COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1365-01
Bill No.: SB 257
Subject: Boards, Commissions, Committees, Councils; Historic Preservation; Housing; Tax Credits
Type: Original
Date: March 18, 2011

Bill Summary: This proposal modifies provisions of the Low-Income Housing Tax Credit Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	Unknown	Unknown	Unknown
Total Estimated Net Effect on General Revenue Fund	**Unknown**	**Unknown**	**Unknown**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Budget and Planning** (**BAP**) assume the proposed legislation should not result in additional costs or savings to BAP. This proposal limits the new authorizations for the LIHTC program to $16M annually. BAP notes this amount is roughly consistent with authorizations the last several years, but the MHDC projected new authorizations of $19.2M annually for FY's 2011 & 2012, and this amount may grow higher as the overall economy recovers or the need for housing grows.

This proposal prohibits the concurrent use of Historic credits with LIH credits. BAP cannot estimate any potential savings from this provision.

Officials at the **Department of Economic Development** (**DED**) assume this would reduce the amount of Low-Income Housing credits authorized, issued and redeemed which would increase total state revenue. The following changes are expected:

Section 135.353.2 – This section would change the Missouri Low Income Housing Tax Credit (Mo. LIHTC) from a 10-year tax credit program capped at the annual federal LIHTC cap to a 5-year tax credit capped at $16 million in annual authorizations. Eventually the state would see a significant (over $100 million) reduction in the annual amount of Mo. LIHTC issued and redeemed as a result of this provision. However, because of the significant lag time between authorization, issuance and redemption of credits, it would take several years for the full impact of this change to be realized.

Section 135.352.2 – This section would create a preference for taxpayers that have not received Mo. LIHTC within the last five years. While this would affect who might receive the credits and the experience level of development teams associated with these developments, there would be no associated fiscal impact to the state.

Section 135.352.3 – This section would eliminate the 4% Mo. LIHTC used for developments receiving an allocation of tax-exempt bonds. Currently, there is a $6 million cap on the authorization of annual 4% credits. There eventually would be a $6 million reduction in 4% Mo. LIHTC redemptions (and a corresponding $6 million increase in General Revenue). However, because of the significant lag time between authorization, issuance and redemption of credits, it would take several years for the full impact of this change to be realized.

Section 135.352.7 – This section would eliminate the practice known as "stacking" whereby the same development receives both Mo. LIHTC and the state Historic Preservation Credit. While

ASSUMPTION (continued)

this change would affect the total amount and type of state tax credit received by particular developments, it would not affect the overall amount of state tax credits authorized, issued or redeemed. Therefore, this change has no associated fiscal impact.

Most of the impact from the changes in this proposal would be experienced outside of the fiscal note period in question (FY12-FY14). Because the Mo. LIHTC is a 10-year credit, the full impact of the reductions in tax credit issuances and redemptions due to this proposal would phase in through FY24. The fiscal impact associated with a reduction in Mo. LIHTC tax credit issuances and redemptions would be projected to start in FY14 in the amount of $400,000 (reduction in redemptions and corresponding increase in General Revenue). The long-range reduction in redemptions (and corresponding increases in General Revenue) associated with this proposal would be projected to phase in over FY15-FY24 as shown below. After FY24, the full impact of this proposal (estimated $112 million decrease in redemptions and corresponding increase in General Revenue) would be felt each year as long as the changes remained in effect.

FY12	$0
FY13	$0
FY14	$400,000
FY15	$3,100,000
FY16	$6,300,000
FY17	$9,500,000
FY18	$12,700,000
FY19	$27,900,000
FY20	$47,100,000
FY21	$66,300,000
FY22	$85,500,000
FY23	$104,700,000
FY24	$111,500,000
FY25	$112,000,000

The fiscal impact associated with this legislation would be the savings to the state associated with eliminating the 4% Mo. LIHTC and capping the annual amount of 9% Mo. LIHTC authorized to $16 million for five years. Of course, there is no fiscal impact associated with tax credits until they are redeemed. In order to estimate the potential fiscal impact of this proposal, DED has to project issuances/redemptions with and without passage of this proposal. Also, several assumptions were made in order to estimate fiscal impact, and these assumptions are:

> Mo. LIHTC developments will continue to follow the same timeframes between authorization and issuance as experienced historically.

ASSUMPTION (continued)

100% of authorized credits are eventually issued and redeemed.

All credits will be redeemed in the same year of issuance.

The MO LIHTC 9% annual credit authorizations will be $8,041,000 in FY11 and $16,000,000 each year thereafter beginning in FY12 due to passage of this proposal.

With passage of this proposal MO LIHTC 9% developments authorized for credits by MHDC after FY11 will only receive 5 years worth of annual credits, but developments authorized by MHDC in FY11 and prior will receive 10 years of annual credits.

The full $6 million of MO LIHTC 4% credit allowable will be authorized in FY11 and no MO LIHTC will be authorized after FY11 due to passage of this proposal.

Without passage of this proposal, $13.2 million in annual 9% credits and $6 million in annual 4% credits would be authorized in FY12 and each year thereafter.

Developments are issued equal amounts of credits each year for their entire credit period (10 years or 5 years).

Estimated Fiscal Impact

FY	Projected Issuances & Redemptions As Proposed this bill	Projected Issuances & Redemptions Under Current Law	Change in Issuances & Redemptions Based on Proposed bill	Estimated Impact on General Revenue Due to this bill
2012	$165,756,074	$165,756,074	$0	$0
2013	$166,555,901	$166,555,901	$0	$0
2014	$168,128,724	$168,528,724	($400,000)	$400,000
2015	$172,014,949	$175,114,949	($3,100,000)	$3,100,000
2016	$172,680,605	$178,980,605	($6,300,000)	$6,300,000
2017	$168,769,170	$178,269,170	($9,500,000)	$9,500,000
2018	$161,530,802	$174,230,802	($12,700,000)	$12,700,000
2019	$142,702,474	$170,602,474	($27,900,000)	$27,900,000
2020	$127,627,121	$174,727,121	($47,100,000)	$47,100,000
2021	$115,382,127	$181,682,127	($66,300,000)	$66,300,000
2022	$98,428,410	$183,928,410	($85,500,000)	$85,500,000
2023	$85,946,500	$190,646,500	($104,700,000)	$104,700,000

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2024	$80,936,250	$192,436,250	($111,500,000)	$111,500,000
2025	$80,000,000	$192,000,000	($112,000,000)	$112,000,000

Oversight assumes that for all taxable years beginning on or after January 1, 2012, this act changes the calculation of the cap on the Low-Income Housing Tax Credit. This tax credit has an annual cap of $16 million. In FY 2010, $155,703,625 in tax credits were issued and $142,141,458 were redeemed. Oversight will show the increased revenue to the state starting in FY 13.

Oversight assumes this proposal prohibits the stacking of historic preservation tax credits with low-income housing tax credits. Therefore, Oversight assumes the proposed changes could result in a reduced amount of tax credits being issued in future fiscal years, FY 2012 - FY 2016. Oversight will show a projected increase in net revenues as being Unknown.

Officials at the **Department of Revenue** assume that there is no fiscal impact from this proposal.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE			
Revenue - Low-Income Housing change in cap	$0	Unknown	Unknown
Revenue - Prohibition of Stacking of Credits	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	**Unknown**	**Unknown**	**Unknown**

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses could be affected as a result of this proposal.

FISCAL DESCRIPTION

Under current law, low-income housing tax credits are allowed over a ten-year period. Beginning January 1, 2012, this act reduces the period of time in which low-income housing tax credits are allowed to a five-year period and limits the total amount of low-income tax credits issued annually to no more than sixteen million dollars. After January 1, 2012, priority will be given, in the issuance of low-income housing tax credits, to taxpayers that have not received such credits within five years. The issuance of four percent low-income housing tax credits will be prohibited after January 1, 2012. The act also prohibits stacking low-income housing tax credits with historic preservation tax credits.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Budget and Planning
Department of Economic Development
Department of Revenue

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