



[SF 295](#) – Economic Assistance, Housing (LSB1978SV)
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Fiscal Note Version – New

Description

[Senate File 295](#) expands upon and creates new tax credit, loan, and grant programs to incentivize housing options. A brief description by division is below and the following pages include assumptions and fiscal impact where it can be estimated.

DIVISION I — Creates an Iowa Housing Tax Credit Program to be administered by the Iowa Finance Authority (IFA). The new credit is subject to award by the IFA and is available to developers of qualified low-income housing projects under Internal Revenue Code section [42\(g\)](#) that are financed with tax-exempt bonds. The transferable tax credits may be applied to corporate income tax, individual income tax, bank franchise tax, insurance premium tax, or credit union moneys and credits tax. The maximum amount of credits that may be issued is \$15.0 million per calendar year, plus an amount equal to any unused or otherwise returned credits from previous award years. The Division takes effect January 1, 2022.

DIVISION II — Removes the \$3.0 million cap placed on the transfer of the real estate transfer tax receipts to the Housing Trust Fund effective July 1, 2022.

DIVISION III — Increases the annual limit on awarded Workforce Housing Tax Credits from \$25.0 million to \$50.0 million and increases the amount reserved for projects in small cities from \$10.0 million to \$20.0 million. The credit limit and reservation changes are effective for FY 2022 through FY 2024.

DIVISION IV — Creates a Downtown Loan Guarantee Program to be administered by the Iowa Economic Development Authority (IEDA) and the IFA. The Program is to encourage downtown businesses and banks to reinvest and reopen following the COVID-19 pandemic. The loan must finance an eligible downtown resources center [Community Catalyst Building Remediation Program](#) grant project or [Main Street Iowa Challenge Grant](#) within a designated district, and at least 25.0% of the project cost must be used for construction on the project or renovation. The loan must also contain a housing component. The Bill allows loan guarantee limits of 50.0% or less for a loan amount less than or equal to \$500,000, or a maximum guarantee of \$250,000 if a loan is more than \$500,000. The program can be funded through an appropriation or a transfer from any fund created and controlled by IEDA through Iowa Code section [15.106A](#).

Division IV is effective July 1, 2022.

DIVISION V — Creates a Disaster Recovery Housing Assistance Program and related Fund to be administered by the IFA. The program is for a forgivable loan and grant program for homeowners and renters with disaster-affected homes that are destroyed or damaged due to a natural disaster in a county that is the subject of a state of disaster emergency proclamation by the Governor. The Program also includes major disasters in Iowa recognized by the United States President after March 12, 2019, but before the effective date of the legislation.

Administrative rules will determine the amount of assistance for eligible applicants.

The Disaster Recovery Housing Assistance Program can be funded through an appropriation, a transfer of unobligated moneys from any fund created and controlled by IFA through Iowa Code section [16.5\(1\)\(s\)](#), a transfer from any fund created and controlled by IEDA through Iowa Code section [15.106A](#), and from the Senior Living Revolving Loan Program Fund, the Home and Community-Based Services Revolving Loan Program Fund, the Transitional Housing Revolving Loan Program Fund, and the Community Housing and Services for Persons with Disabilities Revolving Loan Program Fund.

The Disaster Recovery Housing Assistance Fund administered by the IFA may also allocate grants to the Eviction Prevention Program, created in the Bill, which can make rental assistance grants.

Division V is effective upon enactment.

DIVISION VI — Extends the Redevelopment Tax Credit Program (Brownfields and Grayfields) for 10 years and increases the annual award maximum from the current level of \$10.0 million to \$20.0 million. The changes also allow the Authority to award credits in excess of the \$20.0 million limit under certain circumstances. The program extension and the authority to exceed the annual award limit are effective upon enactment. The Bill extends the repeal date of the program from June 30, 2021, to June 30, 2031.

Division I

Background

The Iowa Finance Authority currently administers a federal low-income housing program pursuant to [26 U.S.C. § 42](#). Projects approved for the Iowa Housing Tax Credit must meet the requirements of the federal program. The Authority is required to submit a report to the General Assembly by January 31 of each year that includes the number of qualified developments for which the Authority issued tax certificates the prior year, along with a description and relevant statistics for each qualified development.

Assumptions

Iowa Housing Tax Credit Program:

- The IEDA will award \$15.0 million in Iowa Housing Tax Credits each calendar year (CY), beginning with CY 2022.
- The IEDA is not required to award tax credits to every project in equal increments over the 10-year credit period. However, for this projection, it is assumed that the IEDA will choose to do so.
- Tax certificates are issued after projects are complete. It is assumed that 50.0% of projects will be completed in the fiscal year after the award and 50.0% will be completed in the following fiscal year.
- Since the tax credit amounts for a completed project are assumed to be divided into 10 annual allotments, the annual amounts for a project are assumed to be relatively small and therefore should be redeemed in a shorter time frame than other investment tax credits. It is assumed that once issued, the tax credits will be redeemed 40.0% in the year of issuance, 40.0% in the year after issuance, and 20.0% in the second year after issuance.

Fiscal Impact

Iowa Housing Tax Credit Program — The creation of a new Iowa Housing Tax Credit is projected to reduce net General Fund revenue by the following amounts:

- FY 2023 = \$0.3 million
- FY 2024 = \$1.2 million
- FY 2025 = \$2.6 million
- FY 2026 = \$4.1 million
- FY 2027 = \$5.6 million

The projected revenue reduction is estimated to continue to increase, reaching \$15.0 million for FY 2035 and after.

The IFA currently administers a similar federal housing tax incentive program. The IFA expects the administrative costs associated with administering awards under this new program to be covered by application fees.

Division II

Background

Real Estate Transfer Tax — The [real estate transfer tax](#) is imposed on the transfer of real estate in the State. The tax is equal to \$0.80 per \$500 (or any fractional part of \$500) of consideration paid as part of or a condition of the property transfer. As examples, the transfer of a \$1,200 property would incur a tax of \$2.40, while the transfer of a \$1.0 million property would incur a tax of \$1,600.

The tax is paid to the county. Iowa Code section [428A.8](#) controls the division of the tax revenue. The county retains 17.25% of the tax revenue for deposit in the county general fund. The county remits the remaining 82.75% to the State. The State portion is deposited as follows:

- 30.0% to the [Housing Trust Fund](#) up to a limit of \$3.0 million each fiscal year.
- 5.0% to the [Shelter Assistance Fund](#).
- 65.0% to the State General Fund plus any Housing Trust Fund revenue in excess of \$3.0 million.

The following table provides a history of real estate transfer tax deposits to State funds for the past four fiscal years.

Real Estate Transfer Tax Revenue, State Portion				
In Millions				
<u>Fund</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Housing Trust Fund	\$ 3.0	\$ 3.0	\$ 3.0	\$ 3.0
Shelter Assistance Fund	1.1	1.2	1.2	1.2
State General Fund	18.6	19.2	19.1	20.3
Total	\$ 22.7	\$ 23.4	\$ 23.3	\$ 24.5

Assumptions

Real Estate Transfer Tax — Over the past 13 fiscal years (FY 2007 through FY 2020), the average annual rate of growth in real estate transfer tax has equaled 2.3%. That rate of growth is assumed for FY 2021 and future fiscal years.

Fiscal Impact

Real Estate Transfer Tax — Removing the Housing Trust Fund annual \$3.0 million real estate tax revenue limit is estimated to increase Housing Trust Fund revenue and reduce net General Fund revenue by the following amounts:

- FY 2022 = \$4.7 million
- FY 2023 = \$4.9 million
- FY 2024 = \$5.1 million
- FY 2025 = \$5.3 million
- FY 2026 = \$5.4 million
- FY 2027 = \$5.4 million

Division III

Background

Workforce Housing Tax Credits — The Workforce Housing Tax Credit provides tax incentives for the development of housing projects in Iowa. The credit was first available beginning July 1, 2014. The program has been expanded several times. The credit is administered and awarded by the IEDA. Tax credits under the program take the form of sales tax refunds and transferable investment tax credits.

Assumptions

Workforce Housing Tax Credits:

- The IEDA will award the \$50.0 million in allowed Workforce Housing Tax Credits for FY 2022 through FY 2024 (three years).
- Based on program history with previous projects, the additional \$25.0 million in credits for each of the three years is assumed to be distributed as \$5.5 million (22.0%) of sales tax refunds and \$19.5 million of investment tax credits. Of the credits awarded, 72.0% of the sales tax refunds is assumed to be redeemed, while 100.0% of the investment tax credits is assumed to be redeemed.
- The first fiscal year of tax redemptions will be FY 2022.
- 50.0% of the sales tax refund redemptions will occur in the year of award and 50.0% in the following year.
- For the transferable investment tax credit portion of awards, 30.0% will be redeemed in the year of award and 30.0% in each of the next two years. The remaining 10.0% is assumed to be redeemed in the third year after the year of award.

Fiscal Impact

Workforce Housing Tax Credits — The three-year increase in the annual award amount under the Workforce Housing Tax Credit program is projected to reduce net General Fund revenue by the following amounts:

- FY 2022 = \$7.8 million
- FY 2023 = \$15.7 million
- FY 2024 = \$21.5 million
- FY 2025 = \$15.6 million
- FY 2026 = \$7.8 million
- FY 2027 = \$2.0 million

The increase in the program limit will be repealed July 1, 2024. The projected revenue reduction is not projected to continue past FY 2027. The changes double the dollar amount of projects that can qualify under the program for the next three years. This can be expected to

increase the administrative workload of the IEDA.

Division IV

Background

Downtown Loan Guarantee Program — The [Community Catalyst Building Remediation Program](#) awards grants to cities to redevelop, rehabilitate, or deconstruct buildings to stimulate economic growth or reinvestment in a downtown community. The Program had a budget of \$4.9 million in FY 2020 and has a \$4.3 million budget in FY 2021, funded from internal discretionary sources.

The [Main Street Iowa Challenge Grant Program](#) funds local improvement projects, including upper story renovations, critical building stabilization, and façade restoration and upgrades. The Program is funded through a transfer from the High Quality Jobs Program within IEDA, which is funded through the Skilled Worker and Job Creation Fund. In FY 2021, up to \$1.0 million was designated to be transferred to the Main Street Iowa Challenge Grant Program.

Assumptions

Downtown Loan Guarantee Program — There are no General Fund appropriations into the Downtown Loan Guarantee Program for FY 2022 or FY 2023.

Fiscal Impact

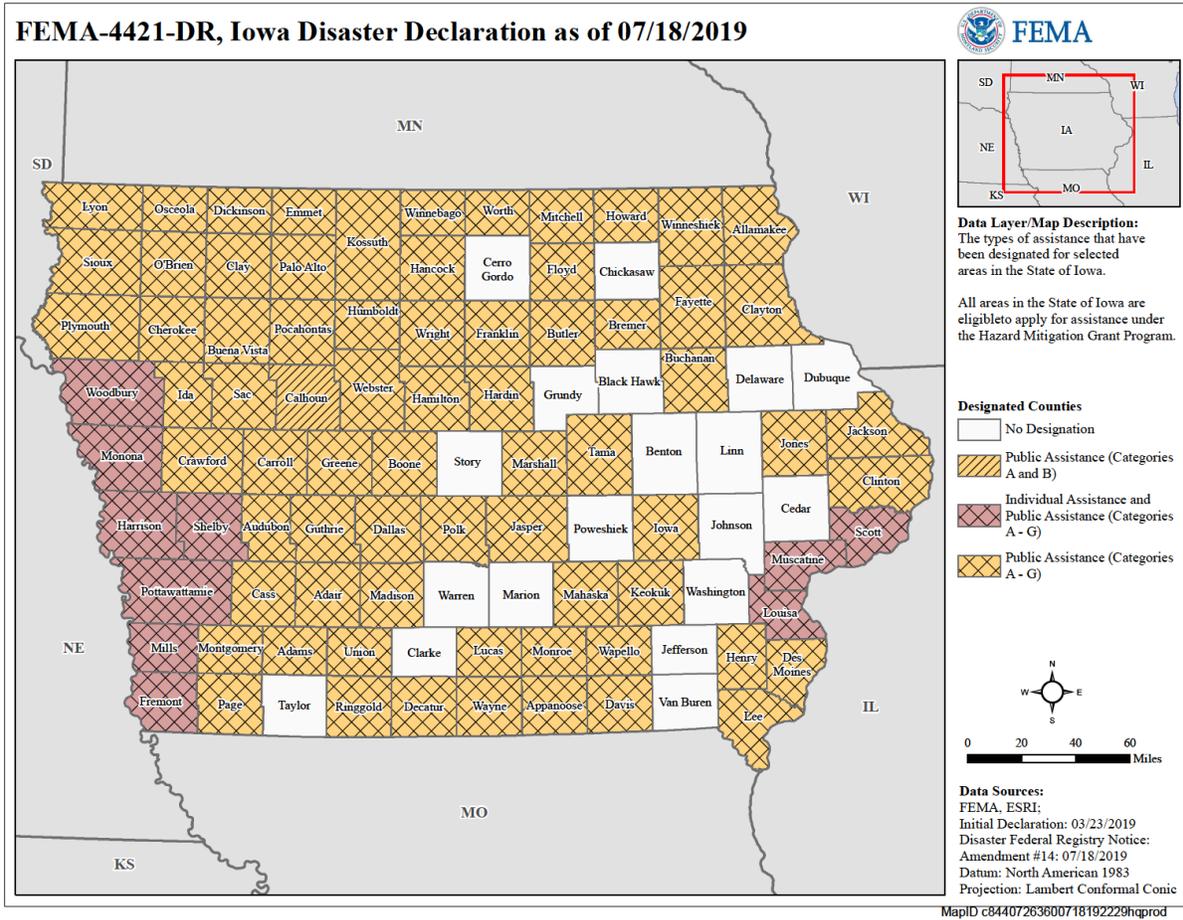
Downtown Loan Guarantee Program — Costs from the creation of a Downtown Loan Guarantee Program cannot be estimated, as no appropriation or transfer has been made to the Program. If appropriations or transfers are made to the Program, IEDA is expected to receive annual fee revenue from mortgage lenders as a result of the Downtown Loan Guarantee Program. This fee revenue cannot be estimated.

Division V

Background

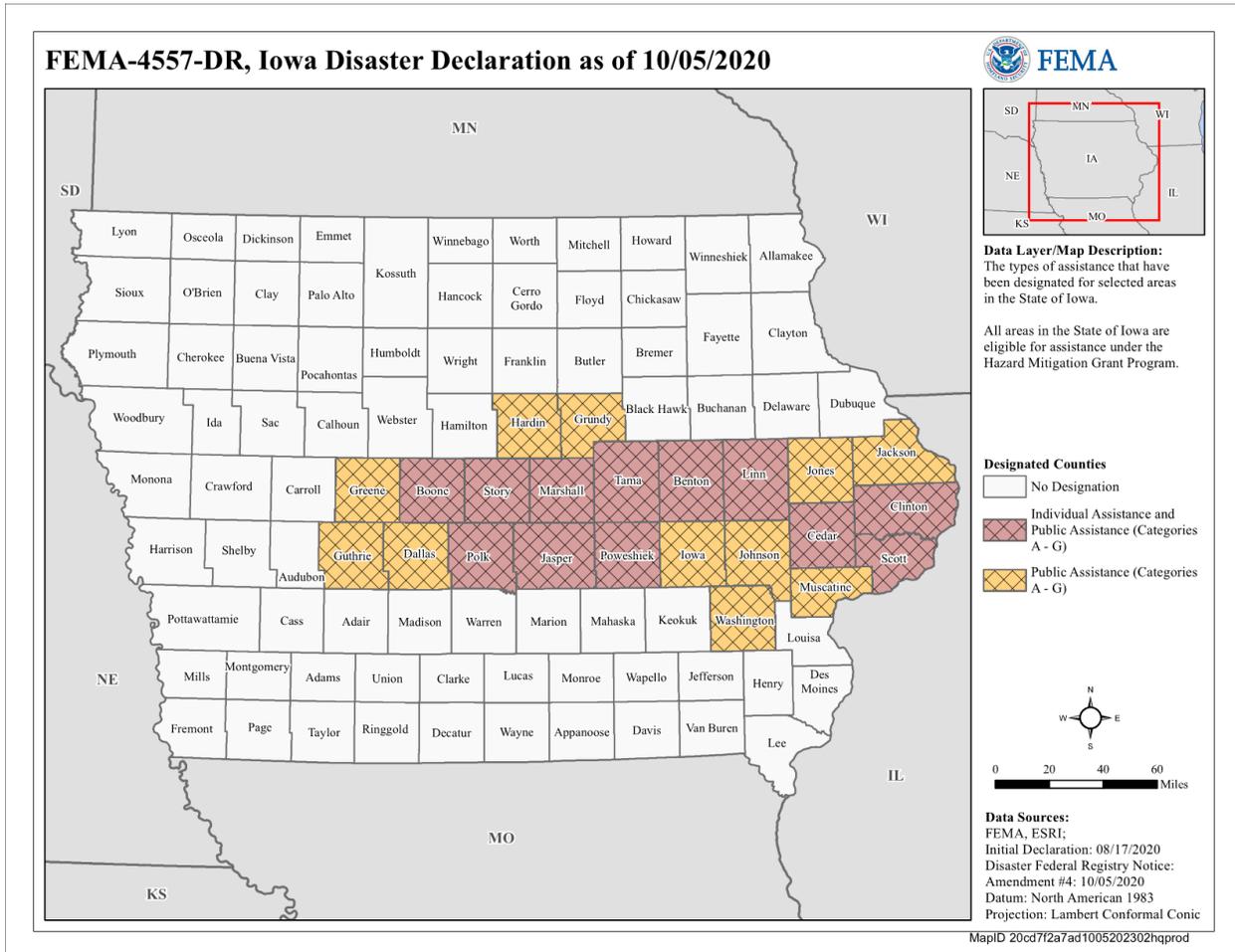
Disaster Recovery Housing Assistance Program — Beginning March 13, 2019, historic flooding impacted the State of Iowa. Thousands of homes were destroyed, causing hundreds of millions of dollars in damages. On March 23, 2019, the President declared a major disaster in the State of Iowa and signed the presidential declaration [FEMA-4421-DR-IA](#). With the declaration, the President authorized federal funds from Public Assistance Programs for 56 Iowa counties (see **Map 1** below). FEMA-4421-DR-IA also authorized federal funds from Individual Assistance grants in Fremont, Harrison, Mills, Monona, and Woodbury Counties. A total of 1,735 individual assistance applications from the Federal Emergency Management Agency (FEMA) were approved for reimbursement, totaling \$15.3 million. Funding from [federal public assistance](#) totaled \$194.8 million and was allocated to debris removal, infrastructure, and recreational facilities. State appropriations for flood mitigation from 2019 Iowa Acts, [SF 638](#) (Standing Appropriations Act), and 2020 Iowa Acts, [SF 2144](#) (Supplemental Appropriations Act), totaled \$36.0 million.

Map 1: FEMA-4421-DR, Iowa Disaster Declaration as of 07/18/2019



On August 10, 2020, a derecho hit central and eastern Iowa, causing both significant structural and crop damage across a large part of the State. President Trump issued a major disaster [declaration](#) for 16 counties on August 17, 2020. The declaration has been amended on multiple occasions to add additional counties and to make individual assistance available in the counties most impacted by the storm. **Map 2** below shows that, as of October 5, 2020, 23 counties qualify for public assistance and 12 counties qualify for both public assistance and individual assistance. As of February 3, 2021, FEMA has approved 3,063 individual assistance applications totaling \$11.1 million to rebuild after the storm.

Map 2: Iowa Severe Storms (DR-4557-IA)



The IFA administered the COVID-19 Iowa Eviction and Foreclosure Prevention Program, funded through \$37.4 million in Iowa Coronavirus Relief Fund allocations. The Program provided up to four months of actual rent or \$3,200, whichever was lower, in grants to income-eligible renters and homeowners who were at risk of eviction or foreclosure due to the pandemic. As of January 11, 2021, nearly 15,000 applications have received \$33.4 million in assistance from the Program.

Assumptions

Disaster Recovery Housing Assistance Program — There are no General Fund appropriations into the Disaster Recovery Housing Assistance Fund for FY 2022 or FY 2023. The Program may be funded from unobligated revenues transferred from other programs administered by the IFA, which shall be reported monthly to the Legislative Fiscal Committee.

Fiscal Impact

Disaster Recovery Housing Assistance Program — Costs or expenditures from the creation of a Disaster Recovery Housing Assistance Program and an Eviction Prevention Program cannot be estimated, as no appropriation or transfer has been made to fund the Program.

In the event a future disaster produces a disaster declaration by the Governor, activating the Disaster Recovery Housing Assistance Program, 0.25 full-time equivalent (FTE) positions will be necessary to assist the IFA Housing Program Manager to administer the Program. Costs will

be funded through an annual 5.0% administrative allowance cap in the Disaster Recovery Housing Assistance Fund or from other internal resources.

Division VI

Background

Redevelopment Tax Credit Program — This Program provides tax incentives for the development of contaminated, abandoned, or otherwise underutilized property in Iowa. The credit was available beginning July 1, 2009. The Program has been expanded several times. The credit is administered and awarded by the IEDA. Tax credit awards are based on the amount of qualified redevelopment expenditures from the project.

Assumptions

Redevelopment Tax Credit Program:

- The changes allow the Redevelopment Tax Credit Program to continue at a \$20.0 million annual level past its current statutory end date of July 1, 2021. The changes also allow credits that were not awarded or were otherwise recovered during the past five years to be awarded as an addition to the annual limit. It is assumed that the five-year lookback for unused tax credits will add \$2.0 million to the FY 2022 limit, and it is further assumed that all tax credits will be approved for all future years.
- Tax credit certificates are issued after a project is complete. For each fiscal year of award, it is assumed that 50.0% of certificates are issued in the fiscal year after project approval and the remaining certificates are issued in the following fiscal year.
- Once certificates are issued, 8.0% of the redemption value is assumed to occur in the fiscal year the certificates are issued and 22.0% in each of the succeeding four fiscal years. Four percent of issued tax certificates are assumed to expire without redemption.

Fiscal Impact

Redevelopment Tax Credit Program — The extension and expansion of the Redevelopment Tax Credit Program is projected to reduce net General Fund revenue by the following amounts:

- FY 2023 = \$0.9 million
- FY 2024 = \$4.1 million
- FY 2025 = \$8.6 million
- FY 2026 = \$13.0 million
- FY 2027 = \$17.4 million
- FY 2028 = \$19.2 million

The General Fund revenue reduction is projected to continue at the \$19.2 million level through FY 2032, and then be reduced to zero by FY 2037. The changes double the dollar amount of projects that can qualify under the Program for the next 10 years. This can be expected to increase the administrative workload of the Authority.

FISCAL IMPACT SUMMARY

General Fund Revenue Impact by Division					
In Millions					
	Division I Iowa Housing Tax Credit	Division II Housing Trust Fund Cap	Division III Workforce Housing Tax Credit	Division VI Redevelopment Tax Credit	Total General Fund Revenue Change
FY 2022	\$ 0.0	\$ -4.7	\$ -7.8	\$ 0.0	\$ -12.5
FY 2023	-0.3	-4.9	-15.7	-0.9	-21.8
FY 2024	-1.2	-5.1	-21.5	-4.1	-31.9
FY 2025	-2.6	-5.3	-15.6	-8.6	-32.1
FY 2026	-4.0	-5.4	-7.8	-13.0	-30.2
FY 2027	-5.6	-5.4	-2.0	-17.4	-30.4
FY 2028	-7.0	-5.5	0.0	-19.2	-31.7
FY 2029	-8.5	-5.5	0.0	-19.2	-33.2
FY 2030	-10.1	-5.5	0.0	-19.2	-34.8

Additional Potential Fiscal Impact

Existing Iowa law provides for a significant change to Iowa’s individual income tax system once two General Fund revenue triggers are met. The first year that the triggers may be met is at the conclusion of FY 2022. Once implemented, this contingent income tax system is projected to reduce Iowa individual income tax by roughly \$300.0 million per tax year. Since this Bill is projected to reduce General Fund revenue in FY 2022 and after, the Bill’s changes will moderately reduce the possibility of achieving both revenue triggers; as a consequence, the Bill could result in delayed implementation of the income tax reduction.

Sources

Department of Revenue
 Legislative Services Agency
 Iowa Economic Development Authority
 Iowa Finance Authority
 Federal Emergency Management Agency

/s/ Holly M. Lyons

March 23, 2021

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.