F I S C A L   I M P A C T   R E P O R T

SPONSOR Rodriquez **ORIGINAL DATE** 02/20/09 **LAST UPDATED** **HB**

SHORT TITLE Expand Affordable Housing Tax Credits **SB** 209

ANALYST Lucero

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	($13.5)	($13.5)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$20.0	$20.0	$40.0	Recurring	MFA Operating Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
New Mexico Mortgage Finance Authority (NMFA)

SUMMARY

Synopsis of Bill

Senate Bill 209 amends Section 7-9I-1 NMSA 1978, the Affordable Housing Tax Credit Act, to permit the New Mexico Mortgage Finance Authority (NMFA) to issue an investment voucher to a person who has made an investment of materials for an affordable housing project approved by the authority. The bill also eliminates a previous limitation that defined "affordable housing projects" as eligible projects located in counties with populations of less than 100,000. Pursuant to this bill, all eligible projects would be considered "affordable housing projects," even if they are located in counties with populations of 100,000 or more.

FISCAL IMPLICATIONS

According to the February 2009 revenue estimate, FY10 recurring revenue will only support a base expenditure level that is $575 million less than the FY09 appropriations before the 2009 solvency reductions. All appropriations outside of the general appropriation act will be viewed in this declining revenue context.

The Taxation and Revenue Department calculation was based on existing tax return data, the average amount of credit taken is approximately $11,700. Based on the 2000 Census, adding counties with populations of 100,000 or more makes approximately 115% more people living in these counties to be eligible for the credit. The fiscal impact was calculated by assuming that the increase in amount of credit is proportional to the increase in the eligible population.

According to the Mortgage Finance Authority (MFA)

> In 2008, MFA could issue or approve investment vouchers in an amount not to exceed $3,644,342 – an amount equal to a base rate of $1.85 multiplied by the state population of 1,969,915. In 2009, MFA can issue or approve investment vouchers in an amount not to exceed $3,811,987. The amount is determined annually based on the state population and a base rate adjusted for inflation.
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> A donor in possession of an investment voucher may transfer all or a fraction of the voucher once to one or more entities. Such transactions require notification to MFA and TRD within ten days. A holder of an investment voucher may apply all or a portion of the affordable housing tax credit against the holder's modified combined tax liability, personal income tax liability or corporate income tax liability. The whole tax credit or a fraction thereof may be redeemed the first year or carried forward for up to five years.
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> The administrative work on this program would be covered by MFA's budgeted revenues, not by state general funds, estimated to be $21,000 per year. Application fees for large development projects are $200 per application, with approximately $1,000 collected in FY2008. The net effect is a cost to MFA of $20,000 per year.

SIGNIFICANT ISSUES

As land, building, and energy costs continue to outpace the increases in wages and funding sources available for all types of housing development, funding flexibility is paramount. Restrictive tax credits impede the development of quality rental housing in larger communities that tend to need more rental housing and the development of transitional and permanent housing for very low income people (ie. people transitioning out of homelessness). Making the state tax credits more flexible will help fill some of the anticipated funding gaps in the rental housing development market as a result of the erosion of federal Low Income Housing Tax Credit.

PERFORMANCE IMPLICATIONS

Flexibility in the credits will assist the rental housing development market by providing further sources of funding to fill gaps in project funding. This is especially important in the federal Low Income Housing Tax Credit program which has experienced a severe decline in pricing in the current economic difficulties. This also assists those projects that are trying to serve very low income populations (i.e., special needs populations, people transitioning from homelessness, elderly) and can not use conventional debt sources due to minimal project cash flow.

DL/svb