

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

April 27, 2025

TO: Honorable Angie Chen Button, Chair, House Committee on Trade, Workforce & Economic Development

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB4735 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 HB4735, Committee Report 1st House, Substituted: a negative impact of (\$49,500,000) through the biennium ending August 31, 2027. Additionally there is estimated to be a fiscal impact of (\$100,500,000) for the biennium ending August 31, 2029.

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:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2026	\$0
2027	(\$49,500,000)
2028	(\$49,500,000)
2029	(\$51,000,000)
2030	\$0

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Revenue Gain/(Loss) from General Revenue Fund 1	Probable Revenue Gain/(Loss) from Foundation School Fund 193	<i>Change in Number of State Employees from FY 2025</i>
2026	\$0	\$0	7.0
2027	(\$37,125,000)	(\$12,375,000)	7.0
2028	(\$37,125,000)	(\$12,375,000)	7.0
2029	(\$38,250,000)	(\$12,750,000)	7.0
2030	\$0	\$0	7.0

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 232, 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 a nonrefundable application fee of \$10,000 that would be deposited to General Revenue Fund 0001 to be dedicated for the purposes of administering new Chapter 487A and new Insurance Code Chapter 232.

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 allocation statement that would include the amount of tax credit certificates the applicant is authorized to allocate to its investors.

The Comptroller could approve investment authority in amounts up to \$300 million including up to \$150 million of tax credit certificate allocation authority.

The bill would describe the process in which a rural development fund could exit the program. Upon exit, the bill would require a rural development fund to remit to the Comptroller the lesser 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 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 232 in excess of any application fee revenue collected.

The bill would require the Comptroller, before the beginning of the 92nd 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, 2026.

An entity that holds a tax credit certificate issued under Chapter 487A, as described above, would be eligible for a premium tax credit in tax years in which the first, second, or third anniversary of the date in which the certificate was issued falls. The amount of the tax credit for the first two years would be 33 percent of the amount of the total tax credit; for the third year, 34 percent.

Entities would be allowed to carry forward unused credits. An entity could not transfer the credit to another entity.

The Comptroller would begin accepting applications not later than October 1, 2025. New Chapter 232 would apply only to a tax report due on or after January 1, 2025.

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.

Methodology

The bill would prohibit the Comptroller from accepting additional applications from entities seeking approval as rural development funds after January 1, 2026, under certain circumstances that would not be reported until 2030.

The bill would require a rural development fund to remit to the Comptroller the lesser 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; or if, in that event, a rural development fund would be entitled to additional premium tax credits.

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

This analysis assumes that rural development fund investment authority of \$300 million, including \$150 million of tax credit allocation authority, will be approved in calendar 2025 (fiscal 2026). It is assumed 33 percent of the value of tax credit would be redeemed in the first (2027) and second (2028) years after the credit is awarded, and the remaining 34 percent redeemed in the third (2029).

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

The Comptroller's administrative cost estimate includes staffing costs of \$657,000 a year associated with hiring 1 Financial Analyst III, 1 General Counsel II FTE, 1 Compliance Analyst III FTE and 4 Account Examiner II FTEs. This analysis assumes all administrative costs associated with implementing the bill will be covered by fee revenues as required by the bill.

Technology

The administrative cost estimate includes a technology cost of \$2,880,000 in fiscal year 2026 allowing for 19,200 programming hours for creating a new web-based application and database; This includes fund disbursement and application modifications.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, RStu, BRI, SD