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JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative John Nygren

Date: December 26, 2019

Re: WHEDA Report to JFC

Attached is a report on the Partnership Lending Program from the Wisconsin Housing and Economic Development Authority, pursuant to s. 234.65, Stats.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

AD:JN:jm

ECONOMIC DEVELOPMENT

DEC 2 6 2019
J. Finance

WHEDA

Chapter 234.65 Programs

Annual Activity Report

June 30, 2019

Updated 11-30-19

WHEDA

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Chapter 234.65 Reporting Requirement

The Wisconsin Housing and Economic Development Authority (Authority) may issue bonds and notes to finance its economic development activities authorized or required under Chapter 234.65, including the financing of economic development loans.

The Authority currently has two Programs that fall under Chapter 234.65 requirements:
1. The Participation Loan Program (PLP)
2. The Conduit Bond Issuance Program (Bond)

WHEDA's PLP and Bond Programs are intended to provide Wisconsin businesses financing to create and retain jobs in the State of Wisconsin, and to promote economic development in both rural and urban communities.

Both programs have been implemented. Only the WHEDA PLP Program had activity in Fiscal Year 2019. Per Chapter 234.65 Section 4, the following reporting is required:

"In respect to the loans issued under this section, the authority shall submit to the governor, the joint committee on finance and the chief clerk of each house of the legislature, for distribution to the appropriate standing committees under s. 13.172 (3), within 6 months after the close of its fiscal year an annual report including all of the following for the fiscal year:
- *a) A statement of the authority's operations, accomplishments, goals and objectives.*
- *b) A financial statement showing income and expenses, assets and liabilities and a schedule of its bonds and notes outstanding and the amounts redeemed and issued.*
- *c) The effects of lending under this section in the following areas:*
  1. *Maintaining or increasing employment in this state.*
  2. *Locating economic development projects in areas of high unemployment or low average income.*
  3. *Obtaining the participation of a large number of financial institutions in the lending.*
  4. *The geographical distribution of lending in this state."*

In compliance with Chapter 234.65(4), we would like to share with you the following, with regard to the PLP and Bond Programs;
- Program Activity
- Program Goals and Outcomes
- Program Financial Statements

Economic Development Program Activity - 234.65(4)(c)

The Authority's **PLP Program** participated on five loans totaling $45,138,758 in fiscal 2019. The Authority's participation was $8,721,411.

One project is located in a distressed area with an unemployment rate of 12.2%.

The transactions for this report had ten (10) participating private funding sources and one (1) participating federal source.

Exhibit A provides a detailed listing of the Authority's Program activity for fiscal 2019.

Program Goals and Outcomes - 234.65(4)(a)

Based on the activity in the Participation Loan Program, WHEDA's Board encumbered additional resources in its 2019 Dividends Plan. An additional $7.7 Million was encumbered in 2019 bringing the total available funds in the program to $31.8 Million.

WHEDA has used the Participation Loan Program in tandem with the federal New Markets Tax Credit Program (NMTC). The NMTC program funds projects in low income communities. Frequently, these projects are very large and challenging to finance conventionally. Layering multiple programs is often necessary to fund these projects. WHEDA has received

multiple NMTC allocations and has expertise in structuring NMTC projects. WHEDA will continue to look for opportunities to use the Participation Loan Program together with the NMTC program.

The Participation Program also continues to be marketed on projects where the applicant is seeking approval of SBA 504 funding. The SBA 504 program provides long term fixed rate financing to projects after an interim financing period expires. WHEDA participates in these projects during the interim period. Lenders seek participants during interim construction, for example, to reduce their loan to value and overall exposure to a Borrower. WHEDA's participation can mean the difference between a project being funded or not. WHEDA views these short term transactions favorably because funds are not tied up for a long period of time (typically 12 to 18 months).

Exhibit B provides a detailed description of the Authority's PLP and Bond Programs.

Program Financial Statements - 234.65(4)(b)

Exhibit C provides a Balance Sheet as of June 30, 2019 and an Income Statement for the 12-month period ending June 30, 2019. Program income currently covers general and administrative expenses.

Exhibit A: Program Activity

Fiscal Year ending June 30, 2019

Participation Loan Program

	Loan Amount	Participation Loan Amount	Disbursement Date	City
Dwell Bayview	$27,030,200	$1,450,000	09/04/2018	Milwaukee
OCTOPI	$6,821,479	$2,935,411	12/27/2018	Waunakee
Concord Mayfair Hotel	$8,000,000	$3,000,000	04/24/2019	Wauwatosa
Next Home Priority	$672,000	$336,000	04/12/2019	Stevens Point
JSWD Commerce Springhill Suites	$2,615,079	$1,000,000	09/28/2018	Milwaukee
Total	**$45,138,758**	**$8,721,411**		

Economic Development Bonding

Bond Issuance Amount	Bond Closed	City

No Activity

Participation Loan Program **Census Data**

	Census Tract	Unemployment Rate*	Average Income*
Dwell Bayview	55079018000	3.3%	80.3% of WI median
OCTOPI	55025011302	2.9%	94.7% of WI median
Concord Mayfair Hotel	55079090300	2.2%	100.2% of WI median
Next Home Priority	55097960400	12.2%	97.7% of WI median
JSWD Commerce Springhill Suites	55079186300	3.5%	191.0% of WI median

Economic Development Bonding

No Activity

* Source: CohnReznick NMTC interactive map (ACS 2006-2010)

Exhibit A: Program Activity

Fiscal Year ending June 30, 2019

Participation Loan Program	Jobs Data
KES Excavating Services	6
Cherry Water	376
NatanJuCo	N/A

NOTE: NatanJuCo paid off the loan on June 4, 2018, as a result there are no Jobs reported for this project.

After a review of our internal procedures and statutory requirements, we feel it will be most effective to report jobs in the second year following the year in which the loan was made, under the belief that a steady state of employment could be achieved and that this jobs number would best represent the accomplishments of the program.

Participation Loan Program	Number of Additional Participants			
	Private	Federal	*State	Local
Dwell Bayview	0	0	0	0
OCTOPI	1	1	0	0
Concord Mayfair Hotel	7	0	0	0
Next Home Priority	1	0	0	0
JSWD Commerce Springhill Suites	1	0	0	0

*NOTE: *The State total does not include WHEDA's participation. It is assumed WHEDA is a participant in all transactions.*

Economic Development Bonding	Private	Federal	State	Local
No Activity	-	-	-	-

Exhibit B: Program Goals and Outcomes

Chapter 234.65 - Participation Loan Program (PLP)

Status: Funded and Active

Inception: 2012 – Dividend Plan (i.e. Internal Capital) funding

Program Goal: To participate on loans for small business projects that would help provide credit enhancement to lenders, in order to help retain and create jobs in the State of Wisconsin

Program Description - WHEDA® PARTICIPATION LOAN PROGRAM

What is the purpose of this program?

WHEDA's Participation Lending program is intended to provide Wisconsin businesses with financing that could not otherwise be secured through traditional lending.
The program partners WHEDA with local community Participating Lenders, banks, credit unions, economic development corporations, community development financial institutions, small business investment corporations, and other entities that provide commercial loans in the state.

What are the Features and Benefits of the Loan?

To reduce risk for the participating lender and provide access to competitively-priced gap and mezzanine financing available for use during construction—including SBA 504 construction loans.

What are eligible uses of loan proceeds?

An economic development project will be eligible for the financing of land purchase, facility purchase or construction (office, plant, production facilities, etc.), equipment, long-term (permanent) working capital, equipment, materials and labor employed in improvements to commercial facilities that result in energy conservation, and facilities for the production, packaging, processing or distribution of raw agricultural commodities.

- Facilities for manufacturing or commercial real estate activities
- National or regional headquarters facilities
- Facilities for the storage or distribution of products of manufacturing activities, materials, components or equipment
- Facilities for the retail sale of goods or services
- Facilities for research and development activities
- Recreational and tourism facilities serving to attract visitors to this state
- Facilities for the production, packaging, processing or distribution of raw agricultural commodities
- Facilities for engaging in the business of operating a railroad
- Facilities for recycling
- Businesses where the principals do not owe past-due child support.
- Activities of a long-term nature, such as research and development, or long-term working capital may also be eligible. In addition, equipment, materials or labor used to make an energy-conserving improvement to a commercial or industrial facility would also be eligible.

Required Criteria

WHEDA may not finance an economic development loan unless all of the following apply:

- The economic development project is or will be located in the State of Wisconsin.
- One or more other financial institutions participate in the economic development project.
- WHEDA shall not assume unsecured or uncollateralized risk for any economic development loan.
- The economic development loan will not be used to refinance existing debt, unless it is in conjunction with an expansion of the business or job creation.
- The name of the person receiving the loan does not appear on the statewide support lien docket.

Priority Considerations

WHEDA will give priority to economic development projects which:

- Maintain or increase employment in Wisconsin
- Will be located in an area of high unemployment or low average income
- Provide services or activities that would otherwise not be available in the community or in Wisconsin
- Are more than 50% owned by women or minorities
- Have current gross annual sales of $5,000,000 or less or that employ 250 or fewer people
- For new businesses, have less than 50% of their ownership held or controlled by another business and have their principal business operations in this state
- Have multiple financial institutions or other financing sources participating in the economic development project.

Chapter 234.65 – Economic Development Conduit Bond Issue Program

Status: Funded and Active

Inception: Chapter 234

Program Goal: WHEDA's Economic Development Conduit Bond Issuance Program is intended to provide Wisconsin businesses financing that will create and retain jobs in the State of Wisconsin, and promote economic development in both rural and urban communities.

Program Description - WHEDA® Economic Development Conduit Bond Issue Program

$150 MM in Economic Development Bonding Authority has been approved through June 30, 2022.

Sources of tax-exempt bond financing include:

- Industrial Revenue Bonds.

What are eligible uses of bond proceeds?

An economic development project will be eligible for the financing of land, plant, or equipment for any of the following:

- Facilities for manufacturing or commercial real estate activities.
- Facilities for the retail sale of goods or services.
- Other eligible projects include national or regional headquarters facilities, facilities for the storage or distribution of products of manufacturing activities, materials, components or equipment, facilities for research and development activities, recreational and tourism facilities serving to attract visitors to this state, and facilities for the production, packaging, processing or distribution of raw agricultural commodities.
- Activities of a long-term nature, such as research and development, or long-term working capital may also be eligible.

Required Criteria

WHEDA may not issue bonds to finance an economic development loan unless all of the following apply:

- The economic development project is or will be located in the State of Wisconsin.
- One or more other financial institutions participate in the economic development project.
- WHEDA shall not assume unsecured or uncollateralized risk for any economic development loan.
- The economic development loan will not be used to refinance existing debt, unless it is in conjunction with an expansion of the business or job creation.
- The name of the person receiving the loan does not appear on the statewide support lien docket.

Considerations

WHEDA may finance an economic development loan only after considering all of the following:

- The extent to which an economic development project will maintain or increase employment in this state.
- Whether an economic development project will be located in an area of high unemployment or low average income.
- The extent to which the activities constituting the economic development project otherwise would not occur.

Preferences

WHEDA shall also give preference to businesses:

- Which are more than 50% owned or controlled by women or minorities.
- That, together with all of their affiliates, subsidiaries and parent companies, have current gross annual sales of $5,000,000 or less or that employ 250 or fewer persons.
- That have less than 50% of their ownership held or controlled by another business and have their principal operations in the State of Wisconsin

Exhibit C: Program Financial Statements

WHEDA 234.65 ECONOMIC DEVELOPMENT PROGRAM
FINANCIAL STATEMENTS

Fiscal Year 2019
6/30/2019

ASSETS		
Mortgage Loans Receivable, net	$ 15,943,004	
TOTAL ASSETS		$ 15,943,004
LIABILITIES*		
Interfund Settlement	$ 1,927,038	
FUND BALANCE	$ 14,015,966	
TOTAL LIABILITIES AND FUND BALANCE		$ 15,943,004

Income Statement
For the 12-Month Period Ending 6/30/2019

INCOME		
Mortgage Loan Income	$ 1,170,504	
Other Fee Income	$ 862	
Other Income	$ 0	
TOTAL INCOME		$ 1,171,366
EXPENSES		
Provision for Loan Loss	$ (1,548,065)	
General and Administrative Expense	$ (174,492)	
TOTAL EXPENSES		$ (1,722,557)
NET INCOME(LOSS)		$ (551,191)

* $42.5 million of conduit revenue bonds were issued in a previous period which do not constitute indebtedness of the Authority.