

AR DEVELOPMENT FINANCE AUTHORITY

Enabling Laws

Act 419 of 2003
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 on 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, reviewed and revised in 2001, 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.

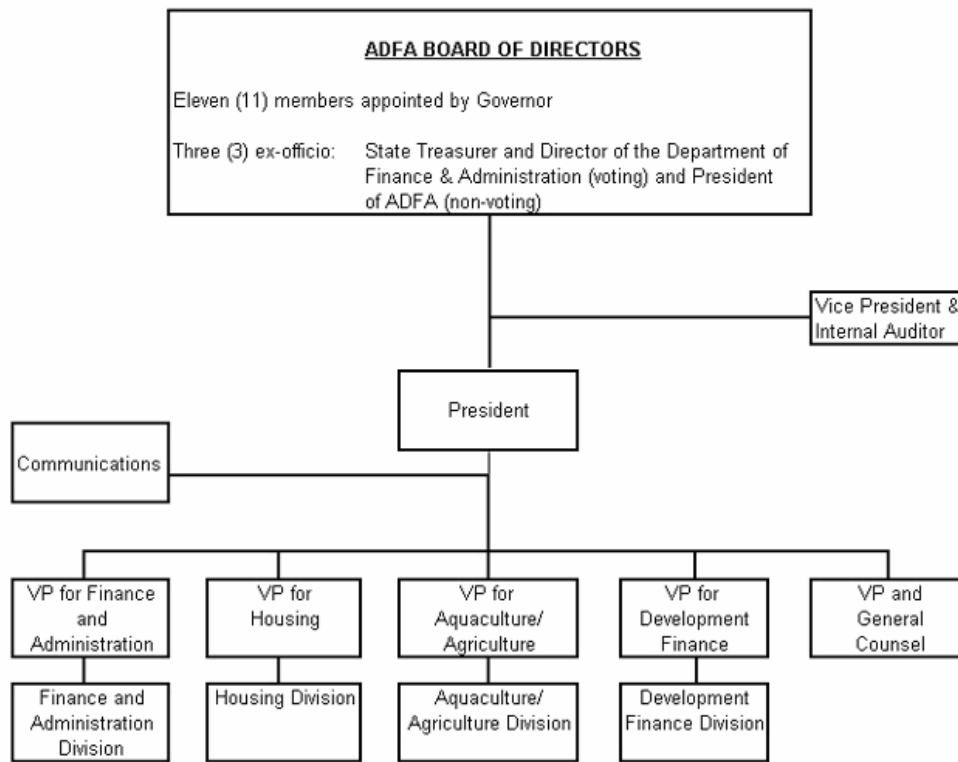
Oversight of the Authority

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 (Ark. Code Ann. §§ 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 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 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 three federal programs administered by the Arkansas Development Finance Authority (ADFA) as well as to fund the general operations of ADFA.

The three federal programs are U.S. Department of Housing and Urban Development's (HUD's) HOME Program, Section 8 Housing Assistance Payment Program (HAP Program), and the Agricultural Loan Mediation and Development Program (Mediation Program). Funding for the HOME Program, budgeted at \$12,761,800 for each fiscal year, will be in the form of federal grants. The HAP Program, budgeted at \$6,600,000 for each fiscal year, will be funded through an Annual Contributions Contact between ADFA and HUD. The Mediation Program will be funded by ADFA as well as up to \$73,980.00 per year from federal reimbursements for costs associated with the Loan Mediation Program.

General operations of ADFA include costs associated with managing the federal programs as well as administrative costs associated with issuing bonds and managing loan programs for single family and multifamily housing, economic development and governmental use.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
 AUDIT OF :
 ARKANSAS DEVELOPMENT FINANCE AUTHORITY
 FOR THE YEAR ENDED JUNE 30, 2003

| Findings | Recommendations |
|----------|-----------------|
| None | None |

Employment Summary

| | Male | Female | Total | % |
|-------------------------|------|--------|-------|-------|
| White Employees | 19 | 31 | 50 | 82 % |
| Black Employees | 4 | 7 | 11 | 18 % |
| Other Racial Minorities | 0 | 0 | 0 | 0 % |
| Total Minorities | | | 11 | 18% |
| Total Employees | | | 61 | 100 % |

Cash Fund Balance Description as of June 30, 2004

| Fund Account | Balance | Type | Location |
|--------------|-----------|----------|-------------------------------|
| 1230200 | \$300,836 | 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 use of fund balances are restricted by the terms of trust indentures that pertain to the maintenance of various funds and reserves and investment of such when not needed for authorized purposes.

Fund Balance Utilization:

The investment earnings or other income shall be used to finance activities or projects of the agency.

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.Reporting of audited agency financials. |
| Bond Issuance Report | Act 419 of 2003 | N | Y | 1 | Reporting of Quarterly Agri expenses in relation to the Agri Loan Mediation Program. |
| Bond Issues/Outstanding Report | Act 419 of 2003 | N | N | 1 | Provides comprehensive list of bonds issued and outstanding. |
| Quarterly Expenditure Report | Act 419 of 2003 | N | Y | 4 | Provides summary of bond transactions when executed. |

Analysis of Budget Request

Appropriation / Program: A57 - ADFA-Cash Ops

Funding Sources: 123 - Arkansas Development Finance Authority Cash

Arkansas Code Annotated §15-5-201 created the Arkansas Development Finance Authority along with a Board of Directors that was created in Arkansas Code Annotated § 15-5-202. The Board of Directors is composed of the Director of the Department Finance and Administration 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 and issue notes and bonds on behalf of State agencies and political subdivisions; make secured or unsecured loans; sell mortgages and security interest, 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 agency to include 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.

The Authority is requesting a Base Level of \$24,503,738 in FY06 and \$24,610,541 in FY07. Base Level for this appropriation includes graduated salary increases of 3% to 1.5% each year over FY05 salary levels, along with related Personal Services Matching costs for sixty-three (63) Base Level positions. This includes a \$600 minimum increase for employees earning \$20,000 or below. Included in Personal Services Matching is a \$40 increase in the monthly contribution for State employee's health insurance for a total State match of \$320 per month. Change Level requests reflect an increase of \$68,789 in FY06 and \$70,047 in FY07.

The Authority's Change Level requests for the 2005-2007 biennium include:

- Request to restore one (1) Property Disposition Coordinator, Grade 18 position.
- Request CLIP reclass of one (1) Accounting Supervisor I, Grade 20 position to Accounting Supervisor II, Grade 21; and a CLIP reclass of four (4) Accountant, Grade 18 positions to Accountant II, Grade 19.
- Request for Capital Outlay of \$23,000 each year of the biennium to replace one existing vehicle each year.

The Executive Recommendation provides for the Agency Request and reclassification requests as recommended by the Office of Personnel Management. Expenditure of appropriation is contingent upon available funding.

Appropriation / Program Summary

Appropriation / Program: A57 ADFS-Cash Ops
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 | | |
|--|---------------------|---------------------|-------------------------|---|-------------------|-------------------|---|-------------------|-------------------|
| | 2003-2004 Actual | 2004-2005 Budget | 2004-2005 Authorized | 2005-2006 | | | 2006-2007 | | |
| | | | | Base Level | Agency | Executive | Base Level | Agency | Executive |
| Regular Salaries 5010000 | 2,940,466 | 3,126,414 | 3,163,598 | 3,216,574 | 3,251,884 | 3,249,496 | 3,306,557 | 3,342,926 | 3,340,466 |
| #Positions | 62 | 63 | 64 | 63 | 64 | 64 | 63 | 64 | 64 |
| Extra Help 5010001 | 11,449 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| #Extra Help | 3 | 1 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Personal Services Matching 5010003 | 726,311 | 799,146 | 776,793 | 847,379 | 857,858 | 857,408 | 864,199 | 874,877 | 874,414 |
| Operating Expenses 5020002 | 556,203 | 558,858 | 558,858 | 558,858 | 558,858 | 558,858 | 558,858 | 558,858 | 558,858 |
| Travel-Conference Fees 5050009 | 52,818 | 102,315 | 102,315 | 102,315 | 102,315 | 102,315 | 102,315 | 102,315 | 102,315 |
| Professional Fees and Services 5060010 | 92,331 | 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 | 4,882,960 | 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 | 233,201 | 264,512 | 264,512 | 264,512 | 264,512 | 264,512 | 264,512 | 264,512 | 264,512 |
| HUD Home Program 5900046 | 8,943,052 | 12,761,800 | 12,761,800 | 12,761,800 | 12,761,800 | 12,761,800 | 12,761,800 | 12,761,800 | 12,761,800 |
| Total | 18,438,791 | 24,388,345 | 24,403,176 | 24,503,738 | 24,572,527 | 24,569,689 | 24,610,541 | 24,680,588 | 24,677,665 |
| Funding Sources | | | | | | | | | |
| Fund Balance 4000005 | 46,410 | 300,836 | | 310,736 | 310,736 | 310,736 | 279,551 | 279,551 | 282,389 |
| Federal Revenue 4000020 | 14,067,505 | 19,361,800 | | 19,361,800 | 19,361,800 | 19,361,800 | 19,361,800 | 19,361,800 | 19,361,800 |
| Cash Fund 4000045 | 4,625,712 | 5,036,445 | | 5,110,753 | 5,179,542 | 5,179,542 | 5,216,603 | 5,286,650 | 5,286,650 |
| Total Funding | 18,739,627 | 24,699,081 | | 24,783,289 | 24,852,078 | 24,852,078 | 24,857,954 | 24,928,001 | 24,930,839 |
| Excess Appropriation/(Funding) | (300,836) | (310,736) | | (279,551) | (279,551) | (282,389) | (247,413) | (247,413) | (253,174) |
| Grand Total | 18,438,791 | 24,388,345 | | 24,503,738 | 24,572,527 | 24,569,689 | 24,610,541 | 24,680,588 | 24,677,665 |

Special Language provides for carry forward in the HUD Home Program commitment item. The actual amount carried forward into FY05 was \$238,717.

Change Level by Appropriation

Appropriation / Program: A57-ADFA-Cash Ops

Funding Sources: 123 - Arkansas Development Finance Authority Cash

Agency Request

| Change Level | | 2005-2006 | Pos | Cumulative | % of BL | 2006-2007 | Pos | Cumulative | % of BL |
|--------------|-------------------|-------------------|-----------|-------------------|--------------|-------------------|-----------|-------------------|--------------|
| BL | Base Level | 24,503,738 | 63 | 24,503,738 | 100.0 | 24,610,541 | 63 | 24,610,541 | 100.0 |
| C01 | Existing Program | 56,709 | 1 | 24,560,447 | 100.2 | 57,605 | 1 | 24,668,146 | 100.2 |
| C09 | CLIP Reclass | 12,080 | 0 | 24,572,527 | 100.2 | 12,442 | 0 | 24,680,588 | 100.2 |

Executive Recommendation

| Change Level | | 2005-2006 | Pos | Cumulative | % of BL | 2006-2007 | Pos | Cumulative | % of BL |
|--------------|-------------------|-------------------|-----------|-------------------|--------------|-------------------|-----------|-------------------|--------------|
| BL | Base Level | 24,503,738 | 63 | 24,503,738 | 100.0 | 24,610,541 | 63 | 24,610,541 | 100.0 |
| C01 | Existing Program | 56,709 | 1 | 24,560,447 | 100.2 | 57,605 | 1 | 24,668,146 | 100.2 |
| C09 | CLIP Reclass | 9,242 | 0 | 24,569,689 | 100.2 | 9,519 | 0 | 24,677,665 | 100.2 |
| C10 | Reclass | 0 | 0 | 24,569,689 | 100.2 | 0 | 0 | 24,677,665 | 100.2 |

Justification

| | |
|-----|---|
| C01 | Agency requests change level in order to replace an existing vehicle in each fiscal year of the biennium due to the vehicle exceeding mileage and/or due to the age of the vehicle. |
| C09 | The Agency accounting staff is called upon to provide detailed information regarding the programs they administer. This includes providing DFA and other state agencies with financial statements and activity summaries. Staff also provides information to external auditors, including HUD. Special projects include research on foreclosure expenses for loans, internet reservation fees due from various lenders, and program income disbursements for HUD. |
| C10 | The Executive Recommendation provides for reclassification of one (1) Accounting Supervisor position to a User Support Analyst. |