SUPPORT SENATE BILL 18
ESTABLISH WORKFORCE HOUSING TAX CREDITS

Montana Housing Coalition

Key Provisions of Senate Bill 18

SB 18 provides a state workforce housing tax credit against taxes imposed by:

- Individual Income Tax (MCA 15-30)
- Corporate Income Tax (MCA 15-31)
- Insurance Premium Tax (MCA 33-2-705)
- Insurance Retaliatory Fees, Taxes, and Other Obligations (MCA 33-2-709)
- Tax on Fire Insurance Premiums (MCA 50-3-109)

The Montana Department of Commerce's Board of Housing will oversee distribution of the credits for qualified housing developments.

The aggregate amount of the credits awarded for qualified developments cannot exceed $6.4 million annually.

The Board of Housing cannot allocate more of the federal and state credits than necessary to achieve financial feasibility for a development.

Our communities are stronger when everyone can afford safe and healthy homes. Community and business leaders around the state have recognized this. Throughout rural and urban Montana, the shortage of homes Montanans can afford is affecting our quality of life and our economy. Each year, the Montana Board of Housing can only fund approximately 25% of worthy multifamily rental home development applications because of lack of funds.

Great progress was made during the 2017-2018 Legislative Interim thanks to the willingness of the Local Government Interim Committee to unanimously approve legislation that would solve some of our housing challenges.

Senate Bill 18 is one of those solutions. It would create a state workforce housing tax credit to help investors leverage and augment the Federal Housing Tax Credit (FHTC), leading to more homes across Montana that working families and seniors can afford.

Workforce Housing Helps Families and Individuals Flourish

Montana's real estate market can be one of opportunity for everybody. Our communities can be welcoming places where Veterans returning from service can have homes and raise their families. They can be supportive places where our elders can continue to live healthily. And they can be safe places where kids eat dinner, learn, spend time with family and play with neighbors. When people can afford housing, the economic and social return provides a benefit for us all. People living within their budget can pay for nutritious food and medical care. They can become more involved in local groups, associations and neighborhoods. All this builds health and wealth for the person, family and community.

Workforce Housing Development Helps the Economy

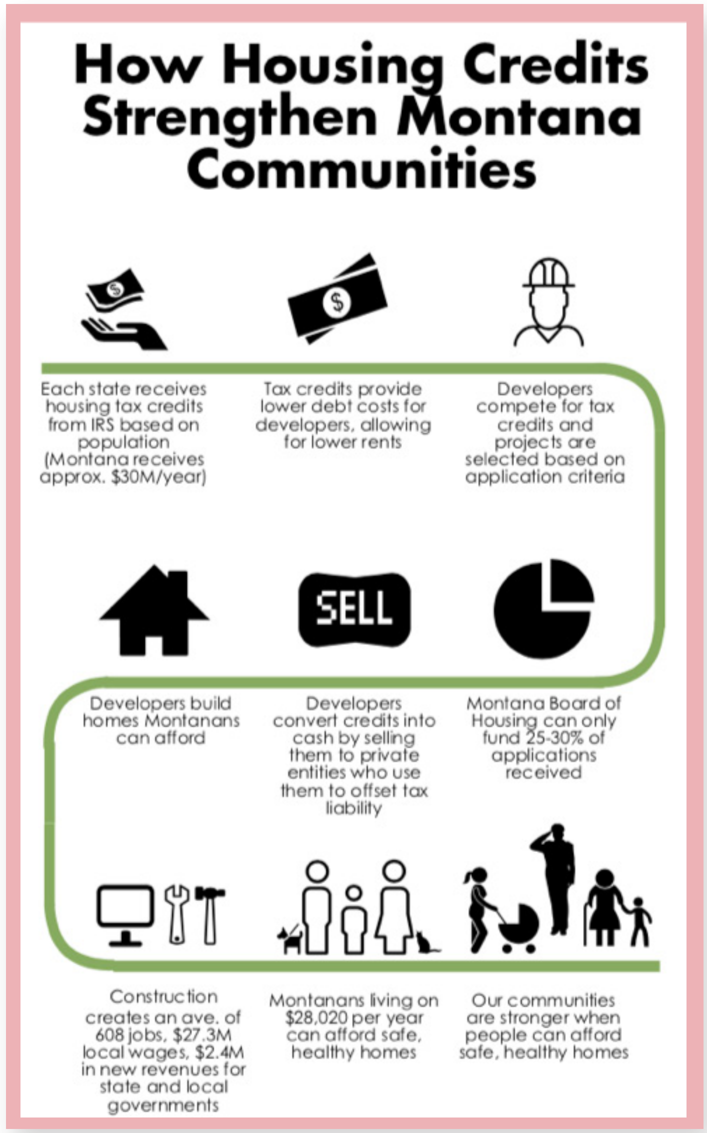
The benefits of workforce housing development extend to the broader community:

- Development of workforce housing supports existing jobs, creates both immediate and long-term employment opportunities and increases spending in a local economy.
- Creating more workforce housing allows employers to attract and retain employees, growing their business and the regional economic competitiveness.
- Development and rehabilitation of affordable homes provides immediate fiscal benefits for state and local government, including building fees, impact fees, inspection fees, special assessments, corporate income taxes on builders' profits, and income taxes on construction workers and other professionals involved in the development. The Montana Department of Commerce's Census and Economic Information Center estimates New Construction supports 13 jobs earning $600,000 in labor income per $1 million invested in construction of new homes.

Projections for Montana indicate that over 10-year period a state tax credit would mobilize enough private capital to produce 18,000 homes and apartments and generate over $828 million in economic activity in the form of construction, job creation, ongoing property operation, increased incomes, and property value increases.

HOW THE WORLD OF HOUSING TAX CREDITS WORKS

The state tax credit created by SB 18 would simply serve as a companion to the Federal Housing Tax Credit (FHTC) and would follow many of the same federal rules and requirements as well as those adopted by Montana. The FHTC helps finance the production and preservation of rental housing that is affordable to working families and seniors. It was authorized through the Tax Reform Act of 1986 – spearheaded by Congressman Jack Kemp and signed into law by President Ronald Reagan – to give private investors a federal income tax credit as an incentive to make equity investments in affordable rental housing. The equity raised is used to construct new properties, acquire and renovate existing buildings, and refinance and renovate existing rental housing properties. The program has been a huge success, producing over 2.3 million units with a 97% occupancy rate in 2016, and a foreclosure rate of less than .05% throughout the program.



Income Eligibility and Affordability Requirements

The basic requirements of the FHTC program focuses on how low the rents must be and how long those rents must remain low. A home is considered affordable if the household is paying no more than 30% of its income for housing costs (including utilities). Households earning up to 80% of Area Median Income (AMI) are allowed in FHTC-assisted units as long as the average income of all households in assisted homes is 60% of AMI or below.

In exchange for tax credits, properties are required to comply with investment regulations for 15 years and meet rent limitations for at least 30 years. Monitoring compliance involves regularly certifying that only income-eligible households live in assisted units and are paying associated rents and conducting housing quality inspections. Investors in projects that fail to comply can lose their tax benefit.

Types of Credit and Allocation Process

The FHTC program offers two types of tax credits, a 9% tax credit and a 4% tax credit. In exchange for tax credits, properties must meet rent level and income limitations for at least 30 years. Investors claim tax credits over a 10-year period and are subject to a 15-year compliance period. The project must meet rent limitations for at least 30 years.

Annually, 9% credits are allocated to Montana by the IRS for eligible developments, as determined by the Montana Board of Housing. The Qualified Allocation Plan helps determine which projects win FHTC awards. The 9% credits are highly competitive, with many more projects requesting credits than can be funded. **SB 18 would increase the pool of funds available thereby increasing the number of projects that receive funding, especially those in rural areas.**

Projects that receive at least half of their funding through tax-exempt bond financing are eligible for 4% tax credits. The 4% credits are not competitive, but are much harder to finance because 4% credits supply only half of the equity needed to build the project. **SB 18 would add a much-needed source of funding for 4% developments, increasing the number of developments that will be built. 4% projects are financed with tax-exempt private activity bonds (PAB). Montana's capacity available is currently $1.1 Billion in PABs, yet Montana rarely is able to access these funds for more homes Montanans can afford. The passage of SB 18 can help to finally access these foregone dollars and bring more investment to our state.**

Financing

The FHTC and the WHTC programs provide direct equity from private investors in exchange for income tax benefits, reducing project need for debt and subsidies. **SB 18 would create a Montana workforce housing tax credit to channel more equity into developments to make construction feasible, while keeping rents affordable for Montanans.**

When we invest in homes people can afford, our community members will have healthier, more successful lives, which will help our whole community.

Contacts:

Glenn Oppel
406-431-3685
glenno@strategies360.com

Melissa Shannon
406-422-2922
melissas@strategies360.com

Nik Griffith
406-868-3602
nikg@strategies360.com