

**MINUTES
of the
SECOND MEETING
of the
MORTGAGE FINANCE AUTHORITY ACT OVERSIGHT COMMITTEE**

**July 14, 2017
New Mexico Mortgage Finance Authority Office
344 Fourth St. SW
Albuquerque**

The second meeting of the Mortgage Finance Authority Act Oversight Committee was called to order by Representative Eliseo Lee Alcon, chair, on July 14, 2017 at 10:03 a.m. in the New Mexico Mortgage Finance Authority (MFA) office in Albuquerque.

Present

Rep. Eliseo Lee Alcon, Chair
Sen. Nancy Rodriguez, Vice Chair
Sen. Gregory A. Baca
Rep. Kelly K. Fajardo
Sen. Stuart Ingle
Sen. Cisco McSorley
Rep. Rod Montoya

Absent

Rep. Sheryl Williams Stapleton

Advisory Members

Rep. Alonzo Baldonado
Rep. George Dodge, Jr.
Rep. Bealquin Bill Gomez
Rep. Roberto "Bobby" J. Gonzales
Sen. Richard C. Martinez
Sen. Michael Padilla
Rep. Dennis J. Roch
Rep. Nathan P. Small
Sen. Jeff Steinborn

Rep. Bill McCamley
Sen. Gerald Ortiz y Pino
Sen. Sander Rue

Guest Legislator

Sen. Carlos R. Cisneros

Staff

Mark Edwards, Drafter, Legislative Council Service (LCS)
Sharon Ball, Drafter/Senior Researcher, LCS

Guests

The guest list is in the meeting file.

Handouts

Copies of all handouts are in the meeting file.

Friday, July 14**Welcome and Update**

Isidoro "Izzy" Hernandez, deputy director of programs, MFA, welcomed the committee and gave a brief introduction of the budget for a number of housing programs run through the U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture. He said that the HUD budget passed its first U.S. House committee at a \$38 billion level, which is less than last year's budget but more than the president's proposed budget. He also projected that the U.S. Senate would be more favorable to funding federal housing programs than the U.S. House. Overall, he indicated that there appears to be continuing congressional support for housing assistance programs.

The committee then briefly discussed whether the meeting scheduled for September 15 in Santa Teresa should be moved to avoid potential scheduling conflicts with anticipated presenters who may be committed to a large local event that day. A committee member pointed out that the meeting is scheduled to be held jointly with the Economic and Rural Development Committee (ERDC) as the second day of the ERDC meeting in Dona Ana County. With the joint meeting in mind, the chair suggested that LCS staff try to work around the various scheduling conflicts before trying to change the date of the meeting.

Motion

Pursuant to a motion by Senator McSorley, seconded by Senator Rodriguez, the minutes of the committee's meeting on June 13, 2017 were approved without objection.

Federal Housing Policy and Budget Update

Monica Abeita, senior policy and program advisor, MFA, updated the committee on the federal budget process and trends. In fiscal year 2017, federal funding is providing \$121.2 million to MFA programs and accounts for 20.7% of the MFA's budget. The 2018 federal fiscal year starts on October 1, and the budget picture may be changing quickly, so the MFA will update the committee at each meeting.

Ms. Abeita said the 2018 budget process started in March with President Trump's budget proposal. The president is proposing funding reductions of \$6 billion for federal housing. These reductions would eliminate various HUD programs, including the Home Investment Partnerships Program (HOME); community development block grants; the Self-Help Homeownership Opportunity Program; the Choice Neighborhoods Initiative; the Capacity Building for Community Development and Affordable Housing Program, also called the "Section 4" program;

and community housing development organizations. The proposed budget also reduces funding for community development and planning grants and rental assistance vouchers for low-income people and veterans through the Section 8 and the HUD-Veterans Affairs Supportive Housing programs. The president's proposed budget also would eliminate the U.S. Department of Energy's Low Income Home Energy Assistance Program and the Weatherization Assistance Program, which are funding sources for the MFA's NM EnergySmart Program.

Ms. Abeita said that funding cuts for home rehabilitation have been a trend in recent years, and she outlined some factors that have been framing, and may accelerate, that trend. For several years, much of the federal budget has been authorized through short-term continuing resolutions instead of the traditional annual budget process, known as "regular order". The regular order process is perceived as more stable, as congressional committees work to align revenue with spending on an annual basis rather than a few months at a time. A second framing factor has been the federal Budget Control Act of 2011, which set annual caps on domestic and defense spending in a process known as sequestration. The federal Bipartisan Budget Act of 2015 lifted the spending caps for two years, but the caps will return on October 1 without further congressional action.

Ms. Abeita said there are two major potential congressional actions that are also shaping this year's budget debate. Congressional leaders have talked about tax reform measures, and the president proposed a \$1 trillion infrastructure investment initiative during his campaign. Ms. Abeita indicated that federal policymakers may be shaping their current budget positions to accommodate the impacts of future action on those issues. She said that housing entities like the MFA are concerned about preserving two items in the federal tax code: the state's affordable housing tax credit (AHTC) and private activity bonds (PABs). She said there appears to be a lot of congressional support for the AHTC. However, no champion has emerged so far for the PABs, and that is raising concern within private industry and municipal governments.

Responding to questions from the committee:

- Mr. Hernandez said the 56% reduction in HOME since 2010 could represent 40 to 50 fewer rehabilitated homes per year, but some of that funding reduction actually represents a reduction in rental assistance;
- Gina Hickman, deputy director of finance and administration, MFA, said that about 5% of MFA bond sales are to New Mexico residents and that 100% of the money generated by those sales stays within the state;
- Mr. Hernandez said that the MFA currently has a contract with the HUD to administer the Section 8 housing program, but the HUD is looking at moving to a regional, instead of a state-by-state, contracting system. He said that the MFA is developing a partnership with neighboring states in case the HUD makes that change; and

- Ms. Abeita said that the federal cuts in weatherization assistance would create a 54% cut in New Mexico. She said that the legislature could expect requests to increase state funding for these programs if the proposed federal cuts materialize.

Proposed MFA 2018 Legislative Agenda

Ms. Abeita said that despite a challenging budget picture, the MFA proposed two funding bills in 2017. Those two bills, which called for oversight of regional housing authorities (RHAs) and the Affordable Housing Act, were partly proposed at the committee's request in order to keep the issues in front of the legislature. Neither request was funded.

Ms. Abeita highlighted two areas as key for funding assistance in 2018: 1) planning and technical assistance to RHAs and local public housing authorities (PHAs); and 2) weatherization funding. She said that RHAs fill an important role in merging PHAs when needed to avoid losing federal Section 8 voucher funding. On weatherization, she said the NM EnergySmart Program works on up to 1,000 homes a year, but the demand is always greater. Those projects may mean an extra \$30.00 to \$50.00 in a family's monthly budget that does not have to be dedicated to heating bills.

Responding to questions from the committee about affordable housing programs, MFA staff said that:

- the MFA has been very successful in funding mortgage loans through the secondary bond market. The MFA uses an outside consultant to sell these securities;
- applications for affordable housing projects receive extra points in the competitive process if there is a local government contribution. Local contributions may be in the form of funding, land or in-kind contributions. However, competitive scoring for housing assistance does not take into account the financial resources of the local governments. Local governments without large revenue sources typically make land or in-kind contributions;
- Albuquerque and Santa Fe do track their own housing vacancy rates, and the MFA conducts rural vacancy surveys. Typically, rural vacancy rates are very low, reflecting tight housing markets;
- the MFA is not aware of any housing projects that are currently in financial difficulty, but older (15- to 20-year-old) projects that are due for rehabilitation or renovation sometimes find themselves financially pinched when costs rise faster than allowable rent increases;
- some statistics developed by the National Association of Home Builders might clarify whether investment of the state's permanent funds in housing would create a better

return than investment in stocks; that information will be provided to the committee at a later date; and

- the MFA requires pre-purchase counseling for homebuying assistance to limit foreclosures down the line, but that is the only foreclosure prevention program currently operating.

Concluding this part of the agenda, committee members suggested that:

- the MFA remind the committee at its November meeting that capital outlay requests can be put into the New Mexico Housing Trust Fund; and
- opportunities to expand natural gas pipelines to unserved communities be examined, as natural gas is much less expensive for a family budget than propane.

RHA Update

Rose Baca-Quesada, community development director, MFA; Gina Bell, senior lead, community development, MFA; Chris Herbert, executive director, Eastern RHA; and Richard Frey, executive director, Northern RHA, led the presentation. Ms. Bell provided a brief history of RHAs in New Mexico. In 1970, seven RHAs were created by the legislature. At the time, RHAs had bonding capacity and eminent domain authority. However, their internal capacity varied widely, and there was no direct oversight of RHAs at the state level. In 2006, one of the RHAs defaulted on a \$5 million state bond. The default triggered allegations of misuse of RHA funds, and eventually, the RHA went into receivership. In 2007, the legislature removed the bonding and eminent domain authorities from RHAs and tasked the MFA, the Department of Finance and Administration and the Mortgage Finance Authority Act Oversight Committee to create a plan for reforming the RHAs. This process resulted in legislation in 2009 that consolidated the RHAs into three regions and tasked the MFA with oversight review and approval of a number of RHA functions, including annual audits and contracts over \$100,000. The MFA was also tasked with providing training and technical assistance to the RHAs. These tasks are not funded within the state's budget but are resourced out of the MFA's internal budget.

Ms. Baca-Quesada said that funding for local PHAs has been decreasing, and some PHAs have run into difficulties or have faced collapse. In these cases, an RHA may take over the PHAs' functions. When a PHA is collapsing, that area might lose federal housing assistance unless the RHA can take over the administration of Section 8 vouchers and other programs. She said that both the eastern region and the northern region had consolidated with some of their local PHAs, but no consolidations have happened so far in the western region. She said that finding board members for the western region has been difficult and that it currently has three vacancies on its board.

Mr. Herbert provided some specifics on the activities of the Eastern RHA. He talked about a recently completed 16-unit housing project in Eunice that was funded with MFA assistance, and a similar project is pending approval in Jal. He stated that new funding for RHAs and affordable housing oversight funds is critical in helping local communities plan for and meet their housing needs. He said that the eastern region is currently looking at several small projects in the four- to eight-unit range. The eastern region is rated a "high performer" in the Section 8 Management Assessment Program (SEMAP).

Presenting an update on the western region, Ms. Baca-Quesada said the region had entered into a memorandum of understanding with El Camino Real Housing Authority to share skills. The western region manages the Linkages program in its area and is also rated a "high performer" in the SEMAP.

Mr. Frey said that the northern region is continuing its program of PHA stabilization. He noted that the northern region has responsibility at some project sites to meter natural gas or propane and that it does not have the staff expertise it needs. He said a goal is to get the region out of the gas business. He noted two regional challenges, the first being a relatively inexperienced regional staff. The MFA's training assistance is helping in this area, but the region needs to retain staff to gain on-the-ground experience. Second, the region is experiencing a high vacancy rate at several rental projects caused by late-rent evictions. He said that staff members are working with delinquent renters to get them on a payment schedule. He noted that many housing units in the Taos area are damaged, and the region has been able to let out some contracts for renovation.

Responding to questions from the committee, the panelists said that:

- all three RHAs either manage units or Section 8 vouchers, but none provides full-spectrum housing services, including renovation and weatherization. A foundational element for the RHAs would be stable annual funding to the MFA for RHA oversight and assistance;
- Silver City and Taos do not have local PHAs but are served by their respective RHAs;
- the Albuquerque, Santa Fe and Dona Ana County urban areas have their own housing authorities and are not within any of the regions;
- the Navajo Housing Authority is overseen by the HUD;
- the northern region has been in discussion with the Rio Arriba County Housing Authority (RACHA) on how to deal with issues that have been giving the RACHA a

"troubled or substandard" rating. Sometimes those ratings reflect the condition of housing units, and sometimes ratings are based on the staffing available to a PHA;

- each RHA board sets the training requirements for its staff. For example, the eastern region requires its staff to have three different certifications. However, training depends upon available funds. The National Association of Housing and Redevelopment Officials sometimes provides scholarships for training; and
- the number of Section 8 vouchers is in decline because of a steady decline in funding since 2003 rather than a decline in demand.

In response to some questions about the New Mexico Housing Trust Fund, Jay Czar, executive director, MFA, said the fund's uses are limited by very specific statutory language. The legislature could broaden its uses to include energy conservation or other goals, but it might need to look at whether the MFA board would then be authorized to allocate base funding between the uses. He also said that the MFA currently issues loans, rather than grants, from the fund. Grants would draw down the fund if a recurring funding source from the state is not found.

New Mexico Housing Trust Fund Update

Sabrina Su, program manager, MFA, said that the state has invested \$18.7 million in the New Mexico Housing Trust Fund. With that base funding and accrued interest, the MFA has been able to award more than \$42 million, and has leveraged \$459 million from other funding sources, to build or renovate 3,200 homes. The leveraged funds represent a 24-to-1 return on the state's investment.

Responding to questions from the committee, Ms. Su and Mr. Czar said the fund has been seeing a return of about \$1 million a year. In total, the interest on state funding has been around 30%. A demand exists if additional funding for the New Mexico Housing Trust Fund becomes available.

Adjournment

There being no further business, the committee adjourned at 12:43 p.m.