GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
HB0574 - Establish workforce housing trust fund (Abbott, Kim)	
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	$500,000,000	$0	$0	$0
Proprietary	$5,320,523	$42,869,498	$44,923,090	$45,976,745
Revenue:				
General Fund	($20,650,000)	($16,500,000)	($13,450,000)	($13,100,000)
Proprietary	$519,503,000	$20,362,750	$18,741,750	$14,812,500
Net Impact-General Fund Balance:	($520,650,000)	($16,500,000)	($13,450,000)	($13,100,000)

Description of fiscal impact: HB 574 transfers $500 million from the general fund to the Montana Board of Housing within the Department of Commerce to establish the Montana workforce housing trust fund to provide loans and grants for affordable workforce housing.

FISCAL ANALYSIS

Assumptions:

Department of Administration

1. HB 574 requires a transfer from the state treasurer to the Montana workforce housing trust fund provided for in 90-6-107. As the state treasurer, the Department of Administration is responsible for completion of this transfer.

Department of Commerce

2. Pursuant to Section 4, $500 million will be transferred from the general fund to the Montana workforce housing trust fund account by August 1, 2023.
3. General fund balances are held in the treasury cash account, as directed by 17-6-202(2), MCA. Interest earnings on balances held in the account are deposited in the general fund. The $500 million transfer from the general fund to the housing trust fund by August 1, 2023, will result in the balance of the treasury cash account

being $500 million lower than it otherwise would be for the period FY 2024 – FY 2027. Treasury cash account balances are invested primarily in the Board of Investment's Short Term Investment Pool (STIP). The loss in general fund revenue from the lower treasury cash account balance is equal to $500 million multiplied by the projected STIP rate from the HJ 2 forecast. Table 1 summarizes the fiscal impact to the general fund.

	FY 2024	FY 2025	FY 2026	FY 2027
General Fund Transfer to Housing Trust Fund	$ 500,000,000			
Change in balance of Treasury Cash Account	$ (500,000,000)	$ (500,000,000)	$ (500,000,000)	$ (500,000,000)
Treasury Cash Account STIP Rate	4.1300%	3.3000%	2.6900%	2.6200%
Foregone TCA Earnings & Transfer to General Fund	$ (20,650,000)	$ (16,500,000)	$ (13,450,000)	$ (13,100,000)

4. Pursuant to Section 1(2)(a), half of the principal of the fund - $250 million - must be reserved and invested to earn interest. All $500 million will be invested in Trust Fund Investment Pool (TFIP) for an initial period of time, while the Board of Housing adopts administrative rules for the program. It is estimated that the administrative rules process will be through March 31, 2024. As grants and loans are closed, funds will be drawn from TFIP and disbursed to eligible organizations. At no time will the principal balance in TFIP be less than $250 million. TFIP Yield assumptions are provided from Board of Investments.
5. Ten percent of the $250 million - $25 million - will be disbursed as grants to eligible organizations per Section 1(5)(b), with average grant award of $1 million for an estimated total of 25 grants through FY27.
6. Eighty percent of the $250 million - $200 million - will be disbursed as loans with average principal balance of $5 million, for an estimated total of 40 loans through FY27. The final 10 percent ($25 million) will be disbursed as loans with average principal balance of up to $10 million, for a total of 2.5 loans through FY27.
7. While it is anticipated the eighty percent for loans will be fully committed/obligated by FY27, loaned monies will likely not be disbursed until after project construction is complete which can average 18 months. Therefore, while we assume $75 million in loan commitments beginning in FY25, only fifty percent will be disbursed each FY ($37.5 million in FY25, FY26 and FY27 is included on page 3 as an "Operating Expense").
8. The remaining $112.5 million in loan commitments will be disbursed in subsequent fiscal years.
9. After the program is established and the initial half of principal is fully disbursed as grants and loans, the program will use net gain revenue from investment earnings and eventual loan principal and interest payments, to make additional grants and loans to eligible organizations.
10. Section 1(3)(b)(ii) states that the maximum interest rate charged on loans cannot be greater than the rate charged on loans for other types of housing projects administered by the Board. The Board anticipates aligning interest rates no higher than rates for the Housing Montana Fund Affordable Housing Revolving Loan Fund under 8.111.506 HMF Loan Terms and Conditions. HMF rates range from 2% to 6% based on the income targeting of the project. For purposes of this fiscal note, it is assumed most projects will target households with incomes between 31 - 50% and 51 - 80%, with average blended rate of 3.5%.
11. Section 1(3)(b)(iii) states that if the loan recipient is a for-profit developer, the loan recipient shall pay loan servicing fees. The Board assumes the servicing fee will be the same as the existing Housing Montana Fund Affordable Housing Revolving Loan Program in 90-6-134 at 0.125%. Under the HMF, the servicing fee is split between the Board and the loan recipient with half (0.0625%) added back to the interest rate charged on the loan to the owner/developer. For the Montana workforce housing trust fund, the full servicing fee at 0.125% will be added back to the interest rate charged on the loan to be paid by the for-profit developer. This fiscal note shows the 0.125% interest rate paid out of the Montana workforce housing trust fund for all loans rather than assuming a certain portion of loans to be made to for-profit developer. In the event a loan is made to a for-profit developer, the Loan Yield would increase to reflect the full 0.125% added back to the loan while the BOH Loan Servicing Fee expense would correspondingly decrease.
12. Three new FTEs will be needed for program administration. This includes two Program Specialist II positions; one will administer grants and one will administer loans. The grant position will develop application

guidelines, conduct project review and ranking, engage in contract negotiation and execution, and ongoing grant management oversight and compliance. The loan position will underwrite project applications and execute loan documents, in alignment with any other fund sources administered by the Board (i.e., Low Income Housing Tax Credits, Coal Trust Multifamily Loan Program etc.). The third FTE is a Loan & Bond Specialist I to conduct ongoing servicing of loans. Additional loan reconciliation and accounting duties will be added to an existing Accounting Specialist 1 position. The Board anticipates these additional duties added to the Accounting Specialist 1 position may necessitate a position reclassification and/or a modest wage increase commiserate with the additional job duties.

13. Additional operating expenses include loan servicing bank account fees and estimated legal expenses involved in establishing this Workforce housing trust fund program, creation of grant contracts and loan documents and legal review of projects awarded grant and loan funds.

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Fiscal Impact:				
FTE	3.00	3.00	3.00	3.00
Expenditures:				
Personal Services	$247,751	$247,751	$251,468	$255,240
Operating Expenses	$72,772	$37,621,747	$37,671,622	$37,721,505
Transfers	$500,000,000	$0	$0	$0
Grants	$5,000,000	$5,000,000	$7,000,000	$8,000,000
TOTAL Expenditures	$505,320,523	$42,869,498	$44,923,090	$45,976,745
Funding of Expenditures:				
General Fund (01)	$500,000,000	$0	$0	$0
Proprietary (06)	$5,320,523	$42,869,498	$44,923,090	$45,976,745
TOTAL Funding of Exp.	$505,320,523	$42,869,498	$44,923,090	$45,976,745
Revenues:				
General Fund (01)	($20,650,000)	($16,500,000)	($13,450,000)	($13,100,000)
Proprietary (06)	$519,503,000	$20,362,750	$18,741,750	$14,812,500
TOTAL Revenues	$498,853,000	$3,862,750	$5,291,750	$1,712,500
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($520,650,000)	($16,500,000)	($13,450,000)	($13,100,000)
Proprietary (06)	$514,182,477	($22,506,748)	($26,181,340)	($31,164,245)

Technical Notes:

1. HB 574 defines "affordable housing rates" in Section 1(9)(a) to be "a rental rate that costs less than 25% of a household's monthly income for a household with an annual income at or below 80% of the median income in the area, as determined by the United States department of housing and urban development". This definition does not align with the U.S. Department of Housing and Urban Development's definition of "affordable housing" which states "in general, housing for which the occupant(s) is/are paying no more than 30 % of his or her income for gross housing costs, including utilities. Source: https://archives.huduser.gov/portal/glossary/glossary_a.html.

2. In addition, section 42 of the Internal Revenue Code for the Low Income Housing Tax Credit program requires a "gross rent test" which requires owners/developers to set rents that do not exceed 30 percent of either 50 or 60 percent of area median in income, depending up on the share of the tax credit rental units in the project. It is assumed Montana workforce housing trust fund grants and/or loans may be paired with existing HUD Community Development and Planning funds (national Housing Trust Fund, HOME Investment Partnerships Program and/or Community Development Block Grant) and/or Low Income Housing Tax Credits (competitive 9% and/or noncompetitive 4% credits with tax exempt bonds). Establishing a different (lower) rent affordability threshold than what is required by other federal resources administered by the Board of Housing may cause project underwriting and other administrative challenges for both owner/developers and the Board.

	2/24/23		2-23-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*