LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION
Revision 1

May 5, 2017

TO: Honorable Angie Chen Button, Chair, House Committee on Economic & Small Business Development

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3772** by Button (Relating to operation of the Texas leverage fund program administered by the Texas Economic Development Bank.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3772, Committee Report 1st House, Substituted: a negative impact of ($4,259,000) through the biennium ending August 31, 2019.

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
2018	($4,259,000)
2019	$0
2020	$0
2021	$0
2022	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from *General Revenue Dedicated balances*	Probable Savings/(Cost) from *Economic Development Bank* 5106	Probable Revenue (Loss) from *Economic Development Bank* 5106	Probable Savings/(Cost) from *New Texas Leverage Fund outside Treasury*
2018	($4,259,000)	$5,826,503	($5,826,503)	($5,885,458)
2019	$0	$3,126,793	($3,126,793)	($3,203,982)
2020	$0	$4,604,953	($4,604,953)	($4,699,845)
2021	$0	$5,965,540	($5,965,540)	($6,076,973)
2022	$0	$7,298,393	($7,298,393)	($7,425,528)

Fiscal Year	Probable Revenue Gain from *New Texas Leverage Fund outside Treasury*
2018	$5,885,458
2019	$3,203,982
2020	$4,699,845
2021	$6,076,973
2022	$7,425,528

Fiscal Analysis

The bill would amend Government Code relating to operation of the Texas Leverage Fund program administered by the Texas Economic Development Bank.

The bill would create the Texas Leverage Fund, and move the current Leverage Fund outside the treasury to be held in trust by the Comptroller. The bill would allow funds to be used to make loans to economic development corporations in accordance with certain chapters of Local Government Code. The bill would authorize bonds to be paid from the principal and interest that is returned to the fund from previous loans to economic development corporations. This fund would consists of proceeds from the issuance of revenue-based obligations; payments of principal and interest on certain loans; loan origination fees, investment earnings, and other money received by the bank. The fund could be used only to make loans to certain economic development corporations and to pay principal and interest on loans, origination fees and certain other purposes. The bill would limit the type of obligations that could be issued and would provide certain requirements relating to the issuance and refunding of bonds. The bill would place certain limits on the usage of the bond proceeds. The bill would define the bonds as legal investments for fiduciaries and other persons.

The bill would provide validation to the administration of the Texas Leverage Fund program that occurred before the effective date of the bill.

The bill would take effect immediately upon receiving two-thirds majority vote in each house. Otherwise, the bill would take effect September 1, 2017.

The bill 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. The fund, account, or revenue dedication included in the bill would be subject to funds consolidation review by the current Legislature.

Methodology

The Leverage Fund currently operates out of the General Revenue-Dedicated Economic Development Bank Account No. 5106. Moving the program outside the treasury would result in a loss of estimated balances and revenues of principal and interest payments on outstanding loans, which are appropriated to the Economic Development Bank. This loss creates a one-time loss to certification as shown in the table above. According to the Office of the Governor, the balances and revenues are estimated to be $5,826,503 in fiscal year 2018. Although the revenue would no longer be available within the treasury, there would be an equal decrease in the amount of appropriations for the Economic Development Bank for the Leverage Program, which is reflected as a savings to that fund, as this program is operated as a revolving account.

The Leverage Fund program does not currently retain depository interest. Under the provisions of the bill, the interest (estimated to be $58,955 in fiscal year 2018) would be held in the new Leverage Fund Account outside the treasury, in addition to balances and revenues from principal and interest payments. This increases the amount available in the Leverage Fund Account outside the treasury to $5,885,458 in fiscal year 2018**.** This estimate assumes the program will continue to operate as it does currently, and there would be an offsetting cost from the fund equivalent to the revenues.

According to the Office of the Governor, the program's letter of credit will expire in March 2018 and, without statutory changes, may trigger a default event. In this scenario, the estimated $15.0 million in outstanding commercial paper would be due immediately, and any amounts that could not be covered with balances on hand would have to be paid with from other state funds or cause the outstanding loans to local communities to be due immediately. According to the Office of the Governor, approximately $4.8 million in Leverage Fund balances and revenues would be available to offset the default amount owed. It cannot be determined how the remaining $10.2 million would be covered as it could be taken out of other Economic Development Bank accounts or through immediate early repayments of outstanding loans by communities in fiscal year 2018.

Local Government Impact

The bill would allow certain local Economic Development Corporations to continue to use the program to leverage economic development sales and use taxes for the support of local economic development projects.

According to the Office of the Governor, in the event of default there are currently 21 communities that would have loans outstanding. The trustee could potentially call all outstanding loans to be immediately due.

Source Agencies: 300 Trusteed Programs Within the Office of the Governor, 304 Comptroller of Public Accounts, 352 Bond Review Board

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