COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6214-01
Bill No.: SB 922
Subject: Historic Preservation; Housing; Tax Credits
Type: Original
Date: April 7, 2014

Bill Summary: This proposal modifies the caps on Low-Income Housing and Historic Preservation tax credits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	$3,905,345	$3,905,345	Unknown greater than $12,605,345
Total Estimated Net Effect on General Revenue Fund	**$3,905,345**	**$3,905,345**	**Unknown greater than $12,605,345**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the increase in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

§§135.350 - 135.352 Low Income Housing Tax Credit
This part of the proposal caps the 9% low income housing tax credit at $100 million per year and the 4% low income housing tax credit at $10 million per year, beginning July 1, 2014 (FY 2015).

Officials at the **Office of Administration's Division of Budget and Planning** (**BAP**) assume this proposal would not fiscally impact BAP. During FY's 2012 - 2013, Low Income Housing Tax Credit (LIHTC) authorizations averaged $171.4 million. Based on this average, and because of the long period over which authorized credits are redeemed, BAP estimates General and Total State Revenues may increase. The proposal also prohibits the stacking of LIHTC with Historic Preservation tax credits. This may produce additional savings. The Missouri Housing Development Commission may have additional information on the future federal allocations for LIHTC.

Officials at the **Missouri Housing Development Commission** (**MHDC**) assume most of the impact estimated from this part of the proposal will be experienced outside of the fiscal note period in question. MHDC assumes a two year lag time between initial authorizations and issuances. The MOLIHTC is a ten year credit; the full impact associated with the reduced authorizations laid out in this proposal will subsequently be phased in. The chart below compares the current MOLIHTC caps with those in this proposal and illustrates the fiscal impact associated with the differences.

FY	9% MOLIHTC	4% MOLIHTC	Difference in Proposed Authorization Caps	Difference in Proposed Authorization Caps - Annually
2014	$137,000,000	$60,000,000		
2015	$100,000,000	$10,000,000	$87,000,000	$8,7000,000

MHDC used the FY 2014 federal allocation for the LIHTC as a basis for projections; $13.7 million. Missouri statute allows for a state credit available "up to an amount equal to the federal low income housing tax credit;" for the purposes of this estimate, that amount is $13.7 million per year; $137 million factoring in the total 10 year stream. For the 4% LIHTC, MHDC used the $6 million annual cap laid out in §135.352 RSMo as a basis for projection; $60 million factoring in the total 10 year stream.

ASSUMPTION (continued)

There is no fiscal impact associated with LIHTCs until they are redeemed. However, because the LIHTC has carry back and carry forward provisions, it is impossible to predict with certainty the timing of future redemptions. The full impact associated with the reductions proposed will take several years to be fully realized.

Oversight notes according to the Tax Credit Analysis submitted by the Missouri Housing Development Commission regarding this program, the Low Income Housing tax credit program had the following activity;

	FY 2011	FY 2012	FY 2013
Certificates Issued (#)	212	457	487
Projects (#)	26	42	27
Amount Authorized	$102,960,000	$171,894,310	$170,875,210
Amount Issued	$156,016,305	$164,956,766	$164,520,021
Amount Redeemed	$143,055,387	$164,208,547	$144,082,976

Oversight notes this part of the proposal would reduce the authorization and issuance of Missouri Low Income Housing Tax Credits beginning on July 1, 2014 (FY 2015). Oversight assumes a reduction in the authorization cap would take place immediately; however, due to the lag time between the authorization, issuance and redemptions of the credits that reduction will 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 in FY 2015. The projects generally have a two year build cycle before completion and issuance of the credits. Therefore, projects approved after June 30, 2013 would not generally result in tax credits issued until after the end of FY 2016, and would not be able to be redeemed until FY 2017. MHDC estimated the impact based on a reduction of the authorization of the tax credits. Oversight will reflect the fiscal impact as zero in FY 2015 and FY 2016 and will show the increased revenue to the state starting in FY 2017.

§§253.550, 253.557 and 253.559 Historic Preservation Tax Credit
This part of the proposal lowers the current annual cap on the Historic Preservation tax credit from $140 million to $80 million for all projects that exceed $275,000 in tax credits. In addition, the proposal places a $10 million cap on projects receiving less than $275,000 in tax credits.

Officials at **BAP** assume that during the FY 2012-2013 authorizations averaged $96.3 annually. Based on this average, and because of the long period over which authorized credits are redeemed, BAP estimates General and Total State Revenues may increase.

ASSUMPTION (continued)

Officials at the **Department of Economic Development** (**DED**) assume the total cap for the Historic tax credit is $90 million per this proposal.

Table 1	**FY 11**	**FY 12**	**FY 13**
Amount authorized subjected to cap	$73,811,203.00	$92,175,165.04	$86,461,706.02
Amount authorized not subjected to cap	$8,578,291.71	$6,416,180.87	$7,461,945.88
Total	**$82,389,494.71**	**$98,591,345.91**	**$93,923,651.90**

Table 2	**FY 11**	**FY 12**	**FY 13**	**Total**
Amount authorized subjected to cap for HTC & LIHTC 9%	$7,460,581.00	$76,184.02	$4,179,269.50	$11,716,034.52

The first table shows the amount of Historic credit authorized from FY 2011 - 2013. It is categorized into:

1. Amount authorized as part of the cap ($140 million)
2. Amount authorized which is not part of the cap (less than $275,000)

The second table shows the total authorized amount for each Fiscal Year for Historic projects that have also been authorized for Low income housing 9%. Please note that all of them are part of the big projects subjected to the current $140 million cap.

The 3 year total authorized amount (Historic & Low income housing 9%) - $11,716,034.52. The 3 year average would be $11,716,034.52 / 3 = $3,905,344.84.

The 3 year average amount of ALL authorizations is $91,634,830. DED assumes the proposed caps would not result in any additional savings because of the current usage. This is because an applicant can start incurring expenses before the DED receives a preliminary application (not the point we approve the application). Therefore, the caps would only limit the fiscal impact to the state if it takes longer for a project to be completed than for that project to receive preliminary approval. The $80 million and $10 million caps will not cause sufficient delays in the approval of projects to result in additional savings to the state. However, DED assumes the prohibition against stacking low income housing credits and historic credits would result in an estimated savings of $11,716,034 over a period of three years (or $3.9 million annually).

Officials at the **Department of Natural Resources** (**DNR**) assume the State Historic Preservation Office is responsible for reviewing and approving rehabilitation work for the state historic preservation tax credit program. Any changes in the tax credit structure may have an impact on the number or rehabilitation projects the State Historic Preservation Office reviews

ASSUMPTION (continued)

and approves. Additionally, with reduced number of projects, the fee assessed per tax credit that in part funds the State Historic Preservation Office staff salaries and expenses will also be reduced (Economic Development Advancement Fund 0783).

The department would not anticipate a significant direct fiscal impact as a result of the changes made to the structure of the State Historic Preservation Tax Credit. However, we cannot predict the number of projects that will be applied for given the reduced cap amounts. Therefore, we cannot predict the reduction in fees and associated appropriation authority changes to the Department of Natural Resources, Missouri State Parks, State Historic Preservation Office from the Economic Development Advancement Fund (0783). Current appropriation authority from the fund is $110,155.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Historic Preservation tax credit program had the following activity;

	FY 2011	FY 2012	FY 2013
Certificates Issued (#)	161	178	142
Projects (#)	161	178	118
Amount Authorized	$82,839,495	$98,591,346	$93,923,652
Amount Issued	$116,244,410	$105,272,651	$71,495,994
Amount Redeemed	$107,767,393	$133,937,747	$78,814,711

Oversight assumes this part of the proposal reduces the cap on this credit starting on July 1, 2014 (FY 2015). The five year issue average of this credit is $104,031,444. This credit requires that prospective taxpayers apply for the tax credit prior to construction at which time they are authorized tax credits. The credits are not issued until completion of the project usually two years after authorization. Therefore, projects approved after June 30, 2013 would not generally result in tax credits issued until after the end of FY 2016, and would not be able to be redeemed until FY 2017. Oversight will reflect the fiscal impact as zero in FY 2015 and FY 2016 and will show the increased revenue to the state as Unknown starting in FY 2017.

Oversight assumes this proposal prohibits the stacking of historic preservation tax credits with low-income housing tax credits. Oversight assumes this change could result in a reduced amount of tax credits being issued in future fiscal years. Oversight will reflect a projected increase in net revenues as the estimate provided by the Department of Economic Development.

ASSUMPTION (continued)

Bill as a Whole
Officials at the **Department of Revenue** and the **Joint Committee on Administrative Rules** each assume there is no fiscal impact to their respective agencies from this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state this legislation may have an unknown increase to premium tax revenue due to the possible reduction of tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

FISCAL IMPACT - State Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
Additional Revenue - prohibition of stacking tax credits	$3,905,345	$3,905,345	$3,905,345
Additional Revenue - lower cap on low income housing tax credit §135.352	$0	$0	Unknown greater than $8,700,000
Additional Revenue - lower cap on historic preservation tax credit §253.550	$0	$0	Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$3,905,345**	**$3,905,345**	**Unknown greater than $12,605,345**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the increase in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that receive the tax credits could be impacted.

FISCAL DESCRIPTION

This act modifies provisions relating to tax credits.

Low-income Housing Tax Credits (§§135.350 & 135.352) - This act modifies provisions relating to low-income housing tax credits. A one hundred million dollar fiscal year cap for authorizations of 9% low-income housing tax credits is established, beginning FY 2015. Authorizations of 4% low-income housing tax credits are capped at ten million dollars each fiscal beginning FY 2015. The stacking of state 9% low-income housing tax credits with state historic preservation tax credits for the same project is prohibited.

Historic Preservation (§§253.550, 253.557 & 253.559) - This act modifies provisions of law relating to historic preservation tax credits. Under current law, the Department of Economic Development is prohibited from issuing more than one hundred forty million dollars in historic preservation tax credits in any fiscal year for projects which will receive more than two hundred and seventy-five thousand dollars in tax credits. Beginning fiscal year 2015, and each fiscal year thereafter, this act would prohibit the Department of Economic Development from approving a total amount of more than eighty million dollars in historic preservation tax credits for projects receiving at least $275,000 in tax credits. Projects which would receive less than $275,000 in tax credits will be subject to a ten million dollar fiscal year cap.

Applicants for projects that, as of the effective date of the act, have received approval from the Department of Economic Development, incurred certain levels of expenses, or received certification from the state historical preservation officer will not be subject to the new limitations on tax credit issuance, but will be subject to the current law limitations on tax credit issuance.

The stacking of state historic preservation tax credits with state 9% low-income housing tax credits is prohibited.

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

JH:LR:OD

SOURCES OF INFORMATION

Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Department of Revenue
Missouri Housing Development Commission
Joint Committee on Administrative Rules
Office of Administration
  Division of Budget and Planning
Office of the Secretary of State

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