**Legislative Fiscal Bureau**
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June 16, 2020

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Wisconsin Housing and Economic Development Authority: Amended 2019-20 Dividends for Wisconsin Plan -- Agenda Item I

Annually, the Wisconsin Housing and Economic Development Authority (WHEDA) develops a plan entitled "Dividends for Wisconsin," which outlines how surplus funds from the previous fiscal year will be allocated among its programs for single-family and multifamily housing, economic development, emergency and transitional housing, and Authority operations. The 2019-20 Dividends for Wisconsin Plan reported a fiscal year 2018-19 surplus of $16,721,900.

Under the process established by s. 234.165 of the statutes, WHEDA's Board approves the plan, and submits it to the Governor. The Governor may then make modifications to the plan, and submit it to the Legislature for consideration. On August 21, 2019, WHEDA's Board unanimously approved the plan, and submitted it to the Governor. On September 27, 2019, the Governor forwarded the plan without amendment to the presiding officers of the Assembly and Senate.

On October 7, 2019, the Speaker of the Assembly referred the plan to the Assembly Committee on Housing and Real Estate. On October 24, 2019, by a vote of 5 to 3, the Assembly Committee on Housing and Real Estate objected to the plan. In objecting to the Dividends plan, the Committee did not recommend any specific modifications, but noted that Categories IV and V, related to housing grants or services, and Authority operations, respectively, gave insufficient consideration to rural housing. By statute, if a standing committee objects to the surplus plan, the parts of the plan subject to the objection are referred to the Joint Committee on Finance, which must consider it within 30 days. The Joint Committee on Finance met on October 31, 2019, to consider the plan and took no action.

On December 18, 2019, the WHEDA Board approved an amended plan (Attachment 2), and submitted it to the Governor. On January 7, 2020, the Governor forwarded the amended plan without further revisions to the Co-Chairs of the Joint Committee on Finance. The amended plan is now pending before the Committee for consideration.

## BACKGROUND

### WHEDA Surplus Reserves

The Authority's primary sources of program funding have been proceeds from the issuance of taxable and tax-exempt bonds and notes, and funds in excess of required reserves. In general, the Authority's assets derive from income receivable on outstanding loans, including interest and fee income from its programs, and its liabilities derive from debt incurred on the sale of bonds and notes used to finance its programs. As an independent authority, WHEDA has received funding from state appropriations only in rare circumstances, such as at the Authority's inception and at the creation of certain programs.

Table 1 shows the Authority's financial position each of the last two fiscal years as of June 30. The Authority completed the 2018-19 fiscal year with assets and reserves exceeding liabilities by approximately $845 million. Of that balance, approximately $579 million was restricted for bond redemption funds and for programs for which the source of funding is outside the Authority. Restricted funds may only be used for permitted investments and permitted disbursements such as payment or repayment of principal, bond interest, and program expenses.

The $266 million difference between total and restricted reserves represents the Authority's general reserve fund. The statutes require WHEDA to establish a general reserve fund but provide discretion as to how certain assets of the fund are used. WHEDA encumbered $204 million as of June 30, 2019, for targeted single-family and multifamily housing programs, and economic development programs. An additional $45 million as of June 30, 2019, was encumbered for WHEDA operations. The 2019-20 plan before the Committee lists and describes the allocations of WHEDA's remaining $16.7 million in unencumbered general reserves to be used or encumbered in the 2019-20 fiscal year.

**TABLE 1**

**WHEDA Combined Balance Sheet, 2018 and 2019 (June 30)**

| | 2018 | 2019 |
|---|---|---|
| Total restricted and unrestricted reserves | $758,387,000 | $845,452,000 |
| Restricted reserves for bond resolutions and other funds | - 509,219,600 | - 579,343,000 |
| General reserve fund balance | $249,167,400 | $266,109,000 |
| Other housing and economic development encumbrances | - 175,090,400 | - 203,903,100 |
| Less encumbered for WHEDA operations | - 44,658,900 | - 45,484,000 |
| Unencumbered general reserves ("Surplus" to Dividends for Wisconsin plan) | $29,418,100 | $16,721,900 |

WHEDA is required by statute to maintain an unencumbered general reserve fund, also referred to as a surplus fund, consisting of any Authority assets in excess of operating costs and required reserves. By statute, surplus reserves include assets of the Authority that are not needed: (a) to pay the cost of issuance of bonds or notes; (b) to make financially feasible loans to economic development and housing projects receiving proceeds from bond or note issues; or (c) to honor agreements with bondholders and noteholders. Annually, these surplus reserves are allocated under the Dividends for Wisconsin plan, and totaled $16,721,900 as of June 30, 2019. (It should be noted that WHEDA also administers certain other statutorily created housing and economic development loan programs, although these programs and their reserves are administered separately from WHEDA's general reserves.)

**Plan Review Process**

Annually, WHEDA develops a plan for use of its surplus funds. Each plan is subject to public hearings and a comment period to solicit input for the programs or policy issues most worthy of receiving allocations under each plan. Each Dividends plan also typically describes the program needs identified prior to the plan's submittal for WHEDA Board review, as well as the goals WHEDA management and staff are attempting to achieve through implementation of the plan. Once approved by the Board, WHEDA's chairperson submits this plan to the Governor, who may modify it. The Governor must submit the plan to the Legislature and relevant standing committees in each house for review. If no standing committee objects to the plan, it is approved. If an objection is raised, it is referred to the Joint Committee on Finance, which is required to meet in executive session within 30 days to consider the objection. The Committee may take action any time after a referral.

Pursuant to s. 234.165(2)(b)6 of the statutes, the Joint Committee on Finance has several options for action on the Dividends plan. It may: (a) concur in the standing committee objections; (b) approve the plan submitted by the Governor, notwithstanding standing committee objections; (c) approve modifications to the plan, if the standing committee modified all or part of the plan; or (d) modify the portions of the plan objected to by the standing committee. Modifications to the plan could include adjusting funding allocations, creating new programs, altering program structure, or specifying eligibility criteria.

The statutes provide that the Committee may make "modifications to the parts referred to it which are approved by the Governor." Thus, any modifications made to this plan would require approval of the Governor. Any whole or partial veto to s. 13.10 minutes associated with modifications made to the Dividends plan could be construed as the Governor's disapproval, regardless of any subsequent veto override by the Committee.

**ANALYSIS**

Table 2 shows the annual surplus as of each June 30 for the last 15 years. Surpluses over the period total $130.3 million. The surplus for each of the last two fiscal years has been unusually high, and accounts for approximately 35% of the 15-year period. WHEDA has identified the June 30, 2019, surplus to be primarily from: (a) revenues from single-family housing programs, including additional interest proceeds from purchasing a portfolio of veterans housing loans from the

Department of Veterans Affairs; and (b) income from the state low-income housing tax credit, which was created under 2017 Wisconsin Act 176 and has made three rounds of awards. Also, the larger amount in 2017-18 primarily reflects WHEDA's sale of its Madison office building to the Department of Administration, generating $19 million, or 65% of that year's surplus revenues.

**TABLE 2**

**WHEDA Surplus Funds, 2005-06 to 2019-20**

| Plan Year | Amount* |
|---|---|
| 2005-06 | $8,066,300 |
| 2006-07 | 7,757,300 |
| 2007-08 | 5,627,600 |
| 2008-09 | 8,000,400 |
| 2009-10 | 3,453,000 |
| 2010-11 | 4,405,500 |
| 2011-12 | 14,316,100 |
| 2012-13 | 8,887,000 |
| 2013-14 | 1,352,900 |
| 2014-15 | 7,375,900 |
| 2015-16 | 3,694,000 |
| 2016-17 | 5,291,500 |
| 2017-18 | 5,943,200 |
| 2018-19 | 29,419,100 |
| 2019-20 | 16,721,900 |

*Reflects WHEDA surplus as of the close of the preceding June 30. The amount would be available for WHEDA expenditure or encumbrance in the fiscal year indicated.

Dividends plans allocate funding among the following categories: (a) single-family homeownership programs; (b) multifamily housing programs; (c) economic development programs; (d) services and grants, including grants for emergency and transitional housing typically provided to local governments and nonprofit organizations; and (e) WHEDA operations. Attachment 1 shows the allocations for each Dividends category for each plan year since 2005-06. Allocations of surplus funds to given funding categories have varied considerably from year to year. For instance, of the $14.3 million available as of June 30, 2011, and allocated for use in the 2011-12 fiscal year, WHEDA identified economic development financing as a primary need in the state, and subsequently allocated $12 million to new economic development lending programs. In certain other years, the Dividends plan has allocated significant portions of available funding to single-family and multifamily housing programs. WHEDA historically has made certain transfers from its unencumbered reserves to state agencies or the general fund, totaling $22.6 million from 2001-02 to 2012-13. These transfers have been required under budget or budget adjustment legislation. Table 3 shows the average percentage of funding assigned to each year's Dividends categories since 2005-06 as compared to the funding proposed under the amended 2019-20 plan.

**TABLE 3**

**Allocation of WHEDA Surplus Funds by Category**

| Dividends Category | Avg. Percentage Since 2005-06 | 2019-20* Percentage |
|---|---|---|
| Single-Family Homeownership | 23.1% | 35.9% |
| Multifamily Housing | 26.0 | 37.2 |
| Small Business and Economic Development | 24.1 | 6.0 |
| Housing Grants and Services | 15.5 | 20.9 |
| Authority Operations | 1.2 | 0.0 |
| State Transfers | 10.2 | 0.0 |

*Amended

2019 Wisconsin Act 76 requires WHEDA to transfer $1 million from its unencumbered reserves to the state general fund by June 30, 2020. However, Act 76 was enacted subsequent to WHEDA's submittal of its revised plan to the Committee. Thus, the plan under consideration by the Committee does not specify the categories from which a total of $1 million would be transferred to the general fund. The transfer under Act 76 is not subject to the requirements of the Dividends plan, and instead gives WHEDA discretion to transfer funds from any category. As a result, the allocations under consideration by the Committee may not necessarily reflect the final allocation of funding under the 2019-20 plan.

**TABLE 4**

**Proposed 2019-20 Dividends for Wisconsin Plans ($1,000s)**

| Dividends Category | Original Plan | Amended Plan | Difference |
|---|---|---|---|
| Single-Family Homeownership | $4,000 | $6,000 | $2,000 |
| Multifamily Housing | 5,000 | 6,222 | 1,222 |
| Small Business and Economic Development | 1,000 | 1,000 | 0 |
| Housing Grants and Services | 3,500 | 3,500 | 0 |
| Authority Operations | 3,222 | 0 | -3,222 |
| State Transfers | 0 | 0 | 0 |
| Total | $16,722 | $16,722 | $0 |

On December 18, 2019, the WHEDA Board approved amendments to the 2019-20 plan that increased the single-family homeownership category by $2,000,000, increased the multifamily housing category by $1,221,900, and decreased the Authority operations category by $3,221,900. Further, the amended plan includes language reflecting an increased emphasis on rural housing initiatives in response to the Assembly Committee on Housing and Real Estate's objection. The decrease in Authority operations would eliminate cash financing intended to supplement debt financing of WHEDA's upcoming office relocation. It is assumed that cash financing for WHEDA's new headquarters would offset additional debt repayment costs, resulting in savings that would have been included in future Dividends plans. Table 4 shows the allocation under the original 2019-20 plan and amended 2019-20 plan.

In his letter to the Co-Chairs requesting approval of the amended plan, the Governor noted that the amended plan is intended to accommodate Assembly Substitute Amendment 1 to 2019 Assembly Bill 544 and is the result of negotiation with that bill's authors. ASA 1 would require WHEDA to allocate $10,000,000 in grants, loans, loan guarantees, or other financial assistance in the 2019-21 biennium from its Dividends plan to support development of workforce housing in rural counties. AB 544, as amended by ASA 1, passed the Assembly on January 21, 2020, and was messaged to the Senate. The Senate did not take action on the bill.

On May 13, 2020, the WHEDA Board voted to authorize and implement the rural workforce housing initiative proposed in AB 544, contingent on the Committee's approval of the 2019-20 Dividends plan prior to June 30, 2020. If the 2019-20 Dividends plan were approved, WHEDA would allocate $5 million in current general reserves for use under the rural workforce housing initiative, consisting of $2.25 million from single-family housing loan reserves, $2.25 million from multifamily housing loan reserves, and $500,000 from grants and services reserves. Further, the motion pledges to commit an additional $5 million from current or subsequent Dividends allocations, or additional amounts from reserves.

Modifications the Joint Committee on Finance could consider making to WHEDA's Dividends plan could take several forms, including: (a) reducing or reallocating funding within certain categories, including setting aside amounts for allocation in future Dividends plans; (b) creating new Dividends programs or altering the structure of existing Dividends programs; or (c) transferring funding from WHEDA's surplus to the state general fund or other state programs.

It should be noted that while certain legislation has occasionally required WHEDA to transfer funds to state programs or the general fund, WHEDA staff argue that regardless of the Authority's fund sufficiency, state-mandated transfers can be viewed unfavorably by bond rating agencies as being contrary to WHEDA's general operational autonomy. WHEDA staff contend that transfers can make WHEDA reserves appear increasingly susceptible to further diversions, which ratings agencies may view as a risk to an entity being able to fulfill its obligations to creditors. An unfavorable outlook on WHEDA debt issuance could increase its cost of borrowing, with those costs being passed on to WHEDA program participants and partnering financial institutions. However, it is not clear how much legislatively directed transfers would negatively impact WHEDA credit ratings or the Authority's costs of financing, and although transfers have not been made in recent years, a total of $22.6 million was transferred from WHEDA between 2001-02 to 2012-13.

If a 2019-20 Dividends plan were not approved by the Committee and allocated by the WHEDA Board before June 30, 2020, 2019-20 surplus funds would be rolled over for allocation as part of the 2020-21 Dividends for Wisconsin process. Typically, a plan is approved by the WHEDA

Board at its August meeting and submitted to the Legislature for approval in late August. Thus, under a standard timeline, Dividends funding could first be available for use by the Authority after the Board's October or December meeting. To ensure funding does not roll over into the 2020-21 Dividends process, WHEDA staff report they intend to request Board allocation of funding under the 2019-20 Dividends plan, contingent on Committee approval, at the Board's June 17 meeting.

Given that the amended 2019-20 Dividends plan reflects an increased emphasis on rural housing initiatives and is consistent with the requirements of ASA 1 to AB 544, the Committee could consider approving the amended 2019-20 plan [Alternative 1]. The Committee could also consider approving the original 2019-20 plan, notwithstanding the objections of the Assembly Committee on Housing and Real Estate [Alternative 2]. Finally, the Committee could take no action and consider the plan at a later date [Alternative 3].

**ALTERNATIVES**

1. Approve the amended 2019-20 Dividends for Wisconsin plan, as submitted by the Governor to the Joint Committee on Finance on January 7, 2020.

2. Approve the 2019-20 Dividends for Wisconsin plan, as submitted by the Governor to the Legislature on September 27, 2019, notwithstanding the objections of the Assembly Committee on Housing and Real Estate.

3. Take no action. (Funding would be allocated as part of the 2020-21 Dividends for Wisconsin plan.)

Prepared by: Rory Tikalsky
Attachments

# ATTACHMENT 1

## WHEDA Dividends for Wisconsin Plan Summary, 2005-06 to 2019-20

| | Single-Family | | Multifamily | | Economic Development | | Grants/Services | | Authority Operations | | State Transfer | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Plan Year | Amount | Percentage | Amount | Percentage | Amount | Percentage | Amount | Percentage | Amount | Percentage | Amount | Percentage | Total |
| 2019-20* | $6,000,000 | 35.9% | $6,221,900 | 37.2% | $1,000,000 | 6.0% | $3,500,000 | 20.9% | $0 | 0.0 % | $0† | 0.0% | $16,721,900 |
| 2018-19 | 2,000,000 | 6.8 | 15,800,000 | 53.7 | 7,000,000 | 23.8 | 3,119,100 | 10.6 | 1,500,000 | 5.1 | 0 | 0.0 | 29,419,100 |
| 2017-18 | 3,500,000 | 58.9 | 1,000,000 | 16.8 | 250,000 | 4.2 | 1,193,200 | 20.1 | 0 | 0.0 | 0 | 0.0 | 5,943,200 |
| 2016-17 | 2,500,000 | 47.2 | 1,800,000 | 34.0 | 0 | 0.0 | 991,500 | 18.7 | 0 | 0.0 | 0 | 0.0 | 5,291,500 |
| 2015-16 | 1,000,000 | 27.1 | 1,000,000 | 27.1 | 844,000 | 22.8 | 850,000 | 23.0 | 0 | 0.0 | 0 | 0.0 | 3,694,000 |
| 2014-15 | 2,000,000 | 27.1 | 1,000,000 | 13.6 | 3,675,900 | 49.8 | 700,000 | 9.5 | 0 | 0.0 | 0 | 0.0 | 7,375,900 |
| 2013-14 | 0 | 0.0 | 0 | 0.0 | 1,102,900 | 81.5 | 250,000 | 18.5 | 0 | 0.0 | 0 | 0.0 | 1,352,900 |
| 2012-13 | 387,000 | 4.4 | 2,400,000 | 27.0 | 4,100,000 | 46.1 | 1,100,000 | 12.4 | 0 | 0.0 | 900,000 | 10.1 | 8,887,000 |
| 2011-12 | 0 | 0.0 | 0 | 0.0 | 12,000,000 | 83.8 | 1,416,100 | 9.9 | 0 | 0.0 | 900,000 | 6.3 | 14,316,100 |
| 2010-11 | 2,755,500 | 62.5 | 700,000 | 15.9 | 0 | 0.0 | 725,000 | 16.5 | 0 | 0.0 | 225,000 | 5.1 | 4,405,500 |
| 2009-10 | 1,850,000 | 53.6 | 500,000 | 14.5 | 75,000 | 2.2 | 803,000 | 23.3 | 0 | 0.0 | 225,000 | 6.5 | 3,453,000 |
| 2008-09 | 1,900,000 | 23.7 | 1,500,000 | 18.7 | 150,000 | 1.9 | 1,450,400 | 18.1 | 0 | 0.0 | 3,000,000 | 37.5 | 8,000,400 |
| 2007-08 | 800,000 | 14.2 | 500,000 | 8.9 | 200,000 | 3.6 | 1,102,600 | 19.6 | 0 | 0.0 | 3,025,000 | 53.8 | 5,627,600 |
| 2006-07 | 2,675,000 | 34.5 | 1,000,000 | 12.9 | 500,000 | 6.4 | 1,582,300 | 20.4 | 0 | 0.0 | 2,000,000 | 25.8 | 7,757,300 |
| 2005-06 | 2,675,000 | 33.2 | 500,000 | 6.2 | 500,000 | 6.2 | 1,391,300 | 17.2 | 0 | 0.0 | 3,000,000 | 37.2 | 8,066,300 |
| Totals | $30,042,500 | 23.1% | $33,921,900 | 26.0% | $31,397,800 | 24.1% | $20,174,500 | 15.5% | $1,500,000 | 1.2% | $13,275,000 | 10.2% | $130,311,700 |
| Averages | $2,002,833 | 23.1% | $2,261,460 | 26.0% | $2,093,187 | 24.1% | $1,344,967 | 15.5% | $100,000 | 1.2% | $885,000 | 10.2% | $8,687,447 |

* As amended by the WHEDA Board on December 18, 2019.

† The transfer of $1 million to the general fund required under 2019 Act 76 is not included in the plan and is not shown.

**ATTACHMENT 2**

# Dividends for Wisconsin 2019-20

A plan for creating housing, business and job opportunities for the people of Wisconsin

Amended December 18, 2019

Tony Evers
Governor

Ivan Gamboa
Chairman

Joaquin Altoro
Chief Executive Officer/Executive Director

WHEDA

**WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY**
201 West Washington Avenue, Suite 700
Madison, Wisconsin 53703

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# Executive Summary

## Background

The Wisconsin Legislature created WHEDA in 1972 to finance housing for low- and moderate-income families and persons. The Legislature broadened WHEDA's mission in 1983 to include financing for the expansion of business activity in Wisconsin. WHEDA programs provide low-cost financing and incentives for multifamily housing, single family homeownership, small business expansion and agricultural development projects.

WHEDA has financed more than 75,000 affordable rental units, helped more than 129,600 families purchase their first homes, and made more than 29,000 small business and agricultural loans. Resources include tax-exempt bonding, affordable housing tax credits, loan guarantees, asset management services and housing grants. WHEDA works throughout the state with lenders, developers, small business owners, home buyers, real estate professionals, farmers and community leaders to deliver affordable housing and business financing products.

WHEDA is not a state agency. Rather, it is a self-supporting public corporation that receives no state tax dollars for its operations. In general, its revenues are generated from interest on loans and investments, loan origination and servicing fees, and housing management services.

WHEDA's General Fund includes all programs and initiatives for which revenues are not specifically pledged to bond holders. The net revenues and a portion of the returned principal from General Fund assets create the Dividends for Wisconsin Plan.

## Dividends for Wisconsin 2019-20

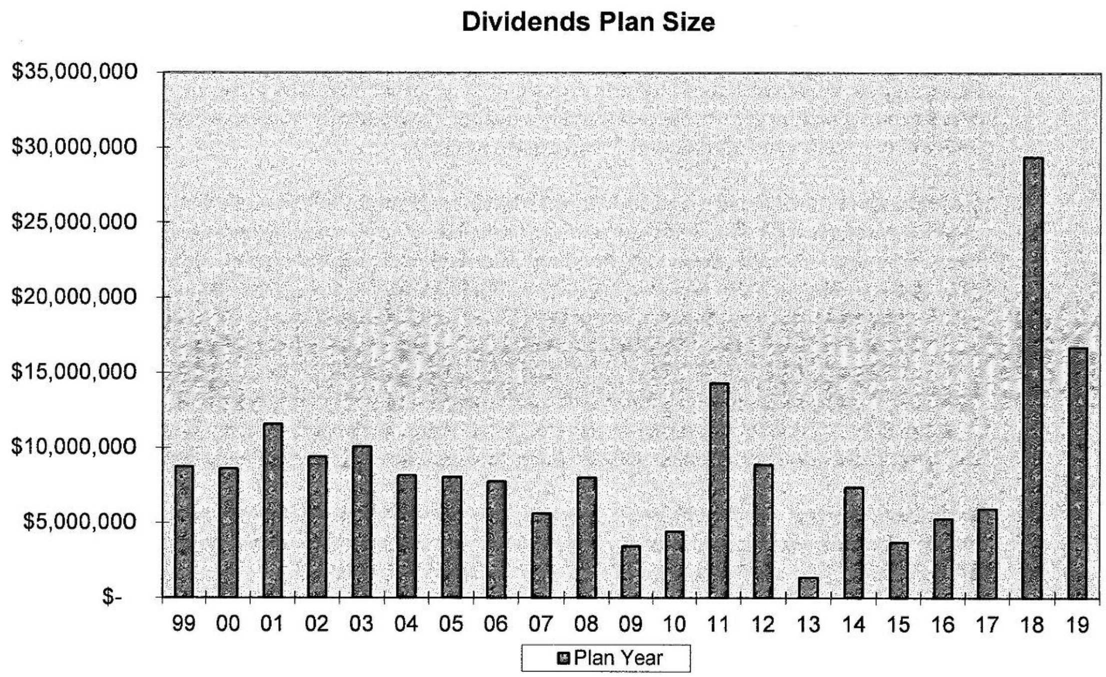
**History**. The strategic use of historical Dividends for Wisconsin Plans has allowed WHEDA to fund initiatives of the State of Wisconsin, meet mission objectives and grow financially. The financial strength of WHEDA is critical to the ability to provide opportunities to Wisconsin residents in all market conditions. This financial strength maintains credit ratings and creates opportunities to raise and deploy capital for creative, mission-focused products.

Dividends for Wisconsin 2019-20 (the "Plan") is $16,721,917. This is a sizeable Dividends for Wisconsin Plan. The prior year plan was the largest in 30 years due to the sale of the Madison office building. However, prior to that, the average plan size for the previous five years had been $4.7 million. The increased size of the Plan is due to additional revenues in the General Fund from single family lending, fee revenue from two rounds of the State Housing Tax Credits and interest and net interest revenue generated by the loan portfolio purchased from Department of Veteran's Affairs.

WHEDA will use existing and new encumbrances to fund a $10 million pilot initiative to produce new units and rehabilitate existing units of affordable workforce housing in rural areas of the State. This initiative will include both single family and multifamily, focus on the development of new products that meet needs in rural communities and encourage partnerships between communities, developers and non-profits.

In addition to funding of the workforce housing rural initiative, new leadership and the WHEDA Lab will concentrate on innovation, product development and "connecting the dots" for regions, populations, and industries. The Plan is expected to be used for both lending and grants and services initiatives supporting both housing and economic development.

The graph below shows the Dividends for Wisconsin history:




**Priorities**. Dividends for Wisconsin 2019-20 provides general reserves totaling $16,721,917 for all purposes. WHEDA has set the following priorities for Dividends for Wisconsin 2019-20:

1. **Affordable Housing**. These funds will be used to finance affordable housing for families, the elderly and persons with limited income, in rural and urban markets. WHEDA may supplement existing encumbrances or establish new ones with up to $12,200,000 of additional resources.

2. **Economic Development.** WHEDA may encumber general reserves of up to $1,000,000 to help Wisconsin business owners. The Authority will partner with commercial and community lenders and local governments to leverage financial resources and to provide help to small business operators, including farmers.

3. **Grants and Services**. Since the 1980s, WHEDA has granted funds to local governments and nonprofit providers to create emergency and transitional housing for the homeless, senior citizens, persons with disabilities and other special needs populations. In 2020, WHEDA may encumber up to $3.5 million for Grants and Services. WHEDA expects to continue its funding of the Housing Grant Program. Funds may also be set aside for new grant initiatives and services to assist communities in addressing their housing and economic development needs.

## 2019-20 Dividends for Wisconsin Plan

Wisconsin law requires WHEDA to develop an annual plan for the use of its unencumbered general reserve funds. Dividends for Wisconsin 2019-20 authorizes WHEDA to encumber reserves for programs that are clearly needed and can be effectively administered within its operating budget. Funds are typically divided among four categories: Homeownership, Multifamily Housing, Small Business and Economic Development, and Grants and Services. The plan includes successful programs from past plans and new initiatives that may be effectively implemented.

WHEDA held public hearings in Madison and Milwaukee and solicited written and electronic comments to obtain ideas for the development of the plan and to identify the needs of its customers. The following categories and initiatives may receive financial consideration by the WHEDA Board of Directors during the upcoming fiscal year:

**Category I: Homeownership** **$6,000,000**

**Single Family Lending and Strategic Initiatives.** WHEDA currently has $36.7 million encumbered for programs related to homeownership. A portion of the existing and newly encumbered funds will be used to provide funding for special initiatives to expand workforce housing in rural areas of the State. Down payment assistance will also continue to be a focus as it is an obstacle for first-time home purchasers. WHEDA will also address market needs created by changes to federal programs, focusing on wealth creation through home ownership.

**Category II: Multifamily Housing** **$6,221,917**

**Multifamily Lending and Strategic Initiatives.** WHEDA currently has $132.0 million encumbered for multifamily housing programs. Three major initiatives which may be funded are:

- **Housing Tax Credit ("HTC") Gap Financing.** In 2018, WHEDA's Members Loan Committee approved both a Subordinated Lending product and a Tax Incremental Financing ("TIF") product to compliment projects that were allocated the State HTC. Over the first year of allocating the State HTC, approximately $8 million in subordinate loans were committed. These projects are not feasible without additional equity-like resources. The subordinate loans attempt to close those gaps and produce housing in targeted areas or smaller communities throughout the State.

- **Workforce Housing Rural Initiative.** Construction costs have risen all across the country and rural America is no exception. The rents in rural areas are far lower than in urbanized areas and the projects are much smaller, creating a larger financing gap. Funds are requested to assist in one of the following ways to attract development into rural areas of Wisconsin: housing equity investments, below-market interest rate loans, long-term fixed rate financing, or subordinate debt to meet the needs of the rural communities.

- **Pairing HTC and Opportunity Zones.** Opportunity Zones create the option for additional equity in the geographic areas that need it most and pair well with HTC. A few projects have been able to succeed using both resources, but there are still great prospects here.

**Category III: Small Business and Economic Development** **$1,000,000**

**Small Business and Economic Development Initiatives.** WHEDA currently has $31.7 million encumbered for economic development lending. During the next fiscal year, WHEDA intends to use the WHEDA Lab and other resources to research the greatest economic development needs and develop strategies, policies and programs to meet those needs. Potential uses for these funds could be pairing with New Market Tax Credits and Opportunity Zones, developing a micro-lending product, increasing the capacity of Community Development Finance Institutions or major enhancements to existing lending products.

**Category IV: Grants and Services** **$3,500,000**

**Housing Grants and Services.** WHEDA currently has $3.5 million encumbered for housing grants and other service contracts. An additional $3.5 million will allow WHEDA the funds to connect the dots.

- **Workforce Housing Rural Initiative**. The funds will be used for research, studies and grants needed for the production of units in rural areas of the State. The grants will fund the construction or rehabilitation of units.

- **Foundation Grants.** WHEDA expects to continue the Foundation Grants Program, emergency housing grants to non-profits and may also be asked to support the Governor's Homelessness Initiative Grant Program. The grants will fund the construction or rehabilitation of units.

- **Modeling** and other services needed to optimize Opportunity Zones, create partnerships with communities, and further additional initiatives in the State.

**Total** **$16,721,917**

# Appendix I

**Amounts Available for Dividends for Wisconsin, 2019-2020**
June 30, 2019

Wisconsin Statutes require WHEDA to report actual year-end figures for the purposes of calculating the amount of unencumbered general reserves available for Dividends for Wisconsin. Unencumbered general reserves available through Dividends for Wisconsin 2019-20 total $16,721,917. This amount is based upon the General Fund balance less encumbered general reserves as of June 30, 2019, as shown below and in the Exhibits that follow.

| | | |
|---|---|---|
| Total Restricted and Unrestricted Reserves | | $845,452,000 |
| Less: Restricted Reserves | | 579,343,000 |
| General Fund Balance | | $266,109,000 |
| Less: General Reserve Encumbrances | | |
| Homeownership Programs (Exhibit 1) | $36,721,796 | |
| Multifamily Housing Programs (Exhibit 2) | 131,965,935 | |
| Small Business and ED Programs (Exhibit 3) | 31,753,180 | |
| Grants and Other Services (Exhibit 4) | 3,462,164 | |
| Authority Operations (Exhibit 5) | 45,484,008 | |
| Subtotal | | $249,387,083 |
| **Unencumbered General Reserves** | | **$16,721,917** |

Exhibit 1

**Homeownership Encumbrances**
June 30, 2019

| | 6/30/2018 Encumbrance | Increase (Decrease) | 6/30/2019 Encumbrance |
|---|---|---|---|
| Deferred Payment Loans | $7,284 | $(7,284) | $0 |
| Closing Cost Assistance Loan Fund | 14,880,240 | 0 | 14,880,240 |
| Property Tax Deferred Loan Fund | 1,685,000 | 0 | 1,685,000 |
| Homeownership Bond Support | 2,631,351 | 0 | 2,631,351 |
| Homeownership Development Fund | 9,821,436 | 1,497,980 | 11,319,416 |
| Capital Magnet Funds | 133,250 | 1,072,539 | 1,205,789 |
| Single Family Loan Fundings | 5,000,000 | 0 | 5,000,000 |
| Total | $34,158,561 | $2,563,235 | $36,721,796 |

The **Deferred Payment Loan Program** was a pilot home improvement loan program for elderly southwestern Wisconsin residents. Loans are repayable when the property ceases to be the borrower's permanent residence. The remaining loans were repaid prior to June 30, 2019.

The **Closing Cost Assistance Loan Fund** provides WHEDA single family loan customers the opportunity to borrow funds for down payment and closing cost assistance. The availability of funds for this program remains critical for WHEDA's ability to provide a competitive loan product. The encumbrance is a revolving loan fund.

The **Property Tax Deferral Loan Fund** provides loans to low-income Wisconsin seniors to pay property taxes on their homes. The encumbrance represents a revolving loan fund.

**Homeownership Bond Support** provides funds to cover the cost of issuing homeownership revenue bonds used to finance first-time home buyer mortgages.

The **Homeownership Development Fund** provides financing for the construction and/or rehabilitation of owner-occupied, affordable housing throughout the state. This fund may also be used to hold loans prior to a bond issuance or loan sale or to provide financing for activities which cannot utilize WHEDA's traditional homeownership financing products. The encumbrance is a revolving loan fund.

**Capital Magnet Funds** were awarded to WHEDA in fiscal years 2017 and 2018. The use of these funds is restricted by the CDFI Fund for a minimum of ten years. As the funds are deployed, they are encumbered until the restrictions expire and the loans are repaid. In single family, these funds are used for down payment assistance.

**Single Family Loan Fundings** provides temporary, warehouse financing for Single Family loans which is needed until the mortgages are either converted to Mortgage Backed Securities (MBS) or sold in the secondary market. This encumbrance is a revolving fund.

Exhibit 2

**Multifamily Housing Encumbrances**
June 30, 2019

| | 6/30/2018 Encumbrance | Increase (Decrease) | 6/30/2019 Encumbrance |
|---|---|---|---|
| General Revolving Fund | $50,077,832 | $295,708 | $50,373,540 |
| Multifamily Preservation and Lending Fund | 43,032,602 | 15,010,001 | 58,042,603 |
| Homeless Fund | 331,739 | (331,739) | 0 |
| Fannie Mae Secondary Market Initiative | 700,000 | 0 | 700,000 |
| Rural Housing - PRLF | 2,419,716 | 611,960 | 3,031,676 |
| FAF Savings – WHEDA Portion | 7,733,164 | (317,712) | 7,415,452 |
| Interest Strip Funds | 5,238,060 | 0 | 5,238,060 |
| Multifamily Bond Support | 1,724,838 | (750,000) | 974,838 |
| Capital Magnet Fund | 1,249,940 | 2,243,380 | 3,493,320 |
| FHLB Matching Funds | 2,400,000 | 0 | 2,400,000 |
| HUD Voucher Program | 395,835 | (193,684) | 202,151 |
| Mod Rehab Program | 97,791 | (3,496) | 94,295 |
| Total | $115,401,517 | $16,564,418 | $131,965,935 |

The **General Revolving Fund** includes financing for multifamily projects that serve low-income families, the elderly and persons with disabilities. Loans under this category represent construction lending, financing prior to bonding or long-term financing not eligible for bonding. This encumbrance is a revolving loan fund.

The **Multifamily Preservation and Lending Fund** is used to provide for the refinancing of current debt, gap financing, TIF financing, preserving housing within the state of Wisconsin and to leverage existing loan programs to increase lending volume. This encumbrance is a revolving loan fund.

The **Homeless Fund** includes financing for permanent housing for the homeless, Affordable Housing Tax Credit Homeless set-aside, group homes and community based residential facilities. The majority of all funds under this category are used to provide financing for homeless and special needs projects. These funds were transferred to the General Revolving Fund in fiscal year 2019.

The **Fannie Mae Secondary Market Initiative** provides collateralization of WHEDA's guarantee requirement for the sale of the pipeline of certain Tax Credit projects now held in the portfolio and future loan pools.

**Rural Housing – PRLF (Preservation Revolving Loan Fund)** represents funds received from the U.S. Department of Agriculture that are used to support rural housing projects in the State of Wisconsin.

**FAF Savings (WHEDA Portion)** represent an accumulation of funds generated by a 1992 refinancing in the multifamily bond resolution. Use of the funds is restricted to very low-income households pursuant to the FAF contract with HUD. Repayments of loans made using FAF funds return to Dividends.

**Interest Strip Funds** are available to subsidize interest rates on multifamily project loans. These funds are restricted for this use by tax law. In August 1998 and 2000, WHEDA approved the transfer of Interest Strip Funds to the General Fund to allow for broader uses of the funds.

**Multifamily Bond Support** provides funds to cover the cost of issuing housing revenue bonds.

**Capital Magnet Funds** were awarded to WHEDA in fiscal year 2017 and 2018. The use of these funds is restricted by the CDFI Fund for a minimum of ten years. As the funds are deployed, they are encumbered until the restrictions expire and the loans are repaid. In multifamily, these funds are used for gap financing.

**FHLB Matching Funds** were a required set aside intended to maximize the benefit of the Federal Home Loan Bank's Community First Fund program, which may provide 15-year low cost funds to WHEDA for lending purposes.

The **HUD Voucher Program** and **Mod Rehab Program** represent the accumulation of earnings resulting from the administration of these federal programs. Funds are restricted for use within these programs.

## Exhibit 3

**Small Business Encumbrances**
June 30, 2019

| | 6/30/2018 Encumbrance | Increase (Decrease) | 6/30/2019 Encumbrance |
|---|---|---|---|
| Economic Development Revolving Loan Fund | $24,100,274 | $7,652,906 | $31,753,180 |
| Total | $24,100,274 | $7,652,906 | $31,753,180 |

The **Economic Development Revolving Loan Fund** was encumbered to support a participation lending program to provide financing to Wisconsin businesses that could not be secured through traditional lending, create and retain jobs in Wisconsin, and promote economic development in rural and urban communities.

Exhibit 4

**Housing Grants and Services Encumbrances**
June 30, 2019

| | 6/30/2018 Encumbrance | Increase (Decrease) | 6/30/2019 Encumbrance |
|---|---|---|---|
| Natural Disaster Grants | $77,933 | $5,000 | $82,933 |
| WHEDA Foundation Grants | 0 | 0 | 0 |
| Strategic Initiatives | 1,352,178 | 2,027,053 | 3,379,231 |
| Total | $1,430,111 | $2,032,053 | $3,462,164 |

**Natural Disaster Grants** are encumbered to provide grants to units of local government or recognized disaster relief agencies that provide temporary housing for persons displaced from their homes by natural or other disasters. The funds are grants that will not return to Dividends.

**WHEDA Foundation Grants** are grants for local and nonprofit providers of housing to benefit the housing needs of Wisconsin's persons in crisis and will not return to Dividends. $1,000,000 was encumbered and provided to the WHEDA Foundation, Inc. for grants in 2019.

**Strategic Initiatives.** These encumbrances are held to fund multiple partnerships with third parties to help transform communities. Such partnerships will be formed to provide resources and infrastructure improvements necessary to foster economic growth in communities throughout Wisconsin.

## Exhibit 5

**Authority Operations Encumbrances**
June 30, 2019

| | 6/30/2018 Encumbrance | Increase (Decrease) | 6/30/2019 Encumbrance |
|---|---|---|---|
| Capital Adequacy Reserve | $2,750,000 | 0 | $2,750,000 |
| Operating Expense Reserve | 2,000,000 | 0 | 2,000,000 |
| Authority Property | 419,520 | (241,135) | 178,385 |
| Authority Property Replacement Reserve | 21,783,167 | (732,567) | 21,050,600 |
| Deferred Receivable - HOME Expense | 12,040,028 | 288,415 | 12,328,443 |
| Other Receivables | 10,993 | 10,402 | 21,395 |
| GASB 68 Pension Asset | 1,755,360 | | 1,755,360 |
| GASB 31 Adjustment | 2,500,000 | 0 | 2,500,000 |
| GAS 75 – OPEB | 1,399,825 | | 1,399,825 |
| Tech 2020 | 0 | 1,500,000 | 1,500,000 |
| Total | $44,658,893 | $825,115 | $45,484,008 |

The Finance Committee evaluated the outlook for meeting the established standards and established a **Capital Adequacy Reserve** encumbrance of $2,750,000. The Members periodically review the capital ratio and establish benchmarks for that ratio based on feedback from the rating agencies. The funds will continue to be encumbered until the Board releases the encumbrance.

WHEDA's **Operating Expenses** are paid from cash flowing into the general reserves. However, WHEDA's general reserve carries a large receivable from the programs as there exists on average a 60-day lag before expenses are recorded, allocated and reimbursed. The receivable averages $2 million and represents a non-cash asset which is unavailable for other purposes.

**Authority Property** (desks, computers, etc.) reflects non-liquid assets that cannot be used for other purposes. The book value of this property on June 30, 2019 is $178,385. The **Replacement Reserve** of $21,050,600 is established to allow for the purchase of fixed assets authorized in the most recent annual capital budget. These dollars are not available for other purposes as they will be converted to Authority Property.

To ensure the financial stability of past homeownership bond issues and to comply with restrictions placed on these programs by the US Treasury, WHEDA defers reimbursement for expenses incurred in administering these bond/loan programs. These expenses represent a **Deferred Receivable for HOME Expense.**

**Other Receivables/Deferrals** are encumbered because they are noncash assets that are unavailable for other purposes. As they are received or amortized, the encumbrance is reduced.

The **GASB 68 Pension Asset** represents a reserve for the Authority's share of the state's pension asset primarily resulting from earnings on participant contributions. Governmental Accounting Standards Board (GASB) Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources and expenses. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The **GASB 31 Adjustment** represents a reserve for unrealized gains on certain investments in the General Fund at June 30, 2019. Governmental Accounting Standards Board (GASB) Statement No. 31 requires investments to be reported at fair value with (realized and unrealized) gains and losses, included in the Consolidated Statement of Income and Expenses. Any unrealized gains on investments are not available funds for inclusion in Dividends.

The **GASB 75 – OPEB** represents a reserve for the Authority's share of the state's implicit cost of providing Other Post Employment Benefits (OPEB) to retirees. Governmental Accounting Standards Board (GASB) Statement No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit OPEB, this State identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services.

**Tech 2020** – refers to a long-term project initiated to modernize the Authority's technology infrastructure and software systems. The size and nature of the projects that will be completed under this initiative require a multiyear effort. These funds have been encumbered to cover the cost of projects that will be completed in the later years of the initiative.

## Appendix II

**Status of Dividends for Wisconsin, 2018-19**
June 30, 2019

| | Plan Amount | Encumbered |
|---|---|---|
| Category I: Homeownership | $2,000,000 | $2,000,000 |
| Category II: Multifamily Housing Development | 15,010,000 | 15,010,000 |
| Category III: Small Business and Economic Development | 7,000,000 | 7,000,000 |
| Category IV: Housing Grants and Services | 3,909,053 | 3,409,053 |
| Category V: Authority Operations | 1,500,000 | 1,500,000 |
| Total | $29,419,053 | $28,919,053 |

**Category I: Homeownership**

**Closing Cost Assistance Program.** WHEDA encumbered $2,000,000 to support the Easy Close Program which provides down payment assistance to the Authority's Single Family homebuyers. This program has become an essential component of a successful Single Family lending program.

**Category II: Multifamily Housing Development**

**Multifamily General Revolving Loan Fund.** WHEDA encumbered $15,010,000 to provide for the refinancing of current debt, gap financing, preserving housing within the state of Wisconsin and leverage existing loan programs to increase lending volume.

**Category III: Small Business and Economic Development**

**Economic Development Revolving Loan Fund.** WHEDA encumbered $7,000,000 to support a participation lending program to provide financing to Wisconsin businesses that could not be secured through traditional lending, create and retain jobs in Wisconsin, and promote economic development in rural and urban communities.

**Category IV: Housing Grants and Services**

**WHEDA Foundation Housing Grants Program.** WHEDA encumbered $1,000,000 to support Wisconsin organizations in developing special needs housing for persons-in-crisis. A total of $1,000,000 in grants were awarded in 2019. An additional $500,000 was encumbered to support the Governor's Homelessness Council. WHEDA also encumbered $1,909,053 to support research related to opportunity zones and new initiatives currently under development.

**Category V: Authority Operations**

**Tech 2020** – $1.5 million was encumbered for this initiative.