

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

March 27, 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.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1718, As Introduced : a negative impact of (\$1,157,588) through the biennium ending August 31, 2025.

The cost to General Revenue Related Funds is expected to increase to \$300.6 million annually in fiscal year 2030 and each subsequent year.

General Revenue-Related Funds, Seven- Year Impact:

<i>Fiscal Year</i>	<i>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</i>
2024	(\$595,271)
2025	(\$562,317)
2026	(\$562,317)
2027	(\$75,562,317)
2028	(\$150,562,317)
2029	(\$225,562,317)
2030	(\$300,562,317)

All Funds, Seven-Year Impact:

<i>Fiscal Year</i>	<i>Probable Savings/(Cost) from General Revenue Fund 1</i>	<i>Probable Revenue Gain/(Loss) from General Revenue Fund 1</i>	<i>Probable Revenue Gain/(Loss) from Foundation School Fund 193</i>	<i>Change in Number of State Employees from FY 2023</i>
2024	(\$595,271)	\$0	\$0	5.0
2025	(\$562,317)	\$0	\$0	5.0
2026	(\$562,317)	\$0	\$0	5.0
2027	(\$562,317)	(\$56,250,000)	(\$18,750,000)	5.0
2028	(\$562,317)	(\$112,500,000)	(\$37,500,000)	5.0
2029	(\$562,317)	(\$168,750,000)	(\$56,250,000)	5.0
2030	(\$562,317)	(\$225,000,000)	(\$75,000,000)	5.0

Fiscal Analysis

The bill would amend the Government Code by adding Chapter 487A, relating to rural development funds. The bill would amend the Insurance Code by adding Chapter 32, relating to 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 Fund 0001 - General Revenue Fund to be dedicated for the purposes of administering Chapter 487A and Insurance Code Chapter 232.

The Comptroller could approve investment authority in amounts up to \$300.0 million in any calendar year.

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 a tax credit certification under certain circumstances. A rural development fund would have the opportunity to correct any violation prior to revocation. The bill would describe the process in which a rural development fund could exit the program. Tax credits could not be revoked 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 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 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.

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 only authorize the Comptroller to accept 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 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 year 2023 (fiscal year 2024), and in each year thereafter, with 25 percent of the value of credit approved each year redeemed in each of the third, fourth, fifth, and sixth year after the credit is awarded. With the first premium tax credits affecting revenue in 2027, the full implication of \$300.0 million will not be felt until 2030. Thereafter, affected premium tax revenues will be reduced by \$300.0 million annually.

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 \$2,844,539 over five years. This includes the addition of five FTEs: (2) Program Specialist III, (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

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