

Arkansas Development Finance Authority

Enhancing Quality of Life in Arkansas by Providing Access to Capital and Cost-Efficient Financing Since 1985



Single and Multi-Family Housing
Economic Development
Agriculture
State Government
Nonprofits
Education
Health Care
Small Business
Venture Capital



HEART HEALTHY
100% All-natural, non-GMO,
No Fat and Cholesterol Free.
Healthy. Just good.

Summary

ADFA Background

ADFA was created in 1985 to complement existing financial institutions in providing efficient, cost-effective financing for various public purposes.

ADFA has long-term relationships with communities, lenders, housing agencies, nonprofits, manufacturers, and start-ups throughout Arkansas.

ADFA's role with State General Obligations

ADFA is the entity that issues most General Obligation bonds on behalf of the State. ADFA performs certain tasks related to GO issues including:

- Managing the Issuance Process
- Selecting Professionals
- Monitoring/Servicing
- Requesting and Monitoring the Credit Rating

State GO Debt Profile

Outstanding GO Debt = \$1.49 billion

- \$374 mil. is a true General Obligation
- \$1.121 billion paid from a dedicated revenue source, such as:
 - wastewater fees
 - ½-cent sales tax for highways
 - Tobacco Settlement Funds
- \$107 mil. to be retired by EOY 2017

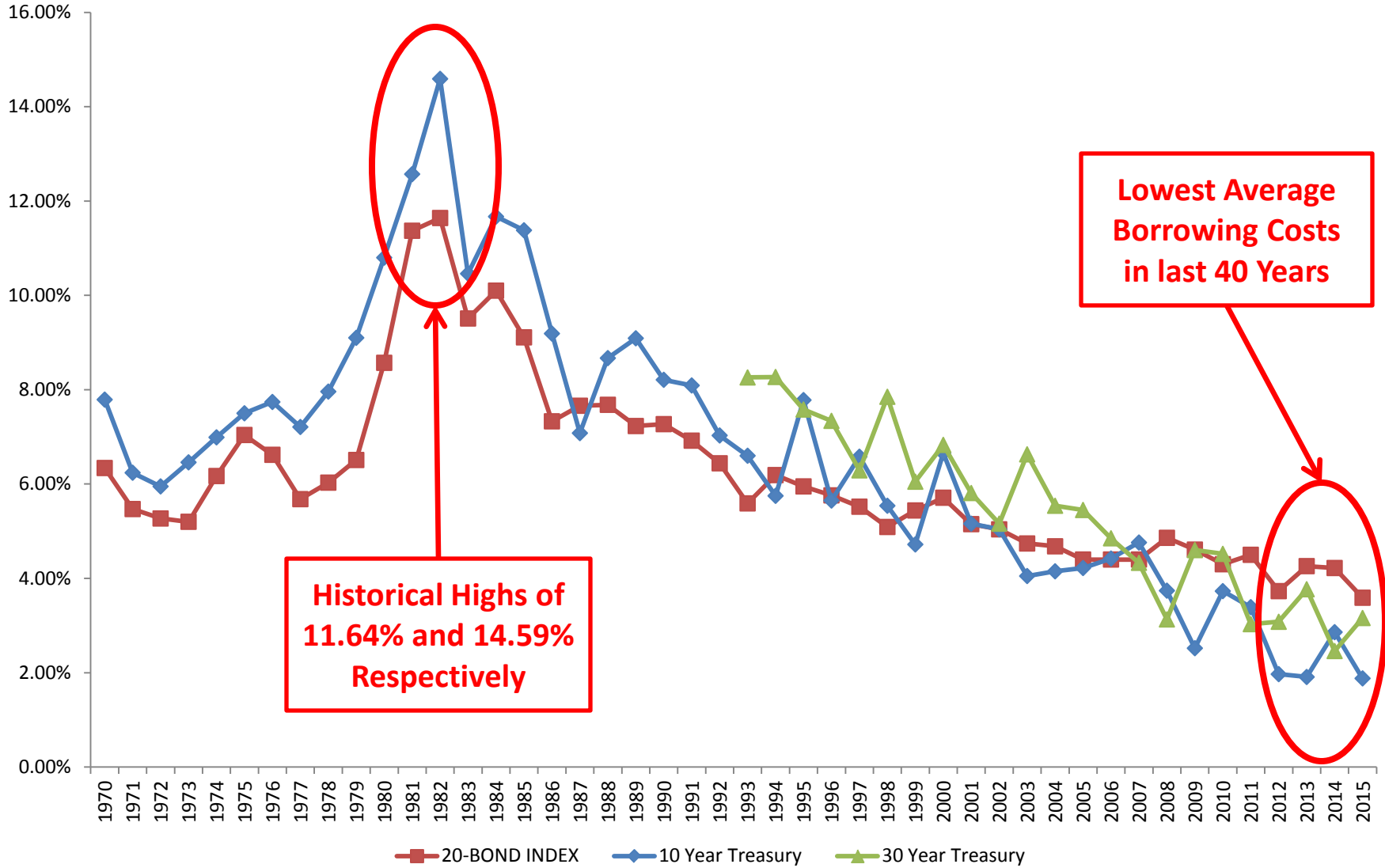
Current State GO Rating

Arkansas enjoys a sound, stable AA General Obligation (GO) rating.

- S&P Rating --> AA Stable
 - Expects no change over next 2 yrs.
 - Rating maintained since June 1966
- Moody's Rating --> Aa1
 - Upgraded from Aa2 in 2010

ADFA uses the ratings, but has no ability to cause the rating to be changed.

Current and Historical Interest Rate Environment



How Arkansas Compares to its Peers

| State | Ratings | Population | GDP (millions) | 30 Year Bond Rates* |
|-------------|---------|------------|----------------|---------------------|
| Arkansas | Aa1/AA | 2,949,131 | \$115,745 | 3.30% |
| Iowa | Aaa/AAA | 3,074,186 | \$150,515 | 3.28% |
| Kansas | Aa2/AA | 2,885,905 | \$132,153 | 3.34% |
| Kentucky | Aa2/AA- | 4,380,415 | \$170,667 | 3.40% |
| Louisiana | Aa2/AA | 4,601,893 | \$222,008 | 3.69% |
| Mississippi | Aa2/AA | 2,984,926 | \$96,979 | 3.47% |

*Tax-Exempt Rates

AR GO Debt Market Acceptance

Arkansas's GO debt typically trades better than other state's AA GO debt and on par with most AAA debt.

- As of 6/5/15, AR GO debt traded at **3.30%** compared to peer average of **3.44%**.
 - **This is ADFA's best indicator of how the market will receive a new GO offering.**

Comparison with other State Ratings (S&P)

- 13 States have a AA Rating (like AR)
 - Examples: AL, CT, KS, LA, MS, NV, WI
- 12 States have a AA+ Rating
 - Examples: MA, MN, NM, NY, OK, TN
- 16 States have a AAA Rating
 - Examples: GA, MO, TX, VA
- 8 States have a AA- or lower rating
 - AZ, CA, IL, KY, MI, NJ, PA, WV

How the Rating Agencies View Arkansas

GO Rating Framework

- Government Framework
 - Fiscal Policy Framework
- Financial Management
 - Budget Management
- State's Economy
 - Demographic Profile
 - Economic Structure
 - Wealth and Income
 - Economic Development
- Budgetary Performance
 - Budget Reserves
 - Liquidity
 - Tax/Revenue Structure
 - Revenue Forecasting
 - Service Levels/Structural Performance
- Debt and Liability Profile
 - Debt Burden
 - Pension Liabilities
 - OPEB Risk Assessment

Arkansas's Strengths

- History of strong GAAP-basis fund balance
- Statutory budgetary framework that supports conservative financial management
 - Due to Revenue Stabilization
- Low debt levels relative to other states
 - Maintaining this strategy is important factor in maintaining current rating.

Challenges to Securing a Higher Rating

- Overall economic health of the State
 - Low wealth levels and high economic concentration compared to nation
- Existing level of "Rainy day" Fund
 - Currently adequate to maintain existing rating
- Unfunded or underfunded pension liabilities and OPEBs.

What if Arkansas had a AAA Rating? The Lockheed Martin Test Case

Summary

The direct effect of a higher rating is the potential for lower borrowing costs.

- Attaining a AAA rating in today's market is projected to yield 10-15 basis point lower borrowing cost.
- AAA rating also yields qualitative benefits that ADFA cannot reasonably measure.

Lockheed Martin Project

ADFA used the pending Lockheed Martin Amendment 82 project to perform a hypothetical analysis of the true dollar savings potentially gained if Arkansas were to achieve a AAA rating on this bond issue.

The results were:

- 12 Basis Point Lower Borrowing Cost
- Total savings over the 20 year life of the bond issue = \$1,275,957
- **Annual savings = \$63,798.**

12 Basis Point Difference

**\$1.3 mil. projected savings over 20 years
= \$64,000 savings per year.**

| | Term | Principal | True Interest Cost* | Interest | Total Debt Service |
|-------------------|----------|--------------|---------------------|--------------|--------------------|
| AA Rating | 20 years | \$87,145,000 | 4.03% | \$37,406,646 | \$124,551,646 |
| AAA Rating | 20 Years | \$87,145,000 | 3.91% | \$36,130,689 | \$123,275,689 |

*Taxable Rates