COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4144-02
Bill No.: SB 549
Subject: Tax Credits; Housing
Type: Original
Date: February 7, 2020

Bill Summary: This proposal modifies provisions relating to the Low-Income Housing Tax Credit.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2032)
General Revenue Fund*	$0	$0	$0, or Up to ($16,300,000), or Up to $5,369,677	$0, or Up to ($166,370,654), or Up to $48,637,856
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0, or Up to ($16,300,000), or Up to $5,369,677**	**$0, or Up to ($166,370,654), or Up to $48,637,856**

*"$0" represents LIHTC(s) issuances continue to be prohibited, regardless of passage of this proposed legislation, therefore, the changes in SB 549 have no fiscal impact.

*"Up to ($16,300,000)" and "Up to ($166,370,654)" represent the baseline of passage of SB 549 triggers the LIHTC program to start issuing credits again (currently prohibited). This represents the maximum amounts of tax credits that could be issued in those fiscal years.

*"Up to $5,369,677" and "Up to $48,637,856" represent the net change between current statute amounts and changes made with SB 549. If the program were to become active again, fewer LIHTCs would be issued under this bill than under current statutes, reflected as a savings in the fiscal note. This represents the difference.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 24 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2032)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2032)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2032)
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 2021	FY 2022	FY 2023	Fully Implemented (FY 2032)
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Program Basic Information and History

Oversight notes, according to the Tax Credit Analysis submitted by the Missouri Department of Economic Development and the Missouri Housing Development Commission (MHDC) regarding this program, the Missouri Low-Income Housing Tax Credit Program (combined 9% + 4%) had the following activity:

LIHTC Activity	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Five Year Average
Certificates Issued	265	105	325	285	185	233
Projects	30	24	36	36	28	31
Amount Authorized	$156,736,570	$167,123,390	$166,252,030	$0	$0	$98,022,398
Amount Issued	$124,988,930	$101,939,700	$188,597,820	$169,066,380	$129,866,500	$142,891,866
Amount Redeemed	$140,292,351	$170,028,538	$165,661,698	$169,138,875	$153,023,838	$159,629,060
Amount Outstanding		$834,633,180	Amount Authorized but Unissued			$142,825,230
Amount Authorized - Three Year Average (Fiscal Year 2015 - 2017)					$163,370,663	

MHDC separated for the 9% Low Income Housing Tax Credit and the 4% Low Income Housing Tax Credit authorizations and issuances, as shown below:

Low-Income Housing Tax Credit | Authorized and Issued 2010-2019						
	Authorized			Issued[1]		
Year	4%	9%	**Total**	4%	9%	**Total**
2010	$ 26,428,200	$ 122,640,000	**$ 149,068,200**	$ 55,240,530	$ 95,513,000	**$ 150,753,530**
2011	$ 22,550,000	$ 80,410,000	**$ 102,960,000**	$ 1,694,140	$ 92,765,800	**$ 94,459,940**
2012	$ 41,069,310	$ 130,825,000	**$ 171,894,310**	$ 55,196,960	$ 134,337,130	**$ 189,534,090**
2013	$ 36,035,210	$ 134,840,000	**$ 170,875,210**	$ 16,975,000	$ 95,478,380	**$ 112,453,380**
2014	$ 20,134,280	$ 137,285,000	**$ 157,419,280**	$ 15,796,050	$ 122,850,000	**$ 138,646,050**
2015	$ 12,371,570	$ 144,365,000	**$ 156,736,570**	$ 14,286,660	$ 110,702,270	**$ 124,988,930**
2016	$ 22,603,390	$ 144,520,000	**$ 167,123,390**	$ 25,164,700	$ 76,775,000	**$ 101,939,700**
2017	$ 18,342,030	$ 147,960,000	**$ 166,302,030**	$ 20,497,820	$ 168,100,000	**$ 188,597,820**
2018	$ -	$ -	**$ -**	$ 32,465,380	$ 136,601,000	**$ 169,066,380**
2019	$ -		**$ -**	$ 10,866,500	$ 119,000,000	**$ 129,866,500**

ASSUMPTION (continued)

Oversight notes the Missouri Low Income Housing Tax Credit (LIHTC) is a ten-year state credit to qualifying owners and investors in affordable rental housing. The LIHTC generates equity investments from the private sector for the development of new or rehabilitated rental housing in order to lower the tenant's rent payments to affordable levels for families that meet specific income requirements. A qualified development is one that rents at least twenty percent (20%) of its units to families earning fifty percent (50%) of the area median income, or at least forty percent (40%) of its units to families earning sixty percent (60%) of median area income, adjusted for family size, or forty percent (40%) of its units to families earning between a range of twenty percent to eighty percent (20% - 80%) of the area median income; so long as the average unit designation averages no higher than sixty percent (60%) of the area median income. The development must: meet a demonstrated need for affordable rental housing for qualified low-income Missourians.

The amount of the LIHTC allocated to a given housing development is directly related to the percentage of low income housing units made available to families meeting specific income requirements and the acquisition, construction or rehabilitation expenditures to create the development, less land and non-depreciable costs. The State of Missouri administers two types of LIHTC(s). The nine percent (9%) LIHTC and the four percent (4%) LIHTC. Developments compete annually for the 9% LIHTC(s), which allows a tax credit equal to 9% of the total eligible development costs. Developments awarded an allocation of tax-exempt bond-financing from Missouri Department of Economic Development may apply to receive the 4% LIHTC(s), which allows a tax credit equal to 4 % of the total eligible development costs.

Currently, the 9% LIHTC is capped at 100% of the Federal Low Income Housing Tax Credit and no more than six million dollars in tax credits shall be authorized each fiscal year for projects financed through tax exempt bond issuances.

The LIHTC is taken against the taxes and in the order specified in Section 32.115.

1) The annual tax on gross premium receipts of insurance companies in chapter 148;
(2) The tax on banks determined pursuant to subdivision (2) of subsection 2 of section 148.030;
(3) The tax on banks determined in subdivision (1) of subsection 2 of section 148.030;
(4) The tax on other financial institutions in chapter 148;
(5) The corporation franchise tax in chapter 147;
(6) The state income tax in chapter 143; and
(7) The annual tax on gross receipts of express companies in chapter 153.

ASSUMPTION (continued)

Any amount of the LIHTC that may exceed the tax due may be carried back to be used on previous year's tax liabilities, limited at three years. In addition, the Missouri Low Income Housing Tax Credit may be carried forward to future tax liabilities, limited at five years.

MHDC authorizes a credit and reserves the authorization amount for projects prior to the building of the housing. Once the project is built, inspected and then filled with tenants, MHDC issues an eligibility statement that reserves the tax credit for the developer. There is often a two or three year lag after tax credits are authorized/projects are approved before the LIHTC(s) are issued. In addition, LIHTC(s) are often issued at a rate of 1/10th of the amount authorized for a period of ten years.

Oversight further notes the federal government determines the amount of the LIHTC cap by multiplying the state population by a multiplier, which is determined by the Internal Revenue Service (IRS).

Agency Impact Responses

Officials from the **Office of Administration - Budget & Planning Division (B&P)** assume this proposed legislation will impact Total State Revenues. B&P further assume this proposed legislation would impact the calculation under Article X, Section 18(e), Missouri Constitution.

B&P state this proposal places a limit on the authorizations of the low-income housing tax credit.

Tax credits not financed through tax-exempt bonds would be capped at the lesser of 72.5% of the amount of federal low-income housing tax credits allocated to the state, or $123 million. The MHDC estimates that the annualized 2020 Federal LIHTC available to Missouri is $17,230,646, or $172.3M over 10 years. Of this, 72.5% would be $12,492,218, or $124.9M over 10 years. In this case, the proposed $123M cap would apply. This would reduce annually available credits by $4,930,646 ($49.3M over 10 years). Based on historical authorizations and redemption patterns, a significant portion of these savings may not be realized until future years. B&P estimates this may increase General Revenue (GR) and Total State Revenues (TSR) $197,226 in the first year, $1,035,436 in the second year, and $3,550,066 in the third. These savings may also vary as the federal allocation fluctuates and the $123M cap is adjusted for inflation.

The limit for projects financed through tax-exempt bond issuances would be reduced by $2M, from $6M to $4M. Based on historical authorizations and redemption patterns, a significant portion of these savings may not be realized until future years. B&P estimates this may increase GR and TSR BY $80,000 in the first year, $420,000 in the second year, and $1,440,000 in the third year.

ASSUMPTION (continued)

This proposal allows MHDC to create a pilot program under which these tax credits are transferable. While this may not directly impact the total credits authorized, this may accelerate the redemption of credits in any given year.

Further, these changes may impact related economic activity. B&P cannot estimated the induced revenue impacts.

B&P notes that no LIHTC credits have been authorized in Fiscal Year 2018 or Fiscal Year 2019.

Oversight notes B&P assumes GR and TSR may increase by $277,226 in the first year, $1,455,436 in the second year and $4,990,066 in the third year as a result of this proposed legislation.

Officials from the **Missouri Housing Development Commission (MHDC)** assume, for purposes of estimating the impact on TSR, MHDC compared SB 549 to current statute. MHDC assumes the following for SB 549: (1) 10-year credit for both the 9% MOLIHTC and the 4% MOLIHTC; (2) State Authorization Limit on the 9% MOLIHTC equal to the lesser of 72.5% of the federal housing credit allocation or one hundred twenty-three million dollars ($123,000,000) with an annually adjusted increase in CPI; and (3) annual authorization cap on the 4% MOLIHTC equal to $4,000,000.

MHDC estimates the federal housing credit allocation/ceiling between 2021 and 2032 to be:

Year	Population	Population Change	Multiplier[1]	Housing Credit Ceiling 9%	Full Credit Stream
2021	6,159,364	16,456	$ 2.87	$17,669,677	$ 176,696,766
2022	6,175,821	16,456	$ 2.60	$16,057,134	$ 160,571,336
2023	6,192,277	16,456	$ 2.65	$16,409,534	$ 164,095,335
2024	6,208,733	16,456	$ 2.70	$16,763,579	$ 167,635,791
2025	6,225,189	16,456	$ 2.75	$17,119,270	$ 171,192,703
2026	6,241,645	16,456	$ 2.80	$17,476,607	$ 174,766,071
2027	6,258,102	16,456	$ 2.85	$17,835,590	$ 178,355,896
2028	6,274,558	16,456	$ 2.90	$18,196,218	$ 181,962,176
2029	6,291,014	16,456	$ 2.95	$18,558,491	$ 185,584,913
2030	6,307,470	16,456	$ 3.00	$18,922,411	$ 189,224,106
2031	6,323,926	16,456	$ 3.05	$19,287,976	$ 192,879,755
2032	6,340,383	16,456	$ 3.10	$19,655,186	$ 196,551,861

ASSUMPTION (continued)

Oversight notes this proposed legislation provides for two (2) cap options, in which the lesser shall be applicable to the authorizations of LIHTC(s). The proposed legislation allows for the cap to be the lesser of 72.5% of the federal housing credit allocation/ceiling or $123 million, adjusted annually according to the percent change of the Consumer Price Index for All Urban Consumers - Midwest Region.

MHDC estimates one potential cap equal to 72.5% of the federal housing credit allocation/ceiling to be:

Year	Full Credit Stream	72.5% of HCC	Annual State Credit (10 Years)
2021	$176,696,766	$128,105,156	$12,810,516
2022	$160,571,336	$116,414,218	$11,641,422
2023	$164,095,335	$118,969,118	$11,896,912
2024	$167,635,791	$121,535,948	$12,153,595
2025	$171,192,703	$124,114,710	$12,411,471
2026	$174,766,071	$126,705,402	$12,670,540
2027	$178,355,896	$129,308,024	$12,930,802
2028	$181,962,176	$131,922,578	$13,192,258
2029	$185,584,913	$134,549,062	$13,454,906
2030	$189,224,106	$137,187,477	$13,718,748
2031	$192,879,755	$139,837,823	$13,983,782
2032	$196,551,861	$142,500,099	$14,250,010

72.5% of estimated federal housing credit allocation/ceiling

MHDC estimates the potential cap equal to the base $123 million, adjusted according to the Consumer Price Index for All Urban Consumers - Midwest Region, to be:

ASSUMPTION (continued)

Year	$123M (adjust for inflation)	Annual State Credit (10 Years)
2021	$123,000,000	$12,300,000
2022	$125,004,900	$12,500,490
2023	$127,042,480	$12,704,248
2024	$129,113,272	$12,911,327
2025	$131,217,819	$13,121,782
2026	$133,356,669	$13,335,667
2027	$135,530,383	$13,553,038
2028	$137,739,528	$13,773,953
2029	$139,984,682	$13,998,468
2030	$142,266,433	$14,226,643
2031	$144,585,375	$14,458,538
2032	$146,942,117	$14,694,212

$123 million adjusted annually for inflation

Oversight notes MHDC has used an annual CPI increase equal to 1.63%

When comparing the two LIHTC(s) authorization cap options side by side, **MHDC** estimates year one will be limited to the $123 million, as 72.5% of the federal housing credit allocation/ceiling exceeds $123 million. Each year thereafter, though, MHDC estimates the LIHTC authorization cap will be limited to 72.5% of the federal housing credit allocation/ceiling, as the $123 million, increased annually by the Consumer Price Index for All Urban Consumers - Midwest Region, is estimated to exceed 72.5% of the federal housing credit allocation/ceiling.

72.5% of HCC	Annual State Credit (10 Years)	$123M (adjust for inflation)	Annual State Credit (10 Years)
$128,105,156	$12,810,516	$123,000,000	$12,300,000
$116,414,218	$11,641,422	$125,004,900	$12,500,490
$118,969,118	$11,896,912	$127,042,480	$12,704,248
$121,535,948	$12,153,595	$129,113,272	$12,911,327
$124,114,710	$12,411,471	$131,217,819	$13,121,782
$126,705,402	$12,670,540	$133,356,669	$13,335,667
$129,308,024	$12,930,802	$135,530,383	$13,553,038
$131,922,578	$13,192,258	$137,739,528	$13,773,953
$134,549,062	$13,454,906	$139,984,682	$13,998,468
$137,187,477	$13,718,748	$142,266,433	$14,226,643
$139,837,823	$13,983,782	$144,585,375	$14,458,538
$142,500,099	$14,250,010	$146,942,117	$14,694,212

ASSUMPTION (continued)

Lesser Amount		
Source	**Amount**	**Year**
$123 million Cap	$123,000,000	2021
72.5% Limit	$116,414,218	2022
72.5% Limit	$118,969,118	2023
72.5% Limit	$121,535,948	2024
72.5% Limit	$124,114,710	2025
72.5% Limit	$126,705,402	2026
72.5% Limit	$129,308,024	2027
72.5% Limit	$131,922,578	2028
72.5% Limit	$134,549,062	2029
72.5% Limit	$137,187,477	2030
72.5% Limit	$139,837,823	2031
72.5% Limit	$142,500,099	2032

MHDC estimates the first year impact to TSR is a savings of $7,369,677. The cumulative savings through Fiscal Year 2031 is $305,490,172.

Oversight notes MHDC assumes the impact to TSR is a savings of $7,369,677 and the **cumulative** savings through Fiscal Year 2031 is $305,490,172.

Officials from the **Missouri Department of Revenue (DOR)** state this proposed legislation adds a definition for: "Federal Housing Credit Allocation," and "State Authorization Limit" - which states that the amount must be the lesser of: seventy-two and one-half percent (72.5%) of the federal housing credit allocation or one hundred twenty-three million dollars ($123,000,000) adjusted for inflation.

DOR further states, for all fiscal years beginning on or after July 1, 2020, the aggregate amount of tax credits authorized in a fiscal year for projects not financed through tax-exempt bond issuance shall not exceed the state authorized limit.

DOR notes the 2020 federal housing credit allowance for Missouri is $17,230,646. This credit is a 10 year credit and, therefore, the full amount of the federal credit is $172,306,460. Per this proposal the Missouri tax credit at the 72.5% amount would be $124,922,184 (or $12,492,218 annually for 10 years). This would result in the $123,000,000 cap to be used to calculate the new state allocation amount.

ASSUMPTION (continued)

This could result in a yearly savings of $4,930,646 [($172,306,460 - $123,000,000)/10].
DOR notes, for all fiscal years beginning on or after July 1, 2020, no more than four million dollars annually in state tax credits shall be authorized each fiscal year to projects financed through tax-exempt bond issuance. Notwithstanding the provisions of subsection 3 of this section to the contrary, to the extent that less than four million dollars in state tax credits authorized to projects financed through tax-exempt bond issuance in any fiscal year, such remainder may be, for such fiscal year only, added to the annual amount authorized under subsection 3 of this section to projects that are not financed through tax-exempt bond issuance.

DOR notes the current cap is $6 million annually for those credits issued through tax-exempt bonds. Since this allows any amount not issued to be added to the amount issued under Section 135.350 this is not projected to result in any savings to the State.

Oversight notes DOR does not anticipate the reduction in the cap of LIHTC(s) financed through tax-exempt bond issuance from $6 million to $4 million to have a fiscal impact, as the tax credits that are not issued would be diverted or reallocated to LIHTC(s) that are not financed through tax-exempt bond issuances. Oversight notes, though, the fiscal impact could potentially be a savings of $2 million. Instead of a total of $6 million being authorized and later issued, only a total of $4 million would be available, regardless of whether such amount is authorized for LIHTC(s) financed through tax-exempt bond issuances or LIHTC(s) that are not financed through tax-exempt bond issuances.

DOR notes the Low-Income Housing Tax Credits have not been authorized the last two years as the Missouri House of Representatives has not approved the authorization amount. The Missouri Housing Development Commission (MHDC) who administers the program also has not adopted a Qualified Allocation Plan to allow for the authorization of the credits. As long as these credits are not allowed to be authorized, the changes in this proposal would not have a fiscal impact. Should the credits be allowed to be authorized then this proposal would be expected in the future to result in a savings to the state. The Missouri Housing Development Commission would be able to estimate how much may be redeemed annually.

Oversight notes DOR does not anticipate a fiscal impact provided the LIHTC(s) continued to go unauthorized upon decisions made by the Missouri House of Representatives and MHDC. However, DOR does anticipate a fiscal impact in future years provided authorizations of the LIHTC(s) start again and continue.

ASSUMPTION (continued)

DOR further states all or any portion of tax credits issued in accordance with the provisions of Sections 135.350 to 135.363 may be transferred, sold or assigned to parties who are eligible under the provisions of Subsection 1 of Section 135.352. For qualified Missouri projects, an owner or transferee desiring to make a transfer, sale, or assignment, as described in this subsection, shall submit to the Director of the Department of Revenue a statement that describes the amount of credit for which such transfer, sale or assignment of credit is eligible. The owner shall provide the Director of Revenue appropriate information so that the Low-Income Housing Tax Credit can be properly allocated.

The MHDC is allowed to create a pilot program for the transfer of the tax credits. DOR assumes this provision would not have an impact on the DOR.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** assume a potential unknown increase of premium tax revenues as a result of the change to the Low-Income Housing tax credit. 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 and which insurers will qualify for the tax credit impacted.

Oversight notes DCI anticipates an unknown impact to premium tax revenues as a result of this proposed legislation.

Officials from the **University of Missouri'**s **Economic & Policy Analysis Research Center (EPARC)** state this bill would "place an aggregate cap on the amount of state low-income housing tax credits that may be authorized in a fiscal year. Such cap shall be the lesser of 72.5% of the amount of federal low-income housing tax credits allocated to the state or $123 million, adjusted annually for inflation." "The Missouri Low Income Housing Tax Credit is a ten-year state credit to qualifying owners and investors in affordable rental housing."

First, EPARC calculated a 10-year credit on 72.5% of the amount of federal low-income housing tax credit. This showed a nearly identical figure of the $123 million per fiscal year. Moving forward, EPARC will use annualized figures from the federal allocation to serve as the basis of EPARC'S calculated cap below.

The last three-year average of federal tax credits allocated to Missouri equals $15,172,850. EPARC will add $6 million in credits for projects financed through tax-exempt bond issuance to arrive at a $21,172,850 annualized tax credit authorization, a total of $211,728,500 in a ten-year cycle. These amounts will serve as EPARC'S baseline.

ASSUMPTION (continued)

If the Missouri credit is capped at 72.5% of the federal credit, EPARC estimated the three-year average of federal tax credits allocated to Missouri reduced to $11,000,316. Adding $4 million in credits for projects financed through tax-exempt bond issuance, EPARC arrived at $15,000,316 for our annualized tax credit authorization cap, a total of $150,003,160 in a ten-year cycle. However, EPARC will assume the annualized cap will not be enforced on previous years' authorizations and simply substitute 10% annually.

EPARC observed the redemption rate between Fiscal Year 2012 and Fiscal Year 2019 at approximately 85 percent of the amount of credits authorized through this program. Using this figure, EPARC will assume that 85% of all authorizations will be redeemed within the 10-year credit period. Therefore, the impact estimate for Fiscal Year 2022 will sum nine-tenths of the baseline authorization and one-tenth of the proposed cap and then multiply this figure by 85% to arrive at $5.2 million fewer credits redeemed ($21,172,850 minus $15,000,316 equals $6,172,534 fewer authorizations; $6,172,534 fewer authorizations times 85% equals an estimated $5.2 million in less redemptions). This $5.2 million in fewer redemptions will mean an increase in Net General Revenue of $5.2 million. The following table shows the fiscal year and the amount of fewer redemptions/increase in Net General Revenue.

Fiscal Year	Increase in Net General Revenue
Fiscal Year 2022	$5.2 million
Fiscal Year 2023	$10.5 million
Fiscal Year 2024	$15.7 million
Fiscal Year 2025	$21.0 million
Fiscal Year 2026	$26.2 million
Fiscal Year 2027	$31.5 million
Fiscal Year 2028	$36.7 million
Fiscal Year 2029	$42.0 million
Fiscal Year 2030	$47.2 million
Fiscal Year 2031	$52.5 million

When fully implemented, after ten years, EPARC estimates the full increase in Net General Revenue at $52.5 million annually.

Oversight notes EPARC estimates a reduction to GR equal to $5.2 million beginning Fiscal Year 2022 and $52.5 million when fully implemented in Fiscal Year 2031.

ASSUMPTION (continued)

Oversight notes this proposed legislation would reduce, for all fiscal years beginning on or after July 1, 2020 (Fiscal Year 2021), the aggregate amount of Missouri LIHTC(s) (not financed through tax-exempt bond issuance) that may be authorized each year from an amount equal to the federal low-income housing tax credit allocation/ceiling to the "State Authorization Limit" which is defined as "an amount not to exceed the lessor of: seventy-two and on-half percent (72.5%) of the federal housing credit allocation or one hundred twenty-three million dollars ($123,000,000) adjusted annually by the percentage increase in the Consumer Price Index for All Urban Consumers Midwest Region."

Therefore, Oversight notes this proposed legislation provides for a "two cap" option on LIHTC(s), in which the lesser shall prevail. Oversight notes the cap can change each year as the federal housing tax credit allocation/ceiling fluctuates from year to year and the base cap of $123,000,000 may change annually by the percent change in the Consumer Price Index for All Urban Consumers - Midwest Region.

Oversight further notes the "State Authorization Limit" shall not include LIHTC(s) authorized for projects financed through tax-exempt bond issuances. Though, this proposed legislation further reduces, for all fiscal years beginning on or after July 1, 2020, the aggregate amount of Missouri LIHTC(s) that may be authorized for projects financed through tax-exempt bond issuances each year from $6 million to $4 million. If less than $4 million is authorized for projects financed through tax-exempt bond issuances, the amount not authorized shall be added to the aggregate amount to be authorized for LIHTC(s) not financed through tax-exempt bond issuances.

As mentioned, Oversight assumes the authorizations of LIHTC(s) would be limited to one of two cap options; the lesser of 72.5% of the federal housing credit allocation/ceiling or $123 million increased annually by the Consumer Price Index for All Urban Consumers - Midwest Region.

Oversight notes the federal housing credit allocation/ceiling for 2021 to 2032, as estimated by MHDC, is:

ASSUMPTION (continued)

Year	Federal LIHTC Annual Ceiling (as estimated by MHDC)	Estimated Federal Housing Credit Ceiling (10 years) (as estimated by MHDC)
2021	$17,669,677	$176,696,770
2022	$16,057,134	$160,571,340
2023	$16,409,534	$164,095,340
2024	$16,763,579	$167,635,790
2025	$17,119,270	$171,192,700
2026	$17,476,607	$174,766,070
2027	$17,835,590	$178,355,900
2028	$18,196,218	$181,962,180
2029	$18,558,491	$185,584,910
2030	$18,922,411	$189,224,110
2031	$19,287,976	$192,879,760
2032	$19,655,186	$196,551,860

Therefore, Oversight estimates 72.5% of the estimated federal housing credit ceiling (annually and 10 year) would be:

Year	72.5% of Estimated Federal Housing Credit (Annual)	72.5% of Estimated Federal Housing Credit Ceiling (10 years)
2021	$12,810,516	$128,105,158
2022	$11,641,422	$116,414,222
2023	$11,896,912	$118,969,122
2024	$12,153,595	$121,535,948
2025	$12,411,471	$124,114,708
2026	$12,670,540	$126,705,401
2027	$12,930,803	$129,308,028
2028	$13,192,258	$131,922,581
2029	$13,454,906	$134,549,060
2030	$13,718,748	$137,187,480
2031	$13,983,783	$139,837,826
2032	$14,250,010	$142,500,099

ASSUMPTION (continued)

Oversight assumes the average increase in the Consumer Price Index for All Urban Consumers Midwest Region to be approximately 1.69% (three year). Oversight reviewed the Consumer Price Index for All Urban Consumers Midwest Region between 2009 and 2019 and calculated the yearly average CPI and then calculated the yearly average percent change. Oversight notes the average increase of 1.69% is the three year average (2017 - 2019); the ten year average (2010 - 2019) is 1.54% and the five year average (2015 - 2019) is 1.08%. For purposes of this fiscal note, Oversight will use the three year average increase of 1.69%.

Year	CPI - Yearly Average	Yearly Average Percent Change
2009	204.065	
2010	208.046	1.95%
2011	214.743	3.22%
2012	219.100	2.03%
2013	222.170	1.40%
2014	225.425	1.47%
2015	224.210	-0.54%
2016	226.115	0.85%
2017	229.874	1.66%
2018	234.290	1.92%
2019	237.776	1.49%
	Three Year Average	1.69%

Thus, Oversight estimates the following increase to the base $123,000,000 cap each year when increased by 1.69%:

ASSUMPTION (continued)

Year	MO LIHTC Annual Amount - Increased by 1.69% annually - $12,300,000 Base	MO LIHTC 10 Year Amount - Increased by 1.69% annually - $123,000,000 base
2021	$12,300,000	$123,000,000
2022	$12,507,870	$125,078,700
2023	$12,719,253	$127,192,530
2024	$12,934,208	$129,342,084
2025	$13,152,797	$131,527,965
2026	$13,375,079	$133,750,788
2027	$13,601,118	$136,011,176
2028	$13,830,976	$138,309,765
2029	$14,064,720	$140,647,200
2030	$14,302,414	$143,024,137
2031	$14,544,125	$145,441,245
2032	$14,789,920	$147,899,202

When comparing the two cap options side by side, Oversight notes 72.5% of the estimated federal housing credit allocation/ceiling is estimated to continuously be less than the base $123 million increased by the annual change in CPI, with the exception of the first year.

ASSUMPTION (continued)

Year	72.5% of Estimated Federal Housing Credit (Annual)	72.5% of Estimated Federal Housing Credit Ceiling (10 years)	MO LIHTC Annual Amount (Increased by CPI)	MO LIHTC 10 Year Amount (Increased by CPI)
2021	$12,810,516	$128,105,158	$12,300,000	$123,000,000
2022	$11,641,422	$116,414,222	$12,507,870	$125,078,700
2023	$11,896,912	$118,969,122	$12,719,253	$127,192,530
2024	$12,153,595	$121,535,948	$12,934,208	$129,342,084
2025	$12,411,471	$124,114,708	$13,152,797	$131,527,965
2026	$12,670,540	$126,705,401	$13,375,079	$133,750,788
2027	$12,930,803	$129,308,028	$13,601,118	$136,011,176
2028	$13,192,258	$131,922,581	$13,830,976	$138,309,765
2029	$13,454,906	$134,549,060	$14,064,720	$140,647,200
2030	$13,718,748	$137,187,480	$14,302,414	$143,024,137
2031	$13,983,783	$139,837,826	$14,544,125	$145,441,245
2032	$14,250,010	$142,500,099	$14,789,920	$147,899,202

Oversight reviewed Form 14(s) from years past to acquire LIHTC(s) amounts previously authorized in conjunction with the estimated max amounts that could be authorized in the future (100% of the federal housing tax credit allocation/ceiling) and then compared such to what could be authorized under this proposed legislation to determine the fiscal difference.

Furthermore, Oversight notes authorizations of LIHTC(s) do not directly impact GR or TSR. Rather, such amounts become a debt to the state once the LIHTC(s) are issued. Oversight recognized, for the most recent years LIHTC(s) were being authorized (2008-2017), the average percent of LIHTC(s) authorized each year are issued at ninety-four percent (94%). For purposes of this fiscal note, Oversight will remain specific to LIHTC authorizations and not account for the percent of LIHTC authorized actually issued, with the exception of the assumption below.

Oversight assumes there is a lag in issuances once LIHTC(s) are authorized of approximately two years. Therefore, if LIHTC(s) were authorized in Fiscal Year 2021 the first year that GR and TSR may recognize savings would be Fiscal Year 2023 (two years after effective date of 2021). Oversight assumes GR and TSR could recognize a savings equal to $7,369,677 in Fiscal Year 2023 and a savings of $69,561,838 when fully implemented in Fiscal Year 2034.

ASSUMPTION (continued)

Oversight notes the estimated impact(s) above assume the LIHTC program, under current law, will restart in year one and continue each year thereafter authorizing the max amounts allowable under current law. Thus, the estimates above are calculating the difference between current law provided LIHTC(s) are authorized, at max, each year forward and the max amount of authorizations allowed under this proposed legislation. Oversight notes, per MHDC, MHDC has never fully authorized the LIHTC(s) financed throught tax exempt bond issuances. Therefore, while the estimates above take into consideration max authorizations of LIHTC(s) financed through bond issuances, Oversight assumes the reduction in the cap of LIHTC(s) financed through bond issuances from $6 million to $4 million will not have an impact on this proposed legislation.

Oversight further notes there was differences in MHDC's projection model and Oversight's projection model; such being the percent increase in the Consumer Price Index for All Urban Consumers Midwest Region used to calculate the increase to the base $123 million cap. The difference, though, becomes irrelevant because both MHDC and Oversight estimated the annual increase to the base $123 million by the percent change in CPI would exceed 72.5% of the federal housing credit allocation/ceiling prompting MHDC and Oversight to use the lesser in subsequent years.

ADDITIONAL OVERSIGHT ASSUMPTIONS

In the past when evaluating tax credits, Oversight has compared the creation of a new tax credit through proposed language to the current status of the tax credit (not existing). If the tax credit was existing and changes were proposed, Oversight compared the current status of the program to the changes that were made. However, Oversight notes that this is the first time a program has been evaluated that has had a possible "temporary" stoppage of the credit.

The assumptions used to evaluate the changes in this legislation could have alternative impacts depending on which assumptions are accepted. Oversight has chosen to present each of those alternative assumptions and impacts:

Assumption 1 -
Oversight notes that on December 19, 2017, the MHDC approved a Qualified Allocation Plan (QAP) that does not allow additional LIHTC projects to be authorized. This QAP was effective for Fiscal Year 2018 and continues until such time as another QAP is adopted. No LIHTC credits have been authorized for Fiscal Year 2018 or Fiscal Year 2019 because of this QAP. **Oversight also notes MHDC approved the 2020 QAP disallowing additional LIHTC projects to be authorized. Thus, to date, no further authorizations of LIHTC(s) are permitted.**

ASSUMPTION (continued)

Oversight notes that pursuant to Section 33.282 all tax credit estimates must be submitted to the Missouri House of Representatives Budget Committee and the Senate Appropriations committee. Those estimates must be approved annually or the tax credits can not be authorized.

Oversight assumes that should MHDC not approve another QAP allowing for the authorization of the LIHTC(s), **or** the Missouri House of Representatives continue to prohibit the authorization of the LIHTC(s) in all future years, then no future projects would be authorized **regardless** of changes to the LIHTC law(s). Provided this assumption is accepted, the fiscal impact of SB 549 would be**:**

With or Without SB 549	Impact - No Future Authorizations
2021	$0
2022	$0
2023	$0
2024	$0
2025	$0
2026	$0
2027	$0
2028	$0
2029	$0
2030	$0
2031	$0
2032	$0

Oversight assumes, however, if this assumption is accepted, the annual amount of LIHTC(s) issued would decrease by ten percent (10%) annually, lessening the debt to the State for this program by ten percent (10%) annually until all current authorized LIHTC(s) have been exhausted.

Assumption 2 and 3

Oversight notes that should MHDC adopt a new QAP and neither budget/appropriation committee prohibit the authorization of LIHTC(s), then the authorization of tax credits could begin starting July 1, 2021. Should the program be restarted without any changes made to the program, the amount authorized would equal the amounts reported below. Oversight modeled, for each year, the estimated federal housing credit allocation/ceiling and applied such to each subsequent year for a total of ten years, while adding the newest amount authorized each year and removing the oldest. This allowed Oversight to estimate what future authorizations would be provided authorizations are not prohibited and **no** changes are made to current law. This will serve as Oversight's baseline when estimating further assumptions:

ASSUMPTION (continued)

Baseline 2	
SB 549	Future Authorizations/No Proposal
2023	($116,704,756)
2024	($115,572,459)
2025	($114,894,472)
2026	($115,916,123)
2027	($117,361,736)
2028	($118,126,004)
2029	($119,331,391)
2030	($137,527,609)
2031	($156,086,100)
2032	($175,008,511)

Assumption 2 -

Oversight notes, if the LIHTC program does not restart, future authorizations would total **$0**. Therefore, Oversight modeled an estimate as if the LIHTC program was a completely new program created under this proposed legislation and calculated the estimated **max** amount of authorizations that would be allowed under this proposed legislation each year. Oversight assumes, if the LIHTC program restarts but would **not** have been restarted without the reforms in SB 549, then the Fiscal Year 2023 loss to GR and TSR will be **($16,300,000)** and the Fiscal Year 2034 loss to GR and TSR will be **($170,663,024).** Below is a table showing the impact per fiscal year provided this assumption is accepted:

Fiscal Year	Impact to GR/TSR
2023	$ (16,300,000)
2024	$ (31,941,422)
2025	$ (47,838,334)
2026	$ (63,991,929)
2027	$ (80,403,400)
2028	$ (97,073,940)
2029	$ (114,004,742)
2030	$ (131,197,000)
2031	$ (148,651,906)
2032	$ (166,370,654)

ASSUMPTION (continued)

Oversight further notes, as the impact above is the amount of tax credits that would be authorized as if this proposed legislation is a completely new program, in order to provide estimates for Assumption 3, Oversight was required to take into consideration the amount of LIHTC(s) previously authorized which are still being issued at 10% annually. Therefore, Oversight further estimates if the LIHTC program restarts but would **not** have been restarted without the reforms in SB 549, the total debt to Missouri, including previously authorized LIHTC(s), would be **(any amount in excess of the amount(s) reported in the previous table have been accounted for an are not a fiscal impact of this proposed legislation):**

SB 549	Would not have authorized but will with propsal
2023	($111,335,079)
2024	($105,787,070)
2025	($100,596,461)
2026	($97,008,128)
2027	($93,745,942)
2028	($89,704,143)
2029	($86,004,742)
2030	($99,197,000)
2031	($112,651,906)
2032	($126,370,654)

Assumption 3 -

Oversight assumes if the LIHTC program restarts in 2021 and would have been restarted **regardless** of reforms in SB 549 but taking into consideration the changes proposed, the impact in Fiscal Year 2023 would be a savings of **$5,369,677** and in Fiscal Year 2034, a savings of **$49,561,838**. Oversight subtracted the amounts that would be authorized provided the LIHTC program continues **with** the changes of this proposed legislation from the amounts that would be authorized provided the LIHTC program were to restart and continue each year thereafter **without** changes to the current law. **Oversight notes the savings reported of $5,369,677 in Fiscal Year 2023 and $49,561,838 in Fiscal Year 2034 are only savings from the cap reduction of LIHTC(s) *not* financed through tax exempt bond issuances. Oversight does not believe the cap reduction in the LIHTC(s) financed through tax exempt bond issuances from $6 million to $4 million to have an impact on GR or TSR.** Below is a table showing the impact per fiscal year provided this assumption is accepted:

ASSUMPTION (continued)

SB 549	Future Authorizations/Proposal
2023	$5,369,677
2024	$9,785,389
2025	$14,298,011
2026	$18,907,995
2027	$23,615,794
2028	$28,421,861
2029	$33,326,649
2030	$38,330,609
2031	$43,434,194
2032	$48,637,857

FISCAL IMPACT - State Government	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2032)
GENERAL REVENUE				
Revenue Change - MHDC - Section 135.352 - Change to LIHTC program	$0	$0	$0, or Up to ($16,300,000), or Up to $5,369,677	$0, or Up to ($166,370,654), or Up to $48,637,856
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**$0**	**$0, or Up to ($16,300,000), or Up to $5,369,677**	**$0, or Up to ($166,370,654), or Up to $48,637,856**

*"$0" represents LIHTC(s) issuances continue to be prohibited, regardless of passage of this proposed legislation, therefore, the changes have no fiscal impact.

*"Up to ($16,300,000)" and "Up to ($166,370,654)" represent the baseline of passage of SB 549 triggers the LIHTC program to start issuing credits again (currently prohibited). This represents the maximum amounts of tax credits that could be issued in those fiscal years.

*"Up to $5,369,677" and "Up to $48,637,856" represent the net change between current statute amounts and changes made within SB 549. If the program were to become active again, fewer LIHTCs would be issued under this bill than under current statutes, reflected as a savings in the fiscal note. This represents the difference.

FISCAL IMPACT - Local Government	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2032)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposed legislation could have an impact on any small business that qualify for the LIHTC(s).

FISCAL DESCRIPTION

This act places an aggregate cap on the amount of state low-income housing tax credits that may be authorized in a fiscal year. Such cap shall be the lesser of 72.5% of the amount of federal low-income housing tax credits allocated to the state or $123 million, adjusted annually for inflation.

This act also reduces the limit on tax credits authorized for projects financed through tax-exempt bonds from $6 million to $4 million. To the extent that such limit is not reached in a fiscal year, the amount not authorized may, for such fiscal year only, be added to the amount of tax credits that may be authorized for projects not financed through tax-exempt bond issuance.

The Missouri Housing Development Commission shall establish an evaluation rubric and score applicants for low-income housing tax credits against the rubric. The Commission shall publish such rubric before it accepts applications and shall publish the scored rubric for each application.

Beginning August 28, 2021, the Commission shall establish a pilot program under which low-income housing tax credits may be transferred, sold, or assigned to a third party if so authorized by the Commission and elected by the taxpayer, as described in the act. The amount of tax credits authorized to be transferred shall not exceed fifteen percent of the aggregate cap. The pilot program shall expire on August 28, 2024.

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

Office of Administration - Budget & Planning Division
Missouri Department of Commerce and Insurance
Missouri Department of Economic Development - Missouri Housing Development Commission Division
Missouri Department of Revenue
Missouri University's Economic & Policy Analysis Research Center

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