

- SUBJECT:** Revising the Texas emerging technology fund.
- COMMITTEE:** Economic Development — committee substitute recommended
- VOTE:** 7 ayes — Deshotel, Straus, Kolkhorst, Dunnam, Morrison, Ortiz, Veasey
0 nays
- WITNESSES:** For — John Cook, City of El Paso; Phil Drayer, Emerging Tech Fund Executive Committee; Dale Gannaway, West Texas Coalition for Innovation and Commercialization ETF RCIC for West Texas; Cyrus Reed, Lone Star Chapter of Sierra Club; (*Registered, but did not testify:* Jay Barksdale, Greater Dallas Chamber; Trey Blocker, Peabody Energy; Stephen Bonner, Texas Instruments Incorporated; Jeffrey Clark, American Electronics Association; Bill Hammond, Texas Association of Business; Sandra Hentges, Greater Austin Chamber of Commerce; Robert S. Howden, Texas Association of Manufacturers; Tom Kowalski, Texas Healthcare and Bioscience Institute; Carlton Schwab, Texas Economic Development Council)

Against — None

On — Guy Diedrich, Texas A&M University System; Mark Ellison, Office of the Governor - Emerging Tech Committee; Clifton E. Miller, MBB Institute for Public Policy and Dallas/Fort Worth Minority Business Council
- BACKGROUND:** Government Code, sec. 490.002 establishes the Emerging technology fund to develop and diversify the economy of this state by:
- expediting innovation and commercialization of research;
 - attracting, creating, or expanding private sector entities that will promote a substantial increase in high-quality jobs; and
 - increasing higher education applied technology research capabilities.
- Government Code, sec. 490.252 defines “research superiority” as the employment by an institution of higher education of one or more world-

class or nationally recognized researchers and associated assistants in an industry eligible to receive emerging technology funds.

The 17-member Texas Emerging Technology Committee makes recommendations, through peer review and evaluation processes it establishes, to the governor, the lieutenant governor, and the speaker of the House for grant awards from the fund. The governor appoints the committee members from nominees who are industry leaders in this state or are nationally recognized researchers from public or private higher education institutions. Nominations to the committee may be made by:

- the Texas Higher Education Coordinating Board;
- a president of a public or private higher education institution in this state;
- the members of the Texas Workforce Commission;
- a representative of the Governor's Office involved in economic development activities;
- a representative of the Lieutenant Governor's Office involved in economic development activities;
- a representative of the Speaker's Office involved in economic development activities; and
- other persons considered appropriate by the governor.

Committee members serve for two-year terms, subject to the pleasure of the governor.

Staff and funding for the committee are provided by:

- the Governor's Office;
- the Texas Higher Education Coordinating Board;
- the Texas Education Agency;
- the Texas Workforce Commission;
- another public entity represented by a committee member; and
- gifts, grants, and donations for overhead expenses to these entities.

The Regional Centers of Innovation and Commercialization (RCICs) provide:

- applied research and development (R&D) activities;
- commercialization of applied R&D;

- incubators for new business and expansion of existing business resulting from applied R&D; and
- workforce training for business resulting from the applied R&D.

DIGEST:

CSSH 1188 would allow the governor, rather than the Texas Emerging Technology Committee, to enter into individual contracts when making awards through the emerging technology fund in the form of interest-bearing loans, or in stocks or securities that could be sold, traded, or exchanged at a later date. All interest or proceeds from these contracts would have to be deposited back to the emerging technology fund.

The committee would be renamed the Texas Emerging Technology Advisory Committee. The Texas Higher Education Coordinating Board and the members of the Texas Workforce Commission no longer would be authorized to nominate people for appointment to the committee. Committee members would serve staggered two-year terms.

The bill would allow the governor to make awards, rather than provide grants, through the emerging technology fund. An “award” would be:

- an investment in the form of equity or a convertible note;
- an investment in the form of a debt instrument;
- a grant; or
- other forms of contribution or investment as recommended by the Texas Emerging Technology Advisory Committee and approved by the governor, lieutenant governor, and speaker of the house.

For money appropriated by the Legislature to the emerging technology fund, the amount that could be dedicated to research would be reduced from 25 percent to 16.67 percent, and the amount dedicated to the acquisition of research superiority would be increased from 25 percent to 33.33 percent. The advisory committee would review and consider, rather than solicit and identify, proposals by institutions of higher learning to create and attract new research superiority.

CSSH 1188 would allow up to 2 percent of the amount allocated by the Legislature to the Emerging technology fund each biennium to support commercialization activities of RCICs, with the approval of the governor, the lieutenant governor, and the speaker of the house.

The bill no longer would require expenses for staffing and administration of the emerging technology fund to be provided by the Texas Higher Education Coordinating Board, the Texas Workforce Commission, the Texas Education Agency, or other public entities represented by a committee member. Instead, all staffing and administration expenses would be paid for by the emerging technology fund and the Office of the Governor.

The bill would take effect September 1, 2007.

**SUPPORTERS
SAY:**

CSHB 1188 would enable the emerging technology fund to operate using the latest investment methods of academia and the private sector. Currently, the fund may provide grants only to worthwhile causes. Instead, the bill would allow the fund to provide loans or purchase stock in order to contribute and invest in the success of innovative technologies. In this way, the fund could cease to operate as a one-way street but instead could build over time as state dollars helped put good ideas to work to be sold in the marketplace. Also, by using financial instruments that had a rate of return, the emerging technology fund could become administratively self-sufficient and no longer require the Texas Higher Education Coordinating Board, the Texas Education Agency, or the Texas Workforce Commission to divert staff and funding from their own programs.

The bill would make the fund more responsive to the needs of the state. Currently, the emerging technology fund must provide an even amount of funding for matching federal research grants and for achieving research superiority. In the past few years, federal grants have become less dependent on state and local matches, leaving the fund with unused matching dollars that could have been put to better use. The bill would require a larger share of the fund to be dedicated to recruiting the best minds in the world to Texas. By spending to attract world-renowned researchers and inventors, the emerging technology fund would ensure that more innovative work was done in the state. The bill also would allow up to 2 percent of the amount the Legislature allocated to the emerging technology fund to support the commercialization activities of the RCICs, to ensure that the state's investment in groundbreaking technology ultimately would result in lucrative patents, product creation, and business development activities that build the state's tax base. In essence, this would reinvest the fund into recruiting the best research and entrepreneurial minds in the world.

OPPONENTS
SAY:

This bill would give the governor too much latitude in managing the emerging technology fund. While Gov. Perry may be savvy about the benefits of commercialization, at some point in the future a governor less motivated by commercialization may be elected to office. The emerging technology fund then would be dependent on the steady involvement of state agencies to ensure its proper stewardship. The emerging technology fund currently operates through a committee appointed by the governor with nominees from various sources, including the Texas Higher Education Coordinating Board and the Texas Workforce Commission. While this bill still would allow public and private institutions of learning to have some input on the nomination process, it ultimately would remove input of state agencies that are intimately involved with encouraging academic research and business development across the state. In particular, the Texas Higher Education Coordinating Board represents the highest authority in the state in matters of public higher education (Government Code, sec. 61.051) and is the state agency most involved with attaining research superiority.

This bill would allow the governor to grant financial awards to businesses and projects with no oversight by the Emerging technology fund Advisory Committee or the Legislature. Currently, a person awarded money may not use the money for commercialization without a contract with the committee. Instead, this bill would allow the governor to manage all aspects of the awards, including granting, contracting, and commercialization. This bill would remove the only existing oversight built into the administration of the fund because it is not currently subject to the review of the Legislative Budget Board, State Auditor's Office, or Sunset Commission.

NOTES:

The bill as filed listed several entities to provide staffing and funding for administration of the fund. The committee substitute would retain only the Governor's Office, along with gifts, grants, and donations for overhead expenses to the Governor's Office, for this purpose.

The companion bill, SB 486 by Shapiro, was reported favorably as substituted by the Senate Business and Commerce Committee on April 20 and recommended for the Local and Uncontested calendar.

