LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

March 22, 2005

TO: Honorable Craig Eiland, Chair, House Committee on Pensions & Investments

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **HB1655** by Keffer, Jim (Relating to funding for the Texas statewide emergency services personnel retirement fund.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1655, As Introduced: a positive impact of $6,224,000 through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	$3,007,000
2007	$3,217,000
2008	$3,442,000
2009	$3,684,000
2010	$3,941,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from *GENERAL REVENUE FUND* 1	Probable Revenue Gain from *FOUNDATION SCHOOL FUND* 193	Probable Revenue Gain from *EMS PERSONNEL RETIREMENT TRUST FUND* 976
2006	$2,240,000	$767,000	$61,000
2007	$2,396,000	$821,000	$66,000
2008	$2,564,000	$878,000	$70,000
2009	$2,744,000	$940,000	$75,000
2010	$2,936,000	$1,005,000	$80,000

Fiscal Analysis

The bill would remove fire insurance from the lines of property and casualty insurance currently taxed at a rate of 1.6 percent, and impose a separate 2 percent tax rate on gross premiums from fire insurance written on property or risks located in Texas during a calendar year. Of the 2 percent rate, 0.4 percent would be deposited to the credit of the Texas Statewide Emergency Services Personnel Retirement Fund 0976.

This bill would take effect January 1, 2006, and would only apply to a premium tax originally due on or after that date.

Methodology

The Texas Constitution, Article VII, Section 3 dedicates 25 percent of the revenue derived from occupation taxes to GR Account 0193—Foundation School. The premium tax on property and casualty insurance is an occupation tax; as such, 25 percent of its proceeds are allocated to GR Account 0193. Any rate increase for this tax—such as the one that would be implemented by this bill—would be expected to generate a gain to GR Account 0193 equal to 25 percent of the net revenue gain attributable to the rate increase.

This estimate, prepared by the Comptroller's office, was based on historical Texas premium data for fire insurance as reported by line of business in the annual reports of the National Association of Insurance Commissioners. The premium data were extrapolated over the projection period and then multiplied by the proposed 2 percent tax rate. Because the bill states that "the rate of tax . . . is two percent, of which 0.4 percent will be deposited to the credit of [the new fund]," the Comptroller's office multiplied the proposed 2 percent tax rate by 0.4 percent to yield an effective tax rate of 0.008 percent for the purposes of allocating gross tax revenue to Fund 0976. Likewise, the gross allocation to GR Account 0193 was calculated by multiplying the proposed 2 percent rate by 25 percent, and the gross deposit to the General Revenue Fund 0001 was calculated as a residual. The expected gross tax revenues at the proposed 2 percent tax rate were then compared to expected revenues under the current 1.6 percent tax rate to derive the gross revenue gain attributable to this bill.

Because the state's insurance premium taxes include a retaliatory component, the rate increase on fire insurance would be expected to trigger losses in retaliatory tax receipts, ranging from $547,000 through $717,000 per year over the projection period. These losses were apportioned pro rata among Fund 0001, GR Account 0193, and Fund 0976 to calculate the net fiscal impacts over the projection period.

This legislation would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source. Legislative policy, implemented as Government Code 403.094, consolidated special funds (except those affected by constitutional, federal, or other restrictions) into the General Revenue Fund as of August 31, 1993, and eliminated all applicable statutory revenue dedications as of August 31, 1995. Each subsequent Legislature has reviewed bills that affect funds consolidation. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 325 Fire Fighters' Pension Commissioner, 454 Department of Insurance

LBB Staff: JOB, SR, WP, DLBe