SB 632
Fraser, et al. (Button)
(CSSB 632 by Button)

SUBJECT: Abolishing the Texas Emerging Technology Fund

COMMITTEE: Economic and Small Business Development — committee substitute recommended

VOTE: 7 ayes — Button, C. Anderson, Faircloth, Isaac, Metcalf, E. Rodriguez, Vo

0 nays

2 absent — Johnson, Villalba

SENATE VOTE: On final passage, April 29 — 30–1 (Burton)

WITNESSES: For — (*Registered, but did not testify*: Cathy Dewitt and Amanda Martin, Texas Association of Business; Stephanie Simpson, Texas Association of Manufacturers)

Against — None

On — (*Registered, but did not testify*: Jon Mogford, Texas A&M University System)

BACKGROUND: Government Code, ch. 490 established the Emerging Technology Fund as a trusteed 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.

DIGEST: CSSB 632 would amend Government Code, ch. 490 to wind up and abolish the Emerging Technology Fund, beginning September 1, 2015. The state's current equity position in companies that already have 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.

The bill would require money from the Emerging Technology Fund that was encumbered but had not been awarded by September 1, 2015, to be distributed in accordance with terms of the agreement unless the recipient and the governor agreed otherwise.

On final liquidation of the portfolio, the trust company would be required to notify the comptroller, who would verify that final liquidation had been completed. The comptroller then would certify to the governor that the liquidation had been completed, and the governor would post notice of the certification on the governor's website.

Certain information concerning the identity, background, finance, marketing plans, trade secrets, or other commercially or academically sensitive information of an individual or entity that was considered for or received an award from the Emerging Technology Fund would be confidential unless an individual or entity consented to disclosure. Other information would be public, including:

- the name and address of an individual or entity that received an award from the fund;
- the amount of funding received by a recipient;
- a brief description of the project funded by an award;
- if applicable, a brief description of the equity position that the governor, on behalf of the state, had taken; and
- any other information with the consent of the governor, the lieutenant governor, the House speaker, and the individual or entity that received an award.

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; 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.

This bill would take effect September 1, 2015.

SUPPORTERS SAY:

CSSB 632 would help get Texas out of 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 late 1990s. It is important that the state end the use of taxpayer money for something as speculative and volatile as venture capital.

The bill could free up $90.6 million in unexpended balances in the Emerging Technology Fund for appropriation to university research programs. 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 provision of 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.

OPPONENTS SAY:

CSSB 632 would end a key commitment by the state to economic development through 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 can 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, could be stable and profitable. A portfolio of early-stage funding investments could pay for itself, whereas research commercialization grants might not show the state any direct return.

OTHER OPPONENTS SAY:

CSSB 632 would move tax dollars from one "corporate welfare" fund to another. It would be better to eliminate both funds and get the government out of the business of subsidizing economic development for private industry. Any money left over from the funds could be returned to taxpayers.

The bill also would move tax dollars to a grant program that would subsidize the recruitment of Nobel Laureates and National Academy members to public universities. This would not be an efficient use of the state's limited resources.