

# Fiscal Note

**BILL #** HB 2576

**TITLE:** affordable housing tax credits; extension

**SPONSOR:** Quinonez

**STATUS:** As Introduced

**PREPARED BY:** Cameron Mortensen

## Description

The bill would extend the state Low-Income Housing Tax Credit (LIHTC) program's award cycle through Calendar Year (CY) 2031, increase the program's annual tax credit limit to \$8 million per year starting in CY 2025, and modify the tax credit award amount per project.

## Estimated Impact

We estimate that the bill would reduce General Fund revenue by \$(4) million in FY 2027. This reduction reflects the bill's incremental increase in the credit award limit for CY 2025. Under current law, the Arizona Department of Housing (ADOH) is authorized to award \$4 million of tax credits in CY 2025 which would impact FY 2027 revenues. The bill would instead authorize ADOH to award \$8 million of tax credits in CY 2025.

Once fully implemented, the bill's maximum annual General Fund impact would be \$(52) million in FY 2033 once all calendar year award cycles have been claimed. This amount reflects the \$(4) million annual cost from the incremental increase in the CY 2025 award limit, along with the bill authorizing 6 new award cycles during CY 2026 – CY 2031 each with an annual cost of \$(8) million.

## Analysis

### Existing Credit Background

Current law allows the state LIHTC program to award \$4 million in credits per year, from CY 2022 through CY 2025. The \$4 million of credits awarded each year can be claimed in the same annual amount for the next 10 years. Under the structure of the program, credits issued in a given tax year are not eligible to be claimed against tax liability until the project is completed and placed into service. This generates a delay in each award's fiscal impact – for example, the TY 2022 allocations under current law result in projects being placed in service in TY 2023 (and the credits being claimed in TY 2023), which causes an FY 2024 fiscal impact.

### HB 2576 – Change to Statewide Annual Award Limits

The bill would increase ADOH's authority to issue LIHTC awards as follows: 1) Increase the amount authorized in CY 2025 from the \$4 million under current law to \$8 million; and 2) Authorize 6 new award cycles past the program's current expiration, in an amount of \$8 million each year from CY 2026 – CY 2031.

HB 2576 would maintain the program's standard timing delay between awards and the fiscal impact, by requiring that a CY 2025 tax credit award not be claimed until "the Federal Fiscal Year beginning October 1, 2026". Under current law, the existing \$4 million of ADOH LIHTC capacity in CY 2025 was expected to be awarded in that year, with projects placed into service and tax credits claimed in TY 2026, with a fiscal impact in FY 2027. The bill's language would maintain this same timing for the CY 2025 awards, and by increasing the CY 2025 award limit to \$8 million, would generate a net fiscal impact of \$(4) million in FY 2027.

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In addition to modifying the CY 2025 award limit, HB 2576 extends the program through CY 2031 and authorizes tax credit awards of \$8 million per year for CY 2026 – CY 2031.

Assuming that each year's tax credit award limit is fully utilized, the cost of the bill would increase to an annual impact of \$(52.0) million by FY 2033 (*see Table 1 below*).

<b><u>Year</u></b>	<b><u>Total</u></b>
FY 2027	\$(4.0)
FY 2028	(12.0)
FY 2029	(20.0)
FY 2030	(28.0)
FY 2031	(36.0)
FY 2032	(44.0)
FY 2033	(52.0)

**HB 2576 – Change to Individual Project Award Limit**

Current law authorizes investors to claim an amount of state affordable housing tax credits that is equal to at least 50% of the amount of federal LIHTC issued for Arizona projects that are placed into service after June 30, 2022. HB 2576 would replace that "at least 50%" metric with a broader directive that ADOH may allocate an amount to each project that the "Department determines is necessary for the economic feasibility of the qualified project".

While this provision may increase the amount of tax credit awarded to any given project, it is not expected to affect the overall state fiscal impact. This analysis assumes the entire statewide credit authority is allocated each year, regardless of the number of projects that qualify or the specific dollar amount awarded per project.

**Local Government Impact**

Incorporated cities and towns will receive 18% of individual and corporate income tax collections from 2 years prior from the Urban Revenue Sharing Fund (URSF) established by A.R.S. § 43-206. Based on the bill's FY 2027 impact of \$(4.0) million, the bill would decrease overall URSF distributions to cities and towns by \$(720,000) in FY 2029.