

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 21, 2013

TO: Honorable John Davis, Chair, House Committee on Economic & Small Business Development

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB2061** by Murphy (Relating to a tax credit for investment in certain communities; imposing a monetary penalty; authorizing a fee.), **Committee Report 1st House, Substituted**

No significant fiscal impact to the state is anticipated through the biennium ending August 31, 2015 for HB 2061. However, in fiscal year 2016 the bill will result in a revenue loss of \$52.5 million.

General Revenue-Related Funds, Eight-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2014	\$45,000
2015	\$0
2016	(\$52,500,000)
2017	(\$60,000,000)
2018	(\$60,000,000)
2019	(\$60,000,000)
2020	(\$60,000,000)
2021	\$0

All Funds, Eight-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from General Revenue Fund 1	Probable Revenue (Loss) from Foundation School Fund 193
2014	\$45,000	\$0
2015	\$0	\$0
2016	(\$39,375,000)	(\$13,125,000)
2017	(\$45,000,000)	(\$15,000,000)
2018	(\$45,000,000)	(\$15,000,000)
2019	(\$45,000,000)	(\$15,000,000)
2020	(\$45,000,000)	(\$15,000,000)
2021	\$0	\$0

Fiscal Analysis

The bill would authorize up to \$292.5 million in insurance tax premium credits to be taken during a five-year period beginning in fiscal year 2016. The maximum credit that could be taken is \$52.5 million in fiscal year 2016 and \$60 million each year in fiscal years 2017 through 2020. The state tax credits would go to insurance companies investing in Community Development Entities (CDEs) certified as eligible for the Federal New Markets Tax Credit Program by Community Development Financial Institutions Fund (CDFI) of the U.S. Treasury. (The Federal New Markets Tax Credit Program grants a 39 percent federal tax credit to investors in CDEs. The state tax credits would be in addition to the federal credits.)

In order to secure \$292.5 million in state insurance tax credits, the CDE would have to receive \$750 million in investments. The CDEs would then invest in projects in low-income census tracts in the state designated by the CDFI as eligible for the federal New Markets Tax Credit Program. The CDEs have one year from the receipt of their funding to invest in projects in low-income census tracts in the state. The investments would have to be deployed for six years. Failure of a CDE to make or maintain the required investments could result in recapture of its tax credits. The bill would impose a \$5,000 application fee on CDE applicants. The Comptroller of Public Accounts (CPA) would administer the program and issue biennial reports on the program. Each applicant would also make a \$500,000 refundable deposit to the CPA. The refundable performance deposits would be held outside the Treasury. The deposits would be refunded if the CDE is not approved or the CDE meets certain investment requirements.

Methodology

The estimate assumes that investments in and by the CDEs would be sufficient to allow all authorized credits to be taken by the end of fiscal year 2020. The estimate assumes that there would be nine applicants at \$5,000 each for certification as CDEs for a General Revenue Fund gain of \$45,000. The estimate assumes that investment requirements would be met and all refundable performance deposits would be refunded in the fiscal year the deposits are made.

Technology

No technology impact is anticipated.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 301 Office of the Governor, 304 Comptroller of Public Accounts, 454
Department of Insurance

LBB Staff: UP, RB, JI, RS, KK