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# FISCAL IMPACT REPORT

**BILL NUMBER:** CS/House Bill 77/HCEDCS

**SHORT TITLE:** Affordable Housing Revitalization Tax Credit

**SPONSOR:** House Commerce and Economic Development Committee

**LAST ORIGINAL**  
**UPDATE:** 2/9/2026      **DATE:** 1/28/2026      **ANALYST:** Graeser/Gray/Faubion

## REVENUE\* (dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
CIT	\$0	Up to (\$100,000.0)	Up to (\$100,000.0)	Up to (\$100,000.0)	Up to (\$100,000.0)	Recurring	General Fund

Parentheses indicate revenue decreases.

\*Amounts reflect most recent analysis of this legislation.

Relates to Senate Bill 92

## Sources of Information

LFC Files

### Agency or Agencies Providing Analysis

Housing New Mexico/New Mexico Finance Authority

State Ethics Commission

Taxation and Revenue Department

Economic Development Department

## SUMMARY

### Synopsis of HCEDC Substitute for House Bill 77

The House Commerce and Economic Development Committee substitute for House Bill 77 (HB77) creates a new affordable housing revitalization corporate income tax credit to support the redevelopment of abandoned buildings and vacant lots into housing in New Mexico. Eligibility is limited to taxpayers who are qualifying grantees under the Affordable Housing Act, and projects must result in residential housing that meets specified affordability requirements.

A qualifying taxpayer may claim a credit for rehabilitation expenses incurred prior to January 1, 2037. The credit equals 30 percent of rehabilitation expenses for properties vacant for more than two years but less than five years, capped at \$2 million per taxpayer, or 40 percent for properties vacant five years or longer, capped at \$4 million per taxpayer. To qualify, at least 80 percent of residential units must be affordable housing serving households with incomes at or below 85 percent of area median income, adjusted for family size. Actual rehabilitation expenses must fall between 80 and 125 percent of estimated costs submitted in advance.

Projects must be pre-certified and certified by the Mortgage Finance Authority. The bill limits the aggregate amount of credits that may be certified statewide to \$100 million per calendar year, with no more than \$50 million available for projects in non-rural areas. Applications are reviewed on a first-come, first-served basis, and applications received after the annual cap is reached are deferred for consideration in the following calendar year. Credits are nonrefundable, may be carried forward for up to five years, and may be sold or transferred to another taxpayer.

Provisions in this bill apply to taxable years beginning on or after January 1, 2026, and are repealed on January 1, 2038.

## **FISCAL IMPLICATIONS**

The bill is expected to reduce general fund revenue by up to \$100 million per year because it authorizes up to \$100 million annually in transferable corporate income tax credits, which can be sold or transferred to taxpayers with sufficient tax liability to fully use them. Transferability means the credits are not constrained by the original developer's tax capacity and are, therefore, far more likely to be fully claimed. As a result, the statutory cap functions as a practical ceiling on annual revenue loss rather than a theoretical maximum: Once credits are certified, they represent a near-certain reduction in corporate income tax collections, whether claimed immediately or over the allowable carryforward period. The Taxation and Revenue Department (TRD) assume 50 percent utilization but notes uncertainty in estimation.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

## **SIGNIFICANT ISSUES**

The Mortgage Finance Authority (MFA) estimates New Mexico needs between 30 thousand and 40 thousand housing units to address ongoing shortages related to homelessness and housing affordability. This bill seeks to encourage redevelopment of abandoned buildings and previously occupied vacant lots by offsetting a portion of rehabilitation costs through a corporate income tax credit. Eligibility is limited to qualifying grantees under the Affordable Housing Act (AHA), and projects must provide residential housing in which at least 80 percent of units are affordable to low- or moderate-income households. These requirements are intended to target projects that may face financial barriers while promoting reinvestment in existing communities and reuse of existing infrastructure.

The bill incorporates existing AHA affordability and oversight requirements, which include several guardrails. Under the AHA and implementing rules adopted by MFA, qualifying grantees must be approved by a local government and MFA, demonstrate financial and managerial capacity, and enter into enforceable agreements requiring housing units to be occupied by income-eligible households. The rules require project budgets, performance schedules, long-term affordability provisions, and remedies in the event of noncompliance, including restrictive covenants or land use restriction agreements. These provisions are intended to prevent projects

from being quickly converted to market-rate housing and to ensure continued public benefit when public resources or concessions are provided.

At the same time, the AHA framework allows substantial discretion at the local level and by MFA. The statute and rules do not prescribe uniform statewide affordability terms; instead, income limits, rent levels, the share of affordable units, and the duration of affordability restrictions are established through local ordinances and project-specific agreements. As a result, affordability requirements and enforcement mechanisms may vary significantly across jurisdictions and projects. Unlike federal programs, such as the Low-Income Housing Tax Credit, the AHA does not establish standardized rent caps tied to household income, minimum affordability periods, or uniform recapture mechanisms directly linked to tax benefits. This flexibility may support locally tailored solutions but makes it more difficult to assess the consistency and long-term affordability outcomes of projects receiving the credit.

The bill also reserves a portion of the annual credit availability for rural communities by limiting the share of credits that may be certified for non-rural projects. This structure may help support affordable housing development in areas where construction costs are high relative to market rents and access to traditional financing and subsidies may be more limited. However, housing demand, population growth, and employment trends vary across the state, and the availability and timing of qualifying projects in rural areas may influence how fully and consistently the reserved credits are utilized.

Several implementation and policy considerations remain. Although eligibility is limited to properties that have been vacant for at least two years and were previously occupied, this threshold may still capture properties that are underutilized rather than severely distressed. In addition, because eligibility for the credit is tied to the status of a qualifying grantee rather than to a specific approved project, the bill could be interpreted to allow deductions associated with other developments undertaken by the same entity, absent further clarification. Other considerations include administrative complexity associated with pre-certification, final certification, and tracking of transferable credits, coordination between MFA and the Taxation and Revenue Department, and uncertainty for project planning when applications are deferred after the annual certification limit is reached. Finally, interaction with existing federal, state, and local housing incentives may affect project structure and timing, complicating evaluation of the credit's effectiveness in expanding long-term affordable housing supply.

TRD notes the bill is intended to stimulate the renovation, development, or redevelopment of long-vacant properties into housing, with a requirement that a share of units be affordable. By incentivizing construction activity, the credit could support broader economic effects, including increased employment and economic activity in the construction sector and related trades, as well as secondary impacts, such as higher gross receipts, personal income, and other tax collections. TRD also observes that converting vacant buildings and lots into occupied housing may improve neighborhood vitality, aesthetics, and perceptions of safety, while supporting local businesses and complementary private investment.

TRD highlights the bill differs from typical rehabilitation incentives by explicitly tying eligibility to housing outcomes and affordability. Eligible projects must produce housing, and affordability is defined by income thresholds tied to area median income. While these requirements may better target community benefits, they could also narrow the pool of eligible projects and introduce additional compliance and financing complexity, particularly where affordability

restrictions interact with other subsidies or underwriting requirements. The relatively large, tiered credit percentages, the shortened vacancy threshold, inclusion of vacant lots, and the broad definition of rehabilitation expenses may strengthen the incentive effect and expand the range of qualifying projects.

At the same time, TRD emphasizes uncertainty regarding both the costs and benefits of the credit. Although the bill includes an annual statewide certification cap and a sub-cap for non-rural projects, utilization may depend on the availability and timing of qualifying projects, particularly in rural areas. TRD also notes that administration by the Mortgage Finance Authority may improve alignment with housing finance expertise but could create new administrative demands. Because the credit is nonrefundable, some taxpayers may not be able to fully use the credit in a given year, though carryforward and transferability provisions may mitigate this. Finally, TRD points out that limiting the credit to corporate income taxpayers may create differences in treatment between corporations and pass-through entities engaged in similar development activity and notes that the bill includes guardrails, such as reporting requirements, annual limits, and a sunset that allow for future legislative review.

The Economic Development Department (EDD) notes redevelopment of long-vacant buildings and underutilized lots can support community revitalization and expand housing supply, particularly when incentives help offset the higher costs often associated with rehabilitation. By allowing both single-family and multifamily residential projects to qualify, the bill provides flexibility across different development contexts. However, because the bill does not modify local land use regulations or establish preferences based on zoning capacity or housing density, redevelopment outcomes will continue to be shaped by existing zoning constraints and market conditions. In jurisdictions where multifamily development is limited, the credit may be more readily used for single-family projects, which could affect the number of housing units produced.

EDD also highlights the bill's rural allocation, which reserves a portion of the annual credit availability for rural areas. Differences in population growth, employment trends, and housing demand across the state may influence how readily projects materialize in rural communities compared with urban and metropolitan areas. In addition, the transferability and carryforward features of the corporate income tax credit may improve financing feasibility by allowing the credit to be monetized and applied toward project costs. While the credit represents forgone corporate income tax revenue, EDD notes redevelopment activity may generate broader economic effects through construction activity, increased utilization of existing properties, business attraction, and potential reductions in housing instability, with impacts varying by project type and location.

## **PERFORMANCE IMPLICATIONS**

The LFC tax policy of accountability is met with the bill's requirement to report annually the data compiled from the reports from taxpayers taking the credit and other information to determine whether the credit is meeting its purpose.

## **ADMINISTRATIVE IMPLICATIONS**

MFA would serve as the review and approving body for administering the tax credit, which may require additional staff or programs.

TRD would need to update forms and procedures for processing this credit.

## CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to Senate Bill 92, which proposes a gross receipts tax deduction for construction materials and labor for certain projects approved under the Affordable Housing Act.

## TECHNICAL ISSUES

The standard definition of low- and moderate-income households is 80 percent of area median income (AMI). This bill instead sets eligibility at 85 percent of AMI, adjusted for family size, which is higher than commonly used thresholds. The U.S. Department of Housing and Urban Development (HUD) publishes income limits at 30, 50, and 80 percent of AMI but not at 85 percent. LFC recommends on page 5, line 8, delete “eighty-five” and insert “eighty.”

## OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy:** Revenue should be adequate to fund needed government services.
- **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity:** Different taxpayers should be treated fairly.
- **Simplicity:** Collection should be simple and easily understood.
- **Accountability:** Preferences should be easy to monitor and evaluate.

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
<b>Vetted:</b> The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.	?	No record of a committee hearing was found.
<b>Targeted:</b> The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	x	No stated purpose, goals, or targets.
<b>Transparent:</b> The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	The credits are required to be publicly reported in the TER.
<b>Accountable:</b> The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date. Public analysis Expiration date	✓	There is an expiration date.
<b>Effective:</b> The tax expenditure fulfills the stated purpose. If the tax	?	There are no stated

<p>expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions “but for” the existence of the tax expenditure.                  Fulfills stated purpose                  Passes “but for” test</p>		<p>purpose or goals by which to measure effectiveness or efficiency.</p>
<p><b>Efficient:</b> The tax expenditure is the most cost-effective way to achieve the desired results.</p>	<p>?</p>	
<p>Key: ✓ Met * Not Met ? Unclear</p>		

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