

- SUBJECT:** Reforming economic incentives, creating university research initiative
- COMMITTEE:** Economic and Small Business Development — committee substitute recommended
- VOTE:** 9 ayes — Button, Johnson, C. Anderson, Faircloth, Isaac, Metcalf, E. Rodriguez, Villalba, Vo
- 0 nays
- WITNESSES:** For — Drew Scheberle, Greater Austin Chamber of Commerce; Bill Hammond, Richardson Chamber of Commerce, Texas Association of Business; Thomas Kowalski, Texas Healthcare and Bioscience Institute; Brian Sullivan, Texas Hotel and Lodging Association; Dale Craymer, Texas Taxpayers and Research Association; (*Registered, but did not testify*: TJ Patterson, City of Fort Worth; Chris Shields, City of San Antonio, San Antonio Chamber of Commerce, San Antonio Sports; Jay Barksdale, Dallas Regional Chamber; Susan Blackwood, Harris County Houston Sports Authority; Sarah Matz, TechAmerica; Fred Shannon, Texas Association of Manufacturers; Carlton Schwab, Texas Economic Development Council; Max Jones, The Greater Houston Partnership)
- Against — None
- On — James LeBas, Texas Chemical Council; Larry Peterson, Texas Foundation for Innovative Communities; Ed Heimlich; (*Registered, but did not testify*: Phillip Ashley, Comptroller of Public Accounts; Jose Romano, Office of the Governor; John Young, State Auditor’s Office; Paul Ballard, Marianne Dwight, and Corinne Hall, Texas Treasury Trust Safekeeping Co.)
- BACKGROUND:** Government Code, ch. 490 established the Emerging Technology Fund as a trustee program within the Office of the Governor. Created in 2005, the fund provides grants, equity stakes, and other forms of investment to fund technology research at companies and higher education institutions with the intention of stimulating job growth and helping technology start-ups

bring their products to market.

Government Code, ch. 489 established the Texas Economic Development Bank. Created in 2003, the bank houses a number of financing and other economic development programs to provide competitive, cost-effective state incentives to expanding businesses operating or relocating to Texas. The bank also has programs designed to increase small, medium, and historically underutilized businesses' access to credit.

**DIGEST:** CSHB 26 would modify several state economic development programs. The changes would include:

- abolishing the Emerging Technology Fund and transferring that program's unexpended balances and authority over its existing investments;
- creating a new initiative to provide matching funds for state universities to recruit certain recognized faculty;
- eliminating certain programs within the Texas Economic Development Bank;
- expanding the Texas Enterprise Fund's authority to approve certain higher education research commercialization grants and shortening the fund's standard approval period for grants;
- establishing a board to oversee economic incentive programs;
- creating an online information and application system for economic incentives; and
- renaming the Major Events Trust Fund.

**Emerging Technology Fund.** The bill would amend Government Code, ch. 490 to abolish the Emerging Technology Fund on September 1, 2015. The state's current equity position in companies that have already received awards from the Emerging Technology Fund would be transferred to the Texas Treasury Safekeeping Trust Company. The trust company would be required to manage the equity portfolio under the prudent investor standard of care. Any proceeds earned from the sale of investments would go to general revenue. Money deposited in the Emerging Technology Fund as a gift, grant, or donation would be spent or

distributed in accordance with the terms of the gift, grant or donation.

Any unencumbered balance that remained in the Emerging Technology Fund could be appropriated only to:

- the Texas Research Incentive Program;
- the Texas Research University Fund;
- the Governor's University Research Initiative; and
- the comptroller's office to cover expenses associated with managing the state's portfolio of equity positions and investments in projects funded under the former Emerging Technology Fund.

The trust company would be required to perform to the maximum extent practicable an annual valuation of the equity shares from projects that received funding from the former Emerging Technology Fund in its portfolio. The trust company also would be required to submit an annual report to the lieutenant governor, House speaker, and legislative standing committees with primary jurisdiction on economic development and post on the trust company's website a report on any valuation performed during the previous fiscal year.

The bill also would continue through 2030 a requirement that the governor create an annual report detailing the number of jobs created and the outcomes of all projects that received Emerging Technology Fund investments. The governor would be required to exclude from the report information that is confidential by law.

If a conflict existed between this bill and another bill enacted by the 84th Legislature during its regular session that related to the Emerging Technology Fund, HB 26 would control, without regard to the relative dates of enactment.

**Governor's University Research Initiative.** The bill would amend Education Code, ch. 62 to establish a fund to facilitate the recruitment of distinguished researchers to eligible Texas universities. The fund would be administered by the Economic Development and Tourism Office

within the governor's office. The fund would award matching grants to universities for recruiting distinguished researchers, defined by the bill as Nobel laureates, members of a national honorific society, or individuals who have attained a similar honor.

The bill would establish standards and procedures for identifying and selecting researchers whom grant proposals may be approved to recruit. Information collected on the identity of these individuals would be confidential unless and until the researcher was hired by the recruiting institution.

Priority would be given to grant proposals that focused on recruiting professors distinguished in the fields of science, technology, engineering, or mathematics and proposals involving those fields that:

- demonstrated a reasonable probability of enhancing Texas's national and global economic competitiveness;
- demonstrated a reasonable probability of creating a recognized locus of research superiority or a unique locus of research;
- were matched with a significant amount of federal or private funding;
- were interdisciplinary and collaborative; or
- included a strategic plan for intellectual property development and commercialization of technology.

The bill would establish an advisory board to assist the governor's office in reviewing grant proposals. The advisory board would be composed of at least nine members, and to the extent possible one-third would have a background in finance, one-third would have an academic background in science, technology, engineering, or mathematics, and one-third would be members of the public. Members would not be paid but could be reimbursed for expenses incurred in serving on the board. Other board eligibility provisions are defined in the bill.

The board would be exempt from standard government procedures for membership composition, reimbursement of expenses, budgetary

restrictions, and other administrative issues as well as requirements on surpluses or interest in the fund. The board would have 14 days to issue a recommendation to the governor on a grant application, and the governor would have 14 days to approve or disapprove a grant application.

The awarding of the grant could not be considered a basis to reduce the amount of money otherwise appropriated to a university. A researcher that already is an employee of a different university in Texas would not be eligible for a grant.

**Texas Economic Development Bank programs.** The bill would abolish the Texas Small Business Industrial Development Corporation and the linked deposit program within the Texas Economic Development Bank. The linked deposit program would be allowed to continue for the immediate purpose of administering any loans granted to a small, medium, or historically underutilized business before the bill was enacted, and to pursue remedies for borrowers who defaulted on their loans or banks that were not in compliance with the law.

As soon as practicable after the effective date of the bill, the Texas Economic Development Bank would be required to send any remaining funds in the Texas Small Business Industrial Development Corporation to the comptroller's office to be deposited in the general revenue fund.

**Texas Enterprise Fund authority.** The bill would amend Government Code, ch. 481 to allow the Texas Enterprise Fund to provide grants for commercialization of intellectual property derived from research developed at Texas universities. To be eligible for funding, a research project would have to be supported by funding from one or more private entities in addition to any funding from the university. The state's investment could not be more than 50 percent of the project's funding.

The bill also would reduce from 91 days to 31 days the amount of time that the lieutenant governor and House speaker were provided to approve a grant from the Texas Enterprise Fund.

**Economic Incentive Oversight Board.** The bill would add Government Code, ch. 490G to establish the Economic Incentive Oversight Board. The Economic Incentive Oversight Board would be tasked with examining the effectiveness and efficiency of economic incentive programs and funds administered by the governor, the comptroller, or the Department of Agriculture. The board would examine only programs for which the administering agencies had discretion in whether to grant monetary or tax incentives.

The board would be required to establish a periodic review schedule and create an annual report and could recommend a program or fund be audited by the state auditor. It also would provide recommendations to the Legislature regarding the economic incentive programs under review.

The board would have eight members, including:

- two public members appointed by the House speaker, one of whom must be from a rural county;
- two public members appointed by the lieutenant governor, one of whom must be from a rural county;
- two public members appointed by the comptroller; and
- two public members appointed by the governor.

The governor would appoint the presiding officer of the board and would provide administrative support and staff to the board. Each appointee would serve at the pleasure of the appointing officer. Each appointing officer would be required to appoint at least one member to the board who had economic development expertise. Board members would be required to disclose any conflicts of interest. Members could be reimbursed for expenses incurred in serving on the board. The bill also would establish provisions governing conflicts of interest for board members.

**Economic Development Information and Application System.** The bill would establish a website that would provide:

- a single location that a business that was considering moving to Texas could find information about monetary and tax incentives;

- an interactive tool that would allow a business to determine if it was eligible for a monetary or tax incentive; and
- an application that a business could fill out and submit online.

The Department of Information Resources, in coordination with the Economic Development and Tourism Office and the comptroller would direct, coordinate, and assist state agencies to establish a common application and a standard format for announcing monetary and tax incentive opportunities.

**The Major Events Trust Fund.** The bill would change the name of the Major Events Trust Fund to the Major Events Reimbursement Program.

The bill would take effect September 1, 2015.

**SUPPORTERS  
SAY:**

CSHB 26 would provide comprehensive, common-sense reforms for Texas' economic development incentive programs while balancing the state's need to compete for economic growth with a commitment to transparency and accountability.

Eliminating the Emerging Technology Fund would ensure that Texas is not in the business of picking winners and losers. Even sophisticated private firms that specialize in early-stage funding can make errors of judgment, as evidenced by the dot-com bubble of the 1990s. It is important that the state end the use of taxpayer money for something as speculative and volatile as venture capital.

Texas has some of the most advanced research universities in the world, and the state supports these institutions with billions of dollars every year. However, a significant percentage of research that emerges from Texas universities is commercialized in other parts of the country. By allowing the Texas Enterprise Fund to provide commercialization grants in certain circumstances, this bill would provide an incentive for research to stay in Texas. As an added benefit, the grants would go to public universities and not private corporations as had been the case with the Emerging Technology Fund.

The Governor's University Research Initiative would help Texas universities attract some of the best researchers in the world. The bill also ensures that the matching grants provided under the initiative could be used only to attract researchers from higher education institutions outside Texas, so Texas universities would not need to worry about the bill costing them valued faculty.

Economic development is a long-term process, and establishing the Economic Incentive Oversight Board would help the state analyze the effectiveness of its economic incentives and suggest reforms and areas of opportunity to the Legislature in the future. Keeping these programs nimble, effective, and accountable would ensure that the state was well positioned to promote cutting-edge research.

The bill would simplify the process that companies have to go through to do business in Texas by centralizing and standardizing economic incentives and making the information available online. In deciding where to do business, companies want a simple and straightforward process. Allowing businesses to assess their options quickly and accurately while keeping their information confidential would help attract more jobs to the state.

Some critics portray the Major Events Trust Fund as a grant program for big companies, when in fact the program merely reimburses the costs of hosting a large event with the tax proceeds generated by the event. Renaming the Major Events Trust Fund would help clarify what the program was meant to do and how it works.

**OPPONENTS  
SAY:**

CSHB 26 could fail to take the long view of economic development in the state. Texas cannot take its economic growth for granted. Other states are performing better economically than they were a few years ago, which, combined with the uncertainty surrounding oil prices, could erode Texas's competitive edge in job creation.

Maintaining an environment with strong job creation requires a

commitment to innovation and research. By eliminating the Emerging Technology Fund, the bill could handicap Texas startups. Startups, especially in biomedical research, are highly regulated and extremely complex, and these businesses typically take about seven years to establish themselves before they can begin hiring employees on a large scale.

California and New York both have a venture capital industry that is significantly larger than the venture capital industry in Texas, and these states also have an extensive commitment to early-stage funding. Without a similar willingness to make long-term commitments to early-stage funding, Texas may not be able to compete with these other states.

Focusing on grants for research commercialization would not signal a long-term commitment to research in the same way as taking equity in a startup. A well-managed, early-stage funding program should pay for itself and when done correctly, can be stable and profitable. A portfolio of early-stage funding investments would pay for itself, whereas research commercialization grants would not show the state any direct return.

The bill may not be choosing the right path with its emphasis on recruiting Nobel laureates and members of national honor societies to public universities. The Nobel prize is a tremendously prestigious award and recruiting distinguished professors may raise the stature of Texas universities, but those awards recognize research that has already been done. The state would be better served by using matching grants to recruit up-and-coming researchers.

**OTHER  
OPPONENTS  
SAY:**

CSHB 26 would not go far enough to remove government interference in the private sector. Small businesses already face difficulty competing in the market. When the government props up high-tech startups with multimillion-dollar grants and incentives, small businesses simply cannot compete. The state of Texas should not be in the business of picking winners and losers and should instead let the market decide what research is most valuable.

NOTES: The Legislative Budget Board anticipates that CSHB 26 would have a positive fiscal impact to the General Revenue Fund of about \$846,000 through the 2016-17 biennium.