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June 2, 2011 | Joint Committee on Finance | Paper #800

Transfer of Unencumbered Reserves (WHEDA)

CURRENT LAW

The Wisconsin Housing and Economic Development Authority (WHEDA) is required by statute to maintain an unencumbered general reserve fund, also referred to as a "surplus" fund. The surplus exists within WHEDA's general fund and consists of any Authority assets in excess of operating costs and reserves required to back WHEDA's bond issues. A calculation of unencumbered general reserve funds is done annually at the fiscal year end and reported by WHEDA to the Governor and the Legislature, along with WHEDA's plan to expend these proceeds in the subsequent fiscal year. The allocation plan is known as "Dividends for Wisconsin," and it allocates funding to support single-family homeownership, multifamily housing, small-business and other economic development, and grants to providers of emergency or transitional housing services through the WHEDA Foundation. WHEDA is required to allocate a portion of unencumbered general reserve funds to: (a) match federal funds available under the McKinney Homeless Assistance Act; (b) match federal funds available under the home investment partnership program; and (c) fund the WHEDA property tax deferral loan program. Recent budget acts have also required transfers of a portion of WHEDA's surplus to the general fund, which in some instances were offsets to GPR reductions in housing programs under the Department of Commerce.

GOVERNOR

The bill contains no provisions relating to WHEDA's unencumbered reserves.

DISCUSSION POINTS

1. The administration reports no transfer of WHEDA's surplus was required under the bill because of uncertainty over whether and to what degree the housing market will recover in 2011-13, and what any resulting impact would be on the Authority's financial condition.

2. Table 1 shows the basis for WHEDA's $4.4 million unencumbered reserve as of June 30, 2010. WHEDA's 2010-11 Dividends for Wisconsin plan allocated this amount as follows: (a) $2,755,500 for single-family homeownership efforts, including support on mortgage revenue bonds issued for this purpose, and for possible strategic initiatives such as assistance with closing costs or foreclosure prevention; (b) $700,000 for multifamily housing activities; (c) $500,000 for the WHEDA Foundation for grants to providers of emergency and transitional housing services; (d) $225,000 for homebuyer educational initiatives and promotional initiatives to develop affordable housing; and (e) $225,000 for transfer to the state general fund.

TABLE 1

WHEDA Combined Balance Sheet, June 30, 2010

Assets and reserves (cash; investments; loans and interest receivable; other)	$3,722,271,000
Liabilities (bonds, notes and interest payable; escrow deposits; other)	-3,170,913,000
Total restricted and unrestricted reserves	$551,358,000
Less restricted reserves for bond resolutions, administered funds	- 383,795,000
General reserve fund balance	$167,563,000
Less encumbered for housing and economic development activities	- 142,487,900
Less encumbered for WHEDA operations	- 20,669,600
Unencumbered general reserves ("surplus") available for 2010-11 Dividends for Wisconsin plan	$4,405,500

3. Section 234.165 of the statutes outlines the procedure for gubernatorial and legislative review of the Authority's annual plan for the unencumbered funds. By August 31 of each year, the Chairperson of the Authority certifies to the Secretary of the Department of Administration: (a) the actual unencumbered funds available on the preceding June 30, the close of the previous state fiscal year; and (b) the projected funds available on the following June 30, at the close of the current state fiscal year. For those funds available on the preceding June 30, the Chairperson submits to the Governor the "Dividends for Wisconsin" plan for expending or encumbering the funds during the current fiscal year. The Governor may modify the plan and is required to submit, within 30 days, the plan to the presiding officer of each house of the Legislature, who then refers the plan to the appropriate standing committees within seven days. The statutes contain provisions by which the standing committees or the Joint Committee on Finance may review and request modifications to the plan. With the exception of limited statutorily permitted transfers of funds from one plan category to another, the unencumbered general reserve funds may be expended or encumbered only in accordance with the approved plan.

4. The table below shows transfers since 2003-04 from WHEDA's surplus to the general fund or Commerce, as well as the total available in that year's Dividends for Wisconsin plan. The average transfer since 2003-04 has been nearly 29 percent of the amount available for the Dividends for Wisconsin plan. Amounts transferred to the general fund in 2009-11 have represented smaller percentages than transferred in previous biennia.

TABLE 2

Transfers from WHEDA Unencumbered Reserves

Year	Recipient Department/Fund	Amount	Dividends Available	Transfer Percentage
2003-04	General Fund	$2,375,000	$10,055,500	23.6%
2004-05	General Fund	2,125,000	8,150,500	26.1
2005-06	Commerce	3,000,000	8,066,300	37.2
2006-07	Commerce	2,000,000	7,757,300	25.8
2007-08	Commerce	3,025,000	5,627,600	53.8
2008-09	Commerce	3,000,000	8,000,400	37.5
2009-10	General Fund	225,000	3,453,000	6.5
2010-11	General Fund	225,000	4,405,500	5.1
Total		$15,975,000	$55,516,100	28.8%

5. WHEDA's surplus has declined in the last biennium primarily due to reduced lending activity and increased amounts being kept as reserves to back issued bonds. WHEDA temporarily ceased lending between October, 2008, and March, 2010, due to conditions in credit markets that would have made WHEDA loans prohibitively high for low- to moderate-income borrowers served by the Authority's homeownership programs. This reduced WHEDA's income from fees charged to borrowers and partner lenders on loan originations, as well as income from mortgage payments. Overall, WHEDA's net income in 2007-08 was $34.6 million, and is budgeted at $19.5 million for 2010-11. Further, housing-related securities, including mortgage revenue bonds such as those WHEDA issues, were viewed as higher risks for default, and two rating agencies had placed some of WHEDA's issues on negative credit watch in 2009. These circumstances have since been resolved, although they generally required WHEDA to reserve additional amounts to back its bond issues. Some of these effects, however, have been mitigated by declines in WHEDA's outstanding amounts of bonds and notes, which has helped sustain WHEDA's general reserves.

6. In the past, it was argued that transferring a portion of WHEDA's surplus was appropriate, given that WHEDA in general is a profitable entity. It could be argued that a transfer in the 2011-13 biennium would again be appropriate and could be viewed as an offset to GPR expended for state housing programs.

7. WHEDA is not able to provide an accurate estimate at this time of the surplus expected to be available beginning June 30, 2011, or at the end of any subsequent year. WHEDA on its most recent balance sheet reported $6.4 million in funds accumulated for the Dividends for Wisconsin plan for 2011-12, but WHEDA staff reports this number could decrease by June 30, 2011, if additional support were needed for the Authority's bond issues. However, unencumbered reserves currently available suggest WHEDA will have a June 30, 2011, surplus at least comparable to last year's figure of $4.4 million.

8. If the Committee wished to require WHEDA to transfer a portion of the Authority's unencumbered reserves each year in the 2011-13 biennium, it could consider: (a) $225,000 each year, which would be equal to amounts transferred annually in 2009-11; (b) $450,000 each year, or twice the amount transferred each year in 2009-11; (c) $675,000 each year, or three times the amount transferred annually in 2009-11; or (d) $900,000 each year, or four times the amount

transferred each year in 2009-11. Under a surplus approximately equal to that available in the current year ($4.4 million), these options would represent about 5%, 10%, 15% or 20% of the total surplus, respectively [Alternatives 1a-d].

9. Conversely, it could be argued that it is not appropriate to require transfers from an independent authority. The bill generally does not require transfers from segregated funds to the general fund and not transferring Authority assets would be consistent with this approach. Further, any required transfer to the state's general fund would lessen WHEDA's ability to distribute its surplus among its housing programs and other housing providers. A transfer would also reduce amounts in WHEDA’s reserves, some of which the Authority may be required to encumber over the biennium if it needed additional reserves sufficient to back its bond issues. It could also be argued that because WHEDA's surplus has been lower in the current biennium than is typical, it would not be appropriate to require a transfer at this time. The Committee could take no action [Alternative 2].

ALTERNATIVES

1. Specify that the Wisconsin Housing and Economic Development Authority transfer to the state general fund from its unencumbered reserves one of the following amounts each year:

a. $225,000;

ALT 1a	**Change to Bill** Revenue
GPR	$450,000

b. $450,000;

ALT 1b	**Change to Bill** Revenue
GPR	$900,000

c. $675,000; or

ALT 1c	**Change to Bill** Revenue
GPR	$1,350,000

d. $900,000.

ALT 1d	**Change to Bill** Revenue
GPR	$1,800,000

2. Take no action.

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