

# AR DEVELOPMENT FINANCE AUTHORITY

## Enabling Laws

Act 5 of 2010  
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, 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.

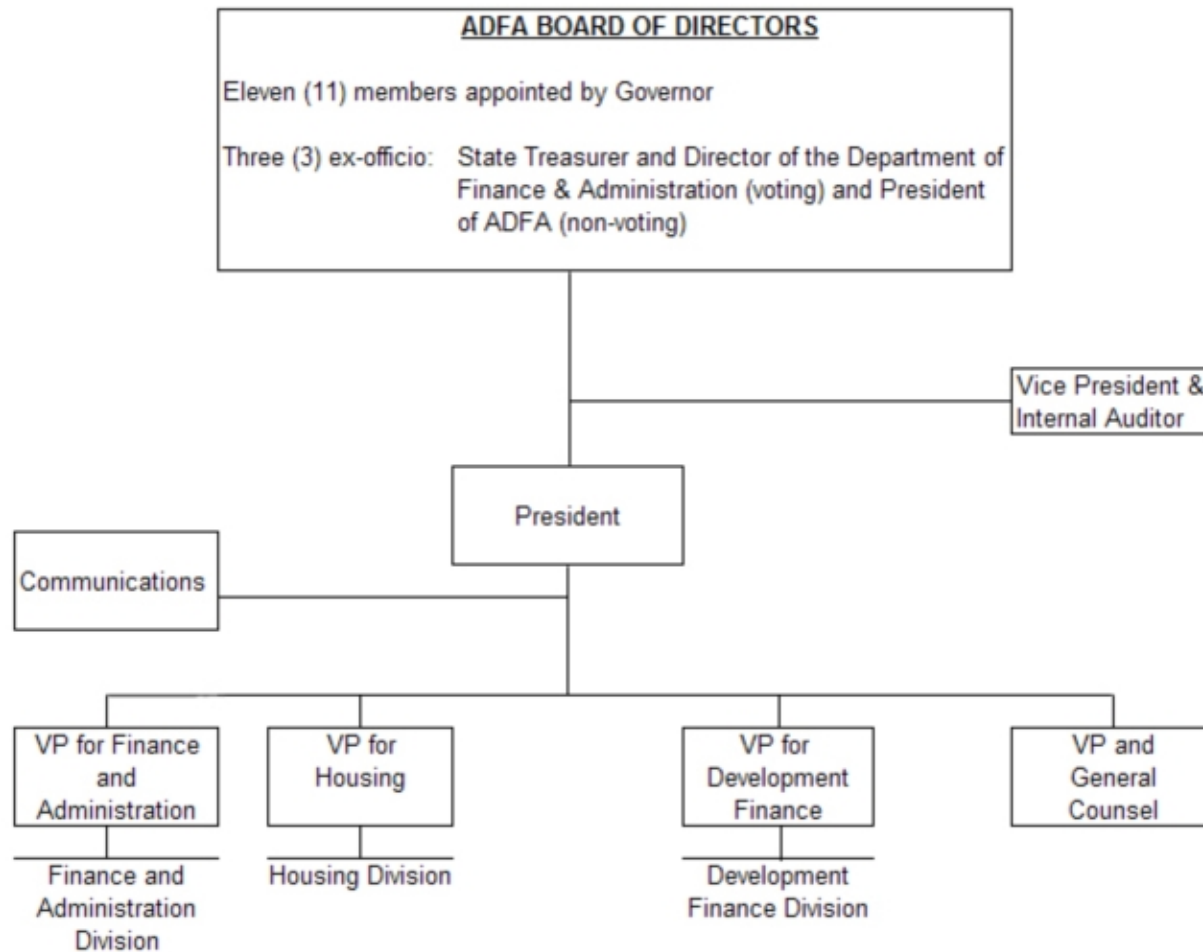
### Oversight of the Authority:

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 (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-". 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. This line item 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 Agency requests a reduction to Commitment 52 (ARRA) in the amount of \$61,075,000 for fiscal year 2012 and \$152,250,000 for fiscal year 2013. The reduction will allow a disbursement of \$91,175,000 for fiscal year 2012 and no disbursement for fiscal year 2013, as the program will be phased out. This is in accordance with federal guidelines.

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), ARRA (Exchange and Tcap) Program, and the Agricultural Loan Mediation and Development Program (Mediation Program).

Funding for the HOME Program, currently budgeted at \$16,341,215 for each fiscal year, will be in the form of federal grants.

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 (up to \$76,411 per year) for costs associated with the Loan Mediation Program.

## Audit Findings

DIVISION OF LEGISLATIVE AUDIT  
AUDIT OF :  
ARKANSAS DEVELOPMENT FINANCE AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 2009

Findings	Recommendations
None	None

## Employment Summary

	Male	Female	Total	%	
White Employees	14	31	45	80 %	
Black Employees	4	7	11	20 %	
Other Racial Minorities	0	0	0	0 %	
			Total Minorities	11	20 %
			Total Employees	56	100 %

## Cash Fund Balance Description as of June 30, 2010

Fund Account	Balance	Type	Location
1230200	\$231,508	Checking, Payroll Paying	Regions Bank, State Treasury

### 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.

## Agency Position Usage Report

FY2008 - 2009						FY2009 - 2010						FY2010 - 2011					
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	57	5	62	0	8.06 %	62	55	7	62	0	11.29 %	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, American Recovery and Reinvestment Act (ARRA) Programs and other financial programs. Funding for this appropriation is derived primarily from federal funds with other funding from bond proceeds.

Base Level salaries and matching do not include appropriation for a Cost of Living Adjustment or Career Service Payments. The Base Level salary of the unclassified position reflects the FY11 line item maximum. The Base Level request for Regular Salaries includes board member stipend payments.

The Authority's request includes Base Level appropriation totaling \$48,371,868 each year. The Authority's change level requests total \$91,206,422 in FY12 and \$31,422 in FY13, respectively. Change Level requests reflect the following:

- Reduction in Federal funded ARRA appropriation of \$61,075,000 in FY12 and \$152,250,000 in FY13 in accordance with federal disbursement guidelines. Authorized ARRA appropriation for the 2009-2011 biennium totaled \$152,250,000 each year.
- Federal funded ARRA appropriation totaling \$91,175,000 in FY12 to continue the HUD Tax Credit Assistance Program (TCAP) and the Treasury's Exchange Program, which target multi-family developments. TCAP provides federal funding to Arkansas from HUD for the express purpose of providing financing to those taxpayers "awarded" low-income housing tax credits under Section 42(h) of the Internal Revenue Code. The Treasury Exchange is a grant program whereby Arkansas can elect to receive a grant of funds in an amount up to \$.85 per tax credit for tax credits consisting of all unused and returned credits held by the Authority.
- Capital Outlay of \$23,000 each year to replace an existing vehicle due to the vehicle exceeding mileage and/or due to the age of the vehicle.

- Regular Salaries and Personal Services Matching totaling \$8,422 each year to reclassify a A080C Finance Authority Specialist to a D054C Computer Support Coordinator to provide technical support.

The Executive Recommendation provides for the Agency Request except for the reclassification of a A080C Finance Authority Specialist to a D054C Computer Support Coordinator. The replacement of an aging, high mileage vehicle each year will be determined in accordance with A.C.A. §22-8-201 et seq., Automobile and Pickup Truck Acquisition Act, which establishes guidelines for automobile replacement. 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		
	2009-2010 Actual	2010-2011 Budget	2010-2011 Authorized	2011-2012			2012-2013		
				Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries 5010000	3,292,081	3,534,380	3,534,380	3,479,640	3,486,590	3,479,640	3,479,640	3,486,590	3,479,640
<b>#Positions</b>	<b>59</b>	<b>62</b>	<b>62</b>	<b>62</b>	<b>62</b>	<b>62</b>	<b>62</b>	<b>62</b>	<b>62</b>
Extra Help 5010001	27,717	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
<b>#Extra Help</b>	<b>3</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>
Personal Services Matching 5010003	871,441	998,015	998,859	1,027,028	1,028,500	1,027,028	1,027,028	1,028,500	1,027,028
Operating Expenses 5020002	699,061	825,458	825,458	825,458	825,458	825,458	825,458	825,458	825,458
Conference & Travel Expenses 5050009	55,519	81,715	81,715	81,715	81,715	81,715	81,715	81,715	81,715
Professional Fees 5060010	107,464	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	27,311	29,000	29,000	0	23,000	23,000	0	23,000	23,000
Data Processing Services 5900044	264,368	264,512	264,512	264,512	264,512	264,512	264,512	264,512	264,512
Hud Home Program 5900046	11,149,367	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	8,107,225	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000	19,600,000
ARRA2009 5900052	27,107,785	152,250,000	152,250,000	0	91,175,000	91,175,000	0	0	0
<b>Total</b>	<b>51,709,339</b>	<b>200,676,595</b>	<b>200,677,439</b>	<b>48,371,868</b>	<b>139,578,290</b>	<b>139,569,868</b>	<b>48,371,868</b>	<b>48,403,290</b>	<b>48,394,868</b>
<b>Funding Sources</b>									
Fund Balance 4000005	237,684	231,508		231,508	231,508	231,508	231,508	231,508	239,930
Federal Revenue 4000020	19,256,592	42,541,215		42,541,215	42,541,215	42,541,215	42,541,215	42,541,215	42,541,215
Cash Fund 4000045	5,338,786	5,885,380		5,830,653	5,862,075	5,862,075	5,830,653	5,862,075	5,862,075
Federal Funds-ARRA 4000244	27,107,785	152,250,000		0	91,175,000	91,175,000	0	0	0
<b>Total Funding</b>	<b>51,940,847</b>	<b>200,908,103</b>		<b>48,603,376</b>	<b>139,809,798</b>	<b>139,809,798</b>	<b>48,603,376</b>	<b>48,634,798</b>	<b>48,643,220</b>
Excess Appropriation/(Funding)	(231,508)	(231,508)		(231,508)	(231,508)	(239,930)	(231,508)	(231,508)	(248,352)
<b>Grand Total</b>	<b>51,709,339</b>	<b>200,676,595</b>		<b>48,371,868</b>	<b>139,578,290</b>	<b>139,569,868</b>	<b>48,371,868</b>	<b>48,403,290</b>	<b>48,394,868</b>

## Change Level by Appropriation

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

### Agency Request

Change Level		2011-2012	Pos	Cumulative	% of BL	2012-2013	Pos	Cumulative	% of BL
BL	Base Level	48,371,868	62	48,371,868	100.0	48,371,868	62	48,371,868	100.0
C01	Existing Program	23,000	0	48,394,868	100.0	23,000	0	48,394,868	100.0
C03	Discontinue Program	(61,075,000)	0	(12,680,132)	-26.2	(152,250,000)	0	(103,855,132)	-214.7
C10	Reclass	8,422	0	(12,671,710)	-26.2	8,422	0	(103,846,710)	-214.7
C16	ARRA	152,250,000	0	139,578,290	288.6	152,250,000	0	48,403,290	100.1

### Executive Recommendation

Change Level		2011-2012	Pos	Cumulative	% of BL	2012-2013	Pos	Cumulative	% of BL
BL	Base Level	48,371,868	62	48,371,868	100.0	48,371,868	62	48,371,868	100.0
C01	Existing Program	23,000	0	48,394,868	100.0	23,000	0	48,394,868	100.0
C03	Discontinue Program	(61,075,000)	0	(12,680,132)	-26.2	(152,250,000)	0	(103,855,132)	-214.7
C10	Reclass	0	0	(12,680,132)	-26.2	0	0	(103,855,132)	-214.7
C16	ARRA	152,250,000	0	139,569,868	288.5	152,250,000	0	48,394,868	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.
C03	The agency requests a Change Level to reduce Commitment 52 (ARRA) in the amount of \$61,075,000 for fiscal year 2012 and \$152,250,000 for fiscal year 2013. This is in accordance with federal guidelines in regard to disbursements of the programs.
C10	ADFA utilizes various proprietary software to administer agency programs. The agency saves money when its own IT personnel can assist ADFA staff instead of calling on software providers for assistance. Monitoring various projects related to various software and the assistance being provided at increased levels is very time consuming, warranting a new sub-supervisory level within the department. A small increase in appropriation will be necessary as the budgeted Finance Authority Specialist C117 we would be trading in for the Computer Support Coordinator C121.
C16	ADFA's ARRA programs are HUD's Tax Credit Assistance Program ("TCAP") and Treasury's Exchange Program, both of which involve multi-family developments. TCAP provides financing to those developments awarded low-income housing tax credits under Section 42(h) of the Internal Revenue Code. The Exchange Program is a grant program whereby low income housing tax credits can be exchanged for \$.85 per credit. These programs are to build and rehabilitate affordable housing in Arkansas.