

## BACKGROUND INFORMATION

The New Mexico Mortgage Finance Authority (MFA) provides tools for quality affordable homes statewide. MFA is a governmental instrumentality created in 1975 to assist with financing the acquisition, construction, rehabilitation and improvement of residential housing for New Mexico low- and moderate-income families. MFA is designated as the state government's housing agency, administering state and federal housing programs. Additionally, the oversight of New Mexico's regional housing authorities and the Affordable Housing Act belong to MFA.

MFA is governed by a seven-member board including the lieutenant governor, state treasurer and state attorney general. The MFA Legislative Oversight Committee is empowered to monitor and oversee the operations and rules and regulations formulated by the authority. The authority develops its own budget which is approved by its board of directors and does not require legislative approval. Statutorily created, the Land Title Trust Fund Advisory Committee, advises MFA on the use of monies generated by the land title trust fund to address affordable housing; the New Mexico Housing Trust Fund Advisory Committee advises MFA on the use of housing trust fund monies; and the Low Income Housing Tax Credit Allocation Review Committee reviews staff tax credit award recommendations, hears appeals to the awards, and makes final recommendations to the MFA Board.

## MFA Fiscal Year 2023 Revenue and Operating Budget

MFA is a quasi-governmental agency and operates on a federal fiscal year (Oct 1-Sep 30). They do not receive operating funds from the state. Funding sources for the numerous housing services are derived from federal, MFA general fund, state, housing trust fund, land title trust fund, interest, and administrative fees.

MFA's FY24 revenue budget totals \$31.7 million, a 7 percent increase compared to last year's budget. On September 20, 2023, the MFA Board of Directors approved the authority's operating budget totaling \$30.3 million for FY24, an 11 percent increase over FY23 expenditures. The budget will cover 4 percent salary increases for staff, a 13 percent increase for benefit expenses, and additional FTEs. MFA's projected excess revenue for FY24 is \$1.5 million.

As an instrumentality of the state, MFA is subject to the State Audit Act, and received an unmodified opinion on its FY22 financial statements. The FY23 audit is in process.

Laws 2023, Chapter 9, amended the start date of the severance tax bond allocation from FY24 to FY23 for 2.5 percent distribution to the Housing Trust Fund (HTF), an estimated \$37.5 million is expected to be distributed to the HTF. This will mark the first recurring appropriation to the fund from the state.

**AGENCY:** New Mexico Mortgage Finance Authority

**DATE:** October 25, 2023

**PURPOSE OF HEARING:** New Mexico Mortgage Finance Authority Budget and Program Overview

**WITNESS:** Mr. Isidoro "Izzy" Hernandez, Director

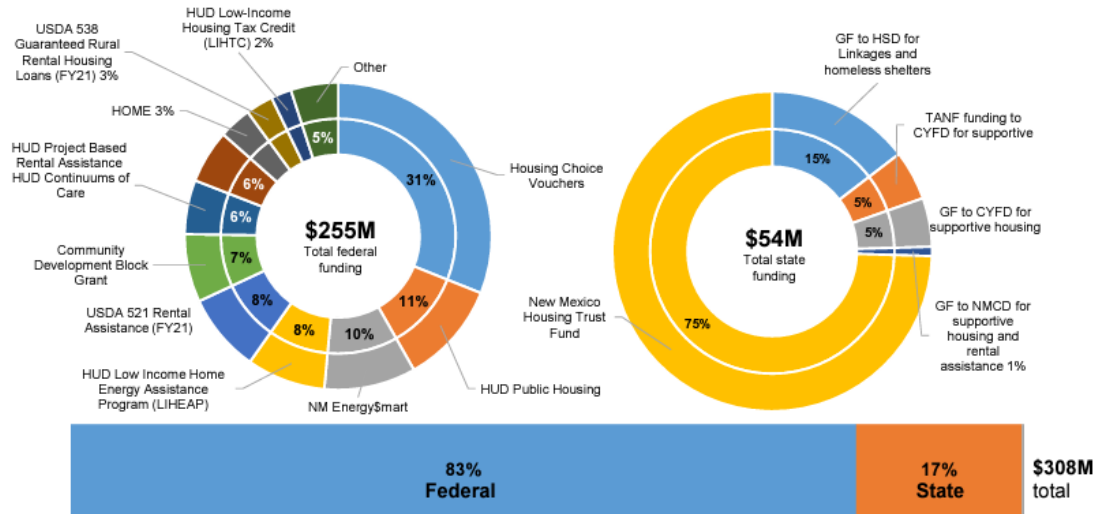
**PREPARED BY:** Jeannae L. Leger

**EXPECTED OUTCOME:** Informational

### What does MFA offer?

- Low interest rates;
- Down payment assistance;
- Affordable housing construction financing;
- Senior and special needs housing;
- Rental and homeownership assistance;
- Home rehabilitation;
- Energy efficiency upgrades;
- Transitional housing; and
- Homelessness assistance.

## Breakdown of FY22 Federal and State Funding for Housing Programs Statewide



Note: Funding is approximate from FY22 unless noted otherwise and does not include expanded, one-time funding from pandemic programs. The funding includes both assistance to individuals to make rents affordable and grants and subsidies for acquisition, rehabilitation, and development of affordable housing units. The totals may exceed 100 percent due to rounding.

Source: LFC Files

## Affordable Housing Financing

### New Mexico Housing Trust Fund

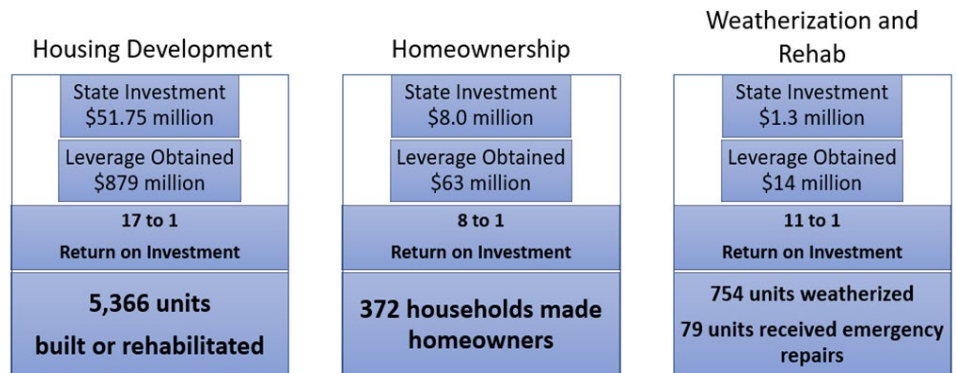
\$39 million appropriated to the HTF between 2021 & 2022 will positively impact nearly 2,800 households statewide.

HTF projects receiving other MFA funding that focus on creating stable housing for vulnerable populations receive bonus points during the evaluation process to incentivize developers. MFA has also evaluated internal funding policies to ensure they do not create unnecessary barriers that would negatively affect housing production.

The HTF provides flexible funding for housing initiatives, produces significant housing investment in the state, rental and mortgage assistance, housing counseling, down payment assistance, home rehabilitation and weatherization, and programs to address homelessness.

The HTF can leverage several million dollars due to the nature of the fund. Leveraging sources include, but are not limited to, federal and private funding, equity, loans and donations. The table below shows the amount of money leveraged and the overall impact the funding has had since its inception.

### HTF Leveraging Since Inception in 2005



Source: MFA

The HTF is set to receive its largest deposit to date since its inception in 2005. MFA will allocate \$37.5 million for three purposes: production (52 percent), homeownership (32 percent), and preservation & development (16 percent). A breakdown of the allocations and uses is shown below.

FY2024 HTF Uses & Allocation			
Down payment assistance	8,500,000	TBD	8,500,000
First mortgage; Affordable homeownership loan purchase	3,400,000	40-Year Loan Modification	3,400,000
Single family emergency repairs, accessibility, energy efficiency improvements and rehabilitation	1,500,000	Single-Family Rehab	1,000,000
		Weatherization	500,000
Single family acquisition and rehabilitation	2,000,000	Restoring Our Communities	2,000,000
Rental and single-family development	22,130,000	Gap Financing Loans	8,630,000
		Preservation Loans	2,500,000
		Primero	3,000,000
		Single-Family Development	3,000,000
		Housing Innovation	5,000,000
<b>Total Allocation</b>	<b>37,530,000</b>		<b>37,530,000</b>

Source: MFA

Note: An estimated 2,200 units will be served

The HTF was appropriated \$39 million between 2021 and 2022 from capital outlay funds and the federal state and local fiscal recovery fund, with 100 percent of funds committed to projects and programs to address homelessness and transitional housing; weatherization and rehabilitation; and rental and single-family development. To date, nearly \$16 million or 40 percent has been fully expended. The funding is expected to impact nearly 2,800 households statewide.

## New Mexico Housing Strategy

The New Mexico Housing Strategy report was commissioned by MFA in 2022 as a response to the housing market where it has become increasingly difficult to obtain affordable housing. MFA convened an advisory committee (AC) to provide leadership over the development of a statewide strategic plan to expand housing opportunities from homelessness to home ownership. The 18-member AC held bi-monthly meetings and participated in numerous focus groups and interviews, including results of a survey sent to nearly 1,400 diverse New Mexico residents.

Five strategies proposed in the Housing Strategy to combat New Mexico’s affordable housing needs are: 1) producing; 2) preserving, improving, and redeveloping; 3) building homeownership; 4) creating housing stability; and 5) advocating.

## Other Housing Programs

### New Mexico Affordable Housing Act

Enacted in 2004, the Affordable Housing Act (AHA) allows local governments to donate resources to create and maintain affordable housing in their communities. With an approved affordable housing plan and a local or county ordinance in place, communities can donate or make contributions towards acquisition, development, financing, operating and maintaining affordable housing, donations are exempt from the anti-donation act. Currently there are 36 local municipalities and/or county governments with an approved plan and ordinance.

### HTF Appropriations 2018-2024

- 2018, \$0
- 2019, \$2.1 million
- 2020, \$1.2 million
- 2021, \$20 million
- 2022, \$19 million
- 2023, \$37.5 million
- 2024, \$39.9 \*estimated

MFA will request \$325 million for the HTF to be expended over the next five years.

Housing unit production is not keeping up with demand; an estimated 5,100 housing units per year are needed. The 10-year unit growth is around 4,000 units produced per year with a decline in housing for low to moderate income families.

Nearly 45 percent of homes statewide were built before 1980; making it expensive to heat/cool and maintain.

MFA has allocated FY23 HTF monies according to the five strategies outlined in the Housing Strategy.

There is an opportunity for local governments to better understand and utilize the AHA with support from MFA.

MFA will request \$500 thousand for the administration of the AHA to support local jurisdictions in implementing their Affordable Housing Plans.

Approximately, 58 additional slots were created with \$1 million special, nonrecurring appropriation in FY24. The average cost per voucher is \$13 thousand. The program has a 90 percent utilization rate.

For FY25, the Collaborative is requesting \$5.3 million for the Linkages Supportive Housing program. The request includes \$1 million nonrecurring funds be made recurring.

Laws 2023, Chapter 210, appropriated \$2 million (opioid funds) for housing assistance for people affected by opioid use disorder.

LFC fieldwork found a lack of recovery and transitional housing.

In November, the Legislative Oversight Committee will discuss the act and discuss potential amendments to ensure the act is used by local governments. In past years MFA requested general fund to hire a position that will directly assist state and local governments to contribute public funds, land, buildings, etc. to create and preserve affordable housing.

### Linkages

Linkages was created in 2007 to provide permanent supportive housing for homeless adults who are diagnosed with a serious mental illness. The program is funded through the Human Services Department - Behavioral Health Services Division (the Collaborative). The Linkages rental assistance program received \$5.3 million for FY24. Linkages assists with rent, security deposits, utility deposits, on-going utility assistance, application fees and background checks. Participants receive on-going case management to include monthly home visits through a support services administrator. Participants may stay in the program if they remain eligible or until permanent housing is secured. MFA administers the rental assistance portion of the program.

Affordable rental units and a shortage of service providers has been a challenge of expanding the Linkages program. To meet the need of the program, the Collaborative has increased the service coverage areas by allowing providers to serve outside designated service areas and allowing participants to use vouchers at hotel/motels. In FY23, there were approximately 81 new clients served.

An updated strategic plan for BHSD is expected in January 2024.

### 2023-2024 Linkages Rental Assistance Program Awards

Housing Administrator	Service Area	Maximum Voucher Count	Award Allocation
Alianza of New Mexico	Curry	14	\$143,372.56
DreamTree Project	Taos	16	\$193,302.11
HopeWorks	Bernalillo/Sandoval	136	\$1,270,873.60
Mesilla Valley Community of Hope	Dona Ana	63	\$622,609.68
San Juan County Partnership	San Juan	22	\$215,586.92
Supporting People in Need	Grant/Hidalgo	29	\$203,459.58
Supportive Housing Coalition	McKinley	22	\$214,395.74
The Life Link	Santa Fe	94	\$1,081,248.49
<b>Housing Total Allocation</b>		<b>396</b>	<b>\$3,944,848.68</b>

### Regional Housing Authorities (RHAs)

In 2009, MFA was mandated by the Legislature to provide oversight of New Mexico's regional housing authorities (RHAs). The RHAs are responsible for providing housing services in rural areas and for creating partnerships with local governments, state entities, nonprofit organizations and the private sector to plan, finance and maintain affordable housing. In addition, they operate federal programs such as Section 8 or Housing Choice Voucher Program and the Low Rent Program.

### Low Income Housing Tax Credit (LIHTC)

MFA administers the LIHTC program on behalf of the federal government. Federal LIHTC 4 and 9 percent tax credits encourage private investment in affordable rental construction and rehabilitation projects by providing a dollar-for-dollar reduction in federal income tax liability. The 9 percent LIHTC is the primary subsidy used for new construction because it is the most lucrative, allowing tax credits to be bought and sold. However, total funding is allocated to the state based on population; in New Mexico there were five projects in 2023, totaling \$5.3

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million for 281 units, or approximately \$19 thousand per unit. The amount of 4 percent LIHTC credits is not limited, unlike the 9 percent tax credits, which are limited by the amount allocated to the state. The 4 percent tax credits are better suited to rehabilitation and purchase of existing housing but must be paired with bonds, which is limited by the bond volume capacity.

## Other Issues

### Housing Investment Council

In May, Governor Lujan Grisham issued Executive Order 2023-061 establishing the Housing and Community Revitalization Investment Council to create a Statewide Investment Plan by January 15, 2024. The investment plan will provide recommendations to address gaps in housing resources, regulation and zoning issues impacting housing, addressing homelessness, assistance for homeownership, and programs to address housing stability.

To date, the council has been named and planning meetings are taking place. A public forum was held on October 12<sup>th</sup>. Ideas presented to the council include designating funds specific to rural areas, essential workforce housing, removal of GRT on home sales, create a statewide construction apprenticeship program to expand the workforce, and expand transitional and permanent supportive housing.

The council was asked to work with local governments to address inspection, permitting, and zoning issues that are delaying housing projects.

### Rising Construction Costs

Additional appropriations have allowed MFA to continue to lead the state in affordable housing unit production, despite high-cost market conditions. Over the last five years, MFA's per-unit costs have increased 43 percent for new construction and 56 percent for acquisition and rehabilitation. In 2023, growth in residential building materials is averaging 0.2 percent per month—down from 1.5 per cent in 2021 based on the producer price index. However, prices and availability for some building materials such as cement and steel continue to fluctuate. Other drivers of current increases in housing development costs include increased regulations, higher interest rates, increased insurance costs, and increased labor costs due to labor shortages in the face of increased demand. Nationwide, according to the U.S. Census Bureau, public spending on multifamily residential construction increased by 8.4 percent between August 2022 and August 2023. This contrasts with a 3 percent decrease in private spending on residential construction over the same period, after a decade of steady spending increases totaling 325 percent.

### Follow Up to LFC's Policy Spotlight on Homelessness Supports and Affordable Housing

A 2023 LFC report on homelessness and support for affordable housing reported homelessness increased by 48 percent in 2023 and since 2017 rent increased by 70 percent while wages grew by 15 percent potentially increasing the number of cost-burdened New Mexicans. The state faces ongoing challenges in addressing the root causes of homelessness and transitioning individuals and families to more stable, permanent housing.

The Department of Finance and Administration is administering \$53.5 million appropriated for various housing initiatives between 2022 and 2023.

### The LFC Spotlight recommendations include:

- Encourage Casa Connection grant recipients to develop tenant sustainability models;
- Investment into the New Mexico Housing Trust Fund;
- Develop an expansion plan and improve performance reporting and tracking of Linkages funding; and
- Designate funds to target populations of renters most in need.



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The unprecedented levels of funding available for new homelessness and affordable housing initiatives will fill critical gaps in funding and programs. Targeted appropriately, these dollars could further support the low-income and at-risk populations who need housing assistance and alleviate shortages in the state's affordable housing supply.

MFA is governed by a seven member board including the lieutenant governor, state treasurer, and state attorney general.

The MFA Legislative Oversight Committee is empowered to monitor and oversee the operation and rules and regulations formulated by MFA.

*Recommendation* - expand funding for down-payment and closing-cost assistance for low-income, first-time homebuyers.

*Result* - over \$10 million HTF for FY24.

*Recommendation* – update the Affordable Housing Act to preserve public investments and properties if units go into foreclosure or are sold when affordability commitments end.

*Result* – MFA is currently reviewing the act to recommend changes for the legislature to consider amending. The Legislative Oversight Committee will review and approve changes during the November meeting.

## Addressing the Housing Shortage

Significant investment is needed to continue addressing affordable housing needs statewide. In addition to funding for the construction and rehabilitation of homes, down payment assistance, and homelessness housing and services, consistent and reliable delivery systems such as those in place at MFA will ensure the effective use of state funds, while layering federal and private resources to achieve maximum efficiency.

Future funding towards housing should be appropriated to established programs with measurable outcomes. MFA has the ability to develop programs and make funding available with approval of its governing board who ensures oversight and reporting. Additional oversight

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