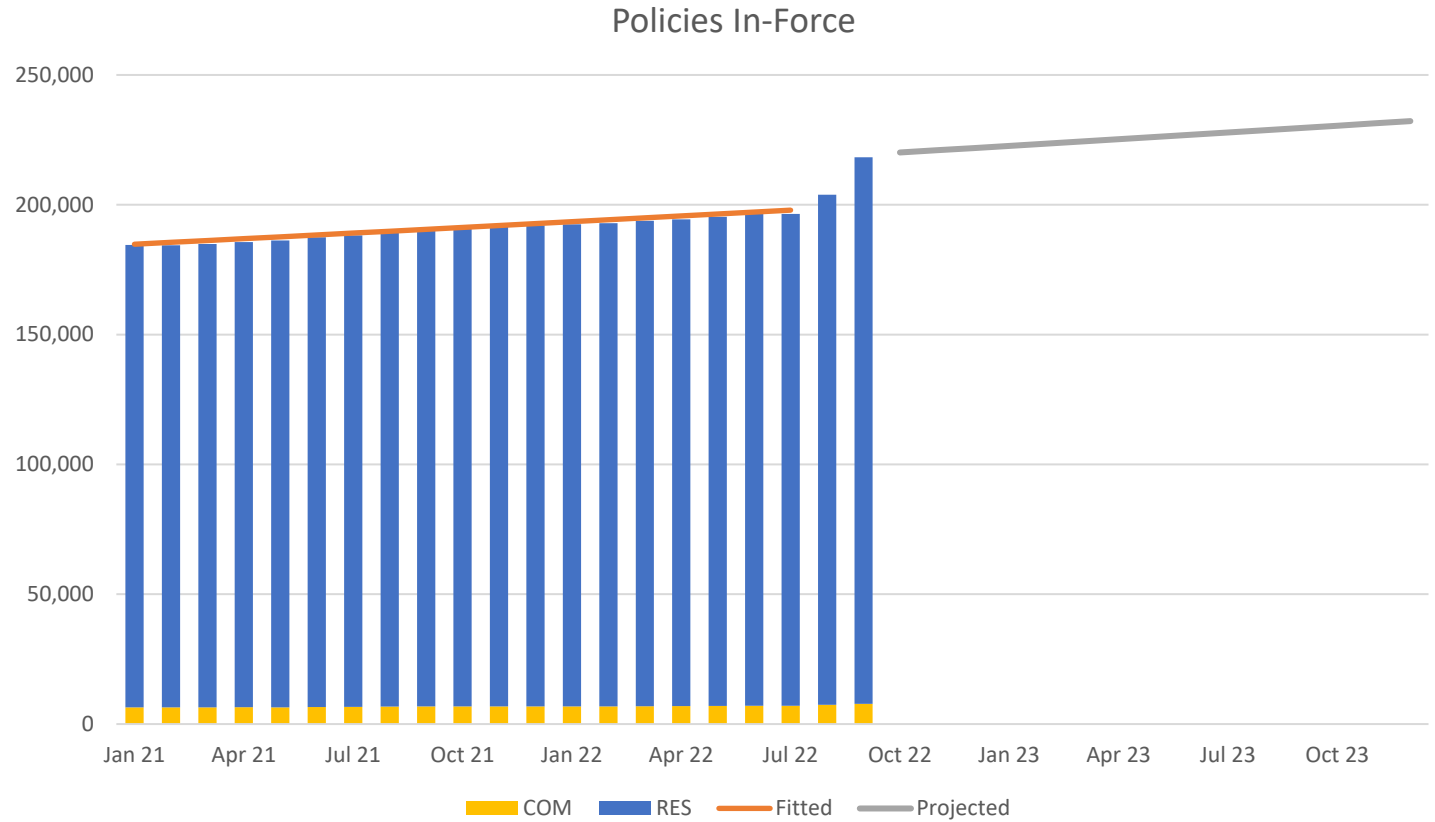
- Dec 2020 – 184,890
- Dec 2021 – 193,002
- July 2022 – 197,322

### Post Weston

- Sept 2022 – 219,219
- Dec 2022 – 221,803 (Projected)

## 2023 Budget – PIF at 12/31/2023

Residential	222,580
Manufactured	1,180
Commercial	<u>8,449</u>
Total	232,209
% Annual growth	4.7%





# TWIA Policy Count Historical and Projected

A B C D E F G H

Policies in Force at December 31,

						Forecast	Budget	% Change B2023 vs F2022	
1	Class of Business	2018	2019	2020	2021	2022	2023		1
2	Commercial	7,827	7,063	6,467	6,818	7,902	8,449	6.9%	2
3	Manufactured Home	724	694	742	913	1,019	1,180	15.7%	3
4	Residential	193,657	181,446	177,681	185,271	212,881	222,580	4.6%	4
5	<b>Total</b>	202,208	189,203	184,890	193,002	221,803	232,209	4.7%	5
6	<b>% Change</b>	-10.9%	-6.4%	-2.3%	4.4%	14.9%	4.7%		6

# Premium Budget – Direct Liability in Force

## Total Direct Liability in Force (In 000s)

- Dec 2020 – 55,009,638
- Dec 2021 – 59,543,596
- July 2022 – 63,690,812

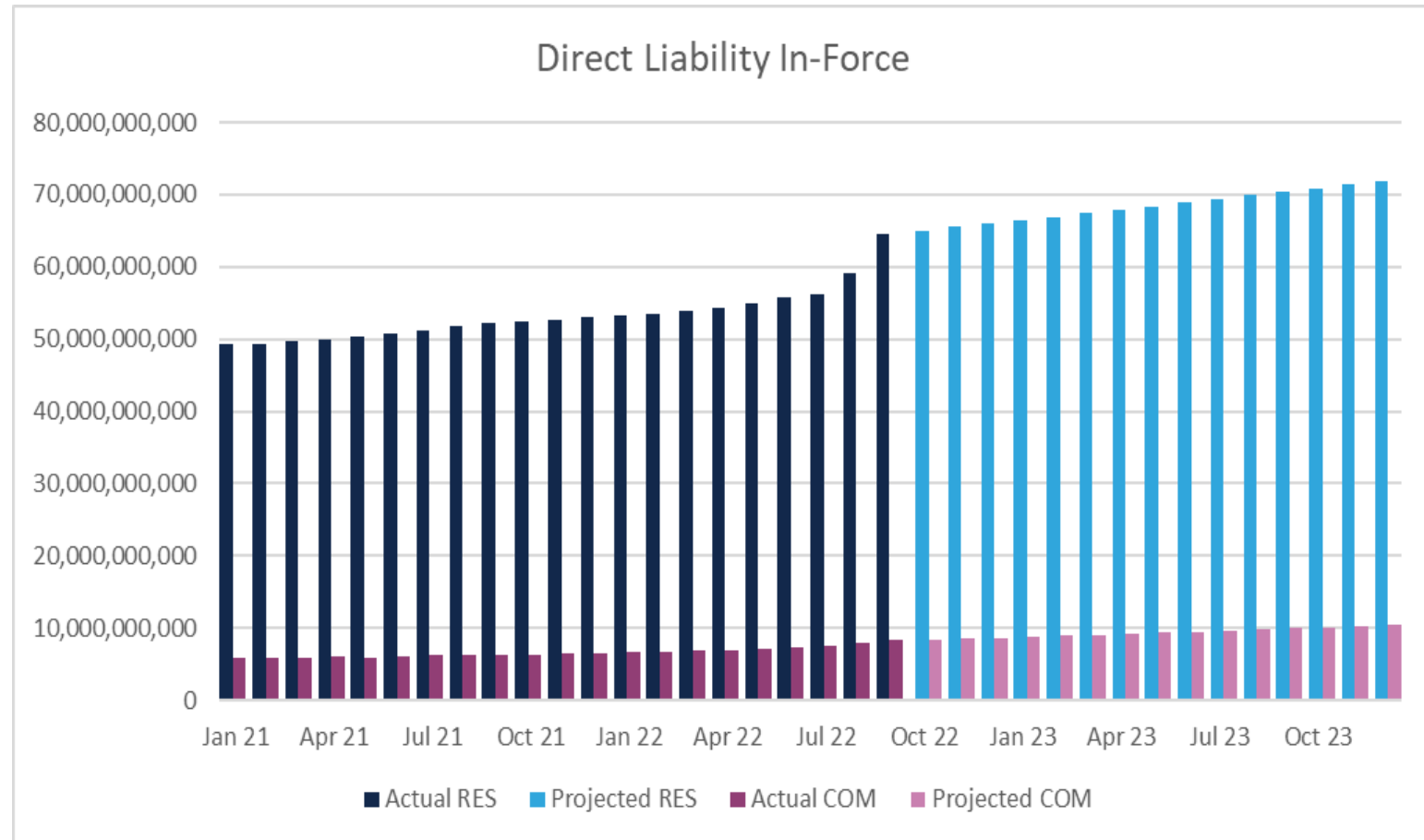
### Post Weston

- Sept 2022 – 72,822,019
- Dec 2022 – 74,636,461 (Projected)

## 2023 Budget – Exposures at 12/31/2023

(In 000s)

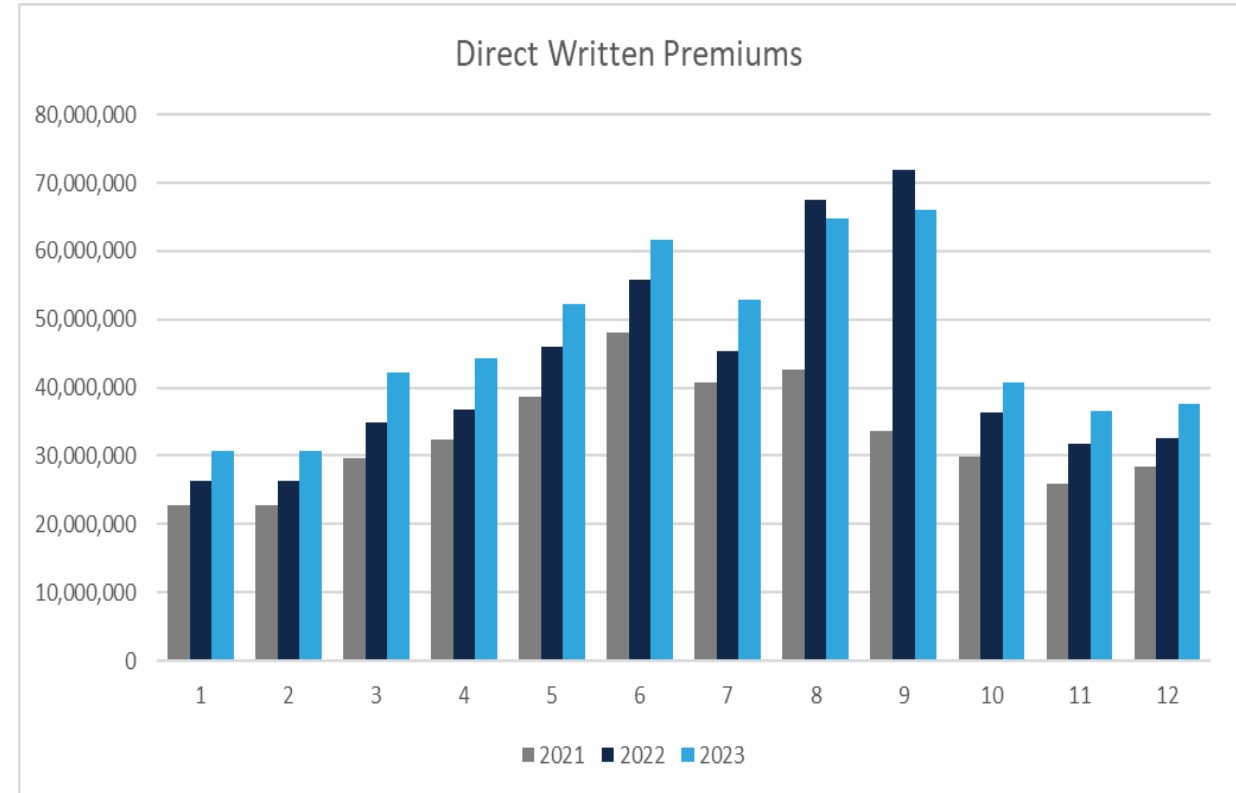
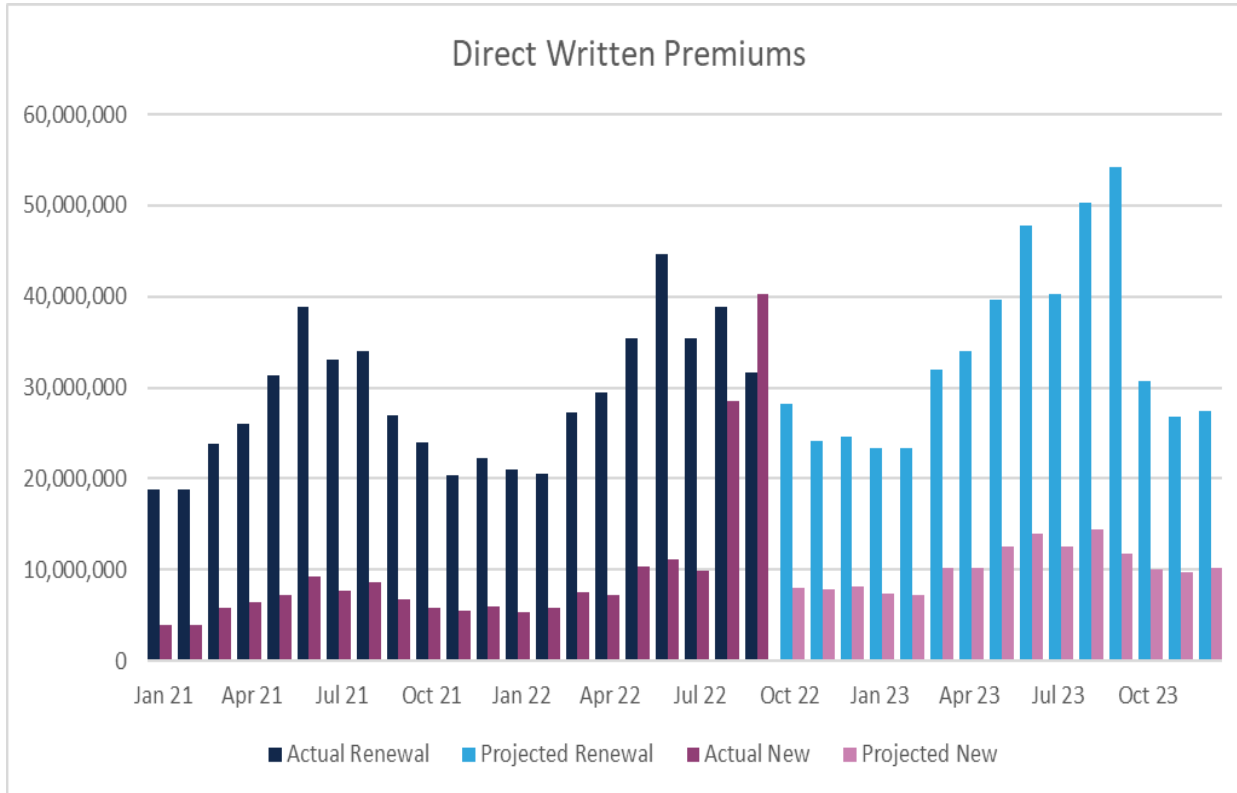
Residential	\$71,851,106
Manufactured	83,784
Commercial	<u>10,384,121</u>
Total	\$82,319,011
% Annual growth	10.3%



# TWIA Exposures Historical and Projected

	A	B	C	D	E	F	G	H	
Exposures in Force at December 31, (In 000s)									
						Forecast	Budget	% Change	
1	Class of Business	2018	2019	2020	2021	2022	2023	B2023 vs F2022	1
2	Commercial	6,245,277	5,940,483	5,891,209	6,505,687	8,670,000	10,384,122	19.8%	2
3	Manufactured Home	38,978	37,989	41,337	53,242	66,552	83,784	25.9%	3
4	Residential	51,973,107	49,516,512	49,077,092	52,984,667	65,899,909	71,851,106	9.0%	4
5	<b>Total</b>	58,257,362	55,494,985	55,009,638	59,543,596	74,636,461	82,319,011	10.3%	5
6	<b>% Change</b>	-10.9%	-4.7%	-0.9%	8.2%	25.3%	10.3%		6

# Premium Budget – Direct Written Premium



## Direct Written Premium

2020 - \$370,639,805

2021 - \$395,103,401

2022 - \$511,133,890 Projected 2022 (Actual written premium Jan – Sept 2022 - \$410,331,606)

2023 - \$560,178,700 Premium Budget (Annual growth of 9.6%)

## REINSURANCE

# Reinsurance – Projecting in a “Hard” Market

Reinsurance Components	2022 Reinsurance Amounts	2023 Reinsurance Projection
100 Year Probable Maximum Loss (PML)	\$4,236,000,000	\$5,247,000,000
Total Funded by Catastrophe Reserve Trust Fund (CRTF)	\$200,000,000	\$280,000,000
Total Statutory Funding by Debt and Assessments	\$2,000,000,000	\$2,000,000,000
Total Reinsurance Limit Purchased (Traditional and CAT Bonds)	\$2,036,000,000	\$2,967,000,000
Total Gross Estimated Reinsurance Premium	\$131,367,000	\$225,544,000
Rate On-Line (Reinsurance premium/Limit Purchased)	6.45%	7.84%

## EXPENSES

# Expense Categories

TWIA budgets and tracks expenses in four primary categories:

## Personnel Expenses

- Salary & Wages
- Contractors/Temp Help
- Payroll Taxes
- Employee Benefits
- Recruiting/Training/Other

## EDP Equipment & Software

- Hardware
- Software Purchases and Licensing

## Professional Services

- Legal
- Accounting & Auditing
- Information Technology
- Actuarial
- Surveys & Inspections
- Expert Panel
- Other Services

## Other Operating Expenses

- Rent
- Maintenance
- Office Equipment
- Postage
- Telephone
- Shipping
- Bureaus and Associations (ISO, PIPSO, etc.)
- Printing and Supplies
- Dues and Subscriptions
- Insurance
- Media and Advertising
- Service Charges (Bank Fees)



# Reconciliation of Expenses

<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	
	<b>Total Operating Expenses</b>			
	<b>Budget 2023</b>	<b>Forecast 2022</b>	<b>B2023 vs F2022</b>	
1 <b>Total Operating Expenses - Both Associations</b>	<b>64,563</b>	<b>64,695</b>	<b>(132)</b>	1
2 Allocation to TFPA <sup>1</sup>	(17,973)	(16,287)	(1,686)	2
3 <b>TWIA Gross Operating Expenses</b>	<b>46,589</b>	<b>48,408</b>	<b>(1,819)</b>	3
4 Depopulation Expense <sup>2</sup>	0	(4)	4	4
5 Claims Expenses (ULAE) <sup>3</sup>	(11,081)	(12,472)	1,391	5
6 Investment Expenses	(252)	(272)	20	6
7 <b>TWIA Underwriting Expenses Before Capitalization</b>	<b>35,256</b>	<b>35,660</b>	<b>(404)</b>	7
8 Capitalized Expenses <sup>4</sup>	0	(1,699)	1,699	8
9 <b>TWIA Net Underwriting Expenses<sup>5</sup></b>	<b>35,256</b>	<b>33,961</b>	<b>1,296</b>	9

(1) Reflects reimbursement by TFPA for expenses incurred by TWIA on behalf of TFPA or charged directly to TFPA pursuant to a management services agreement.

(2) Servicing fee received from participating depop carriers as an offset to TWIA expenses.

(3) Claim handling expenses, referred to as Unallocated Loss Adjustment Expenses which are provided for in loss reserves. Consist of Claims Dept. expenses and a portion of IT, Legal, Operations & Corporate.

(4) Reflects the capitalization of external software development costs incurred in connection with Project Elevate pursuant to Statutory Accounting Principles. The capitalized costs started amortization in mid April 2022 when the project was launched.

(5) Underwriting Expense, net of allocations to ULAE, investment expense and net of any capitalized expenses. Reported as Operating Expenses on the income statement.

**Note: This budget comparative view focuses on Gross Operating Expenses to facilitate a review of all expenses incurred by the Association. The Net Underwriting Expenses is the amount shown as "Operating Expense" in the budgeted income statement for 2023.**

# Reconciliation of Expenses

<i>A</i>		<i>B</i> <i>C</i> <i>D</i>			
		<b>Total Operating Expenses</b>			
		<b>Budget 2023</b>	<b>Budget 2022</b>	<b>B2023 vs B2022</b>	
1	<b>Total Operating Expenses - Both Associations</b>	64,563	69,775	(5,213)	1
2	Allocation to TFPA <sup>1</sup>	(17,973)	(16,385)	(1,588)	2
3	<b>TWIA Gross Operating Expenses</b>	46,589	53,391	(6,801)	3
4	Depopulation Expense <sup>2</sup>	0	(15)	15	4
5	Claims Expenses (ULAE) <sup>3</sup>	(11,081)	(16,841)	5,760	5
6	Investment Expenses	(252)	(335)	83	6
7	<b>TWIA Gross Underwriting Expenses Before Capitalization</b>	35,256	36,200	(944)	7
8	Capitalized Expenses <sup>4</sup>	0	(2,489)	2,489	8
9	<b>TWIA Net Underwriting Expenses<sup>5</sup></b>	<b>35,256</b>	<b>33,711</b>	<b>1,545</b>	9

# Texas Windstorm All Expenses Summary (000's)

	For the twelve months ended December 31,			Budget - 2023	B2023 vs B2022		B2023 vs F2022	
	Forecast - 2022	Budget - 2022	Variance - 2022		\$	%	\$	%
<b>Personnel Expenses</b>								
1 Salaries & Wages - Permanent	13,785	14,184	(400)	15,327	1,143	8%	1,542	11%
2 Contractor & Temporary Help	8,453	12,342	(3,889)	4,890	(7,453)	-60%	(3,564)	-42%
3 Payroll Taxes	1,004	1,078	(74)	1,167	89	8%	163	16%
4 Employee Benefits	4,996	4,967	30	4,846	(120)	-2%	(150)	-3%
5 Recruiting, Training & Other	347	327	20	435	107	33%	87	25%
6 <b>Subtotal</b>	<b>28,586</b>	<b>32,899</b>	<b>(4,313)</b>	<b>26,665</b>	<b>(6,234)</b>	<b>-19%</b>	<b>(1,921)</b>	<b>-7%</b>
<b>Professional &amp; Consulting Services</b>								
9 Legal	437	540	(102)	503	(37)	-7%	66	15%
10 Accounting & Auditing	301	312	(11)	289	(23)	-7%	(13)	-4%
11 Information Technology	2,421	3,092	(671)	1,315	(1,777)	-57%	(1,106)	-46%
12 Actuarial Services	55	39	16	70	31	79%	15	28%
13 Ombudsman Program	113	112	1	113	1	1%	0	0%
14 Surveys & Inspections	1,312	1,328	(16)	1,319	(9)	-1%	7	0%
15 Disaster Recovery Services	383	257	126	10	(247)	-96%	(373)	-97%
16 Other Services	4,725	4,249	476	5,211	962	23%	486	10%
17 <b>Subtotal</b>	<b>9,747</b>	<b>9,928</b>	<b>(181)</b>	<b>8,829</b>	<b>(1,099)</b>	<b>-11%</b>	<b>(918)</b>	<b>-9%</b>
19 <b>Hardware/Software Purchases &amp; Licensing</b>	3,659	4,099	(440)	3,856	(243)	-6%	197	5%
20 <b>Rental &amp; Maintenance - Office/Equipment</b>	1,543	1,617	(75)	1,004	(613)	-38%	(538)	-35%
21 <b>Travel Expenses</b>	158	262	(104)	194	(67)	-26%	36	23%
22 <b>Postage, Telephone and Express</b>	913	916	(4)	1,081	164	18%	168	18%
23 <b>Capital Management Expenses</b>	6	14	(8)	0	(14)	-100%	(6)	-100%
24 <b>Depreciation</b>	2,182	2,109	73	3,069	960	45%	887	41%
25 <b>Other Operating Expenses</b>	1,615	1,546	69	1,891	345	22%	276	17%
27 <b>Total Operating Expenses</b>	<b>48,408</b>	<b>53,391</b>	<b>(4,982)</b>	<b>46,589</b>	<b>(6,801)</b>	<b>-13%</b>	<b>(1,819)</b>	<b>-4%</b>
29 Capitalization of Fixed Assets	(1,699)	(2,489)	790	0	2,489	-100%	1,699	-100%
30 Reimbursement of Depopulation Servicing Expens	(4)	(15)	11	0	15	-100%	4	-100%
31 Allocation To ULAE	(12,472)	(16,841)	4,369	(11,081)	5,760	-34%	1,391	-11%
32 Allocation To Investing	(272)	(335)	63	(252)	83	-25%	20	-7%
33 <b>Net Operating Expense - UW Operations</b>	<b>33,961</b>	<b>33,711</b>	<b>249</b>	<b>35,256</b>	<b>1,545</b>	<b>5%</b>	<b>1,296</b>	<b>4%</b>

Budgeted salaries include additional FTEs in claims discussed below and proposed merit increase of 4.0% or \$539,000.

The conversion of 10 contractors to 10 FTE positions results in an increase in Salaries of \$632K but reduces contractor expense by \$1.0M. Contractor expense also decreased as claims for prior year storms has declined from previous levels.

Increase in Other Services is mainly due to AON consulting services in Actuary and increase in Expert Panel fees. Details are on the Professional Services slide.

Decrease in Rental & Maintenance is primarily due to decrease in office rent in the new location.

Depreciation of capitalized software costs for Elevate project started in mid April when the project was launched.

# TWIA Expenses High Level Summary

Version	UW Expenses	ULAE	Investment Exp	Capitalized Exp	Reimb Depop Srv	Total Expenses	Period
2023 Budget	35,256,165	11,081,297	252,000	0	0	46,589,462	Dec 2023 YTD
2022 Forecast	33,960,564	12,472,021	271,753	1,699,371	4,469	48,408,177	Dec 2022 YTD
2022 Budget	33,711,184	16,840,961	334,625	2,488,887	15,000	53,390,657	Dec 2022 YTD
2022 YTD Actuals	16,479,088	6,354,946	135,844	1,532,541	4,469	24,506,887	Jun 2022 YTD

Variance \$	UW Expenses	ULAE	Investment Exp	Capitalized Exp	Reimb Depop Srv	Total Expenses
2022 Forecast vs 2022 Budget	249,380	(4,368,940)	(62,872)	(789,516)	(10,531)	(4,982,480)
2023 Budget vs 2022 Forecast	1,295,601	(1,390,724)	(19,753)	(1,699,371)	(4,469)	(1,818,715)
2023 Budget vs 2022 Budget	1,544,981	(5,759,664)	(82,625)	(2,488,887)	(15,000)	(6,801,195)

Variance %	UW Expenses	ULAE	Investment Exp	Capitalized Exp	Reimb Depop Srv	Total Expenses
2022 Forecast vs 2022 Budget	0.7%	-25.9%	-18.8%	-31.7%	-70.2%	-9.3%
2023 Budget vs 2022 Forecast	3.8%	-11.2%	-7.3%	-100.0%	-100.0%	-3.8%
<b>2023 Budget vs 2022 Budget</b>	4.6%	-34.2%	-24.7%	-100.0%	-100.0%	<b>-12.7%</b>

**Note: The Total Expenses (Top Right) appear in various locations in the financial statements. Investment expense is recorded in other income and expenses while ULAE is booked to Loss and Loss Adjustment Expense. Underwriting expense is what remains of total expenses after reclassifying these other items to their proper location on the financial statements.**

# Texas Windstorm Operating Expenses – Historical Trend Analysis

	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Budget	2022 Forecast	2023 Budget	
1 <b>TOTAL ALL DEPTS</b>								1
2 Personnel Costs	53,401,035	30,889,084	31,214,130	32,646,892	32,898,616	28,585,850	26,664,898	2
3 Professional Services	10,148,994	8,805,315	10,868,403	12,251,132	9,928,294	9,746,901	8,829,237	3
4 Hardware & Software Licensing	3,003,507	2,997,898	3,095,779	3,368,723	4,099,294	3,659,162	3,856,316	4
5 Rental & Maintenance - Office/Equipment	1,351,117	1,296,079	1,267,426	1,246,376	1,617,067	1,542,504	1,004,484	5
6 Travel Expenses	317,375	251,104	57,881	35,829	261,541	157,845	194,163	6
7 Postage, Telephone and Express	1,072,486	975,547	907,156	902,172	916,295	912,549	1,080,732	7
8 Capital Management Expenses	2,261,920	2,112,784	17,388	15,660	14,450	6,326	-	8
9 Other Operating Expenses	2,229,831	1,183,133	1,152,218	1,327,630	3,655,100	3,797,041	4,959,632	9
10								10
11 <b>GROSS OPERATING EXPENSES</b>	<b>73,786,265</b>	<b>48,510,942</b>	<b>48,580,382</b>	<b>51,794,415</b>	<b>53,390,657</b>	<b>48,408,177</b>	<b>46,589,462</b>	11
12								12
13 Capitalization of Fixed Assets	-	-	(4,577,587)	(8,927,371)	(2,488,887)	(1,699,371)	-	13
14 Reimbursement of Depop Servicing Exp	(248,371)	(120,463)	(76,065)	(15,863)	(15,000)	(4,469)	-	14
15 Allocation To ULAE	(42,799,315)	(16,886,693)	(15,224,675)	(14,752,216)	(16,840,961)	(12,472,021)	(11,081,297)	15
16 Allocation To Investing & Other Exp	(2,457,477)	(2,386,866)	(301,264)	(273,379)	(334,625)	(271,753)	(252,000)	16
17 <b>Net Operating Expense</b>	<b>28,281,102</b>	<b>29,116,920</b>	<b>28,400,791</b>	<b>27,825,586</b>	<b>33,711,184</b>	<b>33,960,564</b>	<b>35,256,165</b>	17

Other Operating Expense (Line 9) include amortization of capitalized cost for Project Elevate.

# Comparative Personnel Costs – 2023 Budget to 2022 Forecast

<i>A</i>		<i>B</i>	<i>C</i>	<i>D</i>	
		<b>Personnel Costs (000's)</b>			
		<b>Budget</b>	<b>Forecast</b>	<b>B2023 vs</b>	
<i>1</i>		<b>2023</b>	<b>2022</b>	<b>F2022</b>	<i>1</i>
<i>2</i>	<b>Salaries &amp; Wages - Permanent</b>	15,327	13,785	1,542	<i>2</i>
<i>3</i>	<b>Contractor &amp; Temporary Help</b>	4,890	8,453	(3,564)	<i>3</i>
<i>4</i>	<b>Sub-total</b>	<b>20,217</b>	<b>22,238</b>	<b>(2,021)</b>	<i>4</i>
<i>5</i>	<b>Payroll Taxes</b>	1,167	1,004	163	<i>5</i>
<i>6</i>	<b>Employee Benefits</b>	4,846	4,996	(150)	<i>6</i>
<i>7</i>	<b>Recruiting, Training &amp; Other</b>	435	347	87	<i>7</i>
<i>8</i>	<b>Personnel Costs, Gross</b>	<b>26,665</b>	<b>28,586</b>	<b>(1,921)</b>	<i>8</i>
<i>9</i>	<b>Less:</b>				<i>9</i>
<i>10</i>	<b>Capitalized Amount</b>	0	(818)	818	<i>10</i>
<i>11</i>	<b>ULAE Allocation</b>	(7,997)	(10,098)	2,102	<i>11</i>
<i>12</i>	<b>Investment Expense Allocation</b>	0	0	0	<i>12</i>
<i>13</i>	<b>Personnel Costs, Net</b>	<b>18,668</b>	<b>17,669</b>	<b>999</b>	<i>13</i>

# Comparative Personnel Costs – 2023 Budget to 2022 Budget

<i>A</i>		<i>B</i>	<i>C</i>	<i>D</i>	
		<b>Personnel Costs</b>			
		<b>Budget 2023</b>	<b>Budget 2022</b>	<b>B2023 vs B2022</b>	
<i>1</i>					<i>1</i>
<i>2</i>	Salaries & Wages - Permanent	15,327	14,184	1,143	<i>2</i>
<i>3</i>	Contractor & Temporary Help	4,890	12,342	(7,453)	<i>3</i>
<i>4</i>	<b>Sub-total</b>	<b>20,217</b>	<b>26,527</b>	<b>(6,310)</b>	<i>4</i>
<i>5</i>	Payroll Taxes	1,167	1,078	89	<i>5</i>
<i>6</i>	Employee Benefits	4,846	4,967	(120)	<i>6</i>
<i>7</i>	Recruiting, Training & Other	435	327	107	<i>7</i>
<i>8</i>	<b>Personnel Costs, Gross</b>	<b>26,665</b>	<b>32,899</b>	<b>(6,234)</b>	<i>8</i>
<i>9</i>	Less:				<i>9</i>
<i>10</i>	Capitalized Amount	0	(1,291)	1,291	<i>10</i>
<i>11</i>	ULAE Allocation	(7,997)	(13,777)	5,780	<i>11</i>
<i>12</i>	Investment Expense Allocation	0	0	0	<i>12</i>
<i>13</i>	<b>Personnel Costs, Net</b>	<b>18,668</b>	<b>17,830</b>	<b>838</b>	<i>13</i>

# Headcount Summary

	A	B	C	D	E	F	
	Actual 6/30/2022	Forecast 12/31/2022	Authorized Budget 2022	Proposed Budget 2023	B2023 vs F2022	B2023 vs B2022	
<b>FTE</b>	226	220	227	235	15	8	1
<b>Contractors</b>	49	41	47	20	(21)	(27)	2
<b>Combined</b>	275	261	274	255	(6)	(19)	3

**Note: Headcount is as of end of the year count**



# Employee Benefits Summary – TWIA

Description	for the 12 months ended December 31,				Budget 2023 vs Forecast 2022	Budget 2023 vs Budget 2022
	Forecast-22	Budget-22	Variance-22	Budget-23		
Total Salary & Wages	13,784,823	14,184,359	(399,536)	15,327,305	1,542,483	1,142,946
Pension Plan	2,003,877	1,920,775	83,102	1,894,195	(109,682)	(26,580)
401 K Plan	750,401	756,276	(5,875)	806,030	55,629	49,754
Insurance & Related:					0	0
Medical	1,986,338	2,041,438	(55,100)	1,873,416	(112,922)	(168,022)
Dental	119,348	120,582	(1,234)	138,132	18,784	17,550
Life & AD&D	94,616	98,651	(4,035)	72,899	(21,717)	(25,752)
All Other (1)	41,868	28,861	13,007	61,726	19,858	32,865
Total Insurance & Related	2,242,170	2,289,532	(47,362)	2,146,173	(95,997)	(143,359)
<b>Total All Benefit Costs</b>	<b>4,996,448</b>	<b>4,966,583</b>	<b>29,865</b>	<b>4,846,398</b>	<b>(150,050)</b>	<b>(120,185)</b>

Increase in Dental expense budget is due to higher estimated percentage participation in 2023 vs 2022 at 99% vs 95%, respectively.

Medical expense decrease is primarily attributed to a reduction in the negotiated rate by 10%.

Other Employee Benefits include Vision, Long term disability, Employee Assistance Program, HSA, FSA, Extended Leave administration fees. Increase is due to higher estimated number of participants in 2023.

(1) All Other Benefits include Vision, LTD, EAP, HSA fees, FSA fees, Extended Leave Admin fees

<b>Benefits % to Salaries</b>	<b>36.2%</b>	<b>35.0%</b>	<b>31.6%</b>
<b>Company Allocations</b>	<b>70.3%</b>	<b>67.8%</b>	<b>69.1%</b>

# Professional Services and Consulting Expenses

	A	B	C	D	E	F	
	Forecast	Budget	Variance	Budget	Variance	Variance	
1	2022	2022	2022	2023	B23 vs F22	B23 vs B22	1
1	<b>Professional &amp; Consulting Services</b>						
2	Legal	437	540	(102)	503	66	(37)
3	Accounting & Auditing	301	312	(11)	289	(13)	(23)
4	Information Technology	2,421	3,092	(671)	1,315	(1,106)	(1,777)
5	Actuarial Services	55	39	16	70	15	31
6	Ombudsman Program	113	112	1	113	0	1
7	Surveys & Inspections	1,312	1,328	(16)	1,319	7	(9)
8	Disaster Recovery Services	383	257	126	10	(373)	(247)
9	Other Services	4,725	4,249	476	5,211	486	962
10	<b>Total Gross</b>	<b>9,747</b>	<b>9,928</b>	<b>(181)</b>	<b>8,829</b>	<b>(918)</b>	<b>(1,099)</b>
11	Less:						
12	Capitalized Amount	(881)	(1,198)	316	0	881	1,198
13	ULAE Allocation	(883)	(1,409)	526	(971)	(88)	438
14	Investment Expense Allocation	0	0	0	0	0	0
15	<b>Professional Services, Net</b>	<b>7,982</b>	<b>7,321</b>	<b>661</b>	<b>7,858</b>	<b>(124)</b>	<b>537</b>

**IT consulting:** Reduction is mainly due to the completion of Project Elevate in April 2022.

### **Disaster Recovery:**

Reclassified the MOD printing service from Disaster Recovery to Printing expense in 2023 budget.

### **Other Services:**

The major source of the increase between budget years is the AON professional services from \$150K in 2022 to \$600K in 2023. Expert Panel charges increase by \$389K in 2023. See next slide for details.

# Other Professional Services – Top Vendors

Department	Vendor	2022 Forecast	2022 Budget	Variance 2022	2023 Budget	Variance B2023 VS F2022	Variance B2023 vs B2022
Expert Panel	Accenture - Annual Maintenance service fees	\$ 2,109,020	\$ 1,929,686	\$ 179,334	\$ 2,209,000	\$ 99,980	\$ 279,314
Actuary	AON Modeling Consulting Services	600,000	150,000	450,000	600,000	\$ -	450,000
Underwriting	ClearPoint - Call center	440,347	470,000	(29,653)	515,000	\$ 74,653	45,000
Underwriting	CoreLogic	284,259	364,265	(80,006)	321,927	\$ 37,668	(42,338)
Claims	Eagleview Roof Reports	237,912	284,708	(46,796)	276,244	\$ 38,332	(8,464)
Claims	Xactware User Fees & Weather Reports	252,371	287,304	(34,933)	271,715	\$ 19,344	(15,589)
Expert Panel	RMS - Cloud Services	178,811	134,000	44,811	243,456	\$ 64,645	109,456
Claims	ISO	99,742	104,320	(4,578)	106,131	\$ 6,389	1,811
Various departments	Other Vendors (below \$100K)	522,592	524,975	(2,383)	667,842	\$ 145,250	142,867
<b>Total Other Professional Services</b>		<b>\$ 4,725,053</b>	<b>\$ 4,249,258</b>	<b>\$ 475,796</b>	<b>\$ 5,211,315</b>	<b>\$ 486,261</b>	<b>\$ 962,057</b>

# Hardware & Software Expenses

	A	B	C	D	E	F		
	Forecast	Budget	Variance	Budget	Variance	Variance		
	2022	2022	2022	2023	B23 vs F22	B23 vs B22		
1	<b>Hardware &amp; Software</b>						1	
2	Hardware	322	458	(137)	174	(148)	(285)	2
3	Software Purchases & Licensing	3,338	3,641	(303)	3,683	345	42	3
4	<b>Total Gross</b>	<b>3,659</b>	<b>4,099</b>	<b>(440)</b>	<b>3,856</b>	<b>197</b>	<b>(243)</b>	4
5	Less:							5
6	Capitalized Amount	0	0	0	0	0	0	6
7	ULAE Allocation	(498)	(459)	(39)	(676)	(178)	(217)	7
8	Investment Expense Allocation	0	0	0	0	0	0	8
9	<b>Hardware &amp; Software, Net</b>	<b>3,161</b>	<b>3,640</b>	<b>(479)</b>	<b>3,180</b>	<b>19</b>	<b>(460)</b>	9

**Hardware:** The significant drop is due to Dell Storage Area Network (SAN) replacement budget of \$299K in 2022 which is no longer budgeted in 2023.

**Software:** The variance between 2023 budget and 2022 forecast is primarily attributed to the 15% increase in Guidewire license. Slightly up comparing 2023 budget vs 2022 Budget.

# All Other Operating Expenses Summary

	A	B	C	D	E	F	
	Forecast	Budget	Variance	Budget	Variance	Variance	
1	2022	2022	2022	2023	B23 vs F22	B23 vs B22	1
2							2
3							3
4							4
5							5
6							6
7							7
8							8
9							9
10							10
11							11
12							12
13							13
14							14
15							15
16							16

**Office Rent:** Base monthly rate is lower from the current rent of \$85K to \$71K in the new location primarily due to smaller footage. Rent abatement is granted for the first 7 months of 2023 which will be amortized during the lease term.

**Postage:** Higher budget is attributed to estimated increase in PIF count due to Weston and other potential insolvencies.

**Printing & Supplies:** Decommissioning of the mailroom and switch to 100% MOD production from 50% starting June 2022. Disaster Recovery expense moved from Professional Services category to Printing expense under Other Operating expenses.

**Depreciation:** Amortization of Elevate software capitalization of \$250K per month which commenced in April 2022 when the project was launched.

**Bank Service Charges:** Decrease is brought about by the Wellington Installment Fees incurred 2022 which will run until the first quarter of 2023.

# Gross All Other Operating Expenses – Details

	for the 12 months ended December 31,					
	A	B	C	D	E	F
Description	Forecast-22	Budget-22	Budget-23	2022F vs 2022B	2023B vs 2022F	2023B vs 2022B
<b>Texas Windstorm Ins Assoc:</b>						
1 Office Rent	980,661	1,002,642	<b>891,930</b>	(21,981)	(88,731)	(110,712)
2 Utilities expense	57,713	56,240	<b>0</b>	1,473	(57,713)	(56,240)
3 Equipment/Storage Rental	48,591	86,728	<b>15,513</b>	(38,137)	(33,078)	(71,215)
4 Office Relocation Expense	299,001	299,000	<b>0</b>	1	(299,001)	(299,000)
5 Repair & Maintenance	156,538	172,457	<b>97,041</b>	(15,919)	(59,497)	(75,416)
6 Other Office & Equip Expense	0	0	<b>0</b>	0	0	0
7 Total Rental & Maintenance	1,542,504	1,617,067	<b>1,004,484</b>	(74,563)	(538,020)	(612,583)
8						
9 Board meetings	105,884	188,600	<b>123,400</b>	(82,716)	17,516	(65,200)
10 Storm Related	0	0	<b>0</b>	0	0	0
11 Workshops	0	5,600	<b>0</b>	(5,600)	0	(5,600)
12 Other Travel	51,961	67,341	<b>70,763</b>	(15,380)	18,802	3,422
13 Total Travel Expenses	157,845	261,541	<b>194,163</b>	(103,696)	36,318	(67,378)
14						
15 Postage/Courier	683,219	688,224	<b>820,777</b>	(5,005)	137,558	132,553
16 Telephone	229,330	228,071	<b>259,955</b>	1,259	30,625	31,884
17 Total Postage, Tele & Express	912,549	916,295	<b>1,080,732</b>	(3,746)	168,183	164,437
18						
19 Line of Credit Fees	0	0	<b>0</b>	0	0	0
20 Bond Issuance	6,326	14,450	<b>0</b>	(8,124)	(6,326)	(14,450)
21 Total Capital Mgt Expenses	6,326	14,450	<b>0</b>	(8,124)	(6,326)	(14,450)
22						
23 Boards, Bureaus & Assoc	188,592	226,380	<b>239,400</b>	(37,788)	50,808	13,020
24 Printing & Supplies	80,873	122,836	<b>478,784</b>	(41,963)	397,911	355,948
25 Dues & Subscriptions	71,322	116,979	<b>100,157</b>	(45,658)	28,835	(16,822)
26 Insurance	334,596	370,173	<b>375,622</b>	(35,577)	41,027	5,449
27 Media and Advertising	35,056	38,925	<b>35,000</b>	(3,869)	(56)	(3,925)
28 Depreciation	2,182,038	2,109,457	<b>3,068,958</b>	72,581	886,920	959,501
29 Write-offs	0	0	<b>0</b>	0	0	0
30 Other Expenses	904,565	670,350	<b>661,710</b>	234,215	(242,855)	(8,640)
31 Total Other Operating Exp	3,797,041	3,655,100	<b>4,959,632</b>	141,941	1,162,591	1,304,531
32						
33 <b>Total All Other Expenses</b>	<b>6,416,265</b>	<b>6,464,453</b>	<b>7,239,011</b>	<b>(48,188)</b>	<b>822,745</b>	<b>774,557</b>

**Utilities:** This will be billed with the rent under the lease term of the new location.

**Travel:** Year-to-date actual expenses and remaining months of the year are lower than anticipated but 2023 budget is set to be higher.

**Dues & Subscriptions:** Forecast in 2022 and budget for 2023 are both lower than the 2022 budgeted amount.

# Wrap Up

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Questions or additional analysis?