

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION**

**April 17, 2013**

**TO:** Honorable Tommy Williams, Chair, Senate Committee on Finance

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE: SB931** by Hancock (Relating to tax credits for investments in economically distressed communities.), **As Introduced**

**No significant fiscal impact to the state is anticipated through the biennium ending August 31, 2015 for SB 931. 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:**

<b>Fiscal Year</b>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
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:**

<b>Fiscal Year</b>	<b>Probable Revenue Gain/(Loss) from General Revenue Fund 1</b>	<b>Probable Revenue (Loss) from Foundation School Fund 193</b>	<b>Probable (Cost) from General Revenue Fund 1</b>	<b>Change in Number of State Employees from FY 2013</b>
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 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 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 non-refundable \$5,000 application fee on CDE applicants and a refundable \$500,000 performance fee on CDEs. The refundable performance fees would be held outside the Treasury.

**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, and the Texas Economic Development and Tourism Office would add one FTE in fiscal year 2014 to administer the certification of CDEs at a salary and related cost of \$81,844 to the General Revenue Fund . 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, KK, JI, RS