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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/27/21

SPONSOR Rodriquez/Small LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE NM Housing Trust Fund SB 134

ANALYST Leger/Torres

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25		
	\$25,500.0	\$24,140.0	Recurring	Housing Trust Fund
	(\$25,500.0)	(\$24,140.0)	Recurring	Senior STB Capital Projects

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to SB 19

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Finance and Administration (DFA)  
New Mexico Mortgage Finance Authority (MFA)

### SUMMARY

#### Synopsis of Bill

Senate Bill 134 amends the Severance Tax Bonding Act, earmarking 2.5 percent of the annual senior severance tax bond (STB) capacity for the New Mexico Housing Trust Fund (NMHTF).

SB134 also amends Section 58-18C-4 of the New Mexico Housing Trust Fund Act for the allocation of STB proceeds to the NMHTF. The bill stipulates that MFA shall prioritize expending or encumbering balances in the fund from principal and interest on loans for projects previously funded by the proceeds of STBs prior to expending or encumbering from more recently issued bonds. It also stipulates that the unencumbered balance of the proceeds issued for the NMHTF will revert to the Severance Tax Bonding Fund after three years, with MFA monitoring and ensuring proper reversion of the bond proceeds.

If enacted, the allocation of STB to the NMHTF would commence with the STB capacity estimate in January 2024.

## **FISCAL IMPLICATIONS**

New Mexico funds much of its capital outlay with severance tax bonds. Severance tax bonds are issued against revenue from severance taxes, taxes based on the value of oil, gas, or other natural resources “severed” from the ground. This revenue is deposited into the severance tax bonding fund. The Board of Finance reports on severance tax bonding capacity every January 15 based on projected revenues in the fund.

According to DFA, the allocation of senior STB capacity to the NMHTF is offset by an equal reduction in capacity for other capital projects to be funded by senior STB capacity. Current STB earmarks established in law include 9 percent for the water trust fund, 4.5 percent for Colonias Infrastructure Project Fund, and 4.5 percent for the tribal infrastructure fund. The bill would incorporate a new earmark into the Board of Finance STB capacity estimates beginning in FY24 (for the 2024 legislative session). Funding would continue annually beyond that year.

The annual earmarking of more than \$24 million contained in this bill is a recurring expense to the severance tax bonding fund. Establishing an earmark creates an expectation that the program will continue in future fiscal years, reducing the ability of future legislatures to comprehensively appropriate funds and set spending priorities.

## **SIGNIFICANT ISSUES**

SB 134 would provide a dedicated funding sourced for the NMHTF.

According to MFA, the NMHTF program has resulted in 4,532 new affordable housing units with an economic impact of \$580 million in 16 counties. The NMHTF has a 26 to 1 leverage ratio. For every dollar the state has put into the program, MFA has leveraged \$26 dollars in funding.

DFA flags the use of senior STB proceeds for Housing Trust Fund projects may trigger IRS tax implications when issuing tax-exempt bonds. The bill appropriately includes language providing the Board of Finance the authority to ensure compliance with federal IRS requirements. Earmarks are nearly always funded via taxable sponge note issuances, as the programs often require more flexibility in funding than a tax-exempt issuance might provide. Should the proposed legislation be enacted, the earmark would be funded with senior sponge notes unless cash available restricted the Board of Finance from issuing taxable notes for earmarks.

## **PERFORMANCE IMPLICATIONS**

MFA provides the following information:

The HTF provides flexible funding for housing initiatives and provides affordable housing primarily for persons or households of low or moderate income.

In New Mexico, 117,613 households are housing cost burdened, and another 100,858 are severely cost burdened. Cost burden is defined as paying 30 percent or

more of household income towards housing costs, while severe cost burden is paying 50 percent or more of income on housing costs. Further, there is a shortage of 32,000 units for extremely low-income renters, this was mostly concentrated in urban areas (2019 ACS 5-Year, HUD, and Root Policy Research). Additionally, 40,021 unit in New Mexico lack complete kitchens, 40,310 units lack complete plumbing, and 44 percent of New Mexico’s housing units were built before 1980. Finally, 5,100 new units are needed annually during each of the next five years to accommodate growth (the current annual average is 3,291 units in growth counties) (2019 ACS 5-Year, HUD, and Root Policy Research).

The pandemic has exacerbated the situation with rent and median home prices continuing to increase. In the past year, rent has increased 13.7 percent nationwide and 18.5 percent in Albuquerque (Yardi Matrix, National Multifamily Report, October 2021) . In 2016 New Mexico’s median home sale price was \$185,000. By November 2021 the median home sale price in New Mexico was \$290,500, a 57 percent increase in 5 years (New Mexico Association of Realtors).

Affordable housing is not just shelter, it is at the core of a healthy lifestyle and flourishing communities. Its economic and social impacts are significant, including being a social determinant of health. For example, studies have proven that individuals and families experiencing housing instability have restricted access to preventative care and are more prone to infectious diseases and chronic health illnesses like diabetes, cardiovascular disease, and chronic obstructive pulmonary disease.

### **ADMINISTRATIVE IMPLICATIONS**

MFA states, as Trustee of the NMHTF, MFA would administer this fund and has the capacity to do so.

DFA reports the administrative implications would be minimal for State Board of Finance staff, as the division already has processes in place for other earmarks (water, colonias, tribal) and other capital projects. It would require staff to monitor funding provided to the MFA for reversion and review projects for readiness and tax and state law considerations, as it does for other capital projects funded with STBs.

### **RELATIONSHIP**

SB19, introduced in the 2022 session, appropriates \$70 million in FY23 from the general fund to the New Mexico housing trust fund.

LFC’s 2022 capital outlay framework includes \$9 million for the New Mexico housing trust fund (HTF).

### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

The HTF will continue requesting funding through the capital outlay infrastructure capital improvement plan (ICIP). HTF appropriations over the last 5 years include: \$5 million in FY22, \$1.2 million in FY21, \$2 million in FY20, \$0 in FY19, and \$0 in FY18.

**POSSIBLE QUESTIONS**

From DFA:

It is unclear as to whether the New Mexico Mortgage Finance Authority would certify for less than the 2.5 percent annual earmark allocation should the balances in the fund from payments of principal and interest on previously lent bond proceeds grow to be sufficient to fund identified projects/uses.

JL/IT/acv