

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4241-03
Bill No.: SB 591
Subject: Tax Credits, Housing
Type: Original
Date: January 19, 2018

Bill Summary: This proposal implements a cap on the Low-Income Housing tax credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented
General Revenue	\$0	\$0	\$15,300,000	\$114,022,000
Total Estimated Net Effect on General Revenue	\$0	\$0	\$15,300,000	\$114,022,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented
Total Estimated Net Effect on FTE	0	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal places a \$50 million annual cap on authorizations of the Low-Income Housing Tax Credit. The three-year average authorizations were \$163,370,663 and redemptions were \$158,660,862 for the Low-Income Housing Tax Credit.

This proposal will impact the calculation under Article X, Section 18(e). Applying a cap to authorizations will generate incremental savings over several years until the fully realized savings is reached. Based on historical authorization and redemption data, B&P estimates this proposal could increase Total State Revenue and General Revenue by approximately \$52,273 in FY 2019 and up to \$113,370,663 once fully realized. B&P notes this tax credit has a carry forward provision of up to 5 years, a carry back provision of up to 3 years, and substantial outstanding amounts. This may push the fully implemented savings significantly into the future.

Officials at the **Missouri Housing Development Commission (MHDC)** assume this reduces the amount of Missouri Low-Income Housing Tax Credits (MOLIHTCs) available for authorizations per fiscal year. Currently, MHDC has \$203 million per fiscal year available for MOLIHTC authorizations. This proposal reduces that amount to no more than \$50 million per fiscal year for authorizations, beginning in FY 2019.

This proposal allows recaptured MOLIHTCs to be reallocated for authorizations in addition to the \$6 million annually; currently recaptured MOLIHTCs are not available to MHDC for reallocation. DOR will have to work with MHDC to set up a system for that recapture/reallocate mechanism which could require funds to cover necessary administrative changes.

The data below reflects the difference between the current amount of MOLIHTC available for authorizations and the reduction proposed in this proposal. MHDC assumes that the annual amount of MOLIHTC available for authorizations is \$5 million / \$50 million total for the ten year stream under this proposal.

MHDC uses the FY 2017 MOLIHTC allocation as a base for all projections, and factors in the total ten year amount of MOLIHTC credits available.

4% MOLIHTC: \$6 million per year / \$60 million total ten years
9% MOLIHTC: \$14.3 million per year / \$143 million total ten years
TOTAL: 60,000,000 + 143,000,000 = \$203,000,000

ASSUMPTION (continued)

FY	LIHTC Available	10 YR TOTAL LIHTC	DIFFERENCE
2018	20,300,000	203,000,000	
2019	5,000,000	50,000,000	153,000,000 (\$15,300,000 annually)

Assuming MHDC’s Board of Commissioners approves new LIHTC developments in December, 2018, the impact to General Revenue likely will not be realized until December 2020 (FY 2021). Typically, there is a 24 month period between authorization and issuance of MOLIHTCs, allowing time for construction to be completed. If the current FY 2018 Qualified Allocation Plan (QAP) is approved by MHDC’s Board of Commissioners, no MOLIHTC will be available for new Authorizations.

Oversight notes that on December 19, 2017, the MHDC approved a Qualified Allocation Plan that does not allow for the MOLIHTC credits to be issued. This Qualified Allocation Plan is effective for FY 2018 and continues until such time as another Qualified Allocation Plan is adopted. Oversight notes the Qualified Allocation Plan may govern the actions of the MHDC but does not impact statute. For fiscal note purposes, Oversight will show the impact of this proposal as it impacts the statutes.

Oversight notes that this portion of the proposal would limit the amount of authorized credits from its current match of the federal amount to \$50 million annually beginning July 1, 2018 (FY 2019). Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development and the Missouri Housing Development Commission regarding this program, the Missouri Low-Income Housing tax credit program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Certificates Issued	265	105	325	250	250
Projects	30	24	36	35	35
Amount Authorized	\$156,736,570	\$167,123,390	\$166,252,030	\$165,000,000	\$165,000,000
Amount Issued	\$124,988,930	\$101,939,700	\$188,597,820	\$140,000,000	\$140,000,000
Amount Redeemed	\$140,292,351	\$170,028,538	\$165,661,698	\$160,000,000	\$160,000,000

Amount Outstanding - \$847,521,576 Amount Authorized but Unissued - \$432,085,470

Oversight notes a portion of the proposal (\$135.352.7) would reduce the authorization of the credits to no more than \$50 million annual cap beginning on July 1, 2018 (FY 2019). Oversight assumes a reduction in the authorization cap would take place immediately; however, due to the

ASSUMPTION (continued)

lag time between the authorization, issuance and redemptions of the credits, that reduction may not be felt for several years. This credit requires that prospective taxpayers apply for the tax credit prior to construction at which time they are authorized tax credits. Prospective taxpayers would apply for the authorization of the new reduced cap credits starting after July 1, 2018 (FY 2019). The projects generally have a two year build cycle before completion and issuance of the credits. Therefore, projects approved after July 1, 2018 would not generally result in tax credits issued until after the end of FY 2020, and would not be able to be redeemed until FY 2021. Oversight will reflect the amount of increased revenue to the State as difference between the new cap of \$50 million and the average amount authorized over the last five years of \$164,022,398. Oversight will show for FY 2021 the savings indicated by MHDC of \$15,300,000 and the full savings of \$114,022,000 (\$164,022,398 - \$50,000,000) in future years.

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

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented
GENERAL REVENUE				
<u>Savings</u> - reduction in the Low-Income Housing Tax Credit cap §135.352	<u>\$0</u>	<u>\$0</u>	<u>\$15,300,000</u>	<u>\$114,022,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$0</u>	<u>\$15,300,000</u>	<u>\$114,022,000</u>
<u>FISCAL IMPACT -</u> <u>Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION


This act implements a cap of \$50 million on the amount of tax credits that may be authorized in a given fiscal year under the Missouri Low-Income Housing Tax Credit program.

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

Department of Revenue
Missouri Housing Development Commission
Office of Administration
Division of Budget and Planning

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Acting Director
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