MINUTES OF MEETING
STATE BOARD OF FINANCE
Tuesday, May 12, 2026

A meeting of the State Board of Finance of the State of Arkansas was held Tuesday, May 12, 2026, at 10:00 a.m. pursuant to notice duly given to each member of the Board and the press by the Chairman. The meeting was held in the DFA Conference Room located at 1509 W. 7th Street, Little Rock and via Microsoft Teams.

The following members were present:

Jim Hudson, Secretary Department of Finance and Administration
Honorable John Thurston, Arkansas State Treasurer
Honorable Dennis Milligan, Arkansas State Auditor
Mike Bonds, Designee for Secretary Leslie Fisken, Secretary of the Department of Shared Administrative Services
Commissioner Susannah Marshall, State Bank Department Commission (Via Microsoft Teams)
Jimmy Ritchie, General Securities Representative (By phone, camera off, votes not counted)
Mary Davis, Designee for Jimmy Harris, Arkansas Insurance Commissioner
Tyler Steele, Appointed Commercial Banking Representative (Via Microsoft Teams)
Chad May, General Public Representative
Marc Emrich, Certified Public Accountant Representative

Others present were staff from the Arkansas State Treasury, Arkansas State Auditor's Office, and Employee Benefits Division. Also present were employees of the Department of Finance and Administration and Grant Wallace, Director of Employee Benefit Division.

Chair Jim Hudson, seeing a quorum, called the meeting to order at 10:00 a.m. A motion was made by Mr. Chad May to approve the minutes from the February 10, 2026 meeting, and Mr. Marc Emrich seconded the motion. The motion was adopted with all in favor of approval of the minutes.

Secretary Hudson recognized Treasurer Thurston for the presentation of the Treasury report. Treasurer Thurston and Steven Kilgore presented a strong third quarter performance for the state's investment portfolio, highlighting the reinvestment of $2.1 billion into longterm securities over the past 7 quarters, $96 million in quarterly income, stable returns, and ongoing resilience amid geopolitical and interest rate risks. Net income for the current fiscal year is approaching $293 million. Additional commentary was provided by Steve Pulley and Robert Romanik. The portfolio remains flexible, with principal systematically rolling off to enable reinvestment.

Steve Pulley stated that the book rate of return was 3.46%, within the target benchmark range of 3.40%-3.50%. Steve Pulley and Robert Romanik explained that the portfolio is structured to roll off about 10% of principal annually, providing flexibility for liquidity or reinvestment. The total portfolio size is $11.3 billion. The long-term portfolio stands at $9.8 billion, returning 3.4%. The short-term balances are $1.3 billion, earning about 3.73%. The team continues to monitor cash flow and market opportunities, maintaining resilience despite bond market uncertainty.

Robert Romanik provided a macroeconomic overview, recommending that the target rate of book return for Q4 remain unchanged at 3.4–3.5% due to ongoing geopolitical uncertainty and Federal Reserve policy, with the board approving the recommendation. Romanik discussed the impact of Middle East conflict on global economic uncertainty and the Federal Reserve's decision to hold rates steady, resulting in a cumulative reduction of 175 basis points and the Fed Fund target range of 3.5–3.75%. Romanik noted that the forward interest rate curve suggests a prolonged Fed pause, with rates likely to remain higher until a credible ceasefire in the Middle East. Chair Hudson inquired about the implications of stable versus declining rates on portfolio strategy. The portfolio strategy has been to lean out the liquidity portion to take advantage of higher long-term rates, providing steady or higher income.

After discussion and opportunity for questions, the board, with motions from Susannah Marshall and Mr. Bonds, unanimously approved the Treasurer's report.

The board discussed and, after motions from Chad May and Marc Emrich and a vote, approved maintaining the target rate of book return at 3.40–3.5% for the April–June Q4 period.

Chair Hudson then addressed the quarterly business by making a motion that no funds are available for deposit into the State Board of Finance certificate of deposit program. The motion was seconded by Auditor Milligan. The motion was adopted with all in favor.

Chair Hudson next made a motion that the Board direct the Treasurer of State to purchase warrants for the period of July 1, 2026, through September 30, 2026, pursuant to Act 1088 of 2013, and to keep reasonable amounts in demand deposit accounts and money markets during the next quarter for the transactions of the day-to-day activities of the State. The motion was seconded by Commissioner Marshall. The motion was adopted with all in favor.

The next item on the agenda is a loan to the Office of State Technology from Treasurer funds. The loan to the Office of State Technology had already received approvals from Chair Hudson, as CFO of the state, Governor Sanders, and ALC. It is interest-bearing and will be used for technological improvements, with repayments made through billing state entities for services. Jay Harton confirmed that loan draws will occur over approximately 10 months. The loan replaces a previous one, resulting in a net neutral effect over time. After discussion and opportunity for questions, Auditor Milligan made a motion to approve the loan, and Mr. Bonds seconded the motion. The board unanimously approved the loan.

Grant Wallace presented the new rates for the 2026–2027 State Captive Insurance Program, including rate decreases for K–12 and higher education, and an actuarially-driven increase for state agencies. K–12 rates decreased by 11% (from 21.6 to 18 cents), universities and colleges by 6% (to 15.6 cents), while state agencies saw a 13% increase (to 14.2 cents) due to actuarial rebalancing. What the program is trying to do globally for all participants is to create a norm.

Chair Hudson asked about the drivers on the increase in rates for state agencies. The increase for state agencies was attributed to the first true actuarial analysis after merging three programs, not to changes in the reinsurance market, which remains favorable. After a motion to approve was made by Auditor Milligan and seconded, the board approved the proposed rates for the 2026–2027 program year.

The board reviewed and approved March and April pharmacy formulary changes, a new cell and gene therapy exclusion policy, and the annual EBRX contract extension, with Grant providing detailed explanations and responding to questions from Commissioner Marshall and others.

Mr. Wallace outlined maintenance updates, generic launches, re-tiering, and cost-saving measures for both months. Specific changes included shifting to lower-cost generics, removing brands, and setting quantity limits for certain medications. In April, a change affecting about 1,200 members was discussed after a question from the chair; the older thyroid medication will be replaced by alternatives like levothyroxine, following updated FDA review requirements. Mr. Emrich made a motion to approve the March and April pharmacy formulary recommendations, and Treasurer Thurston seconded the motion. The motion passed unanimously.

Mr. Wallace proposed excluding all cell and gene therapies from the medical benefit to allow for tighter control and review, with the exclusion list being comprehensive as of late April after a question from Commissioner Marshall asking if the list was the entire catalogue of cell and gene therapies. Mr. Bonds made a motion to approve the exclusion, and Mr. May seconded the motion. The motion passed unanimously.

Mr. Wallace presented the one-year extension of the EBRX contract with UAMS, which supports pharmacy benefit management and formulary design. We are currently in year 4 of the contract. Auditor Milligan made a motion to approve the contract extension, and Commissioner Marshall seconded the motion. The motion passed unanimously.

Mr. Wallace next presented the proposed rulemaking in response to Act 956 of 2025, requiring the Employee Benefits Division to implement an independent vendor data validation process for legislative fiscal impact requests. The rule was reviewed and approved by the governor's office before being presented. Mr. Bonds made a motion to approve, and Mr. Emrich seconded the motion. The rule was approved unanimously by the board for promulgation.

Mr. Wallace presented and the board approved medical rate increases for state and public school employees for the 2026–2027 plan year, with detailed discussion on drivers, reserve targets, and chronic condition prevalence.

The state employee plan will see a 9.8% rate and contribution increase for active and pre65 members, and a 6–9.2% increase for post-65 retirees, driven by higher utilization and medical/pharmacy inflation. Mr. Wallace stated that rates have been held flat for the last three years.

Public school employees will have a 4.9% increase for active and pre-65 members, and a 5–9.7% increase for post-65 retirees. Mr. Wallace responded that PSE rates had been flat for three years prior after a question from Ms. Davis but that he anticipates additional increases in the coming years due to increases in the economy. Chair Hudson states that nominal increases mitigate hard swings.

Chair Hudson highlighted high rates of chronic conditions, such as hypertension and diabetes, among state employees compared to regional benchmarks. Mr. Wallace is conducting a comprehensive analysis of chronic disease management programs, with plans to develop new initiatives under the Employee Benefits Division.

The board reviewed reserve projections, with Mr. Wallace recommending a target of about half a year's reserves, above the legislated minimum. The impact of the new rates on reserves will be reflected in updated charts. Mr. Bonds made a motion to approve the rates for the state employee and public-school employee plans, and Auditor Milligan seconded the motion. The motion passed unanimously.

The board was informed by Mr. Wallace that a special meeting will be scheduled before the end of May to approve several contracts, particularly for property risk, due to procurement timelines and upcoming deadlines with ALC.

Chair Hudson reminded the board of the new meeting location at the DFA Building First Floor Conference Room.

Seeing no other business, the meeting was adjourned at 10:49 a.m.