INVESTMENT
— COUNCIL —

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MEMORANDUM

TO: Matthew L. Clark

FROM: Makenzie Smook MS

DATE: August 11, 2026

RE: South Dakota CD Program 2026-2027

The following is proposed for this year's South Dakota Cash Flow Fund Certificate of Deposit Program (CD Program).

Size of the Program – $35 million

The Council sets the amount of the program each year. Since 1985, the size of the CD program has been $35 million.

Time & Date for Setting the Rate – Rates will be set at promptly 10:00 a.m. (CST) on September 28, 2026. Rates will be posted to the Treasurer's Office website (*sdtreasurer.gov/invest-in-sd/)* and disseminated soon thereafter. Offer period for banks and financial institutions will be 11:00 a.m. - 3:00 p.m. (CST), followed by offer period for credit unions from 3:00 p.m. – 5:00 p.m. (CST).

ARSD 6:01:02:01, in pertinent part, provides that "[t]he investment council shall set the rates to be paid the state for its funds invested in certificates of deposit in South Dakota qualified public depositories. The investment council shall establish the date and time to be used for setting the rate at a regularly scheduled investment council meeting."

Method of Determining Interest Rate – Yield of Treasury note 4⅛ % due 9/30/27 plus .15% to compensate for collateral risk and illiquidity.

ARSD 6:01:02:01, in pertinent part, provides that "[t]he rate shall be based on a U.S. treasury note, federal agency note, or other financial instrument matching the term of the certificate of deposit."

Terms for CDs – CD's will be issued 9/30/26 to mature on 10/1/27 (366/365 days).

Maturity date change for 2026-2027: CDs issued for this upcoming term will have a maturity of one year and one day to transition the CD issue and maturity date to 10/1 for upcoming years to better align with collateralization schedules.

<u>Method of Allocation</u> – defined in **ARSD 6:01:02:02.**

ARSD 6:01:02:02, in pertinent part, provides that "[t]he investment council may allocate a portion of the state funds to South Dakota qualified public depositories insured per SDCL subdivision 4-6A-1(2). Initially, each individual bank or association shall be offered a certificate of deposit on a pro rata basis of its South Dakota loans and municipal bonds outstanding to total loans and municipal bonds outstanding in South Dakota banks and associations."

SDIC procedure of allocation: For those banks and associations that submitted *interest* in participating, offers are made based on the size of each *interested* institution's loans and municipal bonds outstanding relative to the total loans and municipal bonds outstanding for all *interested* institutions within South Dakota.

On rate setting/offer day, banks and associations have a four-hour window to accept or decline the allocated proportion of their offer.

<u>Reallocation</u> – any remaining declined or unsubscribed funds are offered to credit unions, as defined in **ARSD 6:01:02:02.**

ARSD 6:01:02:02, in pertinent part, provides that "[a]ny unsubscribed funds shall be immediately offered to other qualified public depositories on a pro rata basis of its South Dakota loans and municipal bonds outstanding to total loans and municipal bonds outstanding in South Dakota other qualified public depositories. However, the minimum allocation shall be equal to the current FDIC deposit insurance coverage limit[i]. Collateralization is required for the allocation amount in excess of deposit insurance per SDCL 4-6A-3."

SDIC procedure of allocation: For those credit unions that submitted *interest* in participating, offers are made based on the size of each *interested* credit union's loans and municipal bonds outstanding relative to the total loans and municipal bonds outstanding for all *interested* credit unions within South Dakota.

On rate setting/offer day, credit unions have a two-hour window to accept or decline the allocated proportion of their offer.

<u>Interest Formula</u>

Amount of CD * Interest Rate * (366/365) = Total Interest Paid to State

This calculation accounts for the exact 366-day term of the CD, from issue on September 30, 2026 to maturity on October 1, 2027.

Discussion and potential action on the CD Program will take place at the August 26, 2026 Council meeting.

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[i] Per FDIC regulations, the current standard maximum deposit insurance amount is $250,000 per depositor, per insured depository institution, for each account ownership category.