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FISCAL IMPACT REPORT

SPONSOR Rodriguez **LAST UPDATED** _____
ORIGINAL DATE 1/19/2024
SHORT TITLE NM Housing Trust Fund **BILL** _____
NUMBER Senate Bill 7
ANALYST Leger

APPROPRIATION* (dollars in thousands)

FY24	FY25	Recurring or Nonrecurring	Fund Affected
	500,000.0	Nonrecurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From

New Mexico Mortgage Finance Authority (MFA)

SUMMARY

Synopsis of Senate Bill 7

Senate Bill 7, endorsed by the Mortgage Finance Authority Oversight Committee, appropriates \$500 million from the general fund to the New Mexico housing trust fund for expenditure in FY25 and subsequent years. Any unexpended or unencumbered balance shall not revert to the general fund.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or May 15, 2024, if enacted.

FISCAL IMPLICATIONS

The appropriation of \$500 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the general fund.

The LFC FY25 budget recommendation includes \$50 million for the New Mexico housing trust fund to acquire, build, and rehabilitate affordable housing for people statewide, including those with behavioral health needs and victims of domestic violence.

The executive budget recommends \$250 million for the New Mexico housing trust fund.

SIGNIFICANT ISSUES

The New Mexico housing trust fund (HTF) was enacted in 2005 and can leverage additional funding sources for statewide housing projects. The HTF provides flexible funding for housing initiatives and 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.

Laws 2022, Chapter 38, amended the Severance Tax Bonding Act, earmarking 2.5 percent of annual senior severance tax bond for the HTF. The first deposit in FY24 to the HTF fund was \$37.5 million. Funding is allocated for production (52 percent), homeownership (32 percent), and preservation & development (16 percent). Nearly \$19 million of \$37.5 million has been awarded by the MFA Board. All funds appropriated by the legislature to date are committed to housing programs and projects statewide.

MFA reports the following:

Housing Needs. New Mexico is facing housing challenges that demand a transformational investment. There is a shortage of more than 32,000 rental homes and 24,000 ownership homes. To preserve aging housing stock, nearly 350,000 homes need repair or rehabilitation. More than 100,000 renter households could benefit from down payment assistance to achieve homeownership. Over 17,000 households need homelessness prevention services. The HTF funding is a key solution to addressing these needs. *Table 1* provides a conservative estimate of how \$500 million could impact the state.

Program Income. MFA balances offering loans and grants through its programs. Loan funding is directed towards housing development projects and homeownership programs, where MFA underwrites to ensure feasibility. When MFA administers HTF awards as a loan, it is able to not only recycle the principle amount but grow the fund through principal and interest payments. Grant funding is typically reserved for programs that serve the lowest income households, who are unlikely to be able to support debt.

Affordable Housing. Through the enabling legislation of the Affordable Housing Act, the New Mexico state constitution permits donations (i.e. funding) for affordable housing initiatives. The Affordable Housing Act defines affordable housing as housing for households at or below 150 percent area median income, which includes many workforce households. For example, in Bernalillo County a household earning \$129,750 or less annually would be eligible for a below market rate interest on a mortgage and down payment assistance. Attached, Table 2 shows the income limits for 150 percent area median income by county.

Table 1: Estimated NMHTF Appropriation Impact

	Rental Development	Ownership Development	Preservation & Redevelopment	Homeownership	Homelessness Prevention
Need	32,761 homes	24,163 homes	348,094 homes	103,715 households	17,500 households
Impact of \$500 million to the NMHTF	1,531 homes	1,333 homes	9,091 homes	22,457 households	142,857 households
Impact Assumption	Per home cost of \$326,589, which is based on the Low Income Housing Tax Credit program average unit cost.	Per home cost of \$375,000, which is the cost of a starter home according to New Mexico home builders.	Per home cost of \$55,000, which is the average amount of home improvement loans originated in New Mexico	Per household cost of \$22,265, which is the weighted average of 10% of the median home sale price.	Per household cost of \$3,500, which is based on a New Mexico Coalition to End Homelessness estimate.

Source: MFA

PERFORMANCE IMPLICATIONS

MFA reports the following:

Proven Performance Record. From 2005 through 2022, the legislature has appropriated \$61 million to the NMHTF, of which \$25 million (42 percent) were state appropriations of federal stimulus dollars (Coronavirus State and Local Fiscal Recovery Funds) in 2021 and 2022. In 2022, Senate Bill 134 allocated 2.5 percent of severance tax bonding capacity to the NMHTF. In 2023, Senate Bill 381 moved forward the effective date of the earmark to July 1, 2023. MFA has consistently committed 100 percent of state appropriations to a program or project with proven results. To date, MFA has used the NMHTF to assist over 6,500 households.

Leverage. The HTF statute requires an overall three to one leverage ratio, which MFA exceeds through maximizing federal and private resources and interest and loan repayments. Currently, MFA is tracking approximately a 16:1 leverage ratio. The leverage ratio varies within activities primarily based on the amount of federal and private funding available. *Table 3* shows the leverage ratio for three HTF activities.

Pipeline. MFA is prepared to expand its capacity and continue to strengthen its partner network to deploy a historic investment to the HTF to meet the continuum of housing needs.

MFA’s pipeline includes 54 rental housing development projects planned to result in more than 4,000 units across 18 counties. These projects will be primarily funded with federal resources but cannot come to fruition without gap financing through the HTF. Once completed, these projects will have an estimated economic impact of more than \$500 million and 7,000 jobs, according to the National Association of Home Builders local economic impact calculator.

MFA has established down payment assistance programs that will deploy \$8.5 million to serve more than 700 households, likely before July 1, 2024. Ensuring that these programs

continue beyond the start of the state fiscal year will require additional state resources.

Similarly, MFA weatherization and rehabilitation programs have evolved to maximize household impact, efficiency, and geographic reach. Without a funding increase the more than 4,000 households on the weatherization program waitlist will wait years for critical energy efficiency and cost saving upgrades.

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.

The Housing Strategy is being utilized as a road map for addressing housing needs statewide with available funding such as the HTF.

ADMINISTRATIVE IMPLICATIONS

The HTF has oversight from the HTF Advisory Committee, the Legislative Oversight Committee, and a seven-member board, including the lieutenant governor, state treasurer, attorney general, and four Governor appointed members.

MFA further reports:

Program Infrastructure. MFA employs over 120 staff to administer over 40 programs, which comprehensively serve the continuum of housing needs in New Mexico. With the passage of SB7, MFA would prioritize braiding the appropriation into existing programs. Doing so will most urgently support those in need and ensure leverage of federal and private resources. Additionally, MFA will continue to assess the needs and has the capacity and expertise to rapidly develop programs that meet the needs not currently being met by our existing programs.

Capacity. With the increase in coronavirus related stimulus, MFA expanded its capacity through hiring more staff, increasing its network of service providers, and investing in technical assistance for its partners. In 2023, MFA administered more than \$585 million in funding.

MFA estimates that it could deploy \$50 million to \$80 million a year in additional HTF funding, meaning MFA could administer the appropriation over a 6-year to 10-year period. The advantage of a non-reverting appropriation is it allows developers and partners to continue to ramp up operations and increase their impact.

OTHER SUBSTANTIVE ISSUES

Table 2: New Mexico Housing Trust Fund Income Limits

County	2023 Median Income	150% AMI Income
Bernalillo	\$ 86,500.00	\$129,750
Catron	\$ 58,100.00	\$87,150
Chaves	\$ 64,600.00	\$96,900
Cibola	\$ 65,100.00	\$97,650
Colfax	\$ 60,500.00	\$90,750
Curry	\$ 66,000.00	\$99,000
DeBaca	\$ 74,900.00	\$112,350
Dona Ana	\$ 59,600.00	\$89,400
Eddy	\$ 92,000.00	\$138,000
Grant	\$ 66,700.00	\$100,050
Guadalupe	\$ 49,800.00	\$74,700
Harding	\$ 61,700.00	\$92,550
Hidalgo	\$ 66,300.00	\$99,450
Lea	\$ 65,200.00	\$97,800
Lincoln	\$ 68,100.00	\$102,150
Los Alamos	\$ 168,500.00	\$252,750
Luna	\$ 52,900.00	\$79,350
McKinley	\$ 55,800.00	\$83,700
Mora	\$ 50,000.00	\$75,000
Otero	\$ 69,300.00	\$103,950
Quay	\$ 46,100.00	\$69,150
Rio Arriba	\$ 70,700.00	\$106,050
Roosevelt	\$ 69,000.00	\$103,500
Sandoval	\$ 86,500.00	\$129,750
San Juan	\$ 61,100.00	\$91,650
San Miguel	\$ 52,800.00	\$79,200
Santa Fe	\$ 95,600.00	\$143,400
Sierra	\$ 62,200.00	\$93,300
Socorro	\$ 56,600.00	\$84,900
Taos	\$ 71,900.00	\$107,850
Torrance	\$ 86,500.00	\$129,750
Union	\$ 54,500.00	\$81,750
Valencia	\$ 86,500.00	\$129,750

Source: MFA

Table 3: NMHTF Activity Leverage

Activity	Housing Development	Homeownership	Weatherization and Rehabilitation
NMHTF	\$51.8 million	\$8.0 million	\$1.3 million
Leverage	\$879 million	\$63 million	\$14 million
Return on Investment	17:1	8:1	11:1
Impact	5,366 homes	372 households	833 homes

Total - \$956 million other funding leveraged with \$61 million of state funding = 16/1

Source: MFA