LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 3, 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; authorizing a fee.), **As Introduced**

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 $52.2 million.

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, Eight-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2014	($36,844)
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	Probable (Cost) from *General Revenue Fund* 1	Change in Number of State Employees from FY 2013
2014	$45,000	$0	($81,844)	1.0
2015	$0	$0	$0	0.0
2016	($39,375,000)	($13,125,000)	$0	0.0
2017	($45,000,000)	($15,000,000)	$0	0.0
2018	($45,000,000)	($15,000,000)	$0	0.0
2019	($45,000,000)	($15,000,000)	$0	0.0
2020	($45,000,000)	($15,000,000)	$0	0.0
2021	$0	$0	$0	0.0

Fiscal Analysis

The bill would authorize $292.5 million in insurance premium tax credits to be taken 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 be taken by 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 and Texas Economic Development and Tourism Office. (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 invest in low-income census tracts in the state designated by the CDFI as eligible for the federal New Markets Tax Credit Program. The CDEs would have one year from the receipt of their funding to make the investments. 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 tax credits.

The bill would impose a non-refundable $5,000 application fee on CDE applicants and a refundable $500,000 performance fee on CDEs. The performance fees would be held outside the Treasury.
The phrase limiting qualified investments to $750 million "at any time" could be interpreted to authorize a perpetual program. If another $750 million in qualified equity investments is made in 2020, there would be a revenue loss of $52.5 million in fiscal year 2022 and a revenue loss of $60 million each year in fiscal years 2023 through fiscal year 2026.

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 for certification as CDEs (for a General Revenue Fund gain of $45,000), and the Texas Economic Development and Tourism Office would add one FTE (at a salary and related cost of $81,844 to the General Revenue Fund) to administer the certification of

CDEs in fiscal year 2014. The estimate assumes that investment requirements would be met and all performance fees would be refunded in the fiscal year the fees are charged.

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