LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 29, 2019

TO: Honorable Kelly Hancock, Chair, Senate Committee on Business & Commerce

FROM: John McGeady, Assistant Director Sarah Keyton, Assistant Director
Legislative Budget Board

IN RE: **HB1000** by Paddie (Relating to rural and opportunity funds and insurance tax credits for certain investments in those funds; imposing a monetary penalty; authorizing fees.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1000, As Engrossed: an impact of $0 through the biennium ending August 31, 2021.

Additionally, there would be a negative impact of ($35,000,000) through the biennium ending August 31, 2023.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2020	$0
2021	$0
2022	$0
2023	($35,000,000)
2024	($35,000,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from *General Revenue Fund* 1	Probable Revenue Gain/(Loss) from *Foundation School Fund* 193
2020	$0	$0
2021	$0	$0
2022	$0	$0
2023	($26,250,000)	($8,750,000)
2024	($26,250,000)	($8,750,000)

Fiscal Analysis

The bill would amend the Government Code by adding new Chapter 487A, regarding rural and opportunity funds.

The bill would require the Texas Economic Development and Tourism Office (office) to accept applications from entities seeking approval as rural and opportunity funds. Applications must include a non refundable application fee of $5,000 that would be deposited to the general revenue fund to be dedicated for the purposes of administering new Chapter 487A.

The bill would provide for the office to approve investment authority in amounts that would allow up to $35 million in insurance premium tax credits to be claimed in each calendar year.

Upon approval of an application, the office would provide a tax credit certificate to each investor of tax-credit-eligible capital included in the application. The certificate would include the amount of the tax credit. The office could revoke a tax credit certification under certain circumstances. The office would notify the Comptroller in the event of a revocation. A rural and opportunity fund would have the opportunity to correct any violation prior to revocation. The bill would describe the process in which a rural and opportunity fund could exit the program. Tax credits could not be revoked after a rural and opportunity fund has exited the program.

The bill would authorize certain penalties on a rural and opportunity fund for distributions to the fund's equity holders in certain circumstances. Penalty revenue would be deposited to the general revenue fund.

The bill would amend the Insurance Code to add new Chapter 232, regarding tax credit for investment in rural and opportunity funds.

Under the provisions of the bill, an entity that holds a tax credit certificate issued under Chapter 487A described above, would be eligible for a premium tax credit in tax years in which the third, fourth, fifth, or sixth anniversary of the date in which the certificate was issued falls. The amount of the tax credit for each year would be limited to 25 percent of the amount of the total tax credit. Entities would be allowed to carry forward unused credits for 20 consecutive tax reports. An entity could not transfer the credit to another entity. The Comptroller could recapture the amount of a credit claimed if the tax credit certification on which it was based is revoked.

The office would begin accepting applications not later than January 1, 2020. New Chapter 232 would apply only to a tax report due on or after January 1, 2020.

The bill would take effect September 1, 2019.

Methodology

This analysis estimates that investment authority sufficient to allow $35 million in premium tax credits per year will be approved by the Texas Economic Development and Tourism Office in calendar year 2020 and in each year thereafter. Under the provisions of the bill in the new Chapter 232, entities that hold a tax credit certificate would be eligible for a premium tax credit beginning the third anniversary of the date in which the certificate was issued falls. Therefore, entities would first be eligible to redeem premium tax credits in fiscal year 2023 and every subsequent year thereafter.

The Comptroller transfers 25 percent of revenues collected as Premium Taxes to the Foundation School Account, with the remaining 75 percent deposited to the General Revenue Fund.

The amount and timing of any application fee and penalty revenue are unknown.

The Governor's Office estimates there would be a minimal cost associated with implementing the provisions of the bill.

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. Legislative policy, implemented as Government Code 403.095, consolidated special funds (except those affected by constitutional, federal, or other restrictions) into the General Revenue Fund as of August 31, 1993 and eliminated all applicable statutory revenue dedications as of August 31, 1995. Each subsequent Legislature has reviewed bills that affect funds consolidation. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

Local Government Impact

No fiscal implication to units of local government is anticipated.

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

LBB Staff: WP, CLo, NV, JSm