

Dividends for Wisconsin 2014-15

A plan for creating housing, business and job opportunities for the people of Wisconsin

August 20, 2014

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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 63,000 affordable rental units, helped more than 111,000 families purchase their first homes, and made more than 29,000 small business and agricultural loan guarantees. Resources include tax-exempt bonding, tax credits, loan guarantees, asset management services and housing grants. 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 programs and operations. In general, its revenues are generated from interest on loans and investments, loan origination and servicing fees, and housing management services.

2014-15 WHEDA Strategic Plan

WHEDA's 2014-15 strategic plan will continue to focus on expansion of the Authority's economic development loan portfolio. It also contemplates leveraging WHEDA's expertise in single family and multifamily lending to put new, income-producing, assets on the books.

The Authority will continue the strategy of partnering with lenders, developers, CDFIs, Foundations, real estate professionals, farmers, community organizations, small business owners and governmental agencies to secure resources and deliver useful housing and business financing products. These partnerships serve the dual purpose of ensuring a financially strong Authority and helping local partners expand their capabilities.

A corporate re-organization at WHEDA during fiscal year 2014 positioned the Authority well to move forward to originate high-quality loans in both real estate and commercial lending. The Business Development Group will work closely with the Commercial Lending Group to identify opportunities for new lending relationships. In addition, the Risk and Compliance staff at the Authority are laser focused on maintaining low default rates and finding ways to use existing data to advise lending decisions.

Dividends for Wisconsin 2014-15

History. Dividends for Wisconsin plans have historically focused almost exclusively on single family, multifamily and special needs housing. Consequently, nearly all of WHEDA's general reserves are set aside for housing programs.

Beginning in fiscal 2012, with the intent of expanding its business development programs, WHEDA began encumbering general reserves to help small businesses create and retain jobs. To date, General reserves totaling \$17.4 million have been set aside and encumbered for small business lending programs.

Priorities. Dividends 2014-15 provides general reserves totaling \$7,375,949 for all purposes. WHEDA has set the following priorities for Dividends for Wisconsin 2014-15:

1. **Economic Development.** WHEDA may encumber general reserves of up to \$3,675,949 to help Wisconsin business owners. The Authority will continue to partner with commercial and community lenders to leverage financial resources and to provide help to small business operators, including farmers.
2. **Affordable Housing.** WHEDA may supplement existing encumbrances with up to \$3,000,000 of additional resources. These funds will be used to finance affordable housing for families, the elderly and persons with limited income.
3. **Special Needs Housing.** Since the 1980s, WHEDA has granted funds to local governments and nonprofit providers to create emergency and transitional housing for the homeless, senior citizens, persons with disabilities and other special needs populations. In 2015, WHEDA expects to continue its funding of the WHEDA Foundation Grant Program and will also consider funding of other strategic initiatives that support special needs housing.

Summary

WHEDA's 2014-15 strategic plan sets objectives of continuing to expand the Authority's economic development capabilities, while also continuing our long history of financing strong multifamily projects and single family homes. Dividends for Wisconsin 2014-15 deploys WHEDA unencumbered general reserves in a manner that recognizes existing resources and supports the Authority's strategic objectives.

2015 Dividends for Wisconsin Plan

Wisconsin law requires WHEDA to develop an annual plan for the use of its unencumbered general reserve funds. Dividends for Wisconsin 2014-15 authorizes WHEDA to encumber reserves for programs that are clearly needed and can be effectively administered within its operating budget. Funds are typically divided among four categories: Homeownership, Multifamily Housing, Small Business and Economic Development, and Grants and Services. The plan includes successful programs from past plans and new initiatives that may be effectively implemented. Consistent with WHEDA's strategic plan, the majority of funds are allocated to economic development.

WHEDA held public hearings in Madison and Milwaukee and solicited written and electronic comments to obtain ideas for the development of the plan and identify the needs of its customers. The following categories and initiatives may receive financial consideration by the WHEDA Board of Directors during the upcoming fiscal year:

Category I: Homeownership **\$2,000,000**

Single Family Lending and Strategic Initiatives. WHEDA currently has \$26.6 million encumbered for programs related to homeownership. Those resources will be used for a variety of purposes including homeownership bond cost of issuance, closing cost assistance, single family lending to underserved markets, rural housing, foreclosure prevention, short-term loan warehousing, niche loan products and loans to organizations that support strategic single family initiatives.

Category II: Multifamily Housing **\$1,000,000**

Multifamily Lending and Strategic Initiatives. WHEDA currently has \$113 million encumbered for multifamily housing programs. Those resources may be used to fund long-term loans, support multifamily bond issuance or other borrowing, provide participation loans that support green and sustainable developments, provide gap financing for developments in high need areas, support high-impact family, elderly and/or special needs developments, preserve existing affordable housing stock, and/or extend or restructure current WHEDA loans to preserve affordability.

Category III: Small Business and Economic Development **\$3,675,949**

Participation Lending Program. The plan permits WHEDA to encumber funds for the WHEDA Participation Lending Program (WPLP). The program partners WHEDA with community lenders, banks, credit unions, economic development corporations, community development financial institutions, small business investment corporations and other entities that provide commercial loans to businesses. Funds may also support participations with community development corporations to increase lending in underserved rural and urban areas or back public private partnerships (P3) designed to support job creation or green and sustainable developments.

Customized Financing Programs. The plan permits WHEDA to develop customized financing programs used by businesses and farmers to expand and create/retain jobs for Wisconsin workers. Programs may include financing that supplements or fills gaps in products available through commercial lenders.

Category IV: Grants and Services

\$700,000

WHEDA Foundation Housing Grants Program. The plan permits WHEDA to support Wisconsin organizations in developing special housing for persons-in-crisis. Target populations include homeless persons, runaways, alcohol or drug dependent persons, persons in need of protective services, domestic abuse victims, developmentally disabled persons, low-income elderly or frail elderly persons, chronically mentally ill persons, persons with disabilities, migrant farm workers, and individuals/families who do not have access to traditional or permanent housing.

Strategic Initiatives. The plan permits WHEDA to encumber funds for grants, assistance and/or match in support of WHEDA's strategic initiatives related to homeownership, multifamily housing, special needs housing or economic development projects in Wisconsin including the Transform Milwaukee Initiatives (TMI) area.

Emergency Housing Grants Related to Natural Disasters. The plan permits WHEDA to encumber funds to make grants/loans to units of local government or recognized disaster relief agencies (Red Cross, Salvation Army, etc.) to provide temporary housing for persons displaced from their homes by natural or other disasters.

Total

\$7,375,949

Appendix I

Amounts Available for Dividends for Wisconsin, 2014-2015

June 30, 2014

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 Dividends for Wisconsin 2014-15 total \$7,375,949. This amount is based upon the General Fund balance less encumbered general reserves as of June 30, 2014, as shown below and in the Exhibits that follow.

Total Restricted and Unrestricted Reserves		\$627,066,000
Less: Restricted Reserves		<u>432,276,000</u>
General Fund Balance		\$194,790,000
Less: General Reserve Encumbrances		
Homeownership Programs (Exhibit 1)	\$26,653,268	
Multifamily Programs (Exhibit 2)	112,629,001	
Small Business Programs (Exhibit 3)	17,364,000	
Grants and Other Services (Exhibit 4)	759,274	
Authority Operations (Exhibit 5)	<u>30,008,508</u>	
Subtotal		<u>187,414,051</u>
Unencumbered General Reserves		\$7,375,949

Exhibit 1

Homeownership Encumbrances

June 30, 2014

	6/30/2013 Encumbrance	Increase (Decrease)	6/30/2014 Encumbrance
Deferred Payment Loans	\$42,715	0	\$42,715
Closing Cost Assistance Program	8,414,558	0	8,414,558
Neighborhood Revitalization	121,062	(121,062)	0
Program 65 Mortgages	1,143,050	132,896	1,275,946
Property Tax Deferred Loans	1,685,000	0	1,685,000
Homeownership Bond Support	5,881,351	0	5,881,351
Homeownership Development Fund	4,333,698	0	4,333,698
Workforce Housing Initiative	210,000	(210,000)	0
Mortgage Assistance Revolving Loan Fund	20,000	0	20,000
Single Family Loan Fundings	<u>5,000,000</u>	<u>0</u>	<u>5,000,000</u>
Total	\$26,851,434	(\$198,166)	\$26,653,268

The **Deferred Payment Loan Program** was a pilot home improvement loan program for elderly southwestern Wisconsin residents. Loans are repayable when the property ceases to be the borrower's permanent residence. WHEDA estimates that all loans will be repaid within 20 years and all repayments will revert back to Dividends.

The **Closing Cost Assistance Program** 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 is expected to become increasingly important for the Authority's ability to provide a competitive loan product.

The **Neighborhood Revitalization Program** was a long-term interest subsidy program providing low interest rate home improvement loans in participating Wisconsin neighborhoods. The subsidies will be paid over the life of the loans and will not return to Dividends. These funds were released on June 30, 2014.

Program 65 Mortgages. Mortgage assets are available to the General Fund when all debt associated with mortgages originated in a resolution is repaid. Repayments revert to Dividends as loans pay off.

The **Property Tax Deferral Loan Program** provides loans to low-income Wisconsin seniors to pay property taxes on their homes. The encumbrance represents a revolving loan fund.

Homeownership Bond Support provides funds to cover the cost of issuing homeownership revenue bonds.

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.

The Workforce Housing Initiative is a fund to be used for strengthening and revitalizing communities. WHEDA will partner with employers and communities who have committed financial resources to help the workforce purchase homes in their communities. These funds were released on June 30, 2014.

The Mortgage Assistance Revolving Loan Fund is a foreclosure prevention program for WHEDA's single family homeowners. This is a modest subsidized loan program with loans made on a case by case basis.

Single Family Loan Fundings 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, 2014

	6/30/2013 Encumbrance	Increase (Decrease)	6/30/2014 Encumbrance
General Revolving Fund	\$69,382,798	\$0	\$69,382,798
Homeless Fund	782,007	(50,313)	731,694
Fannie Mae Secondary Market Initiative	700,000	0	700,000
Preservation Reserve Account	17,184,787	124,261	17,309,048
Rural Housing - PRLF	1,720,410	(42,695)	1,677,715
Housing Preservation Initiative	2,750,000	0	2,750,000
FAF Savings – WHEDA Portion	9,806,594	(269,364)	9,537,230
Interest Strip Funds	5,507,560	0	5,507,560
Multifamily Bond Support	2,745,017	0	2,745,017
FHLB Matching Funds	2,400,000	0	2,400,000
HUD Voucher Program	(105,607)	(139,284)	(244,891)
Mod Rehab Program	<u>151,899</u>	<u>(19,069)</u>	<u>132,830</u>
Total	\$113,025,465	(\$396,464)	\$112,629,001

The **General Revolving Fund** includes financing for multifamily projects that serve low-income families, the elderly and persons with disabilities. Loans under this category represent construction lending or short-term financing prior to conversion to long-term financing. The types of long-term financing that will be used for projects include tax-exempt housing revenue bonds, taxable bonds, sale to the secondary market, and financing provided by the Federal Home Loan Bank. The date on which individual mortgages will be converted to long-term financing is not presently known.

The General Revolving Fund contains encumbrances for special programs including a multifamily preservation initiative. The intent of the preservation initiative is to maintain the affordability of Section 8 projects in WHEDA's loan portfolio. The Multifamily Loan Fund will be used to finance preservation agreements. Finally, the General Revolving Fund includes Construction Plus, a loan program that provides short-term, variable interest rate financing of up to 90% of the development cost of rental housing for families, elderly or people with disabilities. This product was designed for tax credit developments.

The **Homeless Fund** includes financing for permanent housing for the homeless, Affordable Housing Tax Credit Homeless set-aside, group homes and community based residential facilities. The majority of all funds under this category are used to provide financing for homeless and special needs projects. Some projects may qualify for long-term financing through bonding. This amount is available to match grants received under the Stewart B. McKinney Homeless Assistance Program.

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

The **Preservation Reserve Account** was created for the purpose of providing resources for preserving low-income rental housing. The funds become available when certain project mortgages are prepaid and reserves revert to WHEDA. In December 1998, WHEDA approved the transfer of these project reserves to the General Fund.

Rural Housing – PRLF (Preservation Revolving Loan Fund) represents funds received from the U.S. Department of Agriculture and that are used to support rural housing projects in the State of Wisconsin.

The **Housing Preservation Initiative** provides resources for preserving housing within the State of Wisconsin. The funds will provide for activities that may include refinancing current debt or rehabilitation.

FAF Savings (WHEDA Portion) represent an accumulation of funds generated by a 1992 refinancing in the multifamily bond resolution. A 1999 accounting change moved those funds from the multifamily resolution to WHEDA's General Fund. The funds were immediately encumbered because their use is restricted to very low-income households pursuant to the FAF contract. Repayments of loans made using FAF funds return to Dividends.

Interest Strip Funds are available to subsidize interest rates on multifamily project loans. These funds are restricted for this use by federal law and bond covenants. In August 1998 and 2000, WHEDA approved the transfer of Interest Strip Funds to the General Fund.

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

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.

Exhibit 3

Small Business Encumbrances

June 30, 2014

	6/30/2013 Encumbrance	Increase (Decrease)	6/30/2014 Encumbrance
Economic Development Revolving Loan Fund	\$15,717,000	\$1,047,000	\$16,764,000
Northwest Side Community Development Corp.	<u>700,000</u>	<u>(100,000)</u>	<u>600,000</u>
Total	\$16,417,000	\$947,000	\$17,364,000

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.

The **Northwest Side Community Development Corporation (NWSCDC)** is a Community Development Financial Institution (CDFI) located in the Transform Milwaukee zone. WHEDA is partnering with NWSCDC to provide assistance in deploying loan programs to our most in-need communities.

Exhibit 4

Housing Grants and Services Encumbrances

June 30, 2014

	6/30/2013 Encumbrance	Increase (Decrease)	6/30/2014 Encumbrance
Natural Disaster Grants	\$20,700	\$0	\$20,700
Paint and Fix-Up Grants	50,627	(50,627)	0
WHEDA Foundation Grants	0	0	0
State of Wisconsin Contribution	0	0	0
Homebuyer Education in Wisconsin	1,383	(1,383)	0
Homeless Grant Program	100,000	(100,000)	0
Workforce Housing	27,525	(27,525)	0
HFA Secondary Market Study	100,000	(100,000)	0
CDFI Capitalization	6,205	(6,753)	(548)
Transform Milwaukee Initiative	475,000	(80,415)	394,585
Transform Milwaukee Stormwater Study	193,830	(139,407)	54,423
Strategic Initiatives	405,000	(138,220)	266,780
Operation Fresh Start	117,667	(94,333)	23,334
Pilot Micro-grant Program	<u>50,000</u>	<u>(50,000)</u>	<u>0</u>
Total	\$1,547,937	(\$788,663)	\$759,274

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.

Paint and Fix-up Grants are encumbered to promote minor exterior improvements in Wisconsin Communities. The funds are grants that will not return to Dividends. These funds were released on June 30, 2014.

WHEDA Foundation Grants are grants for local and nonprofit providers of housing to benefit the housing needs of Wisconsin's persons in crisis and will not return to Dividends. \$355,000 was encumbered and provided to the WHEDA Foundation, Inc. for grants in 2014.

State of Wisconsin Contribution. As required by the State Budget Bill, these funds will be contributed to the State of Wisconsin and will not return to Dividends. No contribution was required in 2014.

Homebuyer Education in Wisconsin. The Authority has formed a partnership with NeighborWorks America, Local Initiatives Support Corporation of Greater Milwaukee and the City of Milwaukee to provide homeownership counseling in Milwaukee. The funds are grants that will not return to Dividends. Unspent funds were released on June 30, 2014.

Homeless Grant Program. Funds are encumbered to assist organizations in providing housing for the homeless. The program includes the Departments of Corrections, Administration, Workforce

Development, Veterans Affairs and Health Services. The funds are grants that will not return to Dividends. These funds were released on June 30, 2014.

Workforce Housing is a recognized approach to strengthen and revitalize communities. The funds will be used to support workforce housing initiatives throughout the state, and are grants that will not return to Dividends. These funds were released on June 30, 2014.

HFA Secondary Market Study. The funds will be used to study the feasibility of an HFA secondary market initiative. These funds were released on June 30, 2014.

Community Development Financial Institution (CDFI) Capitalization. The funds will be used to explore the feasibility of creating a new CDFI with the goal of seeking funds from the U.S. Treasury. The CDFI would provide credit and financial services to underserved markets and populations.

Transform Milwaukee Initiative. The funds will be used to restore industrial output, create jobs, address the city's large inventory of foreclosed properties and create a sustainable solution to rainwater run-off in the City of Milwaukee.

Transform Milwaukee Stormwater Study. The funds will be used to develop plans that will eliminate or mitigate major flooding events of the type that have damaged residential and manufacturing properties in the City of Milwaukee.

Strategic Initiatives. WHEDA encumbered \$460,000 to fund multiple partnerships with third parties to help transform communities. Such partnerships will be formed to provide resources and infrastructure improvements necessary to foster economic growth in communities throughout Wisconsin, including the TMI area.

Operation Fresh Start. The funds will be used to provide a one-time grant to Operation Fresh Start, Inc. (OFS) for the purpose of covering a funding gap that resulted from an unexpected reduction in Federal HOME funds. OFS is expected to pursue alternate funding for the future. The funds will be applied to the expenses associated with providing technical assistance services to the nine Fresh Start programs operated in Wisconsin.

Exhibit 5

Authority Operations Encumbrances

June 30, 2014

	6/30/2013 Encumbrance	Increase (Decrease)	6/30/2014 Encumbrance
Capital Adequacy Reserve	\$2,750,000		\$2,750,000
Operating Expense Reserve	2,000,000		2,000,000
Authority Property	13,886,455	1,524,382	15,410,837
Authority Property Replacement Reserve	448,000	(250,560)	197,440
Deferred Receivable - HOME Expense	5,698,071	842,346	6,540,417
Other Receivables	956,774	(73,159)	883,615
HFA Affordable Advantage – FNMA Collateral	500,000		500,000
GASB 31 Adjustment	1,500,000	0	1,500,000
Rebranding Initiative	<u>250,000</u>	<u>(23,801)</u>	<u>226,199</u>
Total	\$27,989,300	\$2,019,208	\$30,008,508

On May 24, 1991, the Members of the Authority established capital ratio standards. 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. This receivable averages \$2 million and represents a non-cash asset which is unavailable for other purposes.

Authority Property (desks, computers, building, etc.) reflects non-liquid assets that cannot be used for other purposes. The book value of this property on June 30, 2014 is \$15,410,837. The **Replacement Reserve** of \$197,440 is established to allow for the purchase of fixed assets authorized in the most recent annual capital budget. These dollars are not available for other purposes as they will be converted to Authority Property.

To ensure the financial stability of past homeownership bond issues and to comply with restrictions placed on these programs by the US Treasury, 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.

HFA Affordable Advantage – FNMA Collateral is a reserve held by a third party trustee and represents collateral needed to participate in FNMA's Affordable Advantage Single Family Loan Program.

The **GASB 31 Adjustment** represents a reserve for unrealized gains on certain investments in the General Fund at June 30, 2014. 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.

Rebranding Initiative. The Authority sold the “We Do So You Can” tag line and related logo in 2013 for \$500,000 and set aside one half of the proceeds for a Rebranding Initiative that was to be completed in fiscal year 2014. A new logo was created in 2014 for \$24,000 and the Authority intends to use the remaining encumbrance to fund a rebranding advertising campaign in 2015.

Appendix II

Status of Dividends for Wisconsin, 2013-14

June 30, 2014

	Plan Amount	Encumbered
Category I: Homeownership	\$0	\$0
Category II: Multifamily Housing Development	0	0
Category III: Small Business and Economic Development	1,047,865	1,047,000
Category IV: Housing Grants and Services	<u>305,000</u>	<u>305,000</u>
Total	\$1,352,865	\$1,352,000

Category I: Homeownership

Additional funds were not provided in this category in the Dividends for Wisconsin 2013-2014 Plan.

Category II: Multifamily Housing Development

Additional funds were not provided in this category in the Dividends for Wisconsin 2013-2014 Plan.

Category III: Small Business and Economic Development

Economic Development Revolving Loan Fund. WHEDA encumbered \$1,047,000 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.

Category IV: Housing Grants and Services

WHEDA Foundation Housing Grants Program. WHEDA encumbered \$305,000 to support Wisconsin organizations in developing special needs housing for persons-in-crisis. In addition, WHEDA transferred an existing encumbrance of \$50,000 for a micro-grant program to the housing grant program. A total of \$355,000 in grants were awarded in 2014.