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☞ **WHEDA (June - 2005)**

(FORM UPDATED: 08/11/2010)

**WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS**

2005-06

(session year)

Senate

(Assembly, Senate or Joint)

**Committee on ... Job Creation, Economic
Development and Consumer Affairs (SC-JCEDCA)**

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
(**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
(**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

June 20, 2005

To the Members of the Board of Directors:

This document presents the Authority's Annual Budget for fiscal year 2006. Following the consolidated financial statements are income statements for each business segment and highlights of the segment projections. Details about the general and administrative expenses and the capital budget are also provided. Finally, a summary of the assumptions that were used to prepare the budget is provided for your reference.

Fiscal Year 2005 in Review

Net Income is projected to be \$24.5 million for the year ending June 30, 2005, which is \$5.7 million more than originally budgeted. Net Interest Income is expected to be in line with budgetary expectations as the effect of increased Home mortgage volume toward the end of the fiscal year was offset by high prepayments realized earlier in the fiscal year.

There were three primary reasons for the favorable variance in Net Income:

1. Other Income was higher than expected as the Authority recorded \$3 million of unbudgeted income that resulted from the payoff of multifamily loans. In certain cases, multifamily project reserves become the property of WHEDA when a loan is paid off.
2. Direct Loan Program expenses were approximately \$1 million less than projected. The activity in the Neighborhood Revitalization Business Guarantee program did not warrant an expenditure to increase the established reserve.
3. General and Administrative Expenses (G&A) were approximately \$1.4 million under budget. The positive variance resulted from projects that were budgeted but not undertaken and from projects that came in at less than originally budgeted.

The fund balance of the Authority is expected to end the year at \$401.2 million, which is approximately \$18.7 million, or 4.8% higher than last year. Based on the results outlined above, the capital ratio will be 15.4% as of June 30, 2005 and within the Board-established target of 15-18%.

Fiscal Year 2006 Projections

The net income for fiscal 2006 is projected to be \$28.7 million, which is \$4.2 million more than last year's net income; the majority of the increase is expected to come from the Authority's single family program. The budget assumes that interest rates will continue to increase. The Authority's home mortgage rates are expected to average 5.92% and short-term investment rates are expected to increase to 3.35%. The single family loan origination target for new loans is \$440 million with prepayments expected to be \$112 million in that program.

Net Interest income is projected to increase 10.1% next year primarily due to activity in the Home program: mortgage income is expected to increase due to a 19% increase in outstanding loans; investment income is expected to decrease 3.3% as the Authority expects to receive fewer prepayments in that program; and bond interest expense is projected to increase by \$6.7 million as additional debt is issued to finance the additional Home mortgages.

Other Income is budgeted to increase \$3 million reflecting an increase in the amount of multifamily project reserves that are expected to revert to the Authority upon loan payoff. The budget also anticipates receiving \$4.6 million in revenues from HUD for administering the HUD contract and that program is expected to return \$2.1 million to the Authority's bottom line next year.

General and Administrative (G&A) Expenses for fiscal year 2006 are budgeted to increase 7%.

Personnel expense provides resources for a headcount of 178.3 full time equivalent (FTE) positions which represents an increase of 1.6 FTEs. The budget includes a provision for annual salary increases of up to 2.5%. It also includes funding for two items included in the strategic plan: the implementation of a new Performance Management System (\$76,300) and a new Employee Development program (\$102,500).

Professional Expenses (e.g., legal, auditing, and consultant fees, etc.) are projected to increase 14% as expenditures for public relations, lobbying and emerging business programs are expected to increase during the year.

Other Expenses (telephone, travel, supplies, etc.) are expected to increase 13%.

The Authority is planning to update computer software programs and enhance computer connectivity and remote access through various Information Technology initiatives.

The of Authority's fund balance is projected to grow \$28.7 million (7.1%) next year and produce a capital ratio of 14.8%. The capital ratio remains within the 15-18% target established by the Members of the Board.


Laura B. Morris
Chief Financial Officer


Ronald D. Kerr
Controller

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

Budget Report

Fiscal Year 2006

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WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

**Comparative Statements of Income and Expense
For Years Ending June 30**

(In Thousands of Dollars)

CONSOLIDATED AUTHORITY

	<u>2004</u>	<u>Estimate 2005</u>	<u>Budget 2006</u>	<u>Variance</u>	
				<u>Favorable/(Unfavorable) Amount</u>	<u>Percent</u>
Mortgage Income	105,347	112,670	123,757	11,087	9.8%
Investment Income	22,415	15,503	14,995	(508)	-3.3%
Less:					
Interest Expense and Debt Financing Costs	<u>90,418</u>	<u>89,839</u>	<u>96,552</u>	<u>(6,713)</u>	<u>-7.5%</u>
Net Interest Income	37,344	38,334	42,200	3,866	10.1%
Mortgage Servicing Fees	3,443	3,591	3,464	(127)	-3.5%
Other Income	<u>10,501</u>	<u>10,509</u>	<u>13,555</u>	<u>3,046</u>	<u>29.0%</u>
Net Interest & Other Income	51,288	52,434	59,219	6,785	12.9%
Deduct:					
Direct Loan Program Expenses	7,251	8,395	9,476	(1,081)	-12.9%
Grants and Services	1,621	1,130	1,500	(370)	-32.7%
Transfer to State	2,375	2,125	2,500	(375)	-17.6%
General & Admin. Expenses	<u>19,522</u>	<u>15,798</u>	<u>17,067</u>	<u>(1,269)</u>	<u>-8.0%</u>
Net Income (Loss) Before Adjustments	20,519	24,986	28,676	3,690	14.8%
Extraordinary items	0	0	0	0	0.0%
Net Increase (Decrease) in the Fair Value of Investments	<u>(7,250)</u>	<u>(526)</u>	<u>0</u>	<u>526</u>	<u>100.0%</u>
Net Income (Loss) After Adjustments	<u>13,269</u>	<u>24,460</u>	<u>28,676</u>	<u>4,216</u>	<u>17.2%</u>

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

**Combined Balance Sheet
As of June 30**

(In Thousands of Dollars)

CONSOLIDATED AUTHORITY

	<u>2004</u>	<u>Estimate 2005</u>	<u>Budget 2006</u>	Variance	
				<u>Favorable/(Unfavorable) Amount</u>	<u>Percent</u>
ASSETS					
Cash and Cash Equivalents	138,741	56,879	62,190	5,311	9.3%
Investments*	545,164	396,640	403,193	6,553	1.7%
Mortgage Loans Receivable, Net	1,745,367	1,989,628	2,258,371	268,743	13.5%
Accrued Interest Receivable	15,487	16,031	17,352	1,321	8.2%
Deferred Debt Financing Cost	13,330	13,940	14,773	833	6.0%
Other Assets	24,306	22,377	21,161	(1,216)	-5.4%
TOTAL ASSETS	<u>2,482,395</u>	<u>2,495,495</u>	<u>2,777,040</u>	<u>281,545</u>	<u>11.3%</u>
LIABILITIES					
Bonds and Notes Payable	1,958,760	1,943,579	2,194,850	(251,271)	-12.9%
Accrued Interest on Bonds and Notes					
Appreciation Bonds	0	0	0	0	0.0%
Other Bond & Notes	21,978	24,098	27,681	(3,583)	-14.9%
Escrow Deposits*	87,865	87,022	85,383	1,639	1.9%
Other Liabilities	31,299	39,581	39,235	346	0.9%
TOTAL LIABILITIES	<u>2,099,902</u>	<u>2,094,280</u>	<u>2,347,149</u>	<u>(252,869)</u>	<u>-12.1%</u>
FUND BALANCE -- RESTRICTED**	372,037	393,215	425,691	32,476	8.3%
FUND BALANCE -- UNRESTRICTED***	10,456	8,000	4,200	(3,800)	-47.5%
TOTAL LIAB. AND FUND BALANCE	<u>2,482,395</u>	<u>2,495,495</u>	<u>2,777,040</u>	<u>281,545</u>	<u>11.3%</u>

* Includes unrealized gain/loss on investments in accordance with GASB #31.

** The restricted fund balance is pledged to bond holders or restricted for credit enhancements, loan programs, collateral for note agreements and property replacement.

*** The unrestricted fund balance represents the annual Dividends for Wisconsin Plan. Amounts in the Plan are encumbered throughout the year to support the Authority's mission and typically restricted in the following year.

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

**Comparative Statements of Income and Expense
For Years Ending June 30**

(In Thousands of Dollars)

HOME PROGRAMS

	<u>2004</u>	<u>Estimate 2005</u>	<u>Budget 2006</u>	Variance	
				<u>Favorable/(Unfavorable) Amount</u>	<u>Percent</u>
Mortgage Income	64,840	71,147	84,810	13,663	19.2%
Investment Income	12,895	9,327	7,653	(1,674)	-17.9%
Less:					
Interest Expense and Debt Financing Costs	<u>65,313</u>	<u>66,035</u>	<u>73,928</u>	<u>(7,893)</u>	<u>-12.0%</u>
Net Interest Income	12,422	14,439	18,535	4,096	28.4%
Other Income	<u>8</u>	<u>6</u>	<u>0</u>	<u>(6)</u>	<u>-100.0%</u>
Net Interest & Other Income	12,430	14,445	18,535	4,090	28.3%
Deduct:					
Direct Loan Program Expenses	4,195	5,787	6,734	(947)	-16.4%
General & Admin. Expenses	<u>5,242</u>	<u>4,005</u>	<u>4,294</u>	<u>(289)</u>	<u>-7.2%</u>
Net Income (Loss) Before Adjustments	2,993	4,653	7,507	2,854	61.3%
Extraordinary items	0	0	0	0	0.0%
Net Increase (Decrease) in the Fair Value of Investments	<u>(1,713)</u>	<u>(306)</u>	<u>0</u>	<u>306</u>	<u>-100.0%</u>
Net Income (Loss) After Adjustments	<u>1,280</u>	<u>4,347</u>	<u>7,507</u>	<u>3,160</u>	<u>72.7%</u>

HOME PROGRAMS

The Home Program includes all activities related to the single family program that are financed with bond funds. The program is expected to produce net income of \$4.3 million in fiscal year 2005 and \$7.5 million in fiscal year 2006. The 73% increase is a result of mortgage loan activity.

Fiscal year 2005 net income of \$4.3 million was \$2.6 million less than originally budgeted. The low interest rate environment and the high volume of mortgage prepayments, early in the year, resulted in the unfavorable variance in fiscal year 2005.

Mortgage Income is projected to increase by \$13.7 million in fiscal year 2006 primarily due to the high origination volume in the later part of fiscal year 2005 continuing through fiscal year 2006. Single family loan originations are budgeted at \$440 million and are expected to exceed prepayments by \$328 million during the year. The net result is an increase in the Authority's single family loan portfolio of 19% to \$1.7 billion.

Investment Income is expected to decrease by \$1.7 million in fiscal year 2006. Mortgage prepayment levels are expected to be lower during the year translating into lower average investment balances. The average rate on the portfolio is expected to increase 64 basis points to 3.5%; however the effects of that increase are masked by the decline in average amount of investments held.

Interest Expense and Debt Financing Costs are expected to increase by \$7.9 million in fiscal year 2006. This change reflects an increase in the average balance of bonds outstanding necessitated by the high volume of mortgage originations and low volume of prepayments. The increase is also affected by the projected increase in the cost of debt interest rates.

The Home Program fund balance is expected to increase 10% or \$10.5 million in fiscal year 2006. The fund balance increase reflects the net income of \$7.5 million and the receipt of \$3 million in contributions from the General Fund to support the cost of issuance for the bonds.

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

**Comparative Statements of Income and Expense
For Years Ending June 30**

(In Thousands of Dollars)

MULTIFAMILY PROGRAM

	2004	Estimate 2005	Budget 2006	Variance	
				Favorable/(Unfavorable) Amount	Percent
Mortgage Income	33,481	32,958	31,079	(1,879)	-5.7%
Investment Income	6,225	3,128	3,423	295	9.4%
Less:					
Interest Expense & Debt Financing Costs	26,648	22,638	21,383	1,255	5.5%
Net Interest Income	13,058	13,448	13,119	(329)	-2.4%
Mortgage Servicing Fees	1,448	1,353	1,169	(184)	-13.6%
Other Income	121	275	0	(275)	0.0%
Net Interest & Other Income	14,627	15,076	14,288	(788)	-5.2%
Deduct:					
Direct Loan Program Expenses	1,718	1,698	1,706	(8)	-0.5%
General & Admin. Expenses	2,381	1,937	2,064	(127)	-6.6%
Net Income (Loss) Before Adjustments	10,528	11,441	10,518	(923)	-8.1%
Extraordinary items	0	0	0	0	0.0%
Net Increase (Decrease) in the Fair Value of Investments	(743)	50	0	(50)	-100.0%
Net Income (Loss) After Adjustments	9,785	11,491	10,518	(973)	-8.5%

MULTIFAMILY PROGRAM

The Multifamily Program includes multifamily activities that are financed with bond proceeds. The net income in this program is expected to be \$11.5 million in fiscal year 2005 and \$10.5 million fiscal year 2006, reflecting both a decline in the size of the loan portfolio and a drop in the average mortgage rate.

Net Income in the Multifamily Program for fiscal year 2005 (\$11.5 million) is approximately \$1.9 million higher than budgeted. An increase in short term interest rates during the fiscal year resulted in investment income and variable rate mortgage income that exceeded budget by \$400,000 and \$600,000 respectively. Additionally, G&A expenses are expected to be \$900,000 less than originally budgeted for the year.

Net income in fiscal year 2006 (\$10.5 million) represents an 8.5% decline from the prior year. The decrease is a result of the expected loss of mortgage and service fee income, a decrease in other income and an increase in direct loan program expenses and G&A expenses.

Mortgage Income is expected to decline by 5.7% in fiscal year 2006. During fiscal year 2006, the Authority expects to receive \$31.5 million in prepayments of higher rate, seasoned loans and expects to fund \$19 million in lower rate new loans. Given these assumptions and based on current loan amortizations, the loan portfolio in this business segment is expected to decrease \$22 million to \$453 million by the end of fiscal year 2006.

Investment Income is projected to increase by 9.4% in fiscal year 2006. This increase reflects higher short term rates projected for the fiscal year.

Interest Expense and Debt Financing Costs are expected to decline 5.5% in fiscal year 2006. The decline is the result of scheduled bond redemptions and bond prepayment calls which are expected to exceed new bond issuance.

The projected net income of \$10.5 million in fiscal year 2006 will contribute to an 8.5% increase in fund balance in this business segment.

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

**Comparative Statements of Income and Expense
For Years Ending June 30**

(In Thousands of Dollars)

STATE OF WISCONSIN PROGRAMS

	<u>2004</u>	<u>Estimate 2005</u>	<u>Budget 2006</u>	Variance	
				<u>Favorable/(Unfavorable) Amount</u>	<u>Percent</u>
Mortgage Income	350	445	529	84	18.9%
Investment Income	513	562	491	(71)	-12.6%
Less:					
Interest Expense and Debt Financing Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0%</u>
Net Interest Income	863	1,007	1,020	13	1.3%
Other Income	<u>141</u>	<u>233</u>	<u>239</u>	<u>6</u>	<u>2.6%</u>
Net Interest & Other Income	1,004	1,240	1,259	19	1.5%
Deduct:					
Direct Loan Program Expenses	39	81	60	21	25.9%
General & Admin. Expenses	<u>842</u>	<u>898</u>	<u>957</u>	<u>(59)</u>	<u>-6.6%</u>
Net Income (Loss) Before Adjustments	123	261	242	(19)	-7.3%
Extraordinary items	0	0	0	0	0.0%
Net Increase (Decrease) in the Fair Value of Investments	<u>(348)</u>	<u>(49)</u>	<u>0</u>	<u>49</u>	<u>-100.0%</u>
Net Income (Loss) After Adjustments	<u>(225)</u>	<u>212</u>	<u>242</u>	<u>30</u>	<u>14.2%</u>

STATE OF WISCONSIN PROGRAMS

The State of Wisconsin Programs includes the Wisconsin Development Reserve Fund (WDRF), the Home Improvement Loan Program (HILP) and HomePlus. In fiscal year 2005 this segment is projected to generate net income of \$212,000 and is expected to earn \$242,000 in fiscal year 2006.

Net income in the WDRF is projected to be \$27,000 in fiscal year 2005 and \$12,000 in fiscal year 2006. The majority of revenue in this program comes from investments held for the fund. Outflows from the program such as guarantee payments (\$480,000 in fiscal year 2006) reduce the volume of dollars available for investment. The program will benefit from the rising rate environment as securities are reinvested at the higher rates and generate additional income.

The Home Improvement Loan Program, which offers more traditional loans for home repairs, had declined in popularity over the last several years. However, the program is experiencing renewed interest as interest rates rise. In fiscal year 2006, HILP is expected to originate \$800,000 in new loans, which represents a 14% increase from the previous year. HILP resources also fund the HomePlus program which offers first-time homebuyers a line of credit of up to \$10,000 for home repairs. During fiscal year 2005 the Authority committed \$6.5 million in HomePlus loans and is expecting to commit \$7.5 million in HomePlus loans during fiscal year 2006. The net income for the two programs funded with HILP resources is expected to increase 25%, generating approximately \$230,000 in fiscal year 2006.

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

**Comparative Statements of Income and Expense
For Years Ending June 30**

(In Thousands of Dollars)

GENERAL FUND PROGRAMS

	<u>2004</u>	<u>Estimate 2005</u>	<u>Budget 2006</u>	<u>Variance</u>	
				<u>Favorable/(Unfavorable) Amount</u>	<u>Percent</u>
Mortgage Income	6,676	8,120	7,339	(781)	-9.6%
Investment Income	2,782	2,486	3,428	942	37.9%
Less:					
Interest Expense and Debt Financing Costs	<u>(1,543)</u>	<u>1,166</u>	<u>1,241</u>	<u>(75)</u>	<u>-6.4%</u>
Net Interest Income	11,001	9,440	9,526	86	0.9%
Mortgage Servicing Fees	1,995	2,238	2,295	57	2.5%
Other Income	<u>10,231</u>	<u>9,995</u>	<u>13,316</u>	<u>3,321</u>	<u>33.2%</u>
Net Interest & Other Income	23,227	21,673	25,137	3,464	16.0%
Deduct:					
Direct Loan Program Expense	1,299	829	976	(147)	-17.7%
Grants and Services	1,621	1,130	1,500	(370)	-32.7%
Transfer to State	2,375	2,125	2,500	(375)	-17.6%
General & Admin. Expenses	<u>11,057</u>	<u>8,958</u>	<u>9,752</u>	<u>(794)</u>	<u>-8.9%</u>
Net Income (Loss) Before Adjustments	6,875	8,631	10,409	1,778	20.6%
Net Increase (Decrease) in the Fair Value of Investments	<u>(4,446)</u>	<u>(221)</u>	<u>0</u>	<u>221</u>	<u>100.0%</u>
Net Income (Loss) After Adjustments	<u>2,429</u>	<u>8,410</u>	<u>10,409</u>	<u>1,999</u>	<u>23.8%</u>

GENERAL FUND PROGRAMS

The Authority's General Fund segment of business includes several programs: the multifamily revolving loan funds (\$98.6 million in funds); single family mortgages for which there is no outstanding debt (\$3.4 million in mortgages); the Business Development Bond Program (\$9.8 million in loans); surplus programs such as LiDL, Property Tax Deferral Loans, Home Ownership Development Fund and Closing Cost Assistance. The General Fund is the source of funds used for bond issue contributions, grants, and the single family warehousing line of credit.

Net Income in the General Fund for fiscal year 2005 is expected to be \$8.4 million, which is \$6.5 million higher than budget projections. Project reserves of \$3.1 million that reverted to the Authority (upon loan payoff) were reported as Other Income and contributed to a large portion of the favorable variance. Expenditures that were budgeted but were not realized include: a \$1.5 million reserve for the Neighborhood Revitalization Business Guarantee program, G&A expenses of \$1.4 million and Grants and Services of \$341,000.

Net Income in the General Fund for fiscal year 2006 is expected to increase about \$2.0 million to \$10.4 million. The budget assumes a \$2.5 million transfer to the State of Wisconsin. General and Administrative Expenses are budgeted to increase by 8.9%.

Net Interest Income is projected to remain relatively flat in fiscal year 2006. Mortgage Income is expected to decrease 9.6% (\$780,000) next year. The average loan volume is expected to be 10.8% lower and the average mortgage rate is projected to decline eleven basis points during the year. Investment Income is expected to increase 37.9% (\$942,000) reflecting both higher average investment balances and higher investment rates. Interest expense will remain relatively constant over the next fiscal year.

Other Income in fiscal year 2006 is expected to increase 33.2%. The increase reflects an expected \$6.1 million in project reserves that will revert to WHEDA (upon multifamily loan payoffs) and be recorded as income.

The fund balance of this segment is projected to increase approximately \$7.8 million in fiscal year 2006.

GENERAL AND ADMINISTRATIVE EXPENSE

The Authority expects to spend approximately \$17.7 million in fiscal year 2006 for general and administrative expenses to run its operations and support its strategic initiatives. The budget includes \$2.5 million of expenses related to HUD Contract administration (which is expected to generate \$4.6 million in revenues), consistent with the amount spent in fiscal year 2005.

Salaries expense provides budget resources for 178.3 positions, which is 1.6 positions more than were approved in the fiscal year 2005 budget. The budget includes a provision to permit annual salary increases of up to 2.5% and a contingency to accommodate potential salary increases recommended through the implementation of the Authority's Performance Management System required by its strategic plan. Total insurance costs continue to rise with health insurance premiums expected to increase by 12% in fiscal year 2006. Training Expense is expected to increase significantly due to the implementation of an Employee Development program, which was part of the Authority's strategic plan.

Professional Services include audit and legal fees, bank charges, computer consultant fees, computer service agreements and other contracted services. The Authority is expecting to see a 14% increase in Professional Services for Fiscal Year 2006. Significant line item changes reflected in the fiscal year 2006 budget include a 13.7% increase in Computer Consultant Fees and an 18.7% increase in Computer Service Agreements. These increases reflect the cost of enhancing and maintaining the Authority's hardware and software systems. Other Contracted Services is expected to increase by 17.8% as expenditures for public relations, lobbying and emerging business programs are expected to increase during fiscal year 2006.

Occupancy Expense includes the Authority's cost of renting space in Milwaukee and occupying 201 West Washington Avenue, depreciation, insurance, and items that are expensed instead of capitalized (furniture, equipment and computer hardware/software). Assuming a 2.65% cost of capital for July through December and a 3.15% cost of capital for January through June, the Authority's cost per square foot of occupying 201 West Washington Avenue is budgeted to be approximately \$14.48/square foot in fiscal year 2006. That is higher than the \$12.37/square foot expense experienced in fiscal year 2005 due to an assumed increase in the cost of capital. (The building is financed using a commercial paper program.) Over all, Occupancy Expense is expected to experience an 8% increase. This budget assumes the Milwaukee office will reside in its current location for the entire year. If/when a recommendation is made to relocate that office, a separate budget request will be presented to the Board.

Marketing Expense includes out of pocket expenditures for advertising, printing and program promotion. These expenses are expected to increase 2% in fiscal year 2006.

Other Expenses are expected to increase 13% for fiscal year 2006. This includes expenditures for telephone, travel, seminars, postage, and office supplies. In general, these expenses are budgeted to increase an average of 3% next year. Telephone expenses are expected to increase by 11% due to various IT initiatives expected to enhance connectivity and remote access.

General and administrative expenses for fiscal year 2006 were allocated to the Authority's programs based on time data collected in the TimeTrack system. The distribution of the costs is as follows: 56% to the General Fund; 27% to the Single Family Bonded Program; 12% to the Multifamily Bonded Program; 5% to the State of Wisconsin Programs. The projected distribution percentages for fiscal year 2006 are similar to the distributions expected for fiscal year 2005.

CAPITAL BUDGET

The fiscal year 2006 capital budget of \$542,271 is made up of \$537,271 of IT-related requests and \$5,000 for non-IT related items. Fifty percent (50%) of the capital budget is related to upgrading the Authority's business application portfolio, 20% is related to infrastructure enhancements or upgrades, 10% is related to systems security, 6% will be used for enhancing existing applications and 14% is related to other projects.

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY
Assumptions for the Fiscal Year 2006 Budget

General

1. Interest Rates: Long-term investments based on actual rate of return
Short-term rates: 2.85 percent for July - December
3.35 percent for January - June

G&A

1. Number of Authorized positions: 178.3
2. Rate of Inflation: 3.0
3. Estimated rate of contribution for retirement: 11.6 percent

Home Program

1. New Home: Three new bond issues totaling \$430 million
Various Lines of Credit of up to \$40 million used to fund loans
Mortgage rate average 5.92 percent
Authority contributions totaling \$3 million
New loan origination target = \$440 million
2. Prepayments: FY06 prepayment rates are budgeted to be equivalent to those projected by market consensus posted on Bloomberg for Ginnie Mae mortgages. These mortgages have experienced prepayment rates similar to that of the WHEDA loan portfolio.
Prepayments = \$112 million
3. Easy Close and HomePlus Programs: \$3.1 million in new loans

Multifamily Program

1. Fundings: \$ 18.5 million - New Bond Proceeds
6.5 million - Project Mortgage Loan Account, Interest Strip, and
Existing Bond Proceeds

\$25.0 million - Total (\$9.6 million is transferred from the General Fund)
2. Prepayments: \$27.1 million - Section 8
4.5 million - Other
\$31.6 million - Total
3. Interest Strip: Interest strip related to 2002 A,B,C&H will be transferred to an Outside Escrow Fund on a monthly basis. All other interest strip funds will remain in Multifamily.
4. Bond Issue: \$19.1 million bond issue in the 2nd quarter

State Programs

1. Home Improvement Loan Program: No new bond issues
\$800,000 in new loans funded from excess program funds
Loan rate = 7.25 percent
2. Wisconsin Development Reserve Fund: \$5.0 million in small business guarantees
3. FARM Program: \$2.0 million in guarantees
4. CROP Program: \$15 million in guarantees
5. HomePlus: \$2,403,000 in new loans funded from excess program funds
Loan rate = 8 percent

\$7.5 million in new loan commitments

General Fund Programs

1. Property Tax Deferred Payment Loans: \$350,000 in new loans
2. Business Development Bonds: No new activity
3. Multifamily Funding: \$ 9.6million - MF Revolving Fund
(to transfer to bond issue)
9.2 million - MF Revolving Fund
(to remain in General Fund)

\$18.8 million- Total (\$9.6 million is transferred to the bonded program)
4. Grants paid out: \$1.5 million including WHEDA Foundation Grants, Fed Home Loan Grants, and Other (e.g.: paint & fix up)
5. Linked Deposit Loan Program \$1.2 million in new loans
6. WI Affordable Housing Alliance, LLC Fund \$4.7 million in WAHA loans
7. Affordable Housing Tax Credits \$540,000 in allocating fees
\$89,000 in application fees
\$714,600 in monitoring fees
8. Lease Purchase Program \$1,000,000 in new loans

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

DECISION PAPER

Annual Operating and Capital Expenditures Budgets
Fiscal Year Ending June 30, 2006

June 20, 2005

ISSUE

Annual Operating and Capital Expenditures Budgets for fiscal year 2006 ending June 30, 2006

BACKGROUND

The Annual Operating Budget projects the income and expenses for twelve months beginning on July 1 and is based on assumptions concerning future events.

The Capital Expenditures Budget is a recommendation to provide funds in the Property Replacement Reserve for the purchase and replacement of Authority property. The proposed Capital Expenditures Budget for fiscal year 2006 is \$542,271.

ANALYSIS

The Annual Operating Budget for fiscal year 2006 is briefly summarized as follows (in thousands):

Net Interest and Other Income	\$59,219
LESS: Expenses	<u>30,543</u>
Net Income	<u>\$28,676</u>

The Capital Expenditures Budget sets forth proposed appropriations of \$542,271 from the Authority Property Replacement Reserve for fiscal year 2006.

RECOMMENDED MOTION

The Finance Committee and the Executive Director recommend that the Members of the Authority adopt the following Motion:

The Members of the Authority hereby adopt the Annual Operating Budget and the Capital Expenditures Budget as presented in the Budget Report for Fiscal Year 2006 dated June 20, 2005.



June 30, 2005

Senator Ted Kanavas
10 South, State Capitol
Madison, WI 53702

**WISCONSIN
HOUSING AND
ECONOMIC
DEVELOPMENT
AUTHORITY**

Dear Senator Kanavas,

In connection with the audit of our financial statements, please furnish answers to the following questions, sign your name, and return the questionnaire in the enclosed envelope directly to our auditors, Reznick Group, P.C.. The questionnaire is designed to obtain information about transactions between the Wisconsin Housing and Economic Development Authority (the "Authority") and any related parties. Related parties include members of the Authority, their immediate family members and their affiliates (a party that controls, is controlled by or is under control of the member).

Jim Doyle
Governor

Perry Armstrong
Chairman

Antonio R. Riley
Executive Director

Please answer all of the questions below. If you answer "yes," please explain your answer.

Sincerely,

Antonio R. Riley
Executive Director

201 West Washington Avenue
Suite 700
P.O. Box 1728
Madison, WI 53701-1728
608/266-7884
800/334-6873
fax 608/267-1099

101 West Pleasant Street
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info@wheda.com
www.wisconsin.gov

WHEDA supports equal
housing opportunities for
all persons

1. Have you or any related party of yours had any material interest, direct or indirect, in any of the following transactions since July 1, 2004 to which the Authority was, or is to be, a party?

- | | Yes | No |
|--|-------|---------|
| ◆ Sale, purchase, exchange, or leasing of property? | _____ | _____ ✓ |
| ◆ Receiving or furnishing of goods, services, or facilities? | _____ | _____ ✓ |
| ◆ Transfer or receipt of income or assets? | _____ | _____ ✓ |
| ◆ Maintenance of bank balances as compensating balances for the benefit of another | _____ | _____ ✓ |



2. Have you or any related party of yours been indebted to the Authority at any time since July 1, 2004? Please exclude amounts due for ordinary travel and expense advances.

Yes _____ No

3. Have you or any related party of yours had any material interest, direct or indirect, in any transactions since July 1, 2004 or in any pending or incomplete transactions, to which any pension, retirement, savings, or similar plan provided by the Authority was, or is to be, a party? Do not include payments to a plan or payments by the plan made pursuant to the terms of the plan.

Yes _____ No

**WISCONSIN
HOUSING AND
ECONOMIC
DEVELOPMENT
AUTHORITY**

Jim Doyle
Governor

Perry Armstrong
Chairman

Antonio R. Riley
Executive Director

To: Reznick Group, P.C.
500 East Pratt Street, Suite 200
Baltimore, MD 21202-3100

The answers to the foregoing questions are correctly stated to the best of my knowledge and belief.

Signature: *Perry Armstrong*

Date: 8-16-05

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