

09/15/20



To: Joel Brennan, Secretary, DOA

From: Joaquín Altoro, CEO, WHEDA

A handwritten signature in black ink, appearing to read "Joaquin Altoro".

Date: Sept. 15, 2020

Subject: WHEDA proposes self-funded budget action to support small businesses

The Wisconsin Housing and Economic Development Authority requests consideration of a proposal for the 2021-23 budget that would allow WHEDA to use dividends generated by mortgage and other fee income to purchase equity stakes in small businesses and startups. This aligns with WHEDA's mission to stimulate the state's economy and improve the quality of life for Wisconsin residents.

Expanding WHEDA's capacity to invest in small businesses and startups would offer a new and potentially significant tool to support economic recovery and growth in Wisconsin communities. By leading investments that would enable businesses to conduct market research; develop, construct or test a prototype; or develop a business plan, WHEDA also would better position these enterprises to secure additional financing and create jobs.

As currently written, [Wis. Stat. 234.03\(18m\)](#) limits WHEDA's use of its dividends funds to \$1 million total. WHEDA proposes allowing up to \$1 million of its own funds annually for these purposes. No resources would be deployed without approval by the WHEDA board.

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 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 Dividend for Wisconsin Plan.

Now more than ever, WHEDA is innovating and collaborating as it carries out its mission. During these difficult times, it is critical that we focus on programs and partnerships that are sustainable. We look forward to continuing this important work with you and others so that together, we may accomplish more than any of us could achieve alone.

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BUDGET REQUEST:

Expand WHEDA's ability to invest in small businesses and startups

REQUEST

Amend Wis. Stat. 234.03(18m) to expand WHEDA's capacity to invest in small businesses and startups.

- Allow for equity investments of \$1 million from WHEDA dividend funds on an annual basis.

BACKGROUND

WHEDA is empowered to make equity investments in certain businesses through Wis. Stat. 234.03(18m). The statute allows WHEDA to use dividends generated by mortgage and other fee income to purchase equity stakes in small businesses and startups. No GPR dollars are used.

The current statute limits investment of WHEDA funds to \$1 million total and this cap was reached years ago. Expanding WHEDA's ability to use its own funds to invest in and hold private equity positions would support other efforts to spur entrepreneurial activity and drive intellectual property development in Wisconsin.

Businesses eligible for this investment must have their principal place of business in the state and must be independently owned with fewer than 25 full-time employees or gross annual sales of less than \$2.5 million. WHEDA's investment may enable the businesses to conduct market research; develop, construct, or test a prototype; or develop a business plan, among other activities.

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