GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
HB0546 - Authorize additional funding for coal trust loan program for housing (Fern, Dave)	
Status:	As Introduced

☐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	$0	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Proprietary	$13,750	$55,000	$87,500	$97,500
Revenue:				
General Fund	($7,288)	($87,350)	($190,625)	($227,625)
State Special Revenue	$0	$0	$0	$0
Proprietary	$13,750	$55,000	$87,500	$97,500
Net Impact-General Fund Balance:	($7,288)	($87,350)	($190,625)	($227,625)

Description of fiscal impact: HB 546 makes an additional $30 million from the Coal Tax Trust available to provide funding for low-income and moderate-income multifamily housing loans, and capital projects for non-profit healthcare facilities.

FISCAL ANALYSIS

Assumptions:

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 approved preliminary loan commitments to 7 projects, comprising 252 rental homes. As of December 31, 2022, financing for six projects have closed. These rental homes are in Belt, Cascade, Havre, Livingston, Helena, and Joliet/Laurel. There is approximately $804K fund balance remaining from the $15 million allocation.
3. HB 546 allocates an additional $15 million for a total of $30 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. Funded projects must be subject to property taxes.
6. There will be $5 million loaned in 2024 and $10 million in 2025.
7. 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 $2.5 million for 2024; $10 million for 2025; $15 million for 2026; and $15 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.
8. BOH is authorized to take the servicing fee and its administrative charges from the interest paid by the borrower. The administrative fee is the same as the Montana Veterans Home Loan Program at 1/8 of 1% (0.00125). However, the servicing fee is reduced from 3/8 of 1% (0.00375) to 1/8 of 1% (0.00125) as these loans are typically larger than a standard single-family loan. The servicing fee charge will be split, and half of this fee will be added back to the interest rate charged on the loan.
9. Pursuant to 90-6-137(4)(b)(iii), MCA, the minimum interest rate charged on a loan has been 0.5% less than the interest rate changed for a loan funded by the Housing Montana Fund (HMF) provided for in 90-6-133, MCA, and 8.111.506, ARM. The BOH and the loan recipient each pay half of the loan servicing fees. HB 546 removes the 0.5% interest rate reduction from the HMF rate so interest rates for future loans will match the Housing Montana Fund.
10. The BOH anticipates projects for future loans will target 31-50% and 51-80% AMI households, with resulting average rate of 3.5%.

Rate	Income Targeting
2.0625%	30% or less AMI households
3.0625%	31% and 50% AMI households
4.0625%	51% and 80% AMI households
6.0625%	81% and 95% AMI households
Weighted average if targeting multiple ranges. Existing projects will use incomes of tenants at time of application	

11. Like the Housing Montana Fund the loans originated from this program are anticipated to be uninsured loans in the projects and would be in first lien position.
12. 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)	$ 2,500,000	$ 10,000,000	$ 15,000,000	$ 15,000,000
TFIP Yield	3.940%	4.210%	4.350%	4.350%
G/F Interest Earnings Current Law	$ 98,500	$ 421,000	$ 652,500	$ 652,500
Loan Principal (average)	$ 2,500,000	$ 10,000,000	$ 15,000,000	$ 15,000,000
Loan Yield (3.5% + 0.0625 servicing fee)	3.5625%	3.5625%	3.5625%	3.5625%
Loan Interest Earned	$ 89,063	$ 356,250	$ 534,375	$ 534,375
Gross General Fund Gain/Loss	$ (9,438)	$ (64,750)	$ (118,125)	$ (118,125)
BOH Bank Servicing Fee (0.125%)	$ (3,125)	$ (12,500)	$ (18,750)	$ (18,750)
BOH Admin Costs (0.125%)	$ (3,125)	$ (12,500)	$ (18,750)	$ (18,750)
BOH Foreclosure Fees	$ -	$ -	$ -	$ -
BOH Costs	$ (6,250)	$ (25,000)	$ (37,500)	$ (37,500)
Net Gain/Loss to General Fund	$ (15,688)	$ (89,750)	$ (155,625)	$ (155,625)

13. Starting in 2001, 17-6-308(4), MCA, made up to $15 million from the permanent coal tax trust available to the Montana Facilities Finance Authority (MFFA) to fund loans for nonprofit healthcare facilities. Loans are limited to no more than $1.5 million and no more than $15 million can be outstanding in total.
14. As of December 31, 2022 the MFFA had provided over $33.8 million in loans to eligible facilities.
15. HB 546 allocates an additional $15 million for a total of $30 million from the permanent coal tax trust to fund loans for eligible nonprofit healthcare facilities. The actual number of loans that will be made depends upon the number of eligible projects accessing the program. MFFA would continue to administer the program.
16. It is assumed there will be $3 million in loans made in 2024, $6 million in 2025, $2 million each in 2026, 2027, and 2028.
17. 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 $1.5 million for 2024; $6 million for 2025; $10 million for 2026; and $12 million for 2027. These loans will be drawn from the permanent coal tax trust fund throughout each fiscal year, disbursing funds only when needed.
18. MFFA is authorized to take its fee from the interest paid by the borrower. The fee is 50 basis points (0.50%) of the monthly outstanding balance. The fee charge is embedded in the interest rate charged on the loan.
19. Rates are set according to term. They are derived from the monthly average of the Federal Home Loan Bank of Des Moines Advance Rate plus an additional margin depending on term.

5-Year Term	5- year FHLB Advance rate plus 0.60%, or 2.25% whichever is greater.
7-Year Term	7-year FHLB Advance rate plus 0.60%, or 2.50% whichever is greater.
10-Year Term	10-year FHLB Advance rate plus 0.65%, or 2.75% whichever is greater
15-Year Term	15-year FHLB Advance rate plus 0.65%, or 3.00% whichever is greater.
20-Year Term	20-year FHLB Advance rate plus 0.70%, or 3.25% whichever is greater.

20. Because loan terms can vary between 5 and 20 years, the rate assumptions are based on the weighted average term of the last five fiscal years of loans. The average weighted term was 9.9 years, so a 10-year term is used.
21. The loans would be made from funds that are currently invested in the BOI's 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 MFFA costs are paid.

	FY 2024	FY 2025	FY 2026	FY 2027
Principal Invested (average)	$ 1,500,000	$ 6,000,000	$ 10,000,000	$ 12,000,000
TFIP Yield	3.940%	4.210%	4.350%	4.350%
G/F Interest Earnings Current Law	$ 59,100	$ 252,600	$ 435,000	$ 522,000
Loan Principal (average)	$ 1,500,000	$ 6,000,000	$ 10,000,000	$ 12,000,000
Loan Yield (See below)	5.0000%	4.7500%	4.5000%	4.2500%
Loan Interest Earned	$ 75,000	$ 285,000	$ 450,000	$ 510,000
Gross General Fund Gain/Loss	$ 15,900	$ 32,400	$ 15,000	$ (12,000)
MFFA Servicing Fee (0.5%)	$ (7,500)	$ (30,000)	$ (50,000)	$ (60,000)
MFFA Costs	$ (7,500)	$ (30,000)	$ (50,000)	$ (60,000)
Net Gain/Loss to General Fund	$ 8,400	$ 2,400	$ (35,000)	$ (72,000)

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Fiscal Impact:				
Expenditures:				
Personal Services	$6,875	$27,500	$43,750	$48,750
Operating Expenses	$6,875	$27,500	$43,750	$48,750
TOTAL Expenditures	$13,750	$55,000	$87,500	$97,500
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0
Proprietary (06)	$13,750	$55,000	$87,500	$97,500
TOTAL Funding of Exp.	$13,750	$55,000	$87,500	$97,500
Revenues:				
General Fund (01)	($7,288)	($87,350)	($190,625)	($227,625)
State Special Revenue (02)	$0	$0	$0	$0
Proprietary (06)	$13,750	$55,000	$87,500	$97,500
TOTAL Revenues	$6,462	($32,350)	($103,125)	($130,125)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($7,288)	($87,350)	($190,625)	($227,625)
State Special Revenue (02)	$0	$0	$0	$0

Technical Notes:

1. The title of HB 546 does not contain language about loans for capital projects. Thus, it is unclear if the provision in HB 546 that increases the amount of coal tax trust funds available for capital project loans violates the single subject provision of Article 5, part 5, section 11(3) of the Montana Constitution.

NOT SIGNED BY SPONSOR

			2-22-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*