

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR Rodriguez DATE TYPED 2/06/04 HB _____

SHORT TITLE New Mexico Housing Trust Fund Act SB 503

ANALYST Kehoe

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY04	FY05	FY04	FY05		
	\$5,000.0			Recurring	General Fund
	\$2,500.0			Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	\$7,700.0		Recurring	New Housing Trust Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to SB 441.

SOURCES OF INFORMATION

LFC Files
New Mexico Mortgage

SUMMARY

Synopsis of Bill

Senate Bill 503 creates a housing trust fund, proposes dedicated revenue streams to the fund, and appropriates \$5 million from the general fund for the trust fund.

Significant Issues

Senate Bill 503 is the result of an MFA study and creation of a housing advisory task force requested by the 2002 and 2003 Legislature to find a way to provide venture capital for housing initiatives that could leverage additional federal and private investment. The mission of the task force was to identify revenue sources for a state housing trust fund and report the recommendations to the 2004 Legislature. The membership of the task force was comprised of a geographically diverse group of stakeholders consisting of housing suppliers, affordable housing advocates, financial institutions, legislators and policy makers, including the Lieutenant Governor and President Pro-Tempore.

According to the results of the study, and the work of the housing advisory task force and MFA, the following three revenue sources dedicated to the housing trust fund are proposed:

1. Assessment of a 0.15% allocation fee on issuers of private activity bond cap used for housing purposes resulting in a \$200,000 annual contribution to the trust fund.
2. The dedication of revenue the state receives from unclaimed or reverted property. This revenue would result in an annual contribution of between \$0 and \$5 million to the Trust Fund. According to MFA, Arizona capitalizes its housing trust fund in this manner.
3. The third stream would be realized by decoupling the state inheritance tax from the federal inheritance tax, which is scheduled to sunset. Currently the state inheritance tax results in revenues of approximately \$22 million to the state; the Trust Fund requests recurring contribution of \$5 million from the decoupled state inheritance tax.

The Trust Fund would be managed by the New Mexico Mortgage Finance Authority (MFA) in conjunction with a thirteen-member Trust Fund Advisory Committee that would recommend rules governing terms and conditions of grants and loans made from the Trust Fund as well as application procedures.

FISCAL IMPLICATIONS

This bill creates the new Housing Trust Fund with the revenue estimated at \$7,700.00 on a recurring basis. The appropriation of \$5 million and proposed dedicated revenue streams of \$2,500.0 are recurring expenses to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2005 shall not revert to the general fund. In addition, \$200.0 in recurring revenue to the fund is explained in Item 1 above under Significant Issues.

Continuing Appropriations

This bill creates a new fund and provides for continuing appropriations. The LFC objects to including continuing appropriation language in the statutory provisions for newly created funds. Earmarking reduces the ability of the legislature to establish spending priorities.

ADMINISTRATIVE IMPLICATIONS

MFA currently serves as trustee of the land title trust fund. MFA will also serve as trustee of the housing trust fund. However, SB 503 stipulates that no more than five percent of the fund shall be used for administrative purposes. MFA's governing board would appoint the thirteen-member advisory committee and would promulgate rules regarding use of the fund.

MFA would provide staff support to the advisory committee and the MFA board on all matters relative to the fund.

MFA does not anticipate a significant budgetary impact and, as the state's designated affordable housing financing provider, can undertake the responsibilities associated with administering the proposed housing trust fund.

COMPANIONSHIP

Senate Bill 441 is a companion to this bill. Senate Bill 441 proposes to decouple the state inheritance tax from the federal inheritance tax which is scheduled to sunset. The state inheritance tax currently results in revenues of approximately \$22 million to the state. The New Mexico housing trust fund requests recurring contributions of \$5 million from the decoupled state inheritance tax.

OTHER SUBSTANTIVE ISSUES

MFA relied heavily on the expertise and studies conducted by the Center for Community Change, a national non-profit organization that provides assistance to community-based organizations working in low-income communities, in developing its study of New Mexico housing needs. MFA also conducted its own survey of state housing finance agencies that administer state housing trust funds to probe issues not included in existing studies.

The MFA study cites that a survey of housing trust funds in other states have similar traits in various areas. Commonalities include:

- Real estate transfer taxes serve as the most common revenue source, document recording fees are the second-most commonly used funding source, and a number receive interest from real estate or other escrow accounts. However, the interest generated on these market-based accounts offer very little revenue.
- Housing trust funds are administered by state housing finance agencies, state departments, such as commerce, housing and community development or economic development that typically also administer HUD-funded Community Development Block Grant (CDBG) or the Home Investment Partnership Program (HOME).
- Seven of ten housing trust funds award both grants and loans, but most conduct competitive funding rounds to distribute available funds.
- Most funds provide for a broad range of eligible activities, but some funds are specifically designated for certain housing projects (e.g., homelessness, rental assistance, and mobile home cost assistance).

Affordable housing categories in New Mexico include special housing needs, multi-family/rental housing, and single family housing/homeownership. One of the most desirable attributes of housing trust funds that would serve New Mexico's vast housing needs best is the flexibility of the use of funds. To meet housing needs, MFA and other agencies currently rely on a complex housing delivery system to provide resources as equitably as possible. According to the study and the market realities in New Mexico, \$7 million would provide a start-up for a statewide housing trust fund that could serve as a flexible funding source to use as match for federal resources, gap financing, and funding for innovative projects that do not fit the traditional methods of existing funding programs.

Summarily, the New Mexico Housing Trust Fund Feasibility Study finds that “a housing resource in the form of a flexible, broadly defined statewide housing trust fund with a combination of resources, effective partnerships, efficient administration, and funding that encourages innovative, sustainable housing solutions, is feasible in New Mexico.”

The Housing Advisory Task Force’s work plan included an overview of state revenue sources, an overview of New Mexico’s current housing needs and benefits of specific housing programs, a discussion of fund uses and beneficiaries, and a review of the legislative model creating the Water Trust Fund. Specific criteria and rules for program eligibility will not be formulated until the legislation creating the program has been established. However, preliminary discussions indicate that a blend of housing activities could be addressed through the fund. Activities, based on need, may include: housing rehabilitation, subsidized rents, a combination of loans and grants, down payments, homelessness, or crisis prevention.

LMK/lg