

AR DEVELOPMENT FINANCE AUTHORITY

Enabling Laws

Act 129 of 2016
A.C.A. § 15-5-101 et seq.

History and Organization

The Arkansas Development Finance Authority (the "Authority") is a public body politic and corporate, created pursuant to the Arkansas Development Finance Authority Act of 1985 (Act 1062 of 1985, as amended, codified at A.C.A. § 15-5-101 *et seq.*) The Authority is the successor to the Arkansas Housing Development Agency, an agency of the State created in 1977 and abolished upon the creation of the Authority. The primary mission of the Authority is to provide and support financing for affordable housing, agricultural business enterprises, industrial and economic development, and capital improvements for state agencies and local governments. In 2001, the mission of the Authority was expanded with passage of the Arkansas Venture Capital Investment Act, which resulted in the creation of the Arkansas Venture Capital Investment Trust, a public trust administered by the Authority providing a mechanism to expand venture capital funding in Arkansas.

Powers of the Authority:

To achieve its mission, the Authority's enabling legislation authorizes it to borrow money and issue bonds, notes and other obligations as the Authority deems necessary to provide sufficient funding to carry out its purposes and powers. Bonds and other debt instruments issued by the Authority are special obligations of the Authority, payable solely from and secured by a lien on the revenues pledged under the various resolutions authorizing the particular bond issues. The State of Arkansas is not obligated to pay the bonds, and neither the full faith and credit nor the taxing power of the State of Arkansas is pledged against the obligations of the Authority.

In addition to issuing bonds in the Authority's name, the Authority also acts as an issuer of general obligation bonds on behalf of the State, including Amendment 82 project bonds and Higher Education Bonds. These bonds are not obligations of the Authority, but instead are obligations of the State of Arkansas backed by the State's full faith and credit.

The powers of the Authority are vested in a 14-member Board of Directors, consisting of the director of the Department of Finance and Administration, the Treasurer of the State, eleven public members appointed by the Governor, and the president of the Authority (non-voting).

Operational Funding of the Authority:

The operations and expenses of the Authority are paid entirely from revenue generated from its various programs, primarily bond earnings and program administration fees. With the exception of the Arkansas Housing Trust Fund, the Authority receives no direct fund appropriations from the State. The Authority neither imposes taxes nor does it have taxing authority. When requested, the Authority has at times, through interagency agreements, administered appropriations, fees and other cash revenue of other state agencies; these agencies include the Arkansas Department of Corrections, the Arkansas Economic Development Commission, and the Arkansas Natural Resource Commission. The Authority charges no fees to the citizens of the State other than negotiated fees on the Authority's entirely voluntary programs. As a separate, self-sustaining instrumentality, the net revenues of the Authority not only perpetuate its operations, but build a capital base that enables the Authority (without any funding from the State's general revenues) to create new loan and investment capital funds and to implement other programs that play an important role in advancing the Authority's mission.

The Authority administers several different programs in each of its program areas that further the cause of the respective program. With the business-like flexibility afforded the Authority by its statutory charge and, under the guidance of a very active and professional Board of Directors, the Authority has added and discontinued programs from time to time, with consideration given to demands, resource availability and market relevance. Almost all Authority programs, in and of themselves, are self-sustaining from interest margins, negotiated fees or other revenues. And, as stated earlier, all programs, in the aggregate are fully funded and sustained from the self-generated revenue of the Authority.

Oversight of the Authority:

The Authority is subject to considerable oversight both from within and outside the Authority. An internal audit division, established in 1996, has made tremendous strides in strengthening compliance and implementing and reviewing internal accounting controls to provide greater assurance of the general integrity of the Authority and its programs. Along with the internal audit and compliance oversight, the following serve as additional review of the Authority:

1. A 14-member, professional board of directors meets at least monthly and has a very active committee structure that oversees various aspects of the operations and participates in, among other things: (a) the selection of professionals who serve the Authority; (b) the decisions on the issuance of bonds and other debt instruments; (c) the decision as to whether to offer a guaranty of bonds under the Bond Guaranty Act (A.C.A. § 15-5-401 et seq.); (d) the adoption of any program or Authority rules and regulations; and (e) other policy decisions affecting the Authority.
2. A DFA has an annual independent audit performed by an outside accounting firm. Currently, the firm engaged as external auditor is BKD, LLP, headquartered in Springfield, MO, with several offices in Arkansas. Along with the regular audit report, BKD issues to the Board a

“management letter” that addresses any identified internal control weaknesses and makes recommendations.

3. The loan files in the Authority’s Bond Guaranty Program and Intermediary Relending Program are examined annually by the bank examiners from the State Bank Department. The examination was voluntarily initiated by the Authority in 1998 to provide an unbiased, third-party review of loan files and loan-loss reserve balances and to save on costs in the review required by the Authority’s external auditors.

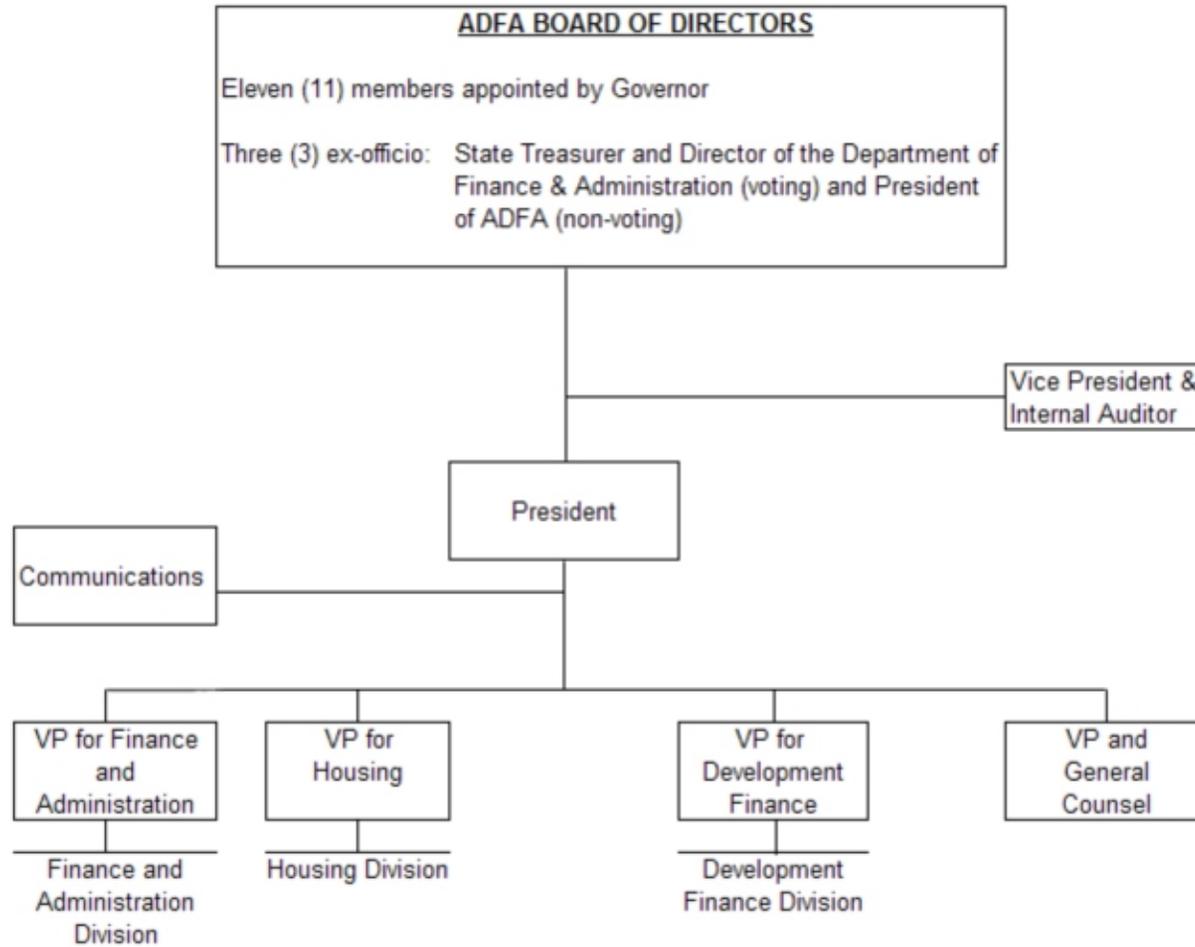
4. In the Housing Division, the Authority administers various programs under the direction of the Federal Department of Housing and Urban Development (“HUD”). HUD officials regularly come to the Authority’s offices, conduct audits, and visit property sites for the purpose of monitoring the Authority’s compliance with federal program rules.

5. As an issuer of bonds that are exempt from federal taxation, the Authority is always subject to audit and periodically receives an audit by the Internal Revenue Service.

6. As with all other state agencies that are part of the executive branch, the Authority and its budget, personnel, program rules and regulations, activities and other aspects of the Authority are subject to supervision, oversight and direction by the Governor’s office and the Arkansas General Assembly and its various committees and subcommittees.

7. A comprehensive, publicly-reported review of the Authority and the bonds issued by the Authority is regularly conducted by S&P Global Ratings. As a bond-issuing entity, the Authority receives an “issuer credit rating” (comparable to the general obligation rating that is maintained by the State of Arkansas), which was first assigned an “A” rating in 1999 and has since been upgraded three times to its current “AA” rating. In receiving and maintaining this rating, the Authority annually undergoes a thorough review of its balance sheet and general finances, as well as a comprehensive review of, among other things: (a) the expertise and experience of its management team and board of directors; (b) the efficiency and operation of its accounting, operating and management information systems; (c) its reputation and relationship with the Legislature, the Governor’s office and other political constituencies; and (d) the strength of its internal accounting controls and compliance areas.

8. In the Development Finance Division, the Authority is subject to oversight by the Federal Office of the Inspector General (“OIG”) as a result of receiving an allocation of U.S. Department of Treasury funding for the State Small Business Credit Initiative (“SSBCI”). In 2015 and 2016, the Authority provided OIG auditors with information relating to an ongoing audit.



Agency Commentary

Appropriation A57 will be used primarily to fund federal programs administered by the Arkansas Development Finance Authority (ADFA) as

well as to fund the general operations of ADFA.

The agency requests that three positions that were surrendered to OPM to obtain a growth pool position not be continued in ADFA's appropriation in the Biennium. One of the positions was not budgeted in FY17 due to the agency's cap level. The restoring of the growth pool position (see below) and discontinuing three surrendered positions will reduce the agency's number of positions by two to allow for 60 positions.

The agency requests to restore a growth pool position and for it to become a permanent position in ADFA's appropriation in the Biennium. The salary for this position is \$85,548 and personal services matching of \$24,476.

The agency requests to reduce Commitment 02 - Operating expenses by \$100,000 for each fiscal year within the biennium. Historical data shows that there is sufficient appropriation for expenses by making this reduction.

In accordance with the Governor's Policy Memo, ADFA can demonstrate the efficient and productive use of its appropriation. ADFA continues to analyze costs to determine if there is a true need and if so, if there is a less expensive alternative. In doing so, ADFA has either eliminated or negotiated lower rates thus reducing its operating expenses budget by \$100,000 each year, ADFA has not requested renewal of capital outlay of \$23,000, and ADFA has given up 2 (net) positions. The growth pool position has allowed ADFA to negotiate better fees with professionals, engage fewer professionals, and create additional revenues.

The agency requests to reduce the appropriation balance of the Arkansas Housing Trust Fund to \$15,475 for each fiscal year within the Biennium.

The federal programs are the U.S. Department of Housing and Urban Development's (HUD's) HOME Program, Federal Housing Programs, Grants and Aid Programs, and the Agricultural Loan Mediation and Development Program (Mediation Program).

The Grants and Aid Programs, budgeted at \$6,600,000 for each fiscal year, will be funded through unspecified special purpose federal grants. The Mediation Program will be funded by ADFA and from federal reimbursements for costs associated with the Loan Mediation Program.

A.C.A. 15-5-1704 established a special restricted fund, to be known as the Arkansas Housing Trust Fund on July 1, 2012. There was an initial "one time transfer" from unexpended balances of funds received by the Division of Check Cashing of the State Board of Collection Agencies under the Check-Cashers Act. Future funding for this program will depend on outside sources to be identified by the Arkansas Housing Trust Fund Advisory Committee.

Act 1519 of the 2013 Regular Session, cited as the "General Improvement Distribution Act of 2013" created and established the "89th Session Projects Account" within the "General Improvement Fund". There was an initial transfer of \$500,000 from the Special Projects Account to the Arkansas Housing Trust Fund. Future funding will be determined if monies are made available from the General Improvement Fund.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
ARKANSAS DEVELOPMENT FINANCE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2015

Findings	Recommendations
None	None

State Contracts Over \$50,000 Awarded To Minority Owned Businesses Fiscal Year 2016

None

Employment Summary

	Male	Female	Total	%
White Employees	15	27	42	81 %
Black Employees	2	8	10	19 %
Other Racial Minorities	0	0	0	0 %
Total Minorities			10	19 %
Total Employees			52	100 %

Cash Fund Balance Description as of June 30, 2016

Fund Account	Balance	Type	Location
1230200	\$81,792	Checking	Regions Bank, Little Rock, AR

Statutory/Other Restrictions on use:

A.C.A. 15-5-207 (b) authorizes the Authority to issue bonds for the purpose of generating investment earnings or other income.

Statutory Provisions for Fees, Fines, Penalties:

A.C.A. 15-5-207 (b) authorizes the Authority to issue bonds for the charges in connection with its loans, bond guarantees, commitments, and servicing.

Revenue Receipts Cycle:

The investment earnings or other income shall be used to finance activities or projects of the agency as outlined in the Authority's enabling legislation.

Fund Balance Utilization:

The use of fund balances are restricted by the terms of trust indentures that pertain to the maintenance of various funds and reserves and investments of such when not needed for authorized purposes.

Publications

A.C.A. 25-1-201 et seq.

Name	Statutory Authorization	Required for		# of Copies	Reason(s) for Continued Publication and Distribution	Unbound Black & White Copies Produced During the Last Two Years	Cost of Unbound Copies Produced During the Last Two Years
		Governor	General Assembly				
Annual Audit Report	A.C.A. 15-5-210	N	Y	2	Reporting of audited agency financials.	0	0.00
Bond Issuance Report	Act 36 of 1989	N	Y	1	Provides summary of bond transactions when executed	0	0.00
Bond Issues/Outstanding Report	Act 222 of 1987	N	N	1	Provides comprehensive list of bonds issued and outstanding.	0	0.00

Department Appropriation Summary

Historical Data

Agency Request and Executive Recommendation

Appropriation	2015-2016		2016-2017		2016-2017		2017-2018						2018-2019					
	Actual	Pos	Budget	Pos	Authorized	Pos	Base Level	Pos	Agency	Pos	Executive	Pos	Base Level	Pos	Agency	Pos	Executive	Pos
A57 ADFA-Cash Operations	15,904,057	60	30,381,326	62	30,317,750	62	30,271,999	61	30,199,377	60	30,199,377	60	30,273,045	61	30,200,423	60	30,200,423	60
C57 AR Housing Trust Advisory Comm	30,244	0	15,718	0	45,718	0	15,718	0	15,475	0	15,475	0	15,718	0	15,475	0	15,475	0
Total	15,934,301	60	30,397,044	62	30,363,468	62	30,287,717	61	30,214,852	60	30,214,852	60	30,288,763	61	30,215,898	60	30,215,898	60

Funding Sources		%		%		%		%		%		%		%		%	
Fund Balance 4000005	81,792	0.5	81,792	0.3		18,216	0.1	18,216	0.1	18,216	0.1	0	0.0	18,216	0.1	18,216	0.1
Federal Revenue 4000020	10,355,195	64.7	24,341,215	80.0		24,341,215	80.5	24,341,215	80.5	24,341,215	80.5	24,341,215	80.6	24,341,215	80.5	24,341,215	80.5
Cash Fund 4000045	5,579,106	34.8	5,992,253	19.7		5,873,637	19.4	5,873,637	19.4	5,873,637	19.4	5,874,683	19.4	5,874,683	19.4	5,874,683	19.4
Total Funds	16,016,093	100.0	30,415,260	100.0		30,233,068	100.0	30,233,068	100.0	30,233,068	100.0	30,215,898	100.0	30,234,114	100.0	30,234,114	100.0
Excess Appropriation/(Funding)	(81,792)		(18,216)			54,649		(18,216)		(18,216)		72,865		(18,216)		(18,216)	
Grand Total	15,934,301		30,397,044			30,287,717		30,214,852		30,214,852		30,288,763		30,215,898		30,215,898	

Budget exceeds Authorized amount in (A57) ADFA-Cash Operations due to salary and matching rate adjustments during the 2015-2017 Biennium.

Agency Position Usage Report

FY2014 - 2015						FY2015 - 2016						FY2016 - 2017					
Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused
	Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total	
62	56	6	62	0	9.68 %	62	52	11	63	-1	16.13 %	62	52	11	63	-1	16.13 %

Total Budgeted positions exceed Authorized amount due to a position authorized from the Central Growth Pool.

Analysis of Budget Request

Appropriation: A57 - ADFA-Cash Operations

Funding Sources: 123 - Arkansas Development Finance Authority Cash

A.C.A. §15-5-201 created the Arkansas Development Finance Authority along with a Board of Directors that was created in A.C.A. §15-5-202. The Board of Directors is composed of the Director of the Department Finance and Administration, State Treasurer, President of ADFA and eleven (11) public members appointed by the Governor with the advice and consent of the Senate. Duties and responsibilities of the Board may include but are not limited to, powers to sue; make and issue rules, regulations, and bylaws; acquire, hold, and dispose of real and personal property for corporate purposes; appoint officers, agents, and employees; borrow money; issue notes and bonds on behalf of state agencies and political subdivisions; make secured or unsecured loans; sell mortgages and security interests, collect fees and charges in connection with its loans, bond guarantees; and invest moneys of the Authority.

This appropriation reflects all operational costs of the Authority including the Federal Housing Assistance Program, HUD Home Program, and other financial programs. Funding for this appropriation is derived primarily from federal funds with other funding from bond proceeds.

Base Level Regular Salaries and Personal Services Matching include the continuation of the previously authorized 2017 Salaries and Career Service Payments for eligible employees. Personal Services Matching includes the monthly contribution for State employee's health insurance for a total State match per budgeted employee of \$420 per month. Base Level salaries and matching do not include appropriation for a Cost of Living Adjustment or Merit Pay Increases. The Base Level salary of unclassified positions reflects the FY17 line item maximum plus the previously authorized 2016 1% Cost of Living Adjustment authorized by Act 1007 (3 (B)) of 2015.

The Agency's Change level request is decrease of (\$72,622) each year of the 2017-2019 Biennium and includes the following:

- Regular Salaries and Personal Services Matching decrease of (\$82,643) each year for discontinuing two (2) positions that were surrendered to the OPM growth pool and an increase of \$110,021 each year for restoration of one (1) growth pool position,
- Operating Expenses decrease of (\$100,000) each year to align with expenses.

The Executive Recommendation provides for the Agency Request. Expenditure of appropriation is contingent upon available funding.

Appropriation Summary

Appropriation: A57 - ADFA-Cash Operations
Funding Sources: 123 - Arkansas Development Finance Authority Cash

Historical Data

Agency Request and Executive Recommendation

Commitment Item	Historical Data			Agency Request and Executive Recommendation			Agency Request and Executive Recommendation		
	2015-2016 Actual	2016-2017 Budget	2016-2017 Authorized	2017-2018			2018-2019		
				Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries 5010000	3,451,601	3,575,855	3,515,530	3,494,010	3,520,426	3,520,426	3,494,510	3,520,926	3,520,926
#Positions	60	62	62	61	60	60	61	60	60
Extra Help 5010001	7,673	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
#Extra Help	3	5	5	5	5	5	5	5	5
Personal Services Matching 5010003	1,072,795	1,105,761	1,102,510	1,101,279	1,102,241	1,102,241	1,101,825	1,102,787	1,102,787
Operating Expenses 5020002	623,787	825,458	825,458	825,458	725,458	725,458	825,458	725,458	725,458
Conference & Travel Expenses 5050009	31,341	81,715	81,715	81,715	81,715	81,715	81,715	81,715	81,715
Professional Fees 5060010	102,623	123,810	123,810	123,810	123,810	123,810	123,810	123,810	123,810
Data Processing 5090012	0	0	0	0	0	0	0	0	0
Grants and Aid 5100004	0	6,600,000	6,600,000	6,600,000	6,600,000	6,600,000	6,600,000	6,600,000	6,600,000
Capital Outlay 5120011	0	23,000	23,000	0	0	0	0	0	0
Data Processing Services 5900044	259,039	264,512	264,512	264,512	264,512	264,512	264,512	264,512	264,512
Hud Home Program 5900046	10,355,198	16,341,215	16,341,215	16,341,215	16,341,215	16,341,215	16,341,215	16,341,215	16,341,215
Federal Housing Programs 5900047	0	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
Total	15,904,057	30,381,326	30,317,750	30,271,999	30,199,377	30,199,377	30,273,045	30,200,423	30,200,423
Funding Sources									
Fund Balance 4000005	81,792	81,792		18,216	18,216	18,216	0	18,216	18,216
Federal Revenue 4000020	10,355,195	24,341,215		24,341,215	24,341,215	24,341,215	24,341,215	24,341,215	24,341,215
Cash Fund 4000045	5,548,862	5,976,535		5,858,162	5,858,162	5,858,162	5,859,208	5,859,208	5,859,208
Total Funding	15,985,849	30,399,542		30,217,593	30,217,593	30,217,593	30,200,423	30,218,639	30,218,639
Excess Appropriation/(Funding)	(81,792)	(18,216)		54,406	(18,216)	(18,216)	72,622	(18,216)	(18,216)
Grand Total	15,904,057	30,381,326		30,271,999	30,199,377	30,199,377	30,273,045	30,200,423	30,200,423

FY17 Budget amount in Regular Salaries and Personal Services Matching exceeds the authorized amount due to salary and matching rate adjustments during the 2015-2017 Biennium. Expenditure of appropriation is contingent upon available funding.

Change Level by Appropriation

Appropriation: A57 - ADFA-Cash Operations
Funding Sources: 123 - Arkansas Development Finance Authority Cash

Agency Request

Change Level		2017-2018	Pos	Cumulative	% of BL	2018-2019	Pos	Cumulative	% of BL
BL	Base Level	30,271,999	61	30,271,999	100.0	30,273,045	61	30,273,045	100.0
C03	Discontinue Program	(182,643)	(2)	30,089,356	99.4	(182,643)	(2)	30,090,402	99.4
C06	Restore Position/Approp	110,021	1	30,199,377	99.8	110,021	1	30,200,423	99.8

Executive Recommendation

Change Level		2017-2018	Pos	Cumulative	% of BL	2018-2019	Pos	Cumulative	% of BL
BL	Base Level	30,271,999	61	30,271,999	100.0	30,273,045	61	30,273,045	100.0
C03	Discontinue Program	(182,643)	(2)	30,089,356	99.4	(182,643)	(2)	30,090,402	99.4
C06	Restore Position/Approp	110,021	1	30,199,377	99.8	110,021	1	30,200,423	99.8

Justification

C03	The agency request is to discontinue two (2) positions that were surrendered to OPM to obtain a growth pool position that do not need to be continued in the Biennium. The reduction of Operating expenses by (\$100,000) is to align with agency needs.
C06	The agency request is to restore a growth pool position and for it to become a permanent position in the Biennium. The salary for this position is \$85,545 and personal services matching of \$24,476.

Analysis of Budget Request

Appropriation: C57 - AR Housing Trust Advisory Comm

Funding Sources: 123 - Arkansas Development Finance Authority Cash

The Arkansas Housing Trust Fund Arkansas Housing Trust Fund Advisory Committee was established by Act 661 of 2009, as amended (A.C.A. §15-5-1701) to provide a source of funds for communities to address affordable housing needs. Act 661 of 2009 also created the Arkansas Housing Trust Fund Advisory Committee to provide advice to the Authority's Board of Directors on matters relating the Housing Trust Fund and its programs. Act 764 of 2012 provided a "one time transfer" from unexpended balances of funds received by the Division of Check Cashing of the State Board of Collections Agencies under the Check-Cashers Act. Program funding is contingent on the Arkansas Housing Trust Fund Advisory Committee securing a dedicated funding source.

The Authority uses this appropriation to provide for personal services and operating expenses for the Housing Trust Fund Advisory Committee.

Base Level for this appropriation is \$15,718 each year of the 2017-2019 Biennium. The Agency's Change level request is (\$243) each year to reduce appropriation down to the funding level.

The Executive Recommendation provides for the Agency Request. Expenditure of appropriation is contingent upon available funding.

Appropriation Summary

Appropriation: C57 - AR Housing Trust Advisory Comm

Funding Sources: 123 - Arkansas Development Finance Authority Cash

Historical Data

Agency Request and Executive Recommendation

Commitment Item	2015-2016 Actual	2016-2017 Budget	2016-2017 Authorized	2017-2018			2018-2019		
				Base Level	Agency	Executive	Base Level	Agency	Executive
Ar Housing Trust Fund 5900046	30,244	15,718	45,718	15,718	15,475	15,475	15,718	15,475	15,475
Total	30,244	15,718	45,718	15,718	15,475	15,475	15,718	15,475	15,475
Funding Sources									
Cash Fund 4000045	30,244	15,718		15,475	15,475	15,475	15,475	15,475	15,475
Total Funding	30,244	15,718		15,475	15,475	15,475	15,475	15,475	15,475
Excess Appropriation/(Funding)	0	0		243	0	0	243	0	0
Grand Total	30,244	15,718		15,718	15,475	15,475	15,718	15,475	15,475

Expenditure of appropriation is contingent upon available funding.

Change Level by Appropriation

Appropriation: C57 - AR Housing Trust Advisory Comm
Funding Sources: 123 - Arkansas Development Finance Authority Cash

Agency Request

Change Level		2017-2018	Pos	Cumulative	% of BL	2018-2019	Pos	Cumulative	% of BL
BL	Base Level	15,718	0	15,718	100.0	15,718	0	15,718	100.0
C03	Discontinue Program	(243)	0	15,475	98.5	(243)	0	15,475	98.5

Executive Recommendation

Change Level		2017-2018	Pos	Cumulative	% of BL	2018-2019	Pos	Cumulative	% of BL
BL	Base Level	15,718	0	15,718	100.0	15,718	0	15,718	100.0
C03	Discontinue Program	(243)	0	15,475	98.5	(243)	0	15,475	98.5

Justification

C03	The agency requests to reduce the appropriation balance of the Arkansas Housing Trust Fund to \$15,475 for each fiscal year within the Biennium.
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