



## **Property Tax Abatement in Exchange for Inclusion of Affordable Housing**

**The Problem:** When new multifamily housing is built, the property is reassessed, and the increase in property taxes is significant and sudden which is why it is called “tax lightning.” The increase is large enough that it disincentivizes building the project. Instead of new housing, the property remains a parking lot or some other non-housing use. The overall impact is a reduction in housing supply adding to a housing shortage which means higher rents.

**The Solution:** Private developers of housing could participate in a Pay In Lieu of Taxes (PILOT) program like the one in NMSA Chapter 3-60-A-13.1, the Metropolitan Redevelopment Act (MRA). A PILOT program for affordable housing would allow a transfer of the properties ownership to a non-taxable entity like Housing New Mexico (MFA) for 20 years in exchange for setting aside 20 percent of the units in the project as affordable at 80 percent of Area Median Income (AMI). This would remove the property from the tax rolls, incentivize the development of more housing, and create affordable housing units for 20 years.

**Legislative Proposal:** Legislation is needed to create a new PILOT program in chapter 6 (new article 36) of the state’s public finance statutes to allow transfer of taxable property to MFA (or other non-taxable entities) for the duration of the abatement. The developer would agree to continue to pay the same tax assessed on the property before the new housing is built including 3 percent annual increases (the Constitutional limit on annual increases). The project would also have to set aside 20 percent of the units as affordable at 80 percent AMI for at least 20 years.

**Potential Partners:** Potential partners include non-profit and market-rate developers, affordable housing advocates, and some local governments seeking to incentivize more affordable housing development.

**Potential Opposition:** Potential opposition could be from local assessors, the Municipal League, NM Association of Counties, school boards, and neighborhood associations.

**How will we pay for it?** : Participating projects would pay the same exact property tax as had no development occurred so local jurisdictions would technically lose no property tax revenue and those jurisdictions would also gain new affordable housing. So there is no loss of existing tax revenue.

