

# AR DEVELOPMENT FINANCE AUTHORITY

## Enabling Laws

Act 96 of 2005  
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.

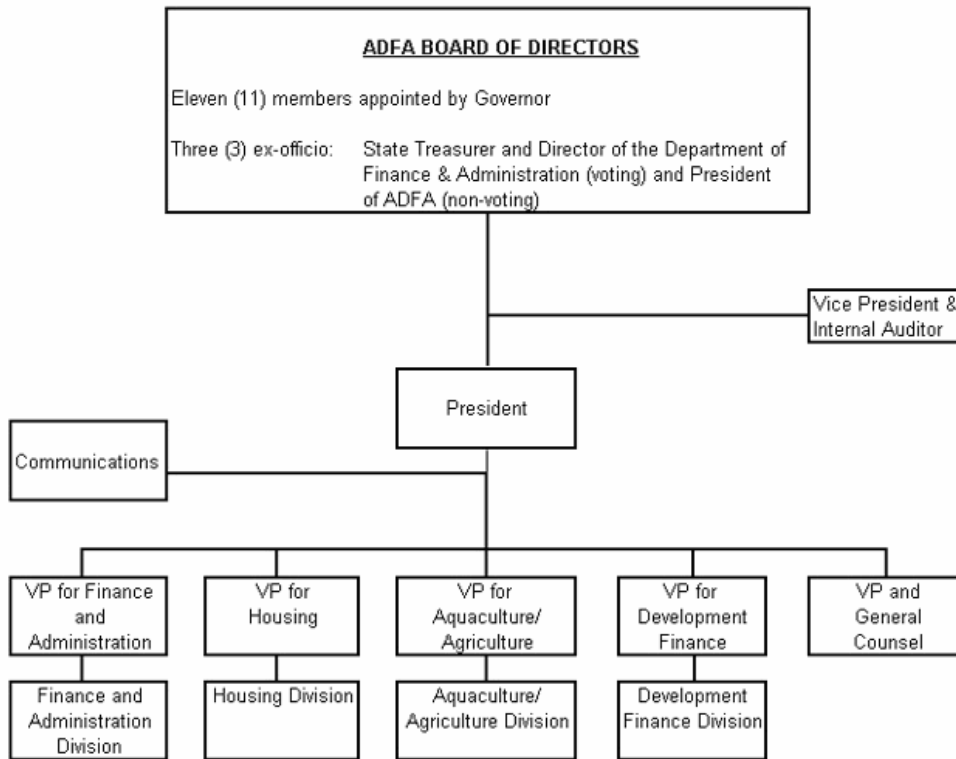
### Oversight of the Authority

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 & Poor's, 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 federal programs administered by the Arkansas Development Finance Authority (ADFA) as well as to fund the general operations of ADFA.

As in prior years, the Agency is requesting to restore one position, currently authorized but not budgeted due to Personnel Cap Level restrictions. The Agency currently has 63 positions authorized and budgeted for each fiscal year. This position is needed to maintain appropriate staffing within the housing section as new programs become available. The request to restore this position will be an “appropriation only” request, no additional funding for this position will be requested.

The Agency also requests to restore \$23,000 of appropriation to the Capital Outlay line item each year. This 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 Programs, and the Agricultural Loan Mediation and Development Program (Mediation Program).

Funding for the HOME Program, currently budgeted at \$12,761,800 for each fiscal year, will be in the form of federal grants. The Agency requests a cash fund appropriation increase for this program in the amount of \$1.5 million for each year, for a total budgeted amount of \$14,261,800 per fiscal year. This increase is needed to provide adequate funding to develop and support affordable housing, in response to an increase in HOME fund applications and eligible developments. Federal funds will be available for this Change Level increase. A cash increase request was approved for an additional \$1.5 million in Fiscal Year 2006 and is anticipated to be a request in and for Fiscal Year 2007.

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 (up to \$73,980 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, 2005

Findings	Recommendations
None	None

**Employment Summary**

	Male	Female	Total	%
White Employees	17	28	45	79 %
Black Employees	5	7	12	21 %
Other Racial Minorities	0	0	0	0 %
Total Minorities			12	21 %
Total Employees			57	100 %

**Cash Fund Balance Description as of June 30, 2006**

Fund Account	Balance	Type	Location
1230200	\$0	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 25-1-204**

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 419 of 2003	N	Y	1	Provides summary of bond transactions when executed.
Bond Issues/Outstanding Report	Act 419 of 2003	N	N	1	Provides comprehensive list of bonds issued and outstanding.

**Agency Position Usage Report**

FY2004-2005						FY2005-2006						FY2006-2007					
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	
64	57	6	63	1	10.94%	64	59	4	63	1	7.81%	64	57	6	63	1	10.94%

## **Analysis of Budget Request**

**Appropriation:** 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.

A cost of living increase is not incorporated in Base Level pending the outcome of the Classification and Compensation Study. The Base Level request of \$3,329,066 for FY08 and FY09 does include board member Stipend payments. FY07 salary levels have been held flat each year for all incumbents. Personal Services Matching reflects increases in the Base Level due to the Social Security Tax maximum income limit and certain increases in Worker's Compensation and Unemployment Tax rates. Personal Services Matching also includes a \$30 increase in the monthly contribution for State employee's health insurance for a total State match per budgeted employee of \$350 per month.

The Authority is requesting a Base Level of \$24,706,759 for FY08 and \$24,707,095 for FY09.

The Authority's Change Level requests reflect an increase of \$1,558,341 for each year and include:

- Request to restore one (1) Property Disposition Coordinator, Grate 18 position. Increase in Regular Salaries of \$25,897, and Personal Services Matching \$9,444.
- Request Capital Outlay of \$23,000 each year of the biennium to replace one existing vehicle each year.
- Request increase in appropriation of \$1.5 million for each year of the biennium to compensate for an increase in HOME fund applications and eligible developments. This program is federally funded.

The Executive Recommendation provides for the Agency Request.

## Appropriation Summary

**Appropriation:** 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		
	2005-2006 Actual	2006-2007 Budget	2006-2007 Authorized	2007-2008			2008-2009		
				Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries 5010000	3,057,803	3,328,066	3,340,466	3,328,066	3,353,963	3,353,963	3,328,066	3,353,963	3,353,963
<b>#Positions</b>	<b>62</b>	<b>63</b>	<b>64</b>	<b>63</b>	<b>64</b>	<b>64</b>	<b>63</b>	<b>64</b>	<b>64</b>
Extra Help 5010001	2,551	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
<b>#Extra Help</b>	<b>2</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>
Personal Services Matching 5010003	849,192	905,221	874,414	938,908	948,352	948,352	939,244	948,688	948,688
Operating Expenses 5020002	525,578	558,858	558,858	558,858	558,858	558,858	558,858	558,858	558,858
Conference & Travel Expenses 5050009	78,305	102,315	102,315	102,315	102,315	102,315	102,315	102,315	102,315
Professional Fees 5060010	91,820	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	5,243,098	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	10,190	23,000	23,000	0	23,000	23,000	0	23,000	23,000
Data Processing Services 5900044	262,227	264,512	264,512	264,512	264,512	264,512	264,512	264,512	264,512
HUD Home Program 5900046	12,760,670	12,761,800	12,761,800	12,761,800	14,261,800	14,261,800	12,761,800	14,261,800	14,261,800
<b>Total</b>	<b>22,881,434</b>	<b>24,696,072</b>	<b>24,677,665</b>	<b>24,706,759</b>	<b>26,265,100</b>	<b>26,265,100</b>	<b>24,707,095</b>	<b>26,265,436</b>	<b>26,265,436</b>
<b>Funding Sources</b>									
Fund Balance 4000005	110,335	0		12,400	12,400	12,400	0	0	0
Federal Revenue 4000020	17,892,898	19,361,800		19,361,800	20,861,800	20,861,800	19,361,800	20,861,800	20,861,800
Cash Fund 4000045	4,878,201	5,346,672		5,332,559	5,390,900	5,390,900	5,345,295	5,403,636	5,403,636
<b>Total Funding</b>	<b>22,881,434</b>	<b>24,708,472</b>		<b>24,706,759</b>	<b>26,265,100</b>	<b>26,265,100</b>	<b>24,707,095</b>	<b>26,265,436</b>	<b>26,265,436</b>
Excess Appropriation/(Funding)	0	(12,400)		0	0	0	0	0	0
<b>Grand Total</b>	<b>22,881,434</b>	<b>24,696,072</b>		<b>24,706,759</b>	<b>26,265,100</b>	<b>26,265,100</b>	<b>24,707,095</b>	<b>26,265,436</b>	<b>26,265,436</b>

The FY07 Budgeted amount in Personal Services Matching exceeds the authorized amount due to matching rate adjustments during the 2005-2007 biennium.



## Change Level by Appropriation

**Appropriation:** A57-ADFA-Cash Ops

**Funding Sources:** 123 - Arkansas Development Finance Authority Cash

### Agency Request

Change Level		2007-2008	Pos	Cumulative	% of BL	2008-2009	Pos	Cumulative	% of BL
<b>BL</b>	<b>Base Level</b>	<b>24,706,759</b>	<b>63</b>	<b>24,706,759</b>	<b>100.0</b>	<b>24,707,095</b>	<b>63</b>	<b>24,707,095</b>	<b>100.0</b>
C01	Existing Program	1,558,341	1	26,265,100	106.3	1,558,341	1	26,265,436	106.3

### Executive Recommendation

Change Level		2007-2008	Pos	Cumulative	% of BL	2008-2009	Pos	Cumulative	% of BL
<b>BL</b>	<b>Base Level</b>	<b>24,706,759</b>	<b>63</b>	<b>24,706,759</b>	<b>100.0</b>	<b>24,707,095</b>	<b>63</b>	<b>24,707,095</b>	<b>100.0</b>
C01	Existing Program	1,558,341	1	26,265,100	106.3	1,558,341	1	26,265,436	106.3

### Justification

C01 The Agency requests a Change Level increase to Capital Outlay in the amount of \$23,000 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. The Agency requests a Change Level increase to HUD Home Program in the amount of \$1.5 million in order to provide adequate funding to develop and support affordable housing, in response to an increase for HOME funds and eligible developments (source of increase: U.S. HUD federal dollars). The Agency requests a Change Level increase to Regular Salaries in the amount of \$25,897 each fiscal year to restore an authorized position that was not budgeted in fiscal year 2007.