

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

April 6, 2021

TO: Honorable Angie Chen Button, Chair, House Committee on International Relations & Economic Development

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB570 by Paddie (relating to small business recovery funds and insurance tax credits for certain investments in those funds; imposing a monetary penalty; authorizing fees.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB570, Committee Report 1st House, Substituted : a negative impact of (\$794,936) through the biennium ending August 31, 2023.

Additionally, there would be a negative impact of (\$125,000,000) through the biennium ending August 31, 2025.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2022	(\$400,468)
2023	(\$394,468)
2024	(\$394,468)
2025	(\$125,394,468)
2026	(\$125,444,469)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Savings/(Cost) from General Revenue Fund 1	Probable Revenue Gain/(Loss) from General Revenue Fund 1	Probable Revenue Gain/(Loss) from Foundation School Fund 193	Change in Number of State Employees from FY 2021
2022	(\$400,468)	\$0	\$0	4.0
2023	(\$394,468)	\$0	\$0	4.0
2024	(\$394,468)	\$0	\$0	4.0
2025	(\$394,468)	(\$93,750,000)	(\$31,250,000)	4.0
2026	(\$444,469)	(\$93,750,000)	(\$31,250,000)	4.0

Fiscal Analysis

The bill would amend the Government Code by adding new Chapter 487A, regarding small business recovery funds.

The bill would require the Texas Economic Development and Tourism Office to accept applications from entities seeking approval as small business recovery funds. Applications must include a nonrefundable 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 enable the office to approve investment authority up to \$500 million in any calendar year (from 2021) that would result in premium tax credits of up to \$125 million being claimed in fiscal year 2025 and in every year thereafter.

Upon approval of an application, the office would provide 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 tax credit certification under certain circumstances. The office would notify the Comptroller in the event of a revocation. A small business recovery fund would have the opportunity to correct any violation prior to revocation. The bill would describe the process in which a small business recovery fund could exit the program. Tax credits could not be revoked after a small business recovery fund has exited the program.

The bill would authorize certain penalties on a small business recovery fund for distributions to the fund's equity holders in certain circumstances. Penalty revenues would be deposited to the general revenue fund.

The bill would require the office, before the beginning of the 90th Legislature, to submit to the Legislature a report on the economic benefits of the chapter. The report would include the total positive fiscal impact attributable to jobs created or retained as a result of small business recovery fund investments. If the positive fiscal impacts reported do not exceed the sum of tax credit certificates issued, the office would be prohibited from accepting additional applications from entities seeking approval as small business recovery funds after January 1, 2022. The office would accept additional applications if and when the positive fiscal impacts do exceed the sum of tax credit certificates issued.

The bill would amend the Insurance Code to add new Chapter 232, regarding tax credit for investment in small business recovery 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 would be 25 percent of the amount of the entity's credit-eligible capital contribution. Entities would be allowed to carry forward unused credits. An entity could not transfer the credit to another entity. The Comptroller would be instructed to 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 October 1, 2021. New Chapter 232 would apply only to a tax report due on or after January 1, 2021.

This bill would take effect immediately upon enactment, assuming it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2021.

Methodology

This analysis assumes that investment authority sufficient to allow \$125 million in premium tax credits per year will be approved by the Texas Economic Development and Tourism Office in calendar 2021 and in each year thereafter. Under the provisions of the bill, entities would first be able to redeem premium tax credits in fiscal 2025 and would redeem \$125 million in premium tax credits in that and every subsequent year.

Premium tax revenue is allocated 75 percent to General Revenue Fund 0001 and 25 percent to GR Account 0193—Foundation School.

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

The Governor's Office estimates that the provisions of the bill would yield a total cost of \$1,938,340 over five years. This includes the addition of four FTEs: (1) Financial Analyst I, (1) Financial Analyst III, (1) General Counsel II, and (1) Compliance Analyst III. The office indicates that it would procure a vendor to assist with economic data reporting requirements outlined in the bill.

A Financial Analyst I (\$59,473) and Financial Analyst III (\$77,862) would administer and oversee the small

business recovery fund program. A General Counsel II (\$80,000) would be needed to review contracts related to data reporting requirements outlined in the bill. A Compliance Analyst III (\$68,047) would be needed to serve as a third party to ensure processes conform to the rule and procedures adopted by the program. In addition to salaries and wages amounts, administrative costs related to the bill include travel (\$10,000) and employee benefits (\$97,087). Professional services (\$50,000) will also be required to prepare a report for the 90th Legislative Session, as required by 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 within 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.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 300 Trusteed Programs - Gov, 304 Comptroller of Public Accounts

LBB Staff: JMc, SZ, LCO, HGR, CMA