

Dividends for Wisconsin 2022-2023

A plan to expand housing and economic opportunity for the people of Wisconsin

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WHEDA

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

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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 80,000 affordable rental units, helped more than 137,000 families purchase their first homes and made more than 29,000 small business and agricultural loans. 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. Revenues are generated from interest on loans and investments; loan origination and servicing fees; and other service fee income. These revenues are used to support WHEDA's operating and other expenses.

The statute that created WHEDA established the Authority's General Fund. The General Fund includes all programs and initiatives for which revenues are not specifically pledged to bond or note holders. The net assets of the General Fund, which have not been restricted in prior years, create the Dividends for Wisconsin Plan.

Dividends for Wisconsin 2022-2023

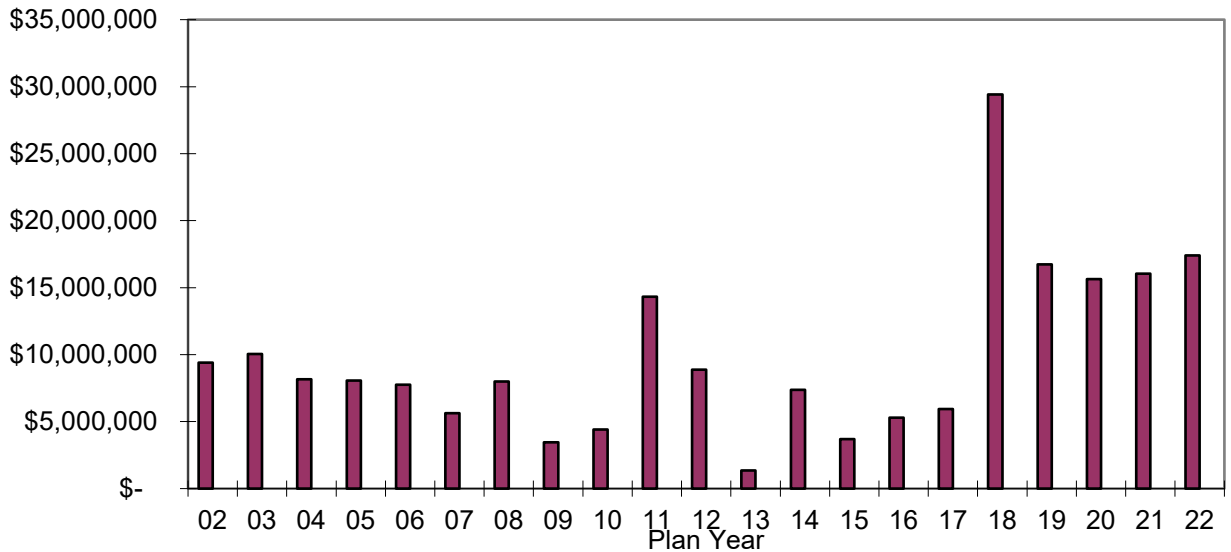
History. The strategic use of historical Dividends for Wisconsin Plans has allowed WHEDA to fund initiatives of the State of Wisconsin and meet mission objectives. It also supports WHEDA's financial stability, which is critical to the ability to provide opportunities to Wisconsin residents in all market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

Dividends for Wisconsin 2022-2023 (the "Plan") totals \$17,173,764. Historically, plans have ranged from a low of \$1.3 million as WHEDA and Wisconsin recovered from the recession of 2008 to \$29.4 million when the sale of the Madison office building produced a gain. The 2021-2022 plan totaled \$16.0 million and the average over the 35- year history has been \$9.6 million.

The larger than average 2022-2023 plan stems from stable performance of WHEDA's loan portfolio during COVID-19, continued low interest rates for borrowing for the majority of the year, and strong single family and multifamily lending volume.

The graph below shows the Dividends for Wisconsin history:

Historical Dividends Plan Size



Priorities. The Plan provides general reserves totaling \$17,173,764 for all purposes.

WHEDA is currently in the process of developing a new strategic plan. The plan is expected to be completed in October 2022 and will be presented to the Members for review.

Priorities in fiscal year 2022 included the development of an alternative lending program for single family home buyers, creation of a supportive housing program, working with the rural workforce housing pilot communities and addressing the challenges in multifamily development related to rising interest rates and increased construction costs.

Category I: Homeownership **\$11,173,764**

Single Family Housing: Down payment assistance will 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. WHEDA expects these funds to support more than 800 home purchasers.

Category II: Multifamily Housing **\$3,000,000**

Multifamily Lending. WHEDA is receiving \$25 million of Federal American Rescue Plan Act funds to provide gap financing for the 2020 and 2021 Housing Tax Credit allocates. These funds, along with Capital Magnet Funds and Housing Trust Funds allow for a smaller Category II allocation this year. The combined funds will be used for strategic initiatives and continued gap financing.

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

Small Business and Economic Development Initiatives. During the next fiscal year, WHEDA intends to roll out three new products using a portion of the State Small Business Credit Initiative (SSBCI) funds available to Wisconsin. The SSBCI products will be focused on assisting small businesses through Community Development Financial Institutions and community banks. Limited new encumbrances will be needed in this category.

Category IV: Grants and Services

\$2,000,000

Housing Grants and Services. WHEDA expects to continue funding the Foundation Grants program, which provides emergency housing grants to non-profits. This program assisted more than 30 non-profits in fiscal year 2022. New housing grant programs and initiatives requiring services may be developed under the strategic plan

Total

\$17,173,764

2022-23 Dividends for Wisconsin Plan

Dividends for Wisconsin 2022-2023 authorizes WHEDA to encumber reserves for programs that are clearly needed to advance housing and economic development in the state. The funds are deployed through the categories below and will be used to support the priorities listed above.

WHEDA held public hearings on August 2, 2022 and August 3, 2022. The following categories and initiatives may receive financial consideration by WHEDA Board members during the coming fiscal year:

Category I: Homeownership	\$11,173,764
Category II: Multifamily Housing	3,000,000
Category III: Small Business and Economic Development	1,000,000
Category IV: Grants and Services	2,000,000
Category V: Operations	0
Category VI: Economic Stimulus and Support	<u>0</u>
Total	<u>\$17,173,764</u>

Appendix I

Amounts Available for Dividends for Wisconsin, 2022-2023

June 30, 2022

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 the Plan total \$17,173,764. This amount is based upon the General Fund balance less encumbered general reserves as of June 30, 2022, as shown below and in the exhibits that follow.

Total Restricted and Unrestricted Reserves		\$873,435,000
Less: Restricted Reserves		<u>553,653,000</u>
General Fund Balance		\$319,782,000
Less: General Reserve Encumbrances		
Homeownership Programs (Exhibit 1)	\$53,451,950	
Multifamily Housing Programs (Exhibit 2)	159,900,262	
Small Business and Economic Dev (Exhibit 3)	39,453,372	
Grants and Other Services (Exhibit 4)	4,183,065	
Authority Operations (Exhibit 5)	41,019,587	
Economic Stimulus and Support (Exhibit 6)	<u>4,600,000</u>	
Subtotal		<u>\$302,608,236</u>
Unencumbered General Reserves		\$17,173,764

Exhibit 1

Homeownership Encumbrances

June 30, 2022

	6/30/2021 Encumbrance	Increase (Decrease)	6/30/2022 Encumbrance
Closing Cost Assistance Loan Fund	17,580,240	0	17,580,240
Homeownership Rural Workforce Initiative Fund	2,250,000	0	2,250,000
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	16,069,416	6,038,425	22,107,841
Capital Magnet Funds	1,914,656	282,862	2,197,518
Single Family Loan Fundings	<u>5,000,000</u>	<u>0</u>	<u>5,000,000</u>
Total	<u>\$47,130,663</u>	<u>\$6,321,287</u>	<u>\$53,451,950</u>

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 low-and-moderate income families to achieve home ownership. The encumbrance is a revolving loan fund.

The **Homeownership Rural Workforce Initiative Fund** will be used to fund innovative solutions to address the shortage of affordable workforce housing in rural communities. WHEDA has committed \$10 million to this initiative and set aside \$5 million from Dividends for Wisconsin 2019-2020. Three pilot communities were selected. One community has finalized their solutions and the associated request for funding. The second has preliminarily identified solutions and the third has started work to identify barriers and funding alternatives.

The **Property Tax Deferral Loan Fund** provides loans to low-income Wisconsin seniors to pay property taxes on their homes. The encumbrance is 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 the last five fiscal years. These funds are required to meet CDFI-eligible uses for a minimum of 10 years. As the funds are deployed, they are encumbered until the 10-year restrictions expire and the loans are repaid. In single family, these funds are used for down payment assistance.

Single Family Loan Funding provides temporary, warehouse financing for Single Family loans that 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, 2022

	6/30/2021 Encumbrance	Increase (Decrease)	6/30/2022 Encumbrance
General Revolving Fund	\$55,627,134	\$0	\$55,627,134
Multifamily Preservation and Lending Fund	61,492,603	6,000,000	67,492,603
Multifamily Rural Workforce Initiative	2,250,000	0	2,250,000
Fannie Mae Secondary Market Initiative	700,000	0	700,000
FAF Savings – WHEDA Portion	6,612,538	(879,075)	5,733,463
Interest Strip Funds	5,238,060	0	5,238,060
Multifamily Bond Support	974,838	0	974,838
Capital Magnet Fund	8,283,586	814,919	9,098,505
Housing Trust Fund	4,557,459	3,506,558	8,064,017
FHLB Matching Funds	2,400,000	0	2,400,000
HUD Voucher Program	184,397	(20,567)	163,830
Emerging Developers Initiative	2,000,000	0	2,000,000
Mod Rehab Program	<u>133,562</u>	<u>24,250</u>	<u>157,812</u>
Total	<u>\$150,454,177</u>	<u>\$9,446,085</u>	<u>\$159,900,262</u>

The **General Revolving Fund** includes financing for multifamily projects that serve low-income families, the elderly and people 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 preserve and create affordable housing units in the State. Financing programs include refinancing of current debt to maintain affordability and improve the development, gap financing, and TIF financing. This encumbrance is a revolving loan fund.

The **Multifamily Rural Workforce Initiative Fund** will be used to fund innovative solutions to address the shortage of affordable workforce housing in rural communities. WHEDA has committed \$10 million to this initiative and set aside \$5 million from Dividends for Wisconsin 2019-2020. Three pilot communities were selected. One community has finalized their solutions and the associated request for funding. The second has preliminarily identified solutions and the third has started work to identify barriers and funding alternatives.

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

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 create future dividends funds.

Interest Strip Funds are available to subsidize interest rates on multifamily project loans. These funds are restricted for this use by tax law.

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

Capital Magnet Funds were awarded to WHEDA in five previous fiscal years. The use of these funds is restricted by the CDFI Fund for a minimum of 10 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.

Housing Trust Funds were awarded by HUD and may be used for the production or preservation of affordable housing for low income individuals and families. A plan for use of each annual award must be approved by HUD. All Housing Trust Fund-assisted units will be required to have a minimum affordability period of 30 years. At repayment, these funds remain restricted under the Housing Trust Fund requirements.

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.

The **Emerging Developers Initiative** provides funds to facilitate an increase in the number and capacity of emerging developers, with a focus on ACRE graduates and other underserved developers.

Exhibit 3

Small Business Encumbrances

June 30, 2022

	6/30/2021 Encumbrance	Increase (Decrease)	6/30/2022 Encumbrance
Economic Development Revolving Loan Fund	<u>\$37,230,427</u>	<u>\$2,222,945</u>	<u>\$39,453,372</u>
Total	<u>\$37,230,427</u>	<u>\$2,222,945</u>	<u>\$39,453,372</u>

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. Additional programs, as approved by the Members Loan Committee, may also be funded from this encumbrance.

Exhibit 4

Housing Grants and Services Encumbrances

June 30, 2022

	6/30/2021 Encumbrance	Increase (Decrease)	6/30/2022 Encumbrance
Natural Disaster Grants	\$84,411	\$0	\$84,411
Grants	2,232,500	0	2,232,500
Rural Workforce Housing Initiatives	500,000	0	500,000
Strategic Initiatives	<u>1,550,744</u>	<u>(184,590)</u>	<u>1,366,154</u>
Total	<u>\$4,367,655</u>	<u>\$(184,590)</u>	<u>\$4,183,065</u>

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.

Grants are funds encumbered for future housing grant programs. This includes the WHEDA Foundation, homelessness initiatives and other future initiatives. The Foundation program provides funds for local governments and nonprofit providers of housing to benefit the housing needs of Wisconsin's persons in crisis and will not return to Dividends. In fiscal year 2022, \$1 million was provided to the WHEDA Foundation.

Rural Workforce Housing Initiatives will be used to fund innovative solutions to address the shortage of affordable workforce housing in rural communities. WHEDA has committed \$10 million to this initiative and set aside \$5 million from Dividends for Wisconsin 2019-2020. Three pilot communities were selected. One community has finalized their solutions and the associated request for funding. The second has preliminarily identified solutions and the third has started work to identify barriers and funding alternatives.

Strategic Initiatives. These encumbrances are held to fund multiple partnerships with third parties to help transform communities. Current strategic priorities with funds set aside in this category include supportive housing training, the ACRE program provided by LISC and increasing the capacity of Community Development Financial Institutions.

Exhibit 5

Authority Operations Encumbrances

June 30, 2022

	6/30/2021 Encumbrance	Increase (Decrease)	6/30/2022 Encumbrance
Capital Adequacy Reserve	\$2,750,000	0	\$2,750,000
Operating Expense Reserve	2,000,000	0	2,000,000
Authority Property and Replacement Reserve	22,044,363	2,004,757	20,039,607
Deferred Receivable - HOME Expense	12,420,032	(205,336)	12,214,696
Other Receivables	7,332	(431)	6,901
GASB 68 Pension Asset	(1,592,074)	3,407,621	1,815,547
GASB 31 Adjustment	2,500,000	0	2,500,000
GASB 75 – OPEB	758,000	(2,565,164)	(1,807,164)
Technology Initiatives	<u>1,500,000</u>	<u>0</u>	<u>1,500,000</u>
Total	<u>\$42,387,653</u>	<u>\$2,626,317</u>	<u>\$41,019,587</u>

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 (buildings, desks, computers, etc.) reflects non-liquid assets that cannot be used for other purposes.

To ensure the financial stability of past homeownership bond issues and to comply with restrictions placed on these programs, 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 as of June 30, 2022. 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.

Technology Initiatives – refers to long-term projects 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.

Exhibit 6

Economic Stimulus and Support

June 30, 2022

	6/30/2021 Encumbrance	Increase (Decrease)	6/30/2022 Encumbrance
Support Homebuyer Education	\$2,000,000	\$0	\$2,000,000
Future Initiatives	1,600,000	650,000	2,250,000
Eviction and Foreclosure Support	<u>0</u>	<u>350,000</u>	<u>350,000</u>
Total	<u>\$3,600,000</u>	<u>\$1,000,000</u>	<u>\$4,600,000</u>

Financial literacy can increase the chances of success for borrowers. Funds will be used to **Support Homebuyer Education** which is especially important for first time home buyers. WHEDA has contracted with the Federal Home Loan Bank of Chicago to receive \$3 million and has selected the counseling agencies to deploy these funds. The goal will be to use the funds across the State and address underserved populations and areas without certified home buyer counseling agencies.

Future Initiatives funds are encumbered to allow WHEDA flexibility to be nimble and responsive when situations arise where the citizens of Wisconsin are in need.

Eviction and Foreclosure Support funds are encumbered to assist agencies providing support to citizens facing eviction and foreclosure.

Appendix II

Status of Dividends for Wisconsin, 2021-22

June 30, 2022

	Plan Amount	Encumbered
Category I: Homeownership	\$6,038,425	\$6,038,425
Category II: Multifamily Housing Development	6,000,000	6,000,000
Category III: Small Business and Economic Development	2,000,000	2,000,000
Category IV: Housing Grants and Services	1,000,000	1,000,000
Category VI: Economic Stimulus and Support	<u>1,000,000</u>	<u>1,000,000</u>
Total	<u>\$16,038,425</u>	<u>\$16,038,425</u>