

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4241-04
Bill No.: SCS for SB 591
Subject: Tax Credits, Housing
Type: Original
Date: February 13, 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 | \$10,300,000 | \$64,000,000 |
| Total Estimated Net Effect on General Revenue | \$0 | \$0 | \$10,300,000 | \$64,000,000 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | | |
|---|------------|------------|------------|-------------------|
| FUND AFFECTED | FY 2019 | FY 2020 | FY 2021 | Fully Implemented |
| | | | | |
| | | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$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 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 \$100 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.

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 \$29,000 in FY 2019 and up to \$63,371,000 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.

This proposal will impact the calculation under Article X, Section 18(e).

Officials at the **Department of Revenue (DOR)** assume this proposed legislation places a \$100 million annual cap on authorizations of the Low-Income Housing Tax Credit. The three year average of Low-Income Housing Tax Credits were approximately \$163,370,663 and redemptions were approximately \$158,660,862. Applying a reduced cap to authorizations will generate incremental savings over several years until fully implemented. The Department believes that there is currently \$203 million available for authorizations for the ten year stream. Based on this legislation, the authorization cap would be reduced to \$100 million. Subsequently, the Department believes that this proposed legislation could potentially increase state revenues by \$10.0 million in FY 2021 and \$64 million when fully implemented.

The Department recognizes the delay in fiscal impact due to the carryback and carryforward provisions the Low-Income Housing Tax Credits have. Due to these provisions, savings could be pushed into the future.

| Fiscal Year | Impact |
|--------------------|---------------|
| FY19 | \$0.00 |
| FY20 | \$0.00 |
| FY21 | \$10,300,000 |
| Fully implemented | \$64,000,000 |

ASSUMPTION (continued)

Additionally, the proposed legislation allows for recaptured Low-Income Housing Tax Credits to be reallocated for authorizations in addition to the amount already authorized. Currently, recaptured Low-Income Tax Credits are not available for reallocation. The Department believes that DOR and Missouri Housing Development Commission will need to collaborate together to create a system for the recapture and reallocation mechanism which could require funds to cover the necessary administrative changes.

In response to a previous version of this proposal, officials at the **Missouri Housing Development Commission (MHDC)** assumed 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

| <u>FY</u> | <u>LIHTC Available</u> | <u>10 YR TOTAL LIHTC</u> | <u>DIFFERENCE</u> |
|-----------|------------------------|--------------------------|-------------------------|
| 2018 | 20,300,000 | 203,000,000 | 153,000,000 |
| 2019 | 5,000,000 | 50,000,000 | (\$15,300,000 annually) |

ASSUMPTION (continued)

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 MHDC responded when the cap was set at \$50 million. This version of the proposal raises the cap to \$100 million.

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 \$100 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 \$100 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 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

ASSUMPTION (continued)

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 \$100 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 DOR of \$10,300,000 and the full savings of \$64,022,398 (\$164,022,398 - \$100,000,000) in future years (rounded to \$64 million).

| <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>\$10,300,000</u> | <u>\$64,000,000</u> |
|---|------------|------------|---------------------|---------------------|

| | | | | |
|--|-------------------|-------------------|----------------------------|----------------------------|
| ESTIMATED NET EFFECT ON GENERAL REVENUE | <u>\$0</u> | <u>\$0</u> | <u>\$10,300,000</u> | <u>\$64,000,000</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 \$100 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

Ross Strope



Acting Director
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