



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 Senate Committee

- | | | |
|--|--|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$171,500,000	\$3,500,000	\$0	\$0
State Special Revenue	\$25,000,000	\$25,000,000	\$0	\$0
Proprietary	\$21,875	\$75,000	\$153,125	\$262,500
Revenue:				
General Fund	(\$5,418)	\$31,326	\$138,780	\$252,168
State Special Revenue	\$158,630,938	\$969,375	\$530,000	\$530,000
Proprietary	\$21,875	\$75,000	\$153,125	\$262,500
Net Impact-General Fund Balance:	<u>(\$171,505,418)</u>	<u>(\$3,468,674)</u>	<u>\$138,780</u>	<u>\$252,168</u>

Description of fiscal impact: HB 819 as amended in the Senate Business, Labor and Economic Affairs Committee, creates a Montana community reinvestment plan to provide funding for workforce housing. The bill: transfers \$50 million from the general fund to the Montana community reinvestment plan state special revenue account; adds a Montana Housing Infrastructure Revolving Loan Fund Account as well as a transfer and appropriation for \$106 million; a \$50 million appropriation is provided to distribute funds to regional Community Reinvestment Organizations (CROs) proportionate to the sum of regional gross county product; appropriates \$6 million from the general fund for allocation to CROs that contain communities near facilities that house state inmates or behavior health patients; transfers \$106 million from the general fund to the Montana housing infrastructure revolving loan fund account to provide loans and financing assistance to eligible local governments for housing infrastructure projects; appropriates \$12 million from the general fund for workforce housing for employees of facilities that house state inmates or behavioral health patients; appropriates \$1 million general fund for planning grants to local and tribal governments; and also makes an additional \$50 million from the Coal Tax Trust available to provide funding for low-income and moderate-income multifamily housing loans. A summary of all appropriations is captured on the following page.

Program	Entity	Bill Section for Appropriation	General Fund Amount
Montana Community Reinvestment Act	CRO	Section 19	50,000,000
State Workforce Housing Incentive	CRO	Section 20	6,000,000
Planning Grants	DOC	Section 22	1,000,000
Montana Housing Infrastructure Revolving Loan Fund	BOI	Section 23	106,000,000*
Workforce Housing Appropriations	BOI	Section 15	12,000,000
Total General Fund			175,000,000
Total Additional Coal Tax Trust Authority	BOH	Section 16	50,000,000

*Section 13(2) requires at least \$7 million of the \$106 million prioritized for counties with less than 15,000 inhabitants and located in 30-mile radius of eligible facility.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. HB 819, as amended in the Senate Business, Labor, and Economic Affairs Committee, creates a Montana community reinvestment plan account and a Montana housing infrastructure revolving loan fund account, and provides transfers and appropriations from the general fund to the Department of Commerce and Board of Investments.
2. The bill provides for a transfer of \$50 million from the general fund to the Montana community reinvestment plan state special revenue account and \$106 million to the Montana housing infrastructure revolving loan fund account by August 15, 2023.
3. The bill includes appropriations for the biennium beginning July 1, 2023, to the Department of Commerce for \$50 million from the Montana community investment plan account, \$6 million from the general fund for the state workforce housing incentives to community reinvestment organizations, and \$1 million for a grant program.
4. The Board of Investments is appropriated the \$106 million from the Montana housing infrastructure revolving loan fund account to provide loans for residential development.
5. This bill has no impact or costs to the Department of Revenue. (Fiscal impact tables will be a combination of Commerce and Board of Investments.)

Department of Commerce

1. The bill requires the department to distribute \$50 million in funds transferred and appropriated per Sections 18 and 19, from the community reinvestment plan account to community reinvestment organizations (CROs), according to the formula provided in Section 5(2). County Gross Domestic Product (GDP) is readily available through 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.
2. Per Section 6(1), to be eligible for Montana community reinvestment plan funds, CROs must 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.
3. Section 6(7) states that the chief business development officer provided for in 2-15-219, MCA will certify each CRO no later than January 15, 2025. It is assumed a maximum of 16 CROs will be certified by the deadline and all funds distributed by June 30, 2025. The bill does not state whether the CRO must be certified by the chief business development officer prior to funds being disbursed, however for the purpose of this fiscal note is assumed the maximum number of 16 CROs will be certified by the deadline and all funds distributed by June 30, 2025. See Technical Note 7 for additional information.
4. CROs with communities with populations of 15,000 or less and are within 30 miles of a facility that houses at least 100 state inmates or behavioral health patients are eligible to apply for additional funds. The

department will allocate and disburse \$6 million from the general fund to applying and qualifying counties within a CRO proportionally to the average number of state inmates or behavioral health patients, and the number of employees in the county that work in the facility.

5. Section 8(1) sets eligibility parameters for the \$6 million in State Workforce Housing Incentive funds appropriated to the department in Section 20. These parameters state “Community reinvestment organizations established in [section 6] that contains *communities in the county that have a population of 15,000 or less* and are located within a 30-mile radius of a facility that houses at least 100 state inmates or behavioral health patients.” However, section 8(7)(b) specifies that “the facility *is located in a county that has a population that does not exceed 15,000 inhabitants*. The department is therefore assuming the 15,000-population limitation is for the *county* in which the facility is located. The methodology for population is not specified, so the department used 2020 Decennial Census posted on the Commerce Census and Economic Information Center website.
 - a. The department consulted with the Department of Public Health and Human Services (DPHHS) on these parameters. According to the June 2022 monthly status update for MT DPHHS State-Run Health Care Facilities, the only behavior health facility meeting the 100 or more patient threshold is the Montana State Hospital Main Hospital with 174 total beds but an average census of 116. The June 2022 monthly status report is available [here](#).
 - b. The department also consulted with the Department of Corrections on these parameters, and obtained inmate census data as of June 30, 2022 from the Corrections data portal available [here](#). Table 1 below outlines all potentially eligible facilities and communities. All other facilities were either less than 100 inmate population and/or are located in counties with populations over 15,000. Corrections advised the department to use the Total Population as of June 30, 2022 on the data portal website as there was insufficient time to pull average census figures for the fiscal year beginning in July 1, 2021.

Table 1

Facility	Type	Inmate Census 6/30/2022	City, County	County Population 2020 Decennial Census
Montana State Prison	Secured - State Run	1,581	Deer Lodge, Powell Co.	6,946
Crossroad Correctional Center	Secured - Contracted	760	Shelby, Toole Co.	4,971
Dawson County Correctional Facility	Secured - Contracted	140	Glendive, Dawson Co.	8,940
Connections Corrections Program (Warm Springs) & Watch-West	Alt-Secure - Contracted State-owned bldg.	CCP = 84 WW = 73 Total = 157	Warm Springs, Powell Co.	6,946
Sanction Treatment Assessment and Revocation Transition (Start)	Alt-Secure - Contracted Contractor-owned bldg.	142	Anaconda, Deer Lodge Co.	9,421

6. The bill does not require periodic recertification of the CROs, 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.

Montana Housing Infrastructure Revolving Loan Fund Account and Department of Commerce Planning Grants (Sections 10 through 14 and Section 22)

1. Section 22 of the bill appropriates \$1 million from the general fund to the department to provide planning grants to local and tribal governments and pay the administrative costs of the program. The department estimates it will require 0.50 FTE and total administrative costs of \$70,356 in FY 2024, and \$69,106 in FY 2025. The department estimates it will disburse \$429,644 in grants in FY 2024, and \$430,890 in grants in FY 2025.

2. The Board of Investments would not require additional FTE. As an enterprise fund, the Housing infrastructure principal account interest income would offset costs of staff for hours worked on the program.
3. The balance of \$106 million plus any unspent interest earnings of funds in the Montana housing infrastructure principal account would be invested in the Short-Term Investment Pool (STIP) until securities are purchased or loans made to eligible local governments. Current projections for STIP are 3.875% for FY24, 2.875% for FY25, 2.45% for FY26, and 2.5% for FY27.
4. Infrastructure loans and security purchases are assumed to take place equally over the four fiscal years of the fiscal note at a rate of .5%.
5. Revenue based on these assumptions would result in \$2,630,938 in earnings for FY 2024. This is made up of \$218,750 in earnings from \$43,750,000 in assumed bond issuance, plus \$2,630,938 in STIP earnings on the remainder of the funds in the principal account. Assuming \$43,750,000 is issued in bonds each year and the remainder is invested in STIP, resulting revenues would be as follows in the below table:

FY	STIP	Comparison if Principal Invested in STIP	BOND	Principal Account	Remainder - earning STIP rates	Bonds Issued	Bond Rate Earnings	Total Revenue
2024	3.875%	\$ 4,107,500	0.50%	\$ 62,250,000	\$ 2,412,188	\$ 43,750,000	\$ 218,750	\$ 2,630,938
2025	2.875%	\$ 3,047,500	0.50%	\$ 18,500,000	\$ 531,875	\$ 87,500,000	\$ 437,500	\$ 969,375
2026	2.450%	\$ 2,597,000	0.50%	\$ -	\$ -	\$ 106,000,000	\$ 530,000	\$ 530,000
2027	2.500%	\$ 2,650,000	0.50%	\$ -	\$ -	\$ 106,000,000	\$ 530,000	\$ 530,000

Workforce Housing Appropriations (Section 15)

1. Section 15 appropriates \$12 million from the general fund to assist housing development in Powell, Toole, Dawson, and Deer Lodge Counties for employees at the Montana State Prison, Crossroad Correctional Center, Dawson County Correctional Facility, Connections Corrections Program & Watch West, and Sanction Treatment Assessment and Revocation Transition, subject to eligibility criteria.

Coal Trust Multifamily Homes (CTMH) Program – Sections 16 and 17

1. HB 16 passed by the 2019 legislature made \$15 million from the permanent coal tax trust available to fund loans for low-income and moderate-income housing.
2. By April 2020, the Board of Housing (BOH) approved preliminary loan commitments to 7 projects, comprising 252 rental homes. As of April 2023, financing for six projects has closed. The final project closing is pending with USDA-RD. These rental homes are in Belt, Cascade, Havre, Livingston, Helena, and Joliet/Laurel. There is approximately \$804K fund balance remaining from the initial \$15 million allocation.
3. HB 819 allocates an additional \$50 million for a total of \$65 million from the permanent coal tax trust fund to fund loans for low-income and moderate-income housing loans. The actual number of loans that will be made depends upon the number of eligible projects accessing the program. The Board of Housing (BOH) would administer the program.
4. The Board of Investments (BOI) handles the fiduciary responsibility for all cash flow out and into the permanent coal tax trust fund and BOH administers the program portion. All funds always remain under the control of BOI. Program costs are paid from interest earned on the mortgage loans with the remaining interest and all principal going into the permanent coal tax trust fund.
5. The entire \$50 million would not be loaned out within the years covered by the fiscal note. There will be \$3.5 million loaned in 2024, \$5 million in 2025, \$7.5 million in FY 2026, and \$10 million in FY 2027.
6. The loans would not all be lent at the beginning of the fiscal year so an average of the outstanding balance for the year would be \$1.75 million for 2024; \$6 million for 2025; \$12.25 million for 2026; and \$21 million for 2027. It is assumed that these loans would be drawn from the permanent coal tax trust fund throughout each fiscal year, disbursing funds only when needed.
7. HB 819 Section 17(3)(b)(iii) as amended states “the minimum interest rate charged on a loan pursuant to this section is 0.75% more than the interest rate charged for a loan funded by the housing Montana fund provided

for in 90-3-133, but no less than 3%.” Table 1 below provides the interest rates charged by the housing Montana fund provided in 90-6-133. Table 2 below provides the interest rates charged for CTMH loans made under the initial \$15 million authorized in HB 16. Table 3 below reflects the interest rates proposed under HB 819, as amended.

Table 1: Housing Montana Fund –Interest Rate and Servicing Fee Table per 8.111.506 ARM

Rate*	Loan Recipient Servicing Fee	Total	Income Targeting
Not less than 2.00%	0.0%	2.00%	30% or less AMI households
Not less than 3.00%	0.0%	3.00%	31% and 50% AMI households
Not less than 4.00%	0.0%	4.00%	51% and 80% AMI households
Not less than 6.00%	0.0%	6.00%	81% and 95% AMI households

**Weighted average if targeting multiple ranges. Existing projects will use incomes of tenants at time of application*

Table 2: CTMH – Interest Rate and Servicing Fee per HB 16 passed during 2019 Session

➤ 0.5% less than HMF rates

Rate*	Loan Recipient Servicing Fee	Total	Income Targeting
Not less than 1.5%	0.0625%	1.5625%	30% or less AMI households
Not less than 2.5%	0.0625%	2.5625%	31% and 50% AMI households
Not less than 3.5%	0.0625%	3.5625%	51% and 80% AMI households
Not less than 5.5%	0.0625%	5.5625%	81% and 95% AMI households

**Weighted average if targeting multiple ranges. Existing projects will use incomes of tenants at time of application*

Table 3: CTMH – Interest Rate and Servicing Fee per HB 927 as Amended

➤ 0.75% more than HMF rates

Rate*	Loan Recipient Servicing Fee	Total	Income Targeting
Not less than 2.75%	0.0625%	2.8125% 3.0625% - 3% min	30% or less AMI households
Not less than 3.75%	0.0625%	3.8125%	31% and 50% AMI households
Not less than 4.75%	0.0625%	4.8125%	51% and 80% AMI households
Not less than 6.75%	0.0625%	6.8125%	81% and 95% AMI households

**Weighted average if targeting multiple ranges. Existing projects will use incomes of tenants at time of application*

8. BOH anticipates projects for future CTMH loans will target 31-50% and 51-80% AMI households, with resulting average blended rate of 4.07%. This blended rate reflects proposed rental unit AMI targets for Housing Credit letter of intent projects submitted to BOH in April 2023.
9. BOH is authorized to take its administrative charges and a servicing fee from the interest paid by the loan recipient. The administrative charge and servicing fee are both set at 1/8 of 1% (0.00125). The servicing fee is evenly split between BOH and the loan recipient, with half of the servicing fee (0.000625) added back to the interest rate charged on the loan.
10. Pursuant to HB 819 Section 17(3)(b)(ii), loans must be in first lien position and may not exceed 95% of total development costs. CTMH loans are anticipated to be uninsured loans.
11. Pursuant to HB 819 Section 17(3)(b)(v), funded projects must be subject to property taxes.
12. BOH is authorized to charge loan applicants a fee equal to 1% of the mortgage loan amount, due at time of application.

	FY 2024	FY 2025	FY 2026	FY 2027
BOH Application Fee (1% of Loan Principal)	\$ 17,500	\$ 60,000	\$ 122,500	\$ 210,000
Servicing/Admin Fee	\$ 4,375	\$ 15,000	\$ 30,625	\$ 52,500
Total BOH revenue	\$ 21,875	\$ 75,000	\$ 153,125	\$ 262,500

13. The loans would be made from funds that are currently invested in the Board of Investment’s Trust Funds Investment Pool (TFIP) specific to the permanent coal funds, interest from which is deposited in the general fund. The cost to the general fund is the difference between what the funds would earn invested in the TFIP and the “net” interest on the loans after BOH costs are paid.

	FY 2024	FY 2025	FY 2026	FY 2027
Principal Invested (average)	\$ 1,750,000	\$ 6,000,000	\$ 12,250,000	\$ 21,000,000
STIP Yield	4.130%	3.298%	2.687%	2.619%
G/F Interest Earnings Current Law	\$ 72,268	\$ 197,874	\$ 329,170	\$ 550,032
Loan Principal (average)	\$ 1,750,000	\$ 6,000,000	\$ 12,250,000	\$ 21,000,000
Loan Yield (3.26% + 0.75 + 0.0625 servicing fee)	4.0700%	4.0700%	4.0700%	4.0700%
Loan Interest Earned	\$ 71,225	\$ 244,200	\$ 498,575	\$ 854,700
Gross General Fund Gain/Loss	\$ (1,043)	\$ 46,326	\$ 169,405	\$ 304,668
BOH Bank Servicing Fee (0.125%)	\$ (2,188)	\$ (7,500)	\$ (15,313)	\$ (26,250)
BOH Admin Costs (0.125%)	\$ (2,188)	\$ (7,500)	\$ (15,313)	\$ (26,250)
BOH Foreclosure Fees	\$ -	\$ -	\$ -	\$ -
BOH Costs	\$ (4,375)	\$ (15,000)	\$ (30,625)	\$ (52,500)
Net Gain/Loss to General Fund	\$ (5,418)	\$ 31,326	\$ 138,780	\$ 252,168
Average Spend Down by FY Calc:	FY 2024	FY 2025	FY 2026	FY 2027
Cumulative Average Outstanding Balance	1,750,000	6,000,000	12,250,000	21,000,000
Total Loans Closed per Fiscal Year	3,500,000	5,000,000	7,500,000	10,000,000

<u>Fiscal Impact:</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Commerce				
FTE	0.50	0.50	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$60,008	\$86,571	\$76,562	\$131,250
Operating Expenses	\$32,223	\$57,535	\$76,563	\$131,250
Local Assistance	\$34,000,000	\$28,000,000	\$0	\$0
Grants	\$429,644	\$430,894	\$0	\$0
Transfers	\$156,000,000	\$0	\$0	\$0
TOTAL Expenditures	\$190,521,875	\$28,575,000	\$153,125	\$262,500

<u>Funding of Expenditures:</u>				
General Fund (01) Transfers	\$156,000,000	\$0	\$0	\$0
General Fund (01) Approp	\$15,500,000	\$3,500,000	\$0	\$0
State Special Revenue (02)	\$19,000,000	\$25,000,000	\$0	\$0
Proprietary (06)	\$21,875	\$75,000	\$153,125	\$262,500
TOTAL Funding of Exp.	\$190,521,875	\$28,575,000	\$153,125	\$262,500

<u>Revenues:</u>				
General Fund (01)	(\$5,418)	\$31,326	\$138,780	\$252,168
State Special Revenue (02)	\$158,630,938	\$969,375	\$530,000	\$530,000
Proprietary (06)	\$21,875	\$75,000	\$153,125	\$262,500
TOTAL Revenues	\$158,647,395	\$1,075,701	\$821,905	\$1,044,668

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$171,505,418)	(\$3,468,674)	\$138,780	\$252,168
State Special Revenue (02)	\$139,630,938	(\$24,030,625)	\$530,000	\$530,000
Proprietary (06)	\$0	\$0	\$0	\$0

Technical Notes:

1. HB 819’s definition of “Attainable workforce housing” may impact mortgage loan underwriting for potentially Eligible Households.
2. The definition of “Eligible Household” establishes a broad income eligibility range based on 60 to 140 percent of the median income for the county in which the person resides or the state, whichever is less. 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

3. 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.
4. Section 7(4)(A)(ii) provides that “5% or less (of the \$50 million disbursed to CROs) must be dedicated to startup and administrative costs of the community reinvestment organization and may be used to create a foreclosure mitigation set-aside fund.” The department presumes the calculation will be $\$50 \text{ million} \times 5\% = \$2.5 \text{ million} / \text{maximum } 16 \text{ CROs} = \$156,250 \text{ per CRO}$. It is unclear whether the start-up administrative dollars of \$156,250 per CRO will be sufficient for new organizations to be established and obtain IRS approval of exempt status; the requirement to be established as a 501(c)(3), (c)(4) or (c)(6) before the CRO can be certified by the chief business development officer suggests that the CRO isn’t eligible to receive the 5% start-up administrative dollars distributed from the department until the CRO is certified by the state chief business development officer.
5. The Montana Community Reinvestment Act does not include program parameters or sideboards typically observed in other affordable homebuyer programs. Thus, the resulting program may differ significantly between each CRO.
6. Section 7(8) states that the “Housing purchased from 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 1% per year.” In addition, 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.” Current Community Land Trust models operating successfully in the state of Montana limit appreciation to 1.5% per year.
7. Section 8 does not clarify whether only state-run and/or state-owned facilities are eligible. Therefore, the department included contracted facilities.

Montana Housing Infrastructure Revolving Loan Fund Account (Section 10 through 14)

8. Section 14(3)(d) requires a deed restriction be placed on private property by the Board of Investments for the duration of a note or purchased security with an eligible local government or private developer. It is unclear how such a legislative restriction on value can be implemented.

Sponsor's Initials

Date

Budget Director's Initials

4-26-23

Date