

SUBJECT: Establishing the Texas emerging technology fund

COMMITTEE: Economic Development — committee substitute recommended

VOTE: 5 ayes — B. Cook, Anchia, Deshotel, Kolkhorst, McCall
0 nays
2 absent — Ritter, Seaman

WITNESSES: For — Mike Allen, McAllen Economic Development Corporation; Randy Goodall, Sematech; Tom Kowalski, Texas Healthcare and Bioscience Institute; Joseph R. Krier, Metro 8 Chamber; Gray Mayes, Texas Instruments; John Randall, Zyvex Corporation; Bill Sproull, Metroplex Technology Business Council and Texas Economic Development Council; (*Registered, but did not testify:* Ben Bufkin; Daron K. Butler; Chrissy Camacho, American Electronics Association; Johnny Cargill, Texas Motor Transportation Association; Phil Cates, TMTA; Dana Chido, Freescale Semiconductor; Anne Culver, Greater Houston Partnership; Brian Feld, The Methodist Hospital System; Les Findeisen, Texas Motor Transportation Association; Wendy Foster, Texas Nanotechnology Institute; Wanda F. Garza, Texas Border Infrastructure Coalition Chair; Dewitt Gayle, Susman Tisdale Gayle Architects; Sandra Hentges, Greater Austin Chamber of Commerce; Greg Hodsens, Scott White Hospital and Clinic; Deborah C. Kastrin, County of El Paso; Ron Kessler; Steve Kester, Advanced Micro Devices, Inc. (AMD); Alan Key, Investors Alliance Inc.; Lowell Lebermann; Corby McWilliams; Amanda Oneacre, Greater Dallas Chamber; Julie Paul, Technet Texas; Ricardo Perez; Scott Pollard; Pike Powers, Texas Technology Initiative; Richard M. Rhodes; Mike Rollins, Greater Austin Chamber of Commerce; Mark Smith, Hunt Building Company; Tom Stacy; Nathan J. Stallworth, Grande; Bob Stout, The Woodlands Development Company; Steve Taylor, Applied Materials, Inc.; Pat Townsend Jr., Mission Economic Development Authority; Jerry Valdez, Greater Austin Chamber of Commerce)

Against — None

On —James A. Calvin, Texas A&M University; Neil Iscoe, Office of Technology Commercialization; Wayne Roberts, Office of the Governor; Dennis K. Stone, UT Southwestern Medical Center

BACKGROUND: The Governor's Council on Science and Biotechnology Development was appointed in 2002 and charged with recommending a course of action for Texas in technology and scientific research.

In 2004, Gov. Perry announced a long-term job creation plan that focused on six key industry clusters, including advanced technologies and manufacturing, aerospace and defense, biotechnology and life sciences, information and computer technology, petroleum refining and chemical products, and energy.

DIGEST: CSHB 1765 would create the Texas Emerging Technology Fund. It would be overseen by the Texas Emerging Technology Committee, made up of 17 members appointed by the governor.

Purpose of fund and eligibility. The purpose of the fund would be to develop and diversify the Texas economy by:

- expediting innovation and commercialization of research
- attracting, creating, or expanding private sector businesses to increase high-quality jobs, and
- improving higher education applied technology research capabilities

An entity would be eligible for funding if it proposed an activity resulting in the creation of new, high-quality jobs in Texas and had the potential to result in a medical or scientific breakthrough. Industries eligible for funding would be semiconductor, information, computer and software technology, energy, manufactured energy systems, micro-electromechanical systems, nanotechnology, biotechnology, medicine, life sciences, petroleum refining and chemical processes, aerospace, and defense. Other industries could be included at the request of the governor along with the lieutenant governor and the speaker of the house.

Regional centers of innovation and commercialization. Funds would be used as incentives for private or nonprofit entities to collaborate with institutions of higher education on projects with a demonstrable economic benefit to Texas. The recommendation committee would emphasize

projects proposing to conduct certain research and development activities, including commercialization of research results and providing workforce training for businesses that support research. One goal of these collaborations, called regional centers of innovation and commercialization, would be to serve specific areas of Texas. The bill would direct the committee to initiate the establishment of regional centers in Harris County, Lubbock County, Bexar County, the Dallas-Fort Worth Metroplex, El Paso County, the Lower Rio Grande Valley, and any other location deemed suitable. Fifty percent of the money appropriated to the fund by the Legislature would be allocated to this component.

Research matching grants. Funds would be used to match research grants awarded by federal or private sponsors. The funds would focus on partnerships with Texas colleges and universities. Twenty-five percent of the money appropriated to the fund by the Legislature would be allocated to this component.

Acquisition of research superiority. The committee would accept proposals from public universities for creating or attracting world class or nationally recognized researchers in relevant technology fields into Texas. Attempting to draw a researcher who has been identified for consideration for funding by another institution applying for these funds would be prohibited. Twenty-five percent of the money appropriated to the fund by the Legislature would be allocated to this component.

Committee and application administration. The bill would describe how funding recommendations would be made, including peer review, advisory panels, and other processes, and how the governor would appoint members to the committee. Nominations of industry leaders and researchers would be made by individuals from groups such as the Texas Workforce Commission, Texas Higher Education Coordinating Board, a representative of the governor's office and a president of a public or private Texas university. The bill also would describe the length of term of committee members and the staff and funding sources for committee administration, and would provide for a confidentiality clause regarding the fund applications.

Funding priorities and granting contracts. In general, the committee would give priority to proposals that would enhance the state's economic competitiveness, could result in a medical or scientific breakthrough, were

interdisciplinary collaborations, were matched by other grants, or had a demonstrable economic development benefit to Texas.

A funding recipient would guarantee by contract that the entity would perform specific actions expected to benefit the state. If the recipient failed to do so, the grant money would be returned. In some cases the contract also would specify that a substantial percentage of commercialization or manufacturing resulting from the award would occur in Texas. In some cases, the grant would authorize expenses that could include salaries, travel, operating expenses, research and development, capital equipment, facility construction, and training.

The governor and a grantee would enter a contract specifying how distribution of royalties and revenue would be allocated, including the percentage of proceeds that would go to the state. Other provisions of the bill would pertain to unused portions of grant funds and ownership of capital improvements that were built with a grant.

Terms of the account. The Texas emerging technology fund would be a dedicated account in the general revenue fund and would be considered a trustee program within the Governor's Office. The governor would negotiate on behalf of the state in awarding money from the fund. The lieutenant governor and the speaker of the House would have to approve the governor's award. The governor could reallocate money from one component of the fund to another, subject to approval of the lieutenant governor and the speaker.

Other provisions. Nominations for appointment to the committee could be made as soon as practicable after the effective date of the bill. The committee would be appointed on or before September 1, 2005 or as soon as practicable. This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect on the 91st day after the last day of the legislative session (August 29).

SUPPORTERS
SAY:

The Texas Emerging Technology Fund (TETF) would boost the state's reputation as a global leader in technology. The plan is an outgrowth of the Governor's Council on Science and Biotechnology Development. The TETF also would dovetail with the governor's long-term strategic job creation plan, which focuses on many of the same industry clusters. TETF has been discussed and planned by experts for years and the research

supports its chance for success. CSHB 1765 would foster innovation and commercialization, attract high-quality jobs, and increase higher education's research capabilities at universities.

Many states, including California, Ohio, Florida, Pennsylvania and North Carolina, are infusing billions of dollars into high-tech research and development. Without the TETF, Texas could be left behind. Studies show that \$3 trillion in revenue will be generated worldwide by emerging technologies over the next decade. Texas must be a leader in this field in order to reap the benefits from this revenue. In addition this fund would provide a vital link to close the present market funding gap between research and commercialization.

Each component of the fund is important. The regional centers of innovation and commercialization will become hotbeds of research and development activities. This would help to lure companies that could provide workforce training and other economic benefits to the area. The regional centers have been carefully selected to represent all corners of the state. The fund also would assist with matching grants. Grant givers would know that through matches the TETF would give their contributions stronger impact. Texas universities also would be global leaders in technology research by attracting world-renowned researchers from other institutions. Also, by attracting outside businesses, Texas would be broadening its tax base, which would help pay for essential services.

**OPPONENTS
SAY:**

The Legislature should not approve this new fund until it finds money for the Children's Health Insurance Program, Medicaid, public and higher education, and other higher priorities. Tax-funded incentive packages for businesses are inefficient and often play a minor part in relocation and expansion decisions. A skilled workforce and labor productivity far outweigh state and local tax incentives as relevant factors for relocation and expansion projects. Other primary site selection factors include efficient transportation and modern infrastructure. Tax dollars should go into projects like job training and infrastructure instead.

Such incentive plans should include more public disclosure. The governor should have to submit a report outlining a long-range plan for use of the funds. The required report also should include an analysis of the effect the fund had on job creation and wages.

NOTES:

The committee substitute would allow the confidentiality of the funding applications. Among other changes, it would require that a "substantial percentage" of commercialization resulting from the funding be established in Texas rather than a "majority" in the original version.

The companion bill, SB 831 by Shapiro, passed the Senate by 27-4 (Ellis, Madla, Ogden, Seliger) on May 6.

The House version of SB 1, the general appropriations bill, included \$300 million for the Emerging Technology Fund in the Article 11 wish list. The Senate version did not include any funding for this proposal.