

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 be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

ORIGINAL DATE 2/23/07

SPONSOR Arnold-Jones LAST UPDATED 2/8/07 HB 997/aHHGAC

SHORT TITLE MFA Oversight of Regional Housing Authorities SB \_\_\_\_\_

ANALYST Leger

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
\$2,700.0		Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to, SB 519

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico Mortgage Finance Authority (MFA)

### SUMMARY

#### Synopsis of HHGAC Amendment

On page 3, line 10, after the period insert:

“In selecting the transferee, the New Mexico mortgage finance authority shall give preference to those proposers who are employers of former employees of a high-performing regional housing authority as ranked by the United States department of housing and urban development.”

#### Synopsis of Original Bill

House Bill 997 appropriates \$2.7 million from the general fund to Department of Finance and Administration (DFA) for the purpose of making disbursements to the New Mexico Mortgage Finance Authority (MFA) for transitional, operational, and administrative expenses incurred in carrying out the provisions of HB 997.

Declaring an emergency.

This bill limits the powers of the regional housing authorities by repealing some sections of the Regional Housing Law immediately and the remaining sections of the Law no later than July 1, 2010. Effective July 1, 2007, all regional housing authorities shall be subject to the direction and control of the Mortgage Finance Authority (MFA); over time, all assets and program contracts currently held by regional housing authorities shall be transferred either to MFA, other governmental entities, and/or qualified private nonprofit entities.

## **FISCAL IMPLICATIONS**

The appropriation of \$2.7 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of 2010 shall revert to the general fund.

\$2.5 million will be appropriated from the general fund to DFA for disbursement to MFA over a three-year period; \$155,000 for transitional expenses, \$1.7 million for operating expense, and \$645,000 for administrative expenses; to revert to the general fund at the end of FY2010. In addition, \$200,000 will be appropriated to the LFC to conduct an audit of the regional housing authorities; funds not expended or encumbered will revert to the general fund at the end of FY08.

## **SIGNIFICANT ISSUES**

Performance reviews commissioned by the State Board of Finance and the State Investment Office cited a critical need for increased oversight and accountability for the regional housing authorities. If this bill is enacted, it will serve to stabilize a component of New Mexico's affordable housing delivery system and ensure its sustainability in the long term so that additional housing will be provided to those who need it most.

The first step in reforming New Mexico's regional housing system is to repeal the existing Regional Housing Law. Although this action implies that regional housing authorities will no longer exist in statute, MFA will assist currently functioning regional housing authorities to establish federally recognized non-profit housing service organizations and transition responsibilities to the non-profit corporations. Alternatively, MFA could assist a governmental entity (e.g., a municipality or county) to create a multi-jurisdictional housing authority and responsibilities, staff, *etc.* could be transferred to the governmental entity.

Funds (\$2.5 million) appropriated through HB 997 will allow MFA over a three-year period to administer the operational component of the funding through a public solicitation that will prescribe services to be provided on a regional basis throughout New Mexico. MFA has indicated it will contract with housing service providers to deliver the services; oversight and accountability will be achieved through contractual means, and MFA will provide long-term compliance services in conjunction with these contracts just as it does with all other federal and state-funded housing contracts it currently administers. MFA also notes it has a seven-member Board of Directors that includes the Lieutenant Governor, the Attorney General, and the Treasurer as well as four gubernatorial appointees. In addition to the board MFA also has a legislative oversight committee and is incorporated by the State Audit Act.

MFA points out the \$2.5 million in funding will serve three purposes: (1) to support housing service providers' operating costs associated with expanding into currently underserved areas,

(2) to offset costs of creating a new statewide housing development organization, and (3) to support MFA administrative expenses associated with these activities. Importantly, this structure is flexible, it leverages existing expertise and capacity throughout the state and it enables providers to achieve economies of scale that cannot be realized in the existing regional housing statutory structure. MFA will assist in the development of the 501(c)(3) statewide housing development organization cited above whose sole function would be to develop housing in areas that currently lack necessary skill sets, labor, and/or administrative capacity to develop below market-rate housing.

Language within HB 997 also appropriates \$200,000 to LFC to conduct an accounting of all assets acquired by regional housing authorities pursuant to the Regional Housing Law.

MFA states that based on the recommendations of both performance reviews commissioned by the State Board of Finance and the State Investment Office, appropriated operating funding is critical: funding sources exist to finance housing development costs; funding to support operating costs is extremely limited. In order to create a sustainable system that reaches all areas of the state, housing service providers must have an appropriate incentive to expand their geographic service areas beyond what is most economically feasible and logistically convenient.

### **PERFORMANCE IMPLICATIONS**

In order for MFA to have a clear understanding as to the magnitude of the assets and liabilities the authorities have acquired/incurred under the Regional Housing Law, it will rely on the regional housing authority audit which will be conducted by LFC.

MFA indicates it will be unable to carry out administrative activities until it receives appropriated funds from DFA. MFA anticipates having to hire additional staff, purchase software, obtain training, and travel to meet with successful bidders on the public solicitation in order to coordinate program management. MFA also plans to assist the two high-performing regional housing authorities by paying for transitional costs they may incur in obtaining 501(c)(3) certification from the IRS, converting to different software systems (if necessary), training and travel, and recruiting and hiring new staff (if necessary). These costs will be offset using the “transitional” component of the appropriation identified in Section 4 (*i.e.*, \$155,000).

As previously stated, MFA will utilize the operating component of the appropriation (*i.e.*, \$1.7 million) to help offset operating costs of housing service providers that successfully bid in response to the public solicitation for housing services in underserved areas. MFA also plans to create a statewide non-profit housing development organization whose primary purpose will be to develop much-needed affordable housing throughout rural New Mexico: some of the \$1.7 million will be used to seed this organization. To this end, it will be important for MFA to receive disbursements from DFA timely in order to pass this funding through to these housing agencies.

### **ADMINISTRATIVE IMPLICATIONS**

Section 4 of HB 997 provides that \$645,000 of the \$2.5 million may be used for administrative expenses. MFA plans to hire staff to oversee the new housing service providers’ management of federal public housing programs (which MFA currently does not administer). In addition to compensation and benefits for these employees, MFA must budget for software, training, travel,

and other associated administrative costs it will incur beyond the first transition year. MFA stresses timely disbursements from DFA will have a direct impact their ability to administer these programs successfully on behalf of the state.

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Senate Bill 519

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

According to MFA, if HB 997 is not enacted and if no action is taken during this legislative session to address the current regional housing authority structure, the regional housing authorities will continue to lack oversight and accountability. At present, two of the seven original regional housing authorities are operating well. Two others are troubled, and three are currently non-operational. In June 2006, the “New Mexico Regional Housing Authority Assessment” prepared by Community Strategies Institute for the State Board of Finance observed:

“There are currently some troubled Regional Housing Authorities. Unless improvements are made to the laws governing these entities, there will be future problems with some of the other Regionals. Mistakes have been made at the Regional level but little has been done by the state to promote success among the Regionals. The Regionals operating in a more responsive statutory framework could be important players in addressing the affordable housing demands that a fast-growing state faces.”

MFA concurs with this observation.

JL/mt:nt