

AR DEVELOPMENT FINANCE AUTHORITY

Enabling Laws

Acts 51 and 118 of 2012
A.C.A. § 15-5-101 et seq.

History and Organization

Indebtedness of the Authority:

Bonds and other debt instruments issued by Arkansas Development Finance Authority (ADFA) are special obligations of the Authority, payable solely from and secured by a lien on the proceeds pledged under the various resolutions authorizing the particular bond issues. The State of Arkansas is not obligated to pay the bonds, and neither the faith nor the taxing power of the State of Arkansas is pledged against the obligations of the Authority.

Operational Funding of the Authority:

The operations and expenses of the Authority are paid entirely from revenue from its various programs. ADFA receives no fund appropriations from the State, and it imposes no taxes and has no taxing authority. Also, it 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 sustain its operations, but build a capital base which has enabled the Authority (without any draw on the State's general appropriations) to create new loan funds and other programs that play an important role in advancing the mission of the Authority.

Mission and Activities of the Authority:

The mission statement of the Authority is as follows:

The Mission Statement of the Arkansas Development Finance Authority is to provide and support affordable financing for the housing, economic, agricultural and governmental needs of Arkansas. ADFA accomplishes this through a powerful network of partners dedicated to promoting greater economic opportunities and improving the general health, safety and welfare of the state and its citizens.

ADFA administers several different programs in each of these activity areas that further the cause of each goal. With the business-like flexibility afforded ADFA by its statutory charge and, under the guidance of a very active and professional Board of Directors, ADFA has added and discontinued programs from time to time, with consideration given to demands and resource availability. Almost all 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.

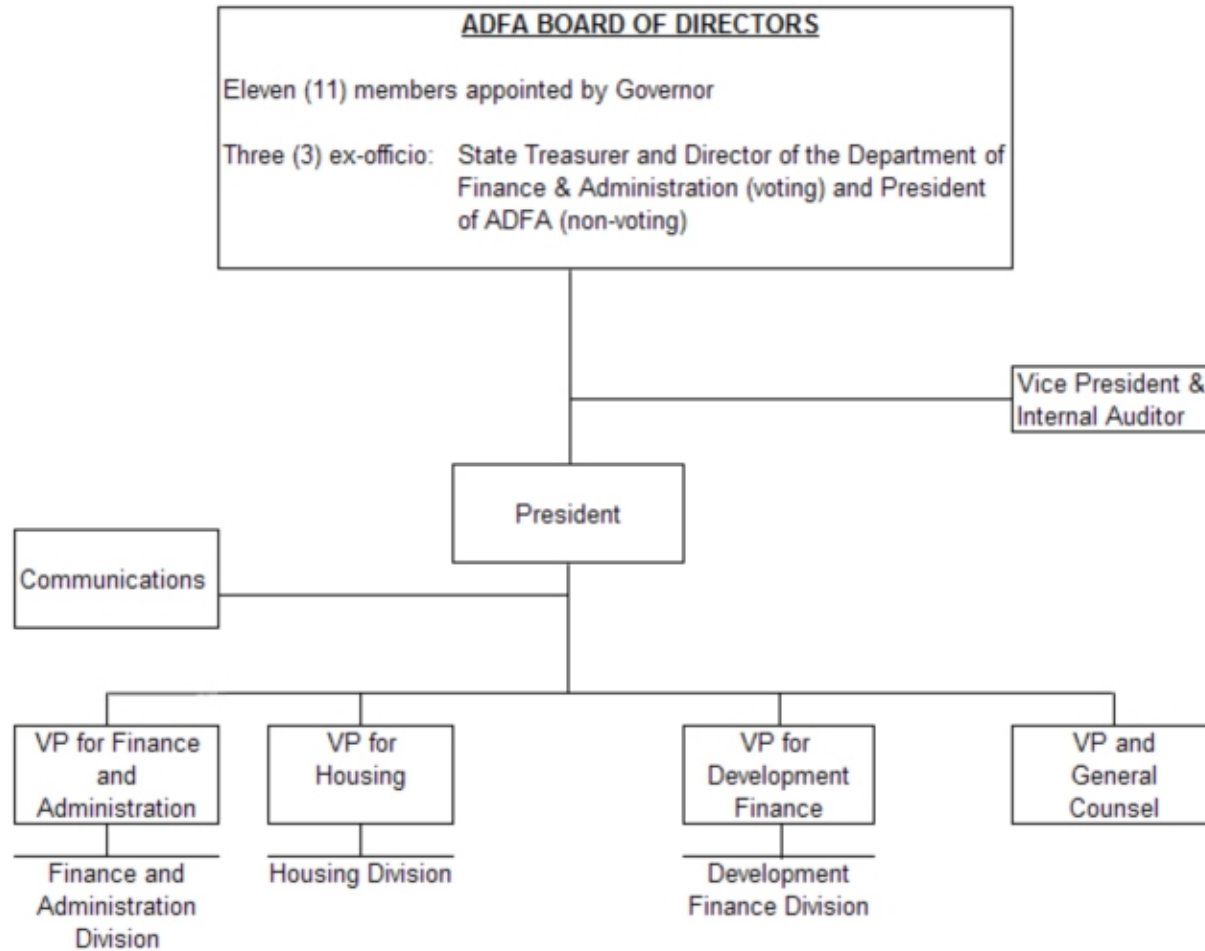
Oversight of the Authority:

The Authority is subject to considerable oversight both from within and outside the Agency. An internal audit division was established in 1996. This decision has made tremendous strides in strengthening ADFA in terms of compliance, internal accounting controls and the general integrity of the Agency and its programs. Along with the internal audit and compliance oversight:

1. A 14-member 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 Agency, (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. ADFA has an annual independent audit performed by an outside accounting firm. Currently, the firm engaged is BKD, LLP, headquartered in Springfield, Mo. Along with the regular audit report, BKD also issues to the Board a "management letter" that addresses internal control weaknesses and recommendations.
3. The loan files in the Authority's Bond Guaranty Program and Intermediary Relending Program are examined by the bank examiners from the State Bank Department. This is a measure initiated in 1998 voluntarily by ADFA with a view to (a) improving the Authority's efficiencies, (b) providing credibility and integrity to the loan files and loan reserve balances and (c) saving costs in the review required by the Authority's outside independent auditors.
4. In our housing division, ADFA administers various programs under the direction of the Federal Department of Housing and Urban Development ("HUD"). HUD officials regularly come to our offices and visit property sites for the purpose of monitoring ADFA's compliance with the federal Program rules.
5. As an issuer of bonds that are exempt from federal taxation, the Authority is always subject to audit and review from the Internal Revenue Service and has occasionally been audited in the past.
6. As with all other state agencies which are part of the executive branch, ADFA and its budget, personnel, program rules and regulations, activities and other aspects of the Authority are subject to supervision and executive orders from the Governor's office and oversight and direction of the Arkansas Legislature and its various committees and subcommittees.

A final (and very comprehensive and publicly reported) area of oversight is provided by Standard & Poors, the rating agency that rates the bonds issued by the Authority. Pursuant to an application submitted by ADFA, Standard & Poor's in May, 1999, published what is called an

"Issuer Credit Rating" (comparable to the general obligation rating that is maintained by the State of Arkansas), assigning an 'A' rating to ADFA. In December 2006, the rating was upgraded to 'A+', and in March 2010, upgraded to "AA-", and in February 2011, upgraded to "AA". In assigning and maintaining this rating, ADFA 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.



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 to restore \$23,000 of appropriation to the Capital Outlay line item each year. The amount of Capital Outlay is authorized in the current biennium and is needed in each year of the upcoming Biennium to replace an existing vehicle due to the vehicles exceeding mileage and/or due to the age of the vehicle.

The federal programs are the U.S. Department of Housing and Urban Development's (HUD's) Home Program, Grants and Aid Program, Neighborhood Stabilization Program (NSP) and the Agricultural Loan Mediation and Development Program (Mediation Program).

The Grants and Aid Program, 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 reimbursement 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.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
ARKANSAS DEVELOPMENT FINANCE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2011

Findings

Recommendations

None

None

State Contracts Over \$25,000 Awarded To Minority Owned Businesses Fiscal Year 2012

None

Employment Summary

	Male	Female	Total	%
White Employees	15	31	46	82 %
Black Employees	3	7	10	18 %
Other Racial Minorities	0	0	0	0 %
Total Minorities			10	18 %
Total Employees			56	100 %

Cash Fund Balance Description as of June 30, 2012

Fund Account	Balance	Type	Location
1230200	\$231,758	Checking	Regions Banks, 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. 25-1-204

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

Department Appropriation Summary

Historical Data

Agency Request and Executive Recommendation

Appropriation	2011-2012		2012-2013		2012-2013		2013-2014					2014-2015						
	Actual	Pos	Budget	Pos	Authorized	Pos	Base Level	Pos	Agency	Pos	Executive	Pos	Base Level	Pos	Agency	Pos	Executive	Pos
A57 ADFA-Cash Operations	48,313,302	60	48,568,186	62	48,642,501	62	48,478,068	62	48,501,068	62	48,501,068	62	48,480,524	62	48,503,524	62	48,503,524	62
C57 AR Housing Trust Advisory Comm	1,623	0	49,000	0	50,000	0	49,000	0	49,000	0	49,000	0	49,000	0	49,000	0	49,000	0
Total	48,314,925	60	48,617,186	62	48,692,501	62	48,527,068	62	48,550,068	62	48,550,068	62	48,529,524	62	48,552,524	62	48,552,524	62

Funding Sources		%		%		%		%		%		%		%		%		%	
Fund Balance	4000005	392,994	0.8	231,758	0.5			231,758	0.5	231,758	0.5	231,758	0.5	231,758	0.5	231,758	0.5	231,758	0.5
Federal Revenue	4000020	34,753,615	71.6	42,541,215	87.1			42,541,215	87.2	42,541,215	87.2	42,541,215	87.2	42,541,215	87.2	42,541,215	87.2	42,541,215	87.2
Cash Fund	4000045	5,342,019	11.0	6,075,971	12.4			5,985,853	12.3	6,008,853	12.3	6,008,853	12.3	5,988,309	12.3	6,011,309	12.3	6,011,309	12.3
Federal Funds-ARRA	4000244	8,058,055	16.6	0	0.0			0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total Funds		48,546,683	100.0	48,848,944	100.0			48,758,826	100.0	48,781,826	100.0	48,781,826	100.0	48,761,282	100.0	48,784,282	100.0	48,784,282	100.0
Excess Appropriation/(Funding)		(231,758)		(231,758)				(231,758)		(231,758)		(231,758)		(231,758)		(231,758)		(231,758)	
Grand Total		48,314,925		48,617,186				48,527,068		48,550,068		48,550,068		48,529,524		48,552,524		48,552,524	

Agency Position Usage Report

FY2010 - 2011						FY2011 - 2012						FY2012 - 2013					
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	56	6	62	0	9.68 %	62	56	6	62	0	9.68 %

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 includes Career Service payments for eligible employees. Personal Services Matching also includes a \$20 increase in the monthly contribution for State employee's health insurance for a total State match per budgeted employee of \$410 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 FY13 line item maximum.

In addition to Base Level of \$48,478,068 in FY14 and \$48,480,524 in FY15, the Authority is requesting Capital Outlay of \$23,000 each year to replace a vehicle as needed due to vehicle age and/or high mileage.

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		
	2011-2012 Actual	2012-2013 Budget	2012-2013 Authorized	2013-2014			2014-2015		
				Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries 5010000	3,544,740	3,601,368	3,689,364	3,532,694	3,532,694	3,532,694	3,534,494	3,534,494	3,534,494
#Positions	60	62	62	62	62	62	62	62	62
Extra Help 5010001	3,455	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	1,016,477	1,078,618	1,064,937	1,080,174	1,080,174	1,080,174	1,080,830	1,080,830	1,080,830
Operating Expenses 5020002	502,388	825,458	825,458	825,458	825,458	825,458	825,458	825,458	825,458
Conference & Travel Expenses 5050009	58,600	81,715	81,715	81,715	81,715	81,715	81,715	81,715	81,715
Professional Fees 5060010	109,333	112,300	112,300	112,300	112,300	112,300	112,300	112,300	112,300
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	23,000	23,000	0	23,000	23,000
Data Processing Services 5900044	258,374	264,512	264,512	264,512	264,512	264,512	264,512	264,512	264,512
Hud Home Program 5900046	29,718,362	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	5,043,518	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000
ARRA of 2009 5900052	8,058,055	0	0	0	0	0	0	0	0
Total	48,313,302	48,568,186	48,642,501	48,478,068	48,501,068	48,501,068	48,480,524	48,503,524	48,503,524
Funding Sources									
Fund Balance 4000005	392,994	231,758		231,758	231,758	231,758	231,758	231,758	231,758
Federal Revenue 4000020	34,753,615	42,541,215		42,541,215	42,541,215	42,541,215	42,541,215	42,541,215	42,541,215
Cash Fund 4000045	5,340,396	6,026,971		5,936,853	5,959,853	5,959,853	5,939,309	5,962,309	5,962,309
Federal Funds-ARRA 4000244	8,058,055	0		0	0	0	0	0	0
Total Funding	48,545,060	48,799,944		48,709,826	48,732,826	48,732,826	48,712,282	48,735,282	48,735,282
Excess Appropriation/(Funding)	(231,758)	(231,758)		(231,758)	(231,758)	(231,758)	(231,758)	(231,758)	(231,758)
Grand Total	48,313,302	48,568,186		48,478,068	48,501,068	48,501,068	48,480,524	48,503,524	48,503,524

FY13 Budget amount in Personal Services Matching exceeds the authorized amount due to matching rate adjustments during the 2011-2013 Biennium. ARRA of 2009 appropriation and/or positions have been removed from Base Level and are not requested for the 2013 – 2015 Biennium.

Change Level by Appropriation

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

Agency Request

Change Level		2013-2014	Pos	Cumulative	% of BL	2014-2015	Pos	Cumulative	% of BL
BL	Base Level	48,478,068	62	48,478,068	100.0	48,480,524	62	48,480,524	100.0
C01	Existing Program	23,000	0	48,501,068	100.0	23,000	0	48,503,524	100.0

Executive Recommendation

Change Level		2013-2014	Pos	Cumulative	% of BL	2014-2015	Pos	Cumulative	% of BL
BL	Base Level	48,478,068	62	48,478,068	100.0	48,480,524	62	48,480,524	100.0
C01	Existing Program	23,000	0	48,501,068	100.0	23,000	0	48,503,524	100.0

Justification

C01	The Agency requests a Change Level to restore \$23,000 of appropriation to the Capital Outlay line item in order to replace an existing vehicle in each fiscal year of the biennium due to the vehicle exceeding the mileage and/or due to the age of the vehicle.
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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.

The Authority's Request is for Base Level of \$49,000 each year.

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	2011-2012	2012-2013	2012-2013	2013-2014			2014-2015		
	Actual	Budget	Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
AR Housing Trust Fund Advisory 5900046	1,623	49,000	50,000	49,000	49,000	49,000	49,000	49,000	49,000
Total	1,623	49,000	50,000	49,000	49,000	49,000	49,000	49,000	49,000
Funding Sources									
Cash Fund 4000045	1,623	49,000		49,000	49,000	49,000	49,000	49,000	49,000
Total Funding	1,623	49,000		49,000	49,000	49,000	49,000	49,000	49,000
Excess Appropriation/(Funding)	0	0		0	0	0	0	0	0
Grand Total	1,623	49,000		49,000	49,000	49,000	49,000	49,000	49,000