

SUBJECT: Creating the Texas Growth Fund II

COMMITTEE: Pensions and Investments — favorable, without amendment

VOTE: 8 ayes — Telford, Woolley, Berlanga, Rangel, Sadler, Serna, Tillery, Williams

0 nays

1 absent— Goolsby

WITNESSES: For —Glenn Opel, Texas Growth Fund; Stephen Soileau, TGF Management Corporation

Against — None

BACKGROUND
:

Art. 16, sec. 70, of the Texas Constitution, adopted in 1988, created the The Texas Growth Fund, a trust fund that can invest in private companies with major business interests in Texas. The fund can make private equity investments for the Permanent University Fund (PUF), Permanent School Fund (PSF) and state-created pension funds, including the Teacher Retirement System (TRS) and the Employees Retirement System (ERS).

The Texas Growth Fund is a type of closed-in mutual fund to which the participants commit a certain amount of money, which is invested as appropriate investment opportunities become available. The growth fund has made two rounds of investments totalling \$127 million: in 1991, the PUF and TRS committed \$52 million, and in 1995, the PUF, TRS and San Antonio Fire and Police Pension Fund committed \$75 million.

The PUF, PSF, ERS and TRS have a combined market value of \$77.6 billion as of August 31, 1996. These funds may invest up to 1 percent of their fund value in the Texas Growth Fund. Up to 10 percent of the growth fund can be invested in “venture capital,” stocks and bonds with potential for substantial investment returns, such as business with potential for rapid growth and applied research leading to formation of new business.

The growth fund is governed by a nine-member board composed of one member each appointed by the governing boards of the University of Texas System, the Texas A&M University System, the Teacher Retirement System and the Employees Retirement System, one member appointed by the State Board of Education and four public members with investment expertise appointed by the governor for six-year terms.

The existing growth fund can no longer make investments after September 1, 1998. The Constitution authorizes the Legislature in the regular session preceding expiration of the fund (1997) to create a new, separate Texas Growth Fund II for a ten-year period ending September 1, 2008, if approved by two-thirds vote of each house.

DIGEST: HB 138 would authorize the creation of the Texas Growth Fund II.

The bill would take immediate effect if finally approved by a two thirds record vote of the membership of each house.

SUPPORTERS SAY: The Texas Growth Fund has provided the state education endowments and pension funds a vehicle to invest a small portion of their considerable assets to promote job growth and diversification in the Texas economy. The first fund has worked well, and a second fund should be created, as provided in the Constitution.

The first growth fund has invested \$127 million in private companies doing business in Texas, providing these non-publicly-traded companies a needed source of capital. The investments have been successful — the annualized rate of return over the past five years was 16.5 percent. Furthermore, the second growth round of investments in 1995 got 30 percent more funds committed than the 1991 round.

In authorizing the first growth fund for a limited period, the Legislature, with the endorsement of the voters of Texas, set up an experiment to determine how well this investment vehicle would work. The first growth fund has proved its worth, and a second one should be established. The state funds allowed to use the growth fund as an investment vehicle have been very

prudent in committing their capital to the fund, investing far less than the total amount allowed. The fund in turn has been prudent in making investments with limited risk but high potential for growth and job creation.

**OPPONENTS
SAY:**

Establishing a growth fund as a vehicle for state funds to make risky investments in private ventures may have seemed like a worthy gamble ten years ago when the state's economy was in difficulty, but there is no longer any justification to create another one. Also, the Permanent School Fund and ERS have not even invested in the first growth fund, and the other funds have barely participated.

NOTES:

The companion bill, SB 1054 by Bivins and Ellis, has been referred to the Senate Finance Committee.