GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
HB0819 - Create Montana community reinvestment act to fund workforce housing (Green, Paul)	
Status:	As Amended in House Committee

☒Significant Local Gov Impact ☒Needs to be included in HB 2 ☒Technical Concerns

☐Included in the Executive Budget ☐Significant Long-Term Impacts ☐Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	$50,056,235	$53,950	$0	$0
State Special Revenue	$25,000,000	$25,000,000	$0	$0
Revenue:				
General Fund	$0	$0	$0	$0
State Special Revenue	$50,000,000	$0	$0	$0
Net Impact-General Fund Balance:	($50,056,235)	($53,950)	$0	$0

Description of fiscal impact: HB 819 as amended by the House Taxation Committee, creates a Montana community reinvestment plan to provide funding for workforce housing by transfers $50 million from the general fund to as state special revenue fund managed by the Department of Commerce. A $50 million appropriation is provided to transfer the funds to regional Community Reinvestment Organizations (CROs) proportionate to the sum of regional gross county product. The bill sets out requirements for the establishment of a CRO and the limitations on the use of funds received by CROs.

FISCAL ANALYSIS

Assumptions:

Department of Commerce

1. HB 819 as amended in the House Taxation Committee, changes the bill substantially by transferring administration of the Montana Community Reinvestment Plan from the Department of Revenue to the Department of Commerce. The amended bill eliminates the community reinvestment commission, the contribution tax credit, community reinvestment organization (CRO) procurement accounts, community reinvestment contribution accounts, CRO matching fund requirements, the statutory appropriation, and

changes the bill's effect date from January 1, 2024, to on passage an approval. The amendments create a state special revenue Montana community reinvestment plan account which would hold funds for distribution to CRO revolving accounts that would provide funds for deed-restricted workforce housing.

2. The Department of Commerce would be required to distribute funds from the community reinvestment plan account to community reinvestment organizations (CROs), proportional to County Gross Domestic Product (GDP) as determined by the Bureau of Economic Analysis. Since a biennial appropriation is provided, it is assumed half the funds would be distributed to CROs in FY 2024 and the remainder in FY 2025.
3. To be eligible for Montana community reinvestment plan funds CROS may be established by December 31, 2024. The number of CROs that will be created, is unknown but for this fiscal note it is assumed all 16 possible CROs will be established by the deadline of December 31, 2024.
4. The department will certify each CRO no later than January 15, 2025. It is assumed the 16 CROs will be certified by the deadline and all funds distributed by June 30, 2025 (see technical note #1).
5. The bill does not require periodic recertification of the CROs, repayments to the community reinvestment plan, oversight of the CROs by the department, reporting by the CROs to the department, or provide rule making authority to the department. It is therefore assumed that once the CROs have been certified and funds disbursed, the department will have no ongoing administrative responsibilities under the bill.
6. The bill does not provide for department costs so it is assumed the costs to certify the CROs and disburse the funds will be paid from the general fund.
7. The department estimates it will require 0.50 FTE Program Specialist II for the 2025 biennium as well associated operating costs to stand up the program, certify the CROs, and disburse the funds. Total costs would be $56,235 in FY 2024, and $53,950 in FY 2025.

Fiscal Impact:	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Department of Commerce				
FTE	0.50	0.50	0.00	0.00
Expenditures:				
Personal Services	$43,730	$43,730	$0	$0
Operating Expenses	$12,505	$10,220	$0	$0
Local Assistance	$25,000,000	$25,000,000	$0	$0
Transfers	$50,000,000	$0	$0	$0
TOTAL Expenditures	$75,056,235	$25,053,950	$0	$0
Funding of Expenditures:				
General Fund (01)	$50,056,235	$53,950	$0	$0
State Special Revenue (02)	$25,000,000	$25,000,000	$0	$0
TOTAL Funding of Exp.	$75,056,235	$25,053,950	$0	$0
Revenues:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$50,000,000	$0	$0	$0
TOTAL Revenues	$50,000,000	$0	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($50,056,235)	($53,950)	$0	$0
State Special Revenue (02)	$25,000,000	($25,000,000)	$0	$0

Effect on County or Other Local Revenues or Expenditures:

1. To the extent that CRO revolving accounts disburse and receive funds subject to the CRO requirements, there would be initial investments in targeted revenue for use in procuring workforce housing.

Long-Term Impacts:

1. CRO revolving accounts disbursement of revolving funds could provide targeted ongoing revenue dedicated for use in procuring workforce housing.

Technical Notes:

1. The bill does not state whether a CRO must be certified prior to funds being disbursed to the CRO.
2. HB 819's definition of "Attainable workforce housing" may impact mortgage loan underwriting for potentially Eligible Households. The bill's requires that the eligible household "would spend no more than 30% of gross monthly income for a mortgage payment, property taxes, and insurance." Underwriting standards and qualifying ratios for mortgage loans vary depending on the regulations of the specific loan investor or insurer. For instance, the Federal Housing Administration (FHA) does generally establish that "The relationship of the mortgage payment to income is considered acceptable if the total mortgage payment does not exceed 31% of the gross effective income." (Source: HUD 4155.1 Chapter 4, Section F https://www.hud.gov/sites/documents/4155-1_4_SECF.PDF). However, FHA also establishes different qualifying ratio standards "if significant compensating factors…are documented and recorded" The mechanics of how the Community Reinvestment Organizations and/or lending institutions will navigate this HB 819 requirement with loan investor and/or insurer underwriting standards is not specified within the bill.
3. HB 819 establishes new "Community reinvestment organizations" that, "must be similar to the boundaries determined by the department for certified regional development corporations"(90-1-116, MCA). The definition in 90-1-116, MCA, "means a private, nonprofit corporation that has been designated by the department through a competitive process to manage and administer funds and programs for the department on a regional basis." New Section 6(3) as amended indicates "The Certified Regional Development Corporation may choose to create and management a region's community reinvestment organization but is not required to serve as that region's Community Reinvestment Organization." It is unclear whether establishing a new regional corporation type in statute may ease or complicate program administration.
4. HB 819's definition of "Eligible Household" establishes a broad income eligibility range based on 60 to 140 percent of the median income for the state. While the U.S. Department of Housing and Urban Development (HUD) does calculate median income at the county and metro levels, further delineated by household size, HB 819 only references median income for the state. Based on this definition, the department recommends using the most recently available 1-year Median Household Income via the American Community Survey (ACS). Median Household Income for larger counties is provided below for comparison purposes.

Median Household Income Montana – 2021 ACS 1YR	**State**	Cascade	Flathead	Gallatin	Lewis & Clark	Missoula	Yellowstone
MHI (140%)	**111,941**	80,788	92,576	113,068	93,360	93,524	97,835
MHI (120%)	**95,950**	69,247	79,351	96,916	80,023	80,164	83,858
MHI (100%)	**79,958**	57,706	66,126	80,763	66,686	66,803	69,882
MHI (80%)	**63,966**	46,165	52,901	64,610	53,349	53,442	55,906
MHI (60%)	**47,975**	34,624	39,676	48,458	40,012	40,082	41,929

5. New Section 4 of the bill states "The program creates a deed-restricted housing inventory that becomes a perpetual attainable workforce housing infrastructure…by buying down the costs of mortgages for eligible households." New Section 7(8) states that the "CRO revolving account must have a deed limitation restricting the future value of the home to be equal to the initial net consumer price at the time of purchase. The rate of appreciation on the deed-restricted home may not be greater than 0.5% per year." Finally, Section 7(10) encourages CROs to "develop policies to support homeowners buying out the deed restriction so the revolving loan account can be utilized to buy down the costs of additional homes for other eligible households."

The legislative intent to provide for both a "perpetual" "deed restricted housing inventory" and to encourage homeowners to buy out the deed restriction with payoff funds returning to a revolving loan fund appear to be contradictory.

6. New Section 6(6)(a) states "To participate in the program and join an established community reinvestment organization, a county shall enact local ordinances that provide for an expedited development and construction review process with priority for attainable workforce housing." It is not clear to the department how the county will develop an expedited process for "attainable workforce housing" whereby the eventual homebuyer pays no more than 30% of gross monthly income for mortgage payment, property taxes, and insurance. The bill does not clarify whether the county, CRO or the department is responsible for determining compliance with this Section. In addition, Section 6(6)(b) states that incorporated cities, consolidated city-county, or counties "governed by ordinances that do not meet the criteria of subsection 6(a) is not eligible for the program." The department has no rule making authority in the bill and without more explicit legislative intent, it is unclear how compliance with these sections will be assessed.
7. HB 819 as amended does not include program parameters or sideboards typically observed in other affordable homebuyer programs; there is no rule making authority for the department to establish program parameters. It is assumed that absent explicit legislative intent, each CRO will be able to establish these or other program parameters independently and without the department or the state's oversight or approval. Thus, the resulting program may differ significantly between each CRO.
8. Section 6(7) as amended states "To be certified by the department, a community reinvestment organization shall provide the information required by the department and [section 7] by January 15, 2025. The department will "certify" the CRO in accordance with Section 7, but without rule making authority the "certification" process will be limited to a checklist of criteria outlined in Section 7 of HB 819. The department will be unable to request any additional information.
9. Section 6(9) as amended states "A Community Reinvestment Organization must coordinate local employer participating in a statewide employer pool." The bill does not specify what entity is responsible for developing and maintaining the statewide employer pool.

Sponsor's Initials	*Date*	*Budget Director's Initials*	4-11-23 *Date*