LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

April 19, 2023

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB1718** by Ashby (relating to rural development funds and insurance tax credits for certain investments in those funds; authorizing fees.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1718, Committee Report 1st House, Substituted : a negative impact of ($829,659) through the biennium ending August 31, 2025.

The cost to General Revenue Related Funds is expected to increase to $75.4 million annually in fiscal year 2027 and each subsequent year.

General Revenue-Related Funds, Seven- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to *General Revenue Related Funds*
2024	($440,170)
2025	($389,489)
2026	($389,489)
2027	($75,389,489)
2028	($75,389,489)
2029	($75,389,489)
2030	($75,389,489)

All Funds, Seven-Year Impact:

Fiscal Year	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 2023*
2024	($440,170)	$0	$0	3.0
2025	($389,489)	$0	$0	3.0
2026	($389,489)	$0	$0	3.0
2027	($389,489)	($56,250,000)	($18,750,000)	3.0
2028	($389,489)	($56,250,000)	($18,750,000)	3.0
2029	($389,489)	($56,250,000)	($18,750,000)	3.0
2030	($389,489)	($56,250,000)	($18,750,000)	3.0

Fiscal Analysis

The bill would amend the Government Code by adding new Chapter 487A, regarding rural development funds. The bill would amend the Insurance Code by adding new Chapter 32, regarding tax credit for investment in rural development funds.

The bill would require the Comptroller to accept applications from entities seeking approval as rural development funds.

Applications would include 1) an estimate of the number of jobs that would be created or retained as a result of the applicant's proposed investments; 2) a projection of state and local tax revenue that would be generated by the applicant's proposed investments; 3) the total investment authority sought by the applicant; 4) certain other required information; and 5) 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 and new Insurance Code Chapter 232.

The Comptroller could approve investment authority in amounts up to $300.0 million.

The bill would describe the application process, including grounds for denial of an application, and a process for resubmission of additional information.

Upon approval of an application, the Comptroller 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 Comptroller could revoke or reduce a tax credit certification under certain circumstances. A rural development fund would have the opportunity to correct any violation prior to revocation or reduction. The bill would describe the process in which a rural development fund could exit the program. Tax credits could not be revoked or reduced after a rural development fund has exited the program.

A rural development fund would be required to submit an annual report to the Comptroller that would include certain information, including information on the number of jobs created and retained as a result of the fund's investments.

The bill would require the Comptroller to set an annual program participation fee in an amount sufficient to cover the costs of administering new Chapters 487A and 32 in excess of any application fee revenue collected.

The bill would require the Comptroller, before the beginning of the 91st Legislature, to submit to the Legislature a report on the economic benefits of new Chapter 487A. The report would include the total positive fiscal impact attributable to jobs created or retained as a result of rural development fund investments. If the positive fiscal impacts reported do not exceed the sum of tax credit certificates issued, the Comptroller would be prohibited from accepting additional applications from entities seeking approval as rural development funds after January 1, 2024. The Comptroller would accept additional applications if and when the positive fiscal impacts do exceed the sum of tax credit certificates issued.

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. An entity could not transfer the credit to another entity. The Comptroller would recapture the amount of a credit claimed if the tax credit certification on which it was based is revoked.

On or after the sixth anniversary of a rural development fund's investment closing date, a rural development fund could apply to exit the rural development fund program. The fund would be required to remit to the Comptroller the lessor of 1) the fund's excess return, as defined in the bill; or 2) the state reimbursement amount, as defined in the bill.

The Comptroller would begin accepting applications not later than October 1, 2023. New Chapter 232 would apply only to a tax report due on or after January 1, 2023.

Methodology

The bill would prohibit the Comptroller from accepting additional applications from entities seeking approval as rural development funds after January 1, 2024 unless the total positive fiscal effects of the tax credits exceed the sum of all tax credit certificates issued. This would not be reported until 2028.

The bill would require a rural development fund to remit to the Comptroller the lessor of 1) the fund's excess return, as defined in the bill; or 2) the state reimbursement amount, as defined in the bill. The bill stipulates that the excess return would be considered to be zero if the excess return is negative; there is no such stipulation regarding the calculation of the state reimbursement amount. It is unclear what the Comptroller's responsibility would be if the reported reimbursement amount is negative. This analysis assumes that any fund exiting the program in 2030 would have an excess return and reimbursement amount of $0.

The amount of application fee and participation fee revenue that would be received is unknown.

The amount and timing of any additional state and local tax revenue that might be generated by rural development funds' investments are unknown.

This analysis assumes that rural development fund investments sufficient to result in premium tax credits of $300.0 million will be approved in calendar 2023 (fiscal 2024), with 25 percent of the value of credit approved in each of the third, fourth, fifth, and sixth year after the credit is awarded.

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

This analysis estimates that implementing the provisions of the bill would result in a total cost to the Comptroller's Office of $2,034,125 over five years. This includes the addition of three FTEs: (1) Financial Analyst III, (1) General Counsel II, and (1) Compliance Analyst III. The Comptroller's office anticipates technology costs associated with generating a database and two new reports of at least $75,000 in fiscal year 2024 and $15,000 in each subsequent year.

Note: 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 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.

Technology

Administrative costs include technology costs associated with generating a database and two new reports of at least $75,000 in fiscal year 2024 and $15,000 in each subsequent year.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, SZ, SD, BRI