COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2264-01
Bill No.: HB 1208
Subject: Taxation and Revenue - General; Housing; Tax Credits; Public Assistance; Department of Economic Development
Type: Original
Date: April 3, 2017

Bill Summary: This proposal changes the laws regarding tax credits for housing.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	$0	Could exceed $25,718,073	Could exceed $68,315,038
Total Estimated Net Effect on General Revenue	**$0**	**Could exceed $25,718,073**	**Could exceed $68,315,038**

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 gain 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 2018	FY 2019	FY 2020
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 2018	FY 2019	FY 2020
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	**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 2018	FY 2019	FY 2020
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

§32.115 Neighborhood Assistance Program Tax Credit
Officials at the **Department of Economic Development** (**DED**) assume this proposal would eliminate this tax credit as of August 28, 2017.

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

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Authorized	$11,513,379	$15,974,536	$13,553,852	$16,000,000	$16,000,000
Amount Issued	$9,640,126	$11,435,785	$13,761,480	$13,600,000	$11,612,464
Amount Redeemed	$10,848,983	$8,230,286	$10,318,971	$11,424,000	$9,799,413

Oversight notes the Neighborhood Assistance tax credit has a $16 million annual cap. This proposal would prohibit the issuance of these credits after June 30, 2018. Oversight will show a savings from this portion of the proposal as the average amount issued over the last five years of $10,694,944.

§32.115 Affordable Housing Assistance Tax Credit
Officials at the **Missouri Housing Development Commission** (**MHDC**) assume this proposal prohibits the authorization of new Affordable Housing Assistance Program (AHAP) credits beginning in FY 2018 and the issuance of credits beginning in FY 2019. This proposal has an $11 million authorization cap annually.

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 Affordable Housing tax credit program had the following activity;

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Authorized	$8,197,923	$10,901,753	$10,988,370	$11,000,000	$11,000,000
Amount Issued	$4,844,279	$8,717,177	$13,171,092	$11,000,000	$11,000,000
Amount Redeemed	$5,620,750	$3,358,809	$8,484,673	$11,000,000	$11,000,000

ASSUMPTION (continued)

Oversight notes the Affordable Housing tax credit has an $11 million annual cap. This proposal would prohibit the issuance of these credits after June 30, 2018. Oversight will reflect the amount of increased revenue to the State as the average amount issued over the last five years of $7,538,205.

§135.352 Low-Income Housing Tax Credit (MOLIHTC)
Officials at the **DED** assume the low-income housing tax credit is administered by the Missouri Housing Development Commission (MHDC). This proposal would reduce the authorized cap to $80 million annually.

Officials at the **MHDC** assume that beginning in FY 2019, the 9% MOLIHTC changes from a ten year credit to a five year credit, it is capped at $80 million in authorizations per year, and MHDC is authorized to allocate the state resources necessary to ensure the feasibility of the project – the language allowing up to a 100% match in state / federal LIHTCs has been removed. Additionally, this proposal eliminates the 4% MOLIHTC beginning in FY 2019.

MHDC uses the current 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

While there is no direct impact to General or Total State Revenues, the estimated impact with regard to available LIHTCs for authorization beginning in FY 2019 is $134,000,000.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume an unknown increase of premium tax revenues as a result of the modifications to the low income housing tax credit is possible. 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.

ASSUMPTION (continued)

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 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Authorized	$157,419,280	$156,736,570	$167,123,390	$205,000,000	$205,000,000
Amount Issued	$138,646,050	$124,988,930	$101,939,700	$140,000,000	$140,000,000
Amount Redeemed	$155,168,646	$140,292,351	$269,063,090	$205,000,000	$205,000,000

Oversight notes the low-income housing tax credits are a ten year credit with a two year lag time between initial authorizations and issuance. Currently, the credits are allowed to be carried back three years and carried forward five years. The 4% credit is capped at $6 million authorizations per year ($60 million factoring in the full 10 year credit stream) and the 9% credit follows the federal allocation, for 2017 that is $14.3 million for authorizations ($143,000,000 factoring in the full 10 year credit stream).

Oversight notes a portion of the proposal (§135.352.5) would eliminate the 4% credit beginning June 30, 2018. Oversight notes the elimination of this credit would occur immediately, and will show the increased revenue to the state starting in FY 2019 as equal to the $6 million cap.

Oversight notes a portion of the proposal (§135.352.2) would reduce the authorization and issuance of the 9% credit to no more than $80 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 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 $80 million and the average amount issued over the last five years of $128,596,965. Oversight will show the savings as $42,596,965 ($48,596,965 difference between new and old cap - $6,000,000 attributed to the 4% cap).

ASSUMPTION (continued)

Oversight notes this proposal also reduces the 9% credit from a ten year credit to a five year credit and removes the language allowing up to 100% match to federal program. Currently these 9% credits are allowed to be carried forward five years but this proposal eliminates the carry forward. Oversight will reflect an Unknown redemption avoidance from no longer carrying forward the credits.

Oversight assumes a portion of the proposal (§135.352.9) 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 Unknown.

§135.481 Neighborhood Preservation Tax Credit
Officials at the **DED** assume this proposal lowers the cap on this tax credit from $16 million to $1 million. This proposal also gives the Department of Revenue the duty of determining how much tax credit is to be given to each project. Currently this duty is performed by DED.

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

	FY 2014	FY 2015	FY 2016	FY 2017 (projected)	FY 2018 (projected)
Amount Authorized	$7,015,265	$8,210,050	$8,275,233	$10,000,000	$10,000,000
Amount Issued	$2,199,211	$3,090,703	$3,860,283	$3,500,000	$3,500,000
Amount Redeemed	$1,789,898	$1,766,763	$2,963,957	$3,000,000	$3,000,000

Oversight notes this proposal would reduce the annual cap on this credit from its current $16 million to $1 million. Oversight will reflect the amount of increased revenue to the State as $1,484,924 which is equal to the difference between the new cap of $1 million and the average amount issued over the last five years of $2,484,924.

Bill as a Whole
Officials at the **Office of Administration's Division of Budget and Planning** (**B&P**) assume this proposal eliminates authorizations as of 8/28/17 and issuances as of 6/30/18 for the Neighborhood Assistance Program tax credits. The three-year average redemptions are $13,680,589. This proposal places an $80 million cap on the 9% Low Income Housing Tax Credit and eliminates the 4% Low Income Housing Tax Credit. The three-year average redemptions are $160,426,413. This proposal also makes administrative changes to the

ASSUMPTION (continued)

Neighborhood Preservation Act Tax Credit.

This proposal will impact the calculation under Article X, Section 18(e). B&P estimates that this proposal could increase Total State Revenue and General Revenue by more than $1.2 million in FY 2018 and by more than $94.1 million once fully implemented. B&P notes that some tax credits have a carry forward provision of up to 5 years and substantial outstanding amounts. This may push the fully implemented savings significantly into the future.

Officials at the **Department of Revenue** and the **Joint Committee on Administrative Rules** each assume there is no fiscal impact from this proposal.

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 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
Savings - DED			
Neighborhood Assistance tax credit elimination of credit §32.115	$0	$10,694,944	$10,694,944
Affordable Housing tax credit elimination of credit §32.115	$0	$7,538,205	$7,538,205
Low-Income Housing - reduction of 9% credit cap §135.352	$0	$0	$42,596,965
Low-Income Housing - elimination of the 4% credit cap §135.352	$0	$6,000,000	$6,000,000
Neighborhood Preservation reduction of cap §135.481	$0	$1,484,924	$1,484,924
Total Tax Credit Savings	$0	$25,718,073	$68,315,038
Redemption Avoidance - no longer being able to carry forward credits	$0	$0	Unknown
Additional Revenue - prohibition on stacking Historic Preservation and Low Income Housing tax credits	$0	Unknown	Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**Could exceed $25,718,073**	**Could exceed $68,315,038**

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 gain 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 2018 (10 Mo.)	FY 2019	FY 2020
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

Neighborhood Assistance Tax Credits - The bill specifies that no tax credits for economic development under the Development Tax Credit Program in Sections 32.100 to 32.125, RSMo, can be authorized after August 28, 2017 or issued after June 30, 2018, and any credit issued before July 1, 2018, that is not redeemed in the period the contribution was made, can be carried forward as allowed and will be administered under §620.2020.

Low-Income Housing Tax Credits - The bill specifies that the amount of Missouri low-income housing tax credits under Sections 135.350 to 135.363 available to a qualified Missouri project after July 1, 2018 will be such amount as the commission determines is necessary to ensure the feasibility of the project for a five-year tax period, caps the credit at $80 million in any fiscal year beginning on or after July 1, 2018, removes the option for the credit to be carried forward five years, and adds new requirements and restrictions along with the eligibility statement to be submitted to the commission. A qualified Missouri project must rent at least 40% of its units to individuals or families who earn at least 50% of the median income of the area or rent at least 60% of its units to individuals or families who earn at least 60% of the median income of the area.

Currently, no more than $6 million in tax credits can be authorized each fiscal year for projects financed through tax-exempt bond issuance. The bill specifies that no tax credits can be authorized after June 30, 2018, for projects financed through tax-exempt bond issuance.

The bill specifies that a taxpayer that receives historic structures rehabilitation tax credits under Sections 253.545 to 253.559 is not eligible to receive low-income housing tax credits for the same project.

Rehabilitation and Construction of Residences in Distressed Communities and Census Blocks Tax Credits - Currently, any taxpayer who incurs eligible costs for a new residence located in a distressed community or within a census block group or for a multiple unit condominium can receive a tax credit equal to 15% of such costs against his or her tax liability up to $40,000 per new residence in any ten-year period. The bill adds a cap of $1 million annually and requires the Department of Revenue when issuing the credits, to distribute the credits evenly between eligible residences and qualifying residences.

FISCAL DESCRIPTION (continued)

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

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