COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4374-01
Bill No.: SB 531
Subject: Historic Preservation; Housing; Revenue Dept.; Tax Credits; Taxation and Revenue-Income
Type: Original
Date: January 17, 2012

Bill Summary: This proposal would modify the low-income housing and historic preservation tax credit programs, and require any increase in revenue to be applied to a decrease in the individual income tax rate.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
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 2013	FY 2014	FY 2015
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office 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, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Department of Economic Development** provided the following response.

Low Income Housing Tax Credit Program

Section 135.352. The proposal would reduce the current $60 million cap in the 4% Missouri Low Income Housing Tax Credit Program (LIHTC) beginning in FY 2014, ultimately ending the program after FY 2016. The decrease would phase-in as follows.

FY 2014	$15 million cap
FY 2015	$10 million cap
FY 2016	$5 million cap

In addition, the proposal would reduce the 9% LIHTC starting in FY 2014 as listed below. Currently, the 9% credit is capped by the amount of federal credit awarded to Missouri. The decrease would phase-in as follows.

FY 2014	$110 million cap
FY 2015	$97 million cap
FY 2016	$84 million cap
FY 2017 and thereafter	$70 million cap

ASSUMPTION (continued)

Due to the reduced program caps, there would be a positive impact on the General Revenue Fund. However, due to 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.

The proposal would also revise the carry back and carry forward provisions. Currently, the statute allows owners to carry the credits back three years and forward five years. SB 531 would allow for a two year carry back provision and maintain the five year carry forward provision.

The proposal would eliminate the practice known as "stacking", whereby the same development receives LIHTC and state Historic Preservation tax credits. While this change would affect the total amount and type of state credit received by an individual development, it would not affect the overall amount of state tax credits authorized, issued or redeemed. Therefore that change has no fiscal impact.

The proposal would prohibit the authorization of any LIHTC after August 28, 2018.

Fiscal Impact on LIHTC Program

Most of the impact from the proposed changes in this proposal would be experienced outside the fiscal note period (FY 2013-FY 2015).

There is no fiscal impact associated with LIHTC until the tax credit is redeemed. It is impossible to predict with any certainty the timing of future redemptions, especially if there is a carry back and carry forward provision with the state tax credit. For the purposes of estimating fiscal impact, MHDC assumes that tax credits are redeemed in the year of issuance.

The LIHTC is a ten year credit; as a result the full impact of the proposed reductions in tax credit issuances and redemptions would phase in starting in FY 2016. The impact of the reductions would not start until FY 2016 due to the long range start up, construction, lease up period, and other activities required for the actual redemption of tax credits. Tax credits cannot be issued or redeemed until those requirements have been met.

ASSUMPTION (continued)

MHDC provided this table of estimated fiscal impact by year.

FY 2016	$6,000,000
FY 2017	$13,800,000
FY 2018	$23,400,000
FY 2019	$34,900,000
FY 2020	$53,400,000

Historic Preservation Tax Credit Program

Section 253.550. The proposal would reduce the cap on the Historic Preservation tax credit program beginning in FY 2014, from $140 million to $80 million. This program is administered by the Department of Economic Development, Division of Business and Community Services (BCS). The proposal would also restrict eligible costs to those costs that have been incurred and paid prior to the issuance of the tax credit. The proposal would also prohibit stacking - projects receiving Low Income Housing tax credits could not also receive Historic Preservation Tax Credits. The proposal provides that no more than $125,000 in tax credits would be available for non-income producing residential projects. The proposal would limit the carry-back and carry-forward provisions to projects authorized after August 28, 2012. DED would also be required to propose rules for the program. Finally, the proposal would sunset the Historic Preservation Tax Credit program on August 28, 2018.

Fiscal Impact on Historic Preservation Tax Credit Program

DED assumes an unknown positive economic impact over $100,000 as a result of the lower cap for the program beginning in FY2014.

DED officials told us in response to a similar proposal that BCS give a project its preliminary approval based on project plans. Historic Preservation Tax Credits can only be issued at the completion of a project and after BCS approves the allowable project costs; at that time BCS gives the project its final approval, determines the amount of tax credits which can be issued for the project, and approves the issuance of the tax credits.

Oversight assumes that a reduced program cap in FY 2014 would lead to reduced tax credits issued beginning two years later, or FY 2016.

ASSUMPTION (continued)

Officials from the **Department of Natural Resources** (DNR) assume this proposal would eliminate the State Historic Rehabilitation Tax Credit Program offered by the Department of Economic Development as of August 28, 2018.

The State Historic Preservation Office is responsible for reviewing and approving rehabilitation work for the state credits. Any changes in the tax credit structure could have an impact on the number of rehabilitation projects the State Historic Preservation Office (SHPO) reviews and approves. DNR receives appropriations from the Economic Development Enhancement Fund in part for the review of applications for State Historic Preservation Tax Credits.

The Governor's recommended budget for FY 2012 included $96,732 (2.54 FTE) in Personal Service and $14,437 in Expense and Equipment. For the purposes of this fiscal note, the department assumes appropriation authority from the Economic Development Advancement Fund to the Department State Historic Preservation Office would continue through FY 2018.

Oversight assumes that there would be no fiscal impact to DNR until after FY 2015.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** stated that they were not able to provide an estimate of the fiscal impact for this proposal.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume the proposed legislation would not result in any additional costs or savings to their organization.

BAP officials stated that this proposal would:

* Establish a $110 million annual cap on the 9%-LIHTC program in FY 2014, and then gradually reduce the cap to $70 million for FY 2017 and beyond.

* Establish a $15 million cap on the 4%-LIHTC program in FY 2014, and then gradually reduce the cap until no credits could be issued in FY 2017 and beyond.

* Reduce the $140 million cap on Historic Preservation Tax Credits to $80 million annually. A cap of $10 would be provided for small residential projects, in addition to the $140 million program cap.

* Prohibit the stacking of these credits in certain situations, and would provide transition rules.

Beginning Jan. 1, 2015, the Director of Revenue would be required to calculate the increase in revenues from these changes, and reduce the individual income tax rate accordingly. To the extent the DOR is able to estimate the changes in revenues and estimate the adjusted tax rates, this proposal should have little net impact on General and Total State Revenues. BAP officials noted that net individual income taxes in FY 2011 totaled $4,640.3 million, while redemptions in FY 2011 under the affected programs totaled an estimated $250.8 million.

Officials from the **Department of Revenue** (DOR) stated that the proposal would make multiple changes to current tax credit programs. DOR officials did not provide an estimate of administrative or fiscal impact for their organization.

Oversight assumes DOR could absorb any additional responsibilities related to this proposal with existing resources. If unforeseen costs are incurred or if multiple proposal create a significant increase in the DOR workload, resources could be requested through the budget process.

ASSUMPTION (continued)

IT Impact

DOR officials provided an estimate of the impact for the Office of Administration, Information Technology Services Division, for staff assigned to the Department of Revenue (ITSD/DOR). DOR officials estimated the IT impact at $17,808 based on 672 hours of programmer time.

Oversight assumes ITSD/DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes ITSD/DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Oversight notes that this proposal would require the Department of Revenue to publish a rule reducing individual income tax rates by the amount of revenue increase resulting from the modifications to the Low Income Housing Tax Credit and Historic Preservation Tax Credit programs. As we have noted above, any fiscal impact to the tax credit programs would become effective in FY 2016 or later. Accordingly, there would be no impact to individual income tax rates until after FY 2016.

FISCAL IMPACT - State Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2013 (10 Mo.)	FY 2014	FY 2015
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to any small business which participates in the Historic Preservation or Low Income Housing Tax Credit programs.

FISCAL DESCRIPTION

The proposed legislation would modify the low-income housing and historic preservation tax credit programs, and would require any increase in revenue to be applied to a decrease in the individual income tax rate.

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 the Secretary of State
Office of Administration
    Division of Budget and Planning
Department of Economic Development
Department of Natural Resources
Department of Revenue
Joint Committee on Administrative Rules

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SS:LR:OD