NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 1326 (First Edition)

SHORT TITLE: Extend Low-Income Housing Credit Sunset

SPONSOR(S): Senator Kerr

FISCAL IMPACT

Yes (X) **No ( )** **No Estimate Available ( )**

			($Million)		
	FY 2004-05	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**FY 2008-09**
REVENUES					
General Fund				(18.6)	(37.5)
EXPENDITURES					

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Housing Finance Agency; North Carolina Department of Revenue

EFFECTIVE DATE: This act is effective when it becomes law.

BILL SUMMARY: This act extends the sunset on the state low-income housing tax credit from January 1, 2006 to January 1, 2010. The bill also makes a technical change by substituting the word qualified for eligible.

BACKGROUND:
In the Tax Reform Act of 1986, Congress created the Low-Income Housing Tax Credit (LIHTC) program to fund housing for low and moderate-income households. The North Carolina Housing Finance Agency receives a per capita tax credit that can be used for new construction or rehabilitation of housing. Beginning in 2003, the per capita federal credit amount was indexed to the CPI. From 1987 to 1999 this federal credit helped finance the construction of 21,423 low-income housing units in the state.

In 1999, the General Assembly created a state low-income housing credit equal to a percentage of the federal LIHTC. North Carolina is now one of 14 states with a low-income housing tax credit program. The state low-income tax credit was revised in 2002. Instead of a percentage of the federal credit, the housing developer's tax credit is a percentage of the eligible basis of the housing project that qualifies for the federal LIHTC. The tax credit amount is based upon city/county income and the affordability of the constructed housing units as follows:

Type of Development	Percentage of Basis for which Credit is Allowed
• Units are in a "Low Income" county or city • 40% of the qualified residential units are affordable to households whose income is 50% or less of area median income	30%
• Units are in a Moderate Income county or city • 50% of the qualified residential units are affordable to households whose income is 50% or less of the area median income	20%
• Units are in a High Income county or city • 50% of the qualified residential units are affordable to households whose income is 40% or less of the area median income	10%
• Units are in a High Income county or city • 25% of the qualified residential units are affordable to households whose income is 30% or less of the area median income	10%

A developer may elect to receive the credit in the form of either a direct tax refund or a loan generated by transferring the credit to the Housing Finance Agency (HFA). The HFA will offer the developer a 0% interest 30-year balloon (no payments until maturity) loan equal to the credit amount. Neither a direct tax refund nor a loan received as a result of the transfer of the credit is considered taxable income by the State.

ASSUMPTIONS AND METHODOLOGY:

CURRENT CREDIT PROGRAM

The 2003 tax year is the first year under the revised state low-income housing tax credit. The Housing Finance Agency (HFA) awarded $33,659,990 in state tax credits to 50 housing projects. All 50 project developers chose the 30 year no interest loan option. The Secretary of Revenue will transfer half of the 2003 credit amount, $16,829,995, to the HFA in July 2004 and transfer the remaining half of the credit in July 2005. In the remaining two years of the tax credit program, the cost to the General Fund is estimated to be $34.9 million in Tax Year 2004 and $36.5 million in Tax Year 2005 as shown in the chart below.

Award Year	Population	Fed Tax Credit Per Capita Amount	Federal Tax Credit (FTC)	FTC % of Basis	Basis Amount	Average State Tax Credit	Utilization	$ Impact
2004	8,407,248	$1.80	$15.1 mil.	8.5%	$178.0 mil.	20%	98%	$34.9 mil.
2005	8,557,738	$1.85	$15.8 mil.	8.5%	$186.2 mil.	20%	98%	$36.5 mil.

The actual fiscal year revenue loss is different from the tax year credits awarded, because the payments are spread over two fiscal years as shown in the chart below.

Tax Year	FY 04-05	FY 05-06	FY 06-07	FY 07-08
2003	$16,829,995	$16,829,995		
2004		$17,447,512	$17,447,512	
2005			$17,759,823	$17,759,823
Total	**$16,829,995**	**$34,277,507**	**$35,207,335**	**$17,759,823**

CREDIT FORMULA

The following factors must be estimated in order to determine the state tax credit.

I. POPULATION

In Notice 2004-21, the Internal Revenue Service (IRS) directs North Carolina to use 8,407,248 as its population estimate for the federal low-income housing tax credit in 2004. This 2004 population estimate is actually from the July 2003 estimate for North Carolina done by the US Census Bureau. The State Demographics Unit in the North Carolina Office of State Budget and Management estimates the state population will grow 17.9% from 2000 to 2010. Dividing this decade growth projection by 10 yields an annual population growth of 1.79% that is applied to the 2004 estimate. Future year state populations are shown below.

Award Year	Population
2004	8,407,248
2005	8,557,738
2006	8,710,921
2007	8,866,847
2008	9,025,563
2009	9,187,121
2010	9,351,570

II. FEDERAL PER CAPITA CREDIT AMOUNT

Notice 2004-21 also sets the federal per capita credit amount for 2004 at $1.80. Beginning in 2003, this per capita credit amount is adjusted annually by the Consumer Price Index (CPI) and is rounded down to the nearest .05. The Bureau of Labor Statistics estimates the CPI. The chart below shows the CPI projected for the years 2004 through 2011. The base rate of $1.80 is adjusted by the CPI as shown in the Actual column. The results of rounding down the rates to the nearest .05 are shown in the Rounded column.

	CPI	Actual	Rounded
2004	1.9%	$1.80	
2005	1.3%	$1.83	$1.80
2006	1.9%	$1.86	$1.85
2007	2.4%	$1.89	$1.85
2008	2.3%	$1.94	$1.90
2009	2.3%	$1.98	$1.95
2010	2.3%	$2.03	$2.00
2011	2.2%	$2.07	$2.05

The Rounded per capita amount multiplied by the Population estimate yields the annual federal low-income housing tax credit for the state. The North Carolina Housing Finance Agency may award these tax credits to developers of low income housing projects.

Award Year	Population	Fed Tax Credit Per Capita Amount	Federal Tax Credit (FTC)
2004	8,407,248	$1.80	$15,133,046
2005	8,557,738	$1.80	$15,403,928
2006	8,710,921	$1.85	$16,115,204
2007	8,866,847	$1.85	$16,403,666
2008	9,025,563	$1.90	$17,148,570
2009	9,187,121	$1.95	$17,914,886
2010	9,351,570	$2.00	$18,703,141

III. STATE TAX CREDIT

The state tax credit is applied against the basis of the housing projects funded by the federal tax credits. Basis for this credit is the total cost of constructing the buildings minus items not subject to depreciation such as land and reserves. The Housing Finance Agency estimates the federal tax credit is equal to 8.5% of the eligible basis in the funded properties. Dividing the federal tax credit amount by 8.5% gives the project basis amount.

Award Year	Federal Tax Credit (FTC)	FTC % of Basis	Basis Amount
2004	$15,133,046	8.5%	$178,035,840
2005	$15,403,928	8.5%	$181,222,682
2006	$16,115,204	8.5%	$189,590,639
2007	$16,403,666	8.5%	$192,984,311
2008	$17,148,570	8.5%	$201,747,885
2009	$17,914,886	8.5%	$210,763,361
2010	$18,703,141	8.5%	$220,036,949

The state low-income housing tax credit varies by county income at rates of 10% (high income), 20% (moderate income), and 30% (low income). The HFA staff estimates the state credit in future years will average 20%. The 20% credit average is consistent with the 19.1% actual credit average in 2003. Finally, the HFA assumes that developers will utilize 95% of all credits. In 2003, 50 of 51 projects accepted the state credit for a utilization rate of 98%. This analysis assumes the 98% rate due to the 30-year no interest loan option of the credit.

Award Year	Basis Amount	Average State Tax Credit	Utilization	$ Impact
2004	$178,035,840	20%	98%	$34,895,025
2005	$181,222,682	20%	98%	$35,519,646
2006	$189,590,639	20%	98%	$37,159,765
2007	$192,984,311	20%	98%	$37,824,925
2008	$201,747,885	20%	98%	$39,542,586
2009	$210,763,361	20%	98%	$41,309,619
2010	$220,036,949	20%	98%	$43,127,242

IV. FISCAL IMPACT

This bill extends the state low-income housing tax credit four additional years – tax years 2006 through 2009. However, the tax year impacts shown above must be distributed by fiscal years. This analysis assumes that the project developers will continue to take the 30-year no interest loans. This means each tax year's credit amount will be transferred to the HFA in two annual installment payments. For example, the 2006 tax year credit amount will be paid in July 2007 (FY 2007-08) and July 2008 (FY 2008-09). The chart below shows the fiscal year impact of the tax credit program until its sunset date.

Tax Year	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12
2006	$18,579,883	$18,579,883			
2007		$18,912,463	$18,912,463		
2008			$19,771,293	$19,771,293	
2009				$20,654,809	$20,654,809
Total	**$18,579,883**	**$37,492,345**	**$38,683,755**	**$40,426,102**	**$20,654,809**

SOURCES OF DATA: NC Housing Finance Agency, Internal Revenue Service, State Demographics Unit in the North Carolina Office of State Budget and Management, Bureau of Labor Statistics

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Publication

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DATE: June 10, 2004

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