LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 11, 2017

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB2453** by Lucio III (Relating to an insurance premium tax credit for investment in certain communities; imposing a monetary penalty; authorizing fees.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2453, As Introduced: a positive impact of $200,000 through the biennium ending August 31, 2019.

However, the bill would result in a negative impact of ($54,763,000) to General Revenue Related Funds through the biennium ending August 31, 2021.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2018	$100,000
2019	$100,000
2020	($17,263,000)
2021	($37,500,000)
2022	($57,500,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from *General Revenue Fund* 1	Probable Revenue (Loss) from *General Revenue Fund* 1	Probable Revenue (Loss) from *Foundation School Fund* 193	Probable Revenue Gain from *New Markets Performance Guarantee Fund*
2018	$100,000	$0	$0	$5,000,000
2019	$100,000	$0	$0	$5,000,000
2020	$100,000	($13,025,000)	($4,338,000)	$5,000,000
2021	$0	($28,125,000)	($9,375,000)	$0
2022	$0	($43,125,000)	($14,375,000)	$0

Fiscal Analysis

The bill would amend Subtitle B of Title 3 of the Insurance Code by adding new Chapter 231, regarding insurance premium tax credits for investment in certain communities.

The bill would establish a state credit program similar to the federal program run by the U.S. Department of the Treasury known as the new markets credit. Under the proposed state program a qualified community development entity (QCDE), as defined in the federal program, would apply for certification of a security issued by the QCDE as a qualified equity investment. The application would include a nonrefundable application fee of $5,000 paid to the Comptroller. In addition, not later than the 14th day after the qualified equity investment is certified, the QCDE would be required to deposit with the Comptroller a $500,000 refundable performance deposit to be deposited into an interest bearing fund outside the Treasury called the New Markets Performance Guarantee Fund.

Not later than the 20th month after the date the QCDE receives notification of the certification, the entity would issue the qualified investment and receive cash in the amount certified from the sale of the investment to taxable entities. The QCDE must provide the Comptroller with evidence of the cash investment within 10 business days and pay the Comptroller a fee of 0.2 percent of the amount issued. The fees collected for issuance of qualified equity investments could only be used to pay the cost of a report required from the Comptroller on activity under the bill's provisions. The Comptroller would have to contract with an independent researcher to prepare the report which would be due not later than December 15 of each even-numbered year.

The QCDE would be required to make qualified low-income community investments in qualified active low-income community businesses, as defined in federal law, in this state of at least 85 percent of the investment's or security's purchase price by the second anniversary of the date of issuance.

The Comptroller would be required to review the investments of a QCDE in qualified low-income communities on a periodic basis to ensure that the entity has made and maintained the investments required by the law to avoid recapture of a credit claimed in connection with a qualified equity investment.

The holder of a qualified equity investment would be eligible for insurance premium tax credits on a schedule provided in the bill. The first credit would accrue on the second anniversary of the issuance of the qualified equity investment and would equal 7 percent of qualified equity investment. The credit accrued on the next four anniversary dates would be 8 percent of the qualified equity investment. The amount of credit claimed would be limited to the amount of tax due on the report. Credits that could not be claimed due to the limitation could be carried forward for not more than 20 consecutive reports.

The amount of investments that could be certified would be limited so that the resulting credits would not exceed $60 million in a state fiscal year and $300 million in total.

A QCDE would have to annually submit certain information to the Comptroller not later than the fifth business day after the anniversary of a credit allowance date applicable to the investment. A QCDE that fails to timely submit the information would be subject to a fine of $25,000 and an additional $5,000 for each day the report is not submitted after the due date.

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 in, with, or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

The bill would require the Comptroller to provide an initial application date of October 2, 2017.

The bill would take effect on September 1, 2017, and apply to reports due on or after that date.

Methodology

The estimated fiscal impact assumes that $250 million per year in qualified investments would be certified over a three year period beginning in 2018. This would result in a loss of Insurance Premium tax revenue displayed in the above tables. Because 75 percent of Insurance Premium tax revenue is deposited in the General Revenue Fund and 25 percent is deposited to the Foundation School Fund, the revenue loss is split between the two accounts.

The estimate assumes QCDEs would timely file required information with the Comptroller. The estimate also assumes that there would be 20 applications each year of which 10 would result in certification. Based on the fees and deposits specified in the bill, this would result in a revenue gain to the General Revenue Fund and the newly created New Markets Performance Guarantee Fund.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD