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FISCAL IMPACT REPORT

SPONSOR Papen/Fajardo **ORIGINAL DATE** 01/20/16
LAST UPDATED 01/27/16 **HB** _____

SHORT TITLE Regional Housing Authority Oversight **SB** 75

ANALYST Daly

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY16	FY17		
	\$300.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Finance & Administration (DFA)

Mortgage Finance Authority (MFA)

SUMMARY

Synopsis of Bill

Senate Bill 50, endorsed by the Mortgage Finance Authority Act Oversight Committee, appropriates \$300 thousand from the general fund to DFA for expenditure in FY 17 and subsequent fiscal years to fund the oversight of the regional housing authorities by the New Mexico Mortgage Finance Authority. Any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the general fund.

FISCAL IMPLICATIONS

The appropriation of \$300 thousand contained in this bill is a recurring expense to the general fund. As drafted, any unexpended or unencumbered balance remaining at the end of a fiscal year does not revert to the general fund.

LFC staff deems this appropriation to be recurring as the oversight function being funded is a continuing year-over-year expense, and recommends this bill be amended to reflect a one-year appropriation that is renewed annually. Unspent funds should revert at the end of each fiscal year. Further, the LFC FY17 appropriation recommendation includes a Section 4 agency appropriation of \$199.5 to DFA to fund the oversight of regional housing authorities. See (5) on

page 35. Additionally, that appropriation recommendation contains a special appropriation in Section 5 of \$150 thousand to DFA for oversight of both regional housing authorities and of the Affordable Housing Act.

MFA advises that it has applied for a \$300 thousand USDA Rural Community Development Initiative grant, for which this state appropriation will serve as matching funds.

SIGNIFICANT ISSUES

In FY 16, Department of Finance and Administration (DFA) received \$199.5 thousand to fund MFA's oversight of regional housing authorities. MFA explains the continuing need for this appropriation:

As part of the regional housing authority reform process in 2007-2009, the state legislature designated MFA as the oversight agency for New Mexico's three regional housing authorities. Because MFA is an instrumentality of the state of New Mexico and receives no operating funds from the state, it has relied on annual appropriation requests to fund its oversight responsibilities under the Regional Housing Law. In some years, MFA has received no funding for the regional housing authorities, forcing it to support an unfunded mandate with its own limited resources and to scale back important support functions, such as technical assistance. This appropriation will cover MFA's annual costs for oversight of the regional housing authorities, including provision of training and technical assistance.

MFA reports that oversight duties under the regional housing law are significant and include review and/or approval of: the appointment of regional housing authority commissioners; agreements and transfers or sales of property valued at \$100,000 or more; and annual operating budgets, audits and annual reports. MFA advises it also plays an active role in providing technical assistance and capacity building services to the regional housing authorities, and that it cannot sustain these critical oversight and support functions without state funding. For example, MFA cites the Northern Regional Housing Authority, one of the state's three regional authorities, which it reports is in the early stages of development, and oversight, technical assistance and capacity building services are critical to support this start-up.

DFA recommends that both financial and compliance audits be done on the regional housing authorities, conducted in line with the New Mexico Audit Act. DFA believes that with this level of review and analysis, MFA oversight could prove meaningful in curtailing or eliminating past misuses of taxpayer funds. MFA advises that it conducts annual on-site audits of each authority. Further, MFA notes that it has no direct enforcement authority when funding sources are federal dollars, but it does review Section 8 and other programs while on-site.

PERFORMANCE IMPLICATIONS

MFA advises that it cannot continue providing oversight duties without state funding such as that contained in this bill.

OTHER SUBSTANTIVE ISSUES

MFA comments that as federal funding for housing authorities declines, many small local housing authorities are consolidating under the state’s regional housing authorities, which are rapidly becoming the sole housing service providers in some parts of the state. It notes that there are currently 26 public housing authorities in New Mexico, and those rated as troubled or substandard by the federal Housing and Urban Development Department (HUD) will likely request to consolidate with Regional Housing Authorities over the next few years. Without oversight, technical assistance and capacity building, regional housing authorities will not be equipped to meet the housing needs of the communities they serve and many rural areas will be left without housing services.

MFA reports there have been no incidents of fraud or mismanagement by regional housing authorities during the time MFA has provided oversight, and believes it is well equipped to oversee them.

ALTERNATIVES

MFA suggests that oversight of the regional housing authorities could be transferred to DFA, a state agency that receives annual operating funds from the state.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

MFA believes that lack of oversight, which protects against fraud and mismanagement, will place the regional housing authorities at risk. It notes that corruption charges at one regional housing authority resulted in the regional housing authority reform process of 2007-2009 and a mandate for oversight by MFA. The reform process included a state-funded study, *New Mexico Regional Housing Authority Assessment*, which found that oversight, technical assistance, and capacity building were critically needed.

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