

MINUTES OF MEETING
STATE BOARD OF FINANCE
Thursday, June 12, 2025, 10:00 AM

A meeting of the State Board of Finance of the State of Arkansas was held Thursday, June 12, 2025 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 via Zoom.

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
Courtney Traylor, Designee for Leslie Fiskien, Secretary of the Department of Transformation and Shared Services
Campbell McLaurin (via Zoom), Designee for Susannah Marshall, State Bank Department Commissioner
Jimmy Ritchie, General Securities Representative
Marc Emrich, Certified Public Accountant Representative
Alan McClain, Arkansas Insurance Commissioner

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 10:02 a.m. The chair recognized Grant Wallace to provide an overview of the State Captive Insurance Program. Acts 560 and 779 of 2025 (identical bills) were the result of two years of studies by the legislature, including a feasibility study and creates the State Captive Insurance Program (SCIP). All state agencies, public schools, and higher education facilities are copied into one property insurance captive. Currently, the State is self-insuring all State Agency property, all higher education property, and one-half of the public school district property. The State is administering these programs through the Arkansas Insurance Department, and those functions are moving to the

Department of Shared Administrative Services. The SCIP will be funded by a \$136,000,000.00 transfer from the General Revenue Allotment Reserve Fund.

The SCIP is an actual insurance company being formed. It will be owned and controlled by the State of Arkansas. The state will benefit from leveraging the size of its assets and produce sustainable profitability. The state will be its own commercial insurance company without outsourcing this service. Exposure will be capped to the first \$50 million in claims. The state can achieve competitive rates and incorporate those savings into plan management and pricing.

The duties of the State Board of Finance are as follows:

- Establish and create the Captive Insurance Program and its organizational structure
- Delegate to the Secretary of SAS the day-to-day operations
- Review and approve the captives actuarial plan annually
- Periodically reevaluate the insurance risk, exposures, and operations
- Establish an investment policy
- Approve regulatory findings
- Approve the dissolution of the captive
- Perform other necessary duties

The next steps are that the captive manager (the State Board of Finance) will submit the captive application to the Arkansas Insurance Department, which will then review and approve the application. The State Board of Finance will review and approve the captive's operational and investment plan. The Department of Shared and Administrative Services will then administer the captive's day-to-day operations.

The model cash flow presented was developed by Stephens Insurance. On July 1, 2025, the SCIP will have \$135,378,765.00 in its operating accounts. Year 1 begins July 1, 2025 and ends June 30, 2026. The amount of projected premiums billable to entities is \$102 million. This amount is projected because premiums have not fully been developed and approved. The projected expense is \$88 million, which gives a projected net operating amount of \$13,678,169.

The year-end net for Year 1 would be around \$151 million in assets. Year 2 expenses increase to \$91 million, but income was left flat because that is still being worked out, leaving a net for Year 2 around \$164 million in assets. This is to show that there is a financial plan in place.

The rate for the first year (State Fiscal Year 2026) will remain flat from FY 2025. Any increase in premiums will be the result of a change in values. There will be a phase-in period for public schools on the deductible over the next two years. The minimum deductible district wide will be \$25,000 per occurrence. Those with a Total Insured Value (TIV) above \$100 million will have a \$50,000 minimum deductible per occurrence. State agencies are moving up to \$250,000 in deductible with no phase-in period.

The Premium Formula is $\text{Premium} = \text{Rate} \times \text{Total Insured Value (TIV)}$. The TIV is based on what entities have already reported to their current insurance agencies as of March 2025. The work that has gone on to leverage the size of the assets under the plan will hold entities as level as possible, expand coverage options, and secure competitive rates in the marketplace. The next steps are that the Department of Shared and Administrative Services will need to communicate its administration of the captive to participating entities, approve the rates and deductibles, purchase the excess insurance, and send invoices to the participating entities.

A series of resolutions was presented. The first was empowering the Treasurer of State to form the State Captive Insurance Program. The second was naming the initial directors: Secretary Leslie Fiskens, Treasurer John Thurston, and Secretary Jim Hudson. The third was naming the leadership of the captive: President is Secretary Leslie Fiskens, Secretary is Andy Babbitt, State Controller, and Treasurer is Treasurer John Thurston. The fourth was approval of all actions that have been taken up to the point of the meeting. A motion and second to adopt the resolutions were made; all voted to approve with no one voting against adoption.

Other resolutions presented were the designation of duties under A.C.A. 19-3-706(c)(5) and A.C.A. 25-44-104, the naming and designating the Department of Shared Administrative Services the authority to administer the day-to-day operations of the captive and the approval of the deductibles and proposed budget. After discussion, a motion and second to approve the adoption of the resolutions was made; all voted to approve with no one voting against adoption.

The chair recognized Treasurer Thurston. Steve Pulley from the Treasury Investment Team stated that it would review and present something appropriate for the investment side of the captive.

Seeing no further business, a motion and second were made to adjourn the meeting. The meeting was adjourned at 10:33 a.m.