Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Department of Economic Development, Low Income Housing Tax Credit Program

Background

The Department of Economic Development (DED), Missouri Low Income Housing Tax Credit (LIHTC) Program started in 1990. The Missouri Housing Development Commission (MHDC) manages this tax credit program, which is designed to supplement the federal LIHTC. Tax credits must be used for new construction, rehabilitation, or acquisition and rehabilitation. The LIHTC is the state's largest tax credit program and had $144 million in redemptions in fiscal year 2013.

Program Cost and Efficiency

While the LIHTC program has helped provide thousands of units of affordable housing for low income Missourians, options exist to improve the efficiency of the tax credit model. Annual redemptions are projected to increase to and remain around $200 million per year through 2018. Of the 10 states with state LIHTC programs, Missouri ranked highest in state LIHTC funding, and was one of only two states with a per capita rate exceeding $20. Six states had per capita rates of $5.14 or less. Actual state LIHTCs issued and redeemed have greatly exceeded 1997 MHDC projections provided to the General Assembly. In the fiscal note, the MHDC estimated the average allocation rate would be 50 percent of the federal credit, but the MHDC has allocated essentially 100 percent of the federal amount since 1998. Since fiscal year 1997, the MHDC has authorized $842 million more LIHTCs than projected. The MHDC has taken action to reduce costs by implementing some of the recommendations in our prior LIHTC audit.

Currently, only $0.42 of every tax credit dollar issued actually goes toward the construction of low income housing; the remainder goes to the federal government in the form of increased federal income taxes; to syndication firms; and to investors. The MHDC could improve the efficiency of Missouri's LIHTC by (1) converting to a certificated credit model (possibly combined with the use of not-for-profits or government entities to eliminate federal taxation), (2) making the credits refundable, (3) using a direct appropriation to fund low income housing directly from state revenues, also utilizing not-for-profit organizations or government entities, and (4) reducing the number of years over which the tax credits are spread.

The program has no sunset provision. By adopting a sunset provision for the LIHTC program, the General Assembly could better determine whether the program is achieving its intended purpose and whether program funding levels are appropriate. In addition, state law allows claiming the same project costs under two or more tax credit programs. This "stacking" of tax credits can be lucrative for developers, but generates no additional economic activity or state benefit.

Economic Impact

The economic impact of the LIHTC program reported to the legislature by the DED is likely overstated. The department's analysis assumes no low income housing construction would occur if not for the state credit; however, since the federal LIHTC is available, some low income housing activity would likely occur even without the state LIHTC program. Moreover, even considering the overstatement, the LIHTC program results in a very low return on investment. The fiscal year 2013 analysis shows the program returned $0.08 in state revenue for every dollar spent and created approximately 63 new full-time jobs. With redemptions of $144 million in 2013, the program costs the state approximately $61,000 per unit of housing or $2.3 million per job.

In the areas audited, the overall performance of this program was **Fair.***

***The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

Excellent: The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.

Good: The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.

Fair: The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.

Poor: The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.