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FISCAL IMPACT REPORT

SPONSOR <u>Romero, A./Dow/Parajón</u>	LAST UPDATED <u>3/7/25</u> ORIGINAL DATE <u>2/25/25</u>
SHORT TITLE <u>Residential Home Building Authorization</u>	BILL NUMBER <u>House Bill 554/aHCPAC/aHG EIC</u> ANALYST <u>Hilla</u>

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	No fiscal impact	No fiscal impact	No fiscal impact	No fiscal impact	Recurring	

Parentheses () indicate expenditure decreases.
 *Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files
 National Conference of State Legislatures (NCSL)

Agency Analysis Received From
 Office of Housing

Agency Analysis was Solicited but Not Received From
 New Mexico Municipal League (NMML)
 New Mexico Mortgage Finance Authority (MFA)

SUMMARY

Synopsis of HGEIC Amendment to House Bill 554

The House Government, Elections and Indian Affairs Committee (HGEIC) amendment to House Bill 554 (HB554) strikes language preventing a local ordinance, policy, or regulation from serving as a basis for a delay or denial of a building permit for an accessory dwelling unit. The amendment also adds language to specify that only homeowner association restrictions implemented after the effective date of the bill shall not serve as a basis for a delay or a denial of a building permit for an accessory dwelling unit.

Synopsis of HCPAC Amendment to House Bill 554

The House Consumer and Public Affairs Committee (HCPAC) amendment to House Bill 554 strikes language pertaining to public transit, specifying instead that zoning authorities must accommodate multifamily residential housing near a passenger rail station.

Synopsis of House Bill 554

House Bill 554 (HB554) amends Section 3-21-1 NMSA 1978 to require that zoning authorities, including home rule municipalities, accommodate accessory dwelling units in residential zoning districts as a permitted use and multifamily residential housing in commercial zoning districts and areas near transit as a permitted use.

HB554 defines accessory dwelling units as single habitable living units, which provide separate ingress and egress, with provisions for sleeping, cooking, and sanitation. The bill requires that a zoning authority, including of a home rule municipality, accommodate as a permitted use the construction of at least one accessory dwelling unit for each lot within zoning districts that allow residential use, regardless of the size of the lot. The bill also prevents zoning authorities from imposing certain restrictions on accessory dwelling units.

HB554 defines multifamily housing as a residential property that contains more than one household and includes duplexes and townhouses. The bill requires that zoning authorities, including a home rule municipality, permit use of the construction of multifamily housing in all residential and commercial zoning districts and areas within $\frac{1}{4}$ of a mile of a major public transit location.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

FISCAL IMPLICATIONS

This bill does not have a direct fiscal impact on the state.

SIGNIFICANT ISSUES

The Governor's Office of Housing notes that the state's median rent has increased 60 percent since 2017, with the average cost of homes outpacing wage growth. The office adds that accessory dwelling units can boost affordable housing due to their smaller sizes and utilization of existing infrastructure, which can lower development costs. The office states there was a decline in multifamily rental permits in the third quarter of FY24, which dopped 24 percent due to high commercial construction costs and high interest rates. The office states that HB554's provisions of adding the multifamily units in commercial areas can utilize existing infrastructure and parking and allow access to jobs, services, and transit options.

Additionally, the office notes:

One obstacle to the creation of new accessory dwelling units is that their construction forces a current and correct property tax valuation. Residential properties in New Mexico are subject to a 3% annual cap in property tax increase, so if an owner with significant tenure builds an accessory dwelling unit, they can see a shock increase in property tax often doubling or tripling their current property tax rate. One way to help make sure that regulatory changes lead to actual new home construction would be to provide a temporary abatement, or have taxes ramp up over a set period of time to current and correct value. Allowing taxes to increase 20 percent towards current and correct per year for five years would give time for existing owners to adjust to increased property taxes.

According to the National Conference of State Legislatures (NCSL), 15 states have introduced legislation pertaining to dwelling units in the states' appropriate legislative sessions in 2025.

TECHNICAL ISSUES

A discrepancy in the bill is Section 1. (F) (3) adds “multifamily residential housing” in commercial zoning districts, but Section 3. (A) (2) defines “multifamily housing” and not “multifamily residential housing.” This could create ambiguity in interpretation and application.

EH/hj/SL2/rl/SL2/sgs