



REMI USERS CONFERENCE
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**THE ECONOMIC IMPACT
OF A STATE LOW INCOME
HOUSING TAX CREDIT
IN MONTANA**

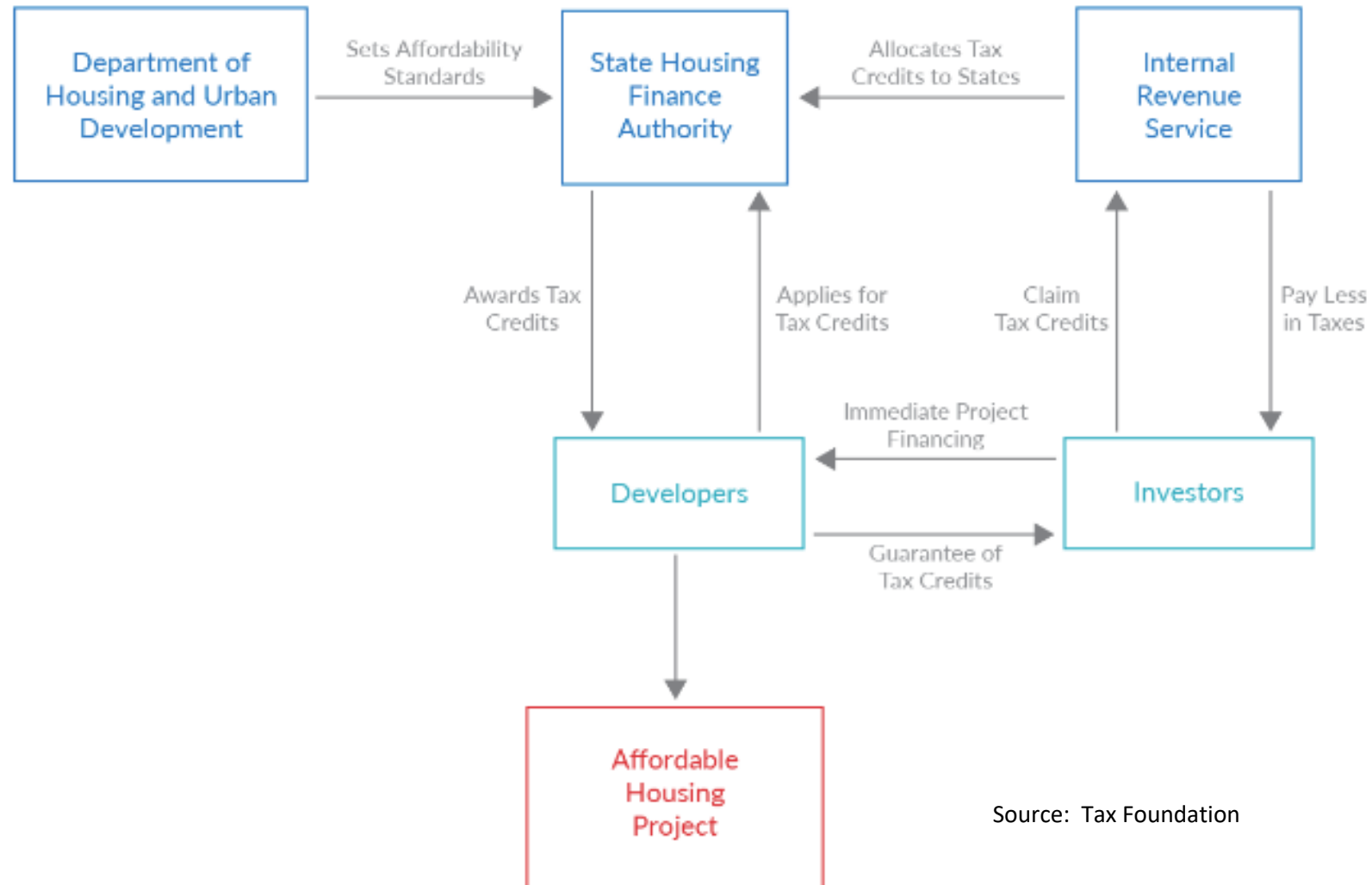
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The Federal Low Income Housing Tax Credit (LIHTC) Program

- Passed in 1986 as part of the Tax Reform Act
- Has subsidized over 3 million housing units since then at a cost of about \$8 billion in foregone revenue each year
- Has strong political support
- Provides nonrefundable, transferable tax credits to developers for construction and rehabilitation of housing units restricted to low income households charging below-market rent
- A mature, established program with a number of players both in the public and private sector

Low-Income Housing Tax Credit Involves Multiple Public and Private Actors

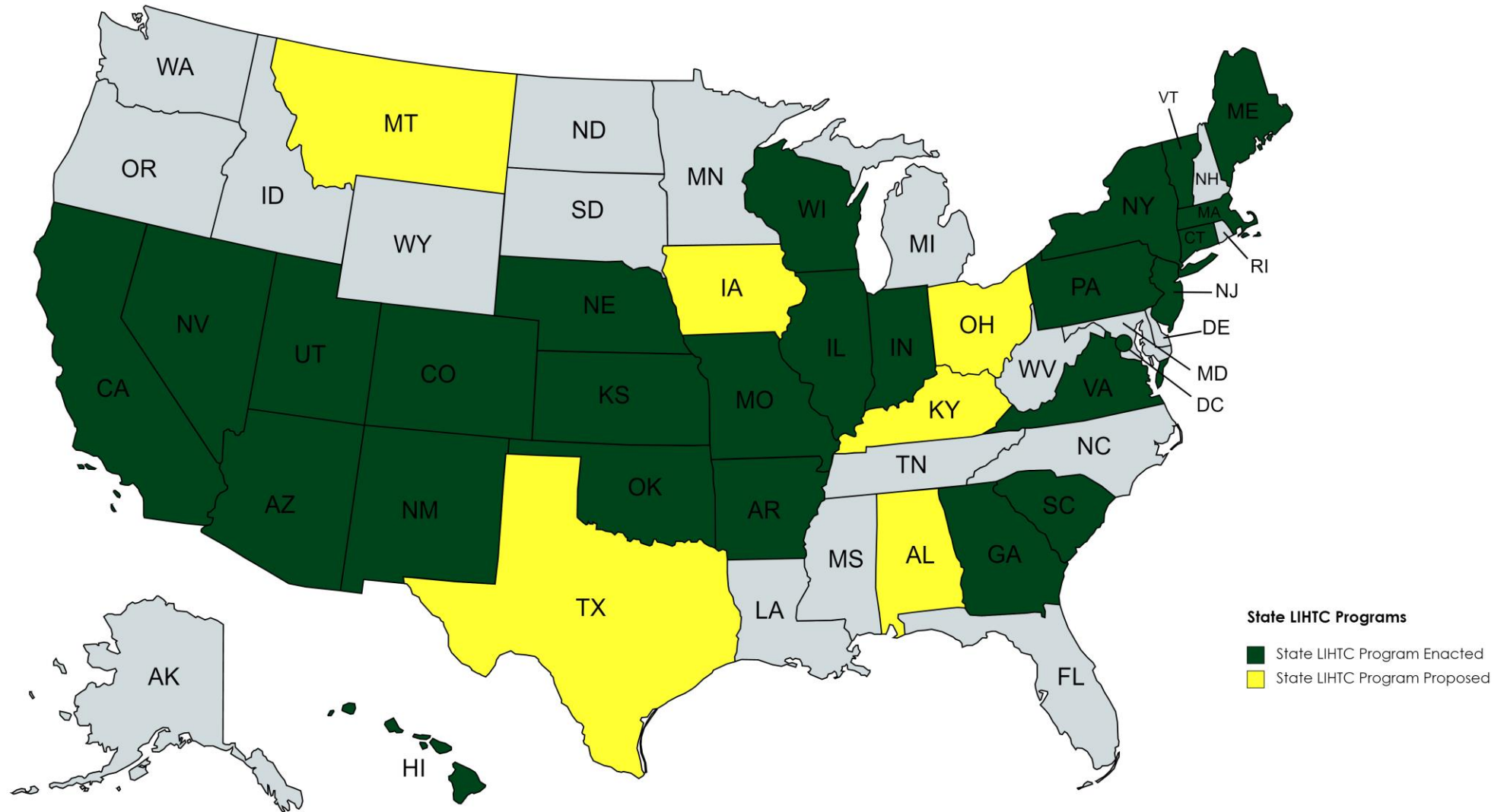
Structure of Low-Income Housing Tax Credit



Source: Tax Foundation

Key Program Considerations

- 9% Credits – capped and competitive
- 4% Credits – open to all, but not as generous
- Credits awarded for 10 years after property is occupied
- Developers typically sell the credits for up-front financing
- Residents of LIHTC properties pay below-market rent
- Rent subsidy maintained for 30 years (credits not reclaimable for the last 15 years)
- LIHTC properties must accept HUD housing vouchers



The Montana Low Income Housing Tax Credit

- Passed by the 2021 Legislature but vetoed by Governor for lack of analysis of economic impacts
- Adds to the federal credit for 4% projects with credit against state taxes
- 4% projects currently underutilized in Montana
- Research question: what will passage of a state credit do to
 - the number of projects
 - social spending
 - the state economy

Model

- $Units_{it} = \beta_0 + \beta_1 StateCredit_{it} + \beta_2 SFpermits_{it} + u_i + v_t + e_{it}$
- $Units = Count\ of\ Federal\ LIHTC\ units \sim Poisson$
- u_i is the state fixed effect (unique to state doesn't change overtime)
 - Compares changes **within** states not across states.
- v_t is the year fixed effect (unique to year doesn't vary by state)
 - Business cycle, national construction costs,

State Panel Model (Fixed Effects)

	Marginal Effects Dependent Variable		
	All Units	Units in metros	Units in non-metro areas
State tax credit	+ 20.7% ***	+ 17.5% ***	+ 59.1% ***
	(20.7%, 20.7%)	(17.5%,17.5%)	(59.1%,59.1%)
Single-family building	0.000435 %	0.000343 %	0.00110 %
	(-0.0000495, 0.000919)	(-0.000207, 0.000892)	(-0.000578, 0.00278)
State fixed effects	Yes ***	Yes ***	Yes ***
Year fixed effects	Yes ***	Yes ***	Yes ***
Observations (50 states x 31 years)	1550	1550	1550

Effect of Montana Workforce Housing Tax Credit on Federal LIHTC Units

- $Units_{it} = \beta_0 + \beta_1 StateCredit_{it} + \beta_2 SFpermits_{it} + u_i + v_t + e_{it}$
- Assumptions for Forecast
 - MT passes Montana Workforce Housing Tax Credit in 2023
 - Single-family permits = 2923 (last 10 year average)
 - Construction Costs stay high but increase 2% in 2023

Non Metro vs Metro Development

- Expected unit Increase in Non Metro Units
 - 51 units = Montana Workforce Housing Tax Credit
 - 32 units = Not Passed (Counterfactual)
 - **+ 60.4%**
- Expected unit Increase in Metro Areas
 - 262 units = Montana Workforce Housing Tax Credit
 - 222 units = Not Passed (Counterfactual)
 - **+ 17.5%**
- **Overall: +59** Federal LIHTC units per year

Impact of Increased Low-Income Housing on Other Social Spending

- Housing and health
 - Family stability
 - Environmental factors (asthma, particulates, lead)
 - Location (schools)
 - Health care access (avoiding ER)
- Housing and criminal justice system
 - Drug abuse
- Housing (subsidized) and economic security
 - Food security

Research Plan

- Estimate the increase in those transitioning to permanent housing security
- Estimate the impact of state spending
- Reduce state taxes in REMI to represent the savings to taxpayers
- Example: Boise State researchers estimate that 100 homeless people incur social service costs of \$5.3 million for ER visits, hospitalization, shelters, and criminal justice encounters

Impact on the Economy

- Only consider the new units built that are arguably caused by the state supplemental credit
- All federal funds that arrive for these new units are new money to the state economy
- New residential investment demand, funded ultimately by federal support (capital stock adjustment, maintenance expenditures)
- Residents pay below market rent – treat as transfer payment. Acceptance of housing vouchers is a spin off benefit.
- State taxes go up by the amount of state credits issued to balance budget.

The Economic Impact of MT Workforce Housing Tax Credit: Summary

		Impacts by Year				
Category	Units	2023	2024	2025	2026	2027
Total Employment.....	Jobs	249	241	219	183	142
Personal Income.....	\$ Millions	11.8	11.2	10.9	9.7	8.0
Disposable Personal Income.....	\$ Millions	10.1	9.6	9.3	8.2	6.8
Output.....	\$ Millions	34.7	34.3	31.9	27.7	22.6
Population	People	80	134	169	185	185