

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 30, 2015

TO: Honorable Dan Patrick, Lieutenant Governor, Senate
 Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB26 by Button (Relating to state economic development measures, including administration of the Texas Enterprise Fund, creation of the Economic Incentive Oversight Board and the governor's university research initiative, abolishment of the Texas emerging technology fund, and renaming the Major Events trust fund to the Major Events Reimbursement Program.), **Conference Committee Report**

Estimated Two-year Net Impact to General Revenue Related Funds for HB26, Conference Committee Report: an impact of \$0 through the biennium ending August 31, 2017.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	\$0
2017	\$0
2018	\$0
2019	\$0
2020	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>Emerging Technology</i> 5124	Probable Revenue Gain/(Loss) from <i>General Revenue Fund</i> 1	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1
2016	(\$102,000,000)	\$102,000,000	(\$102,000,000)
2017	\$0	\$0	\$0
2018	\$0	\$0	\$0
2019	\$0	\$0	\$0
2020	\$0	\$0	\$0

Fiscal Year	Change in Number of State Employees from FY 2015
2016	(5.0)
2017	(5.0)
2018	(5.0)
2019	(5.0)
2020	(5.0)

Fiscal Analysis

The bill would amend Education Code to establish the Governor's University Research Initiative (GURI) administered by the Texas Economic Development and Tourism Office within the Office of the Governor to award matching grants to eligible institutions to recruit distinguished researchers. The bill would require a biennial report on grants made from the Governor's University Research Initiative Fund.

The bill would direct the winding up of contract and awards in connection with the Emerging Technology Fund (ETF), however, agreements in place before that date would not be affected. The bill would direct the GURI as the successor to the Emerging Technology Fund and royalties, revenue and other financial benefits received in the future would be deposited to Governor's University Research Initiative Fund. The bill would direct the disclosure of certain public information collected under the ETF program.

The bill would amend Government Code to direct the Texas Treasury Safekeeping Trust Company (TTSTC) to manage and wind up the ETF investment portfolio in a manner that provides for the maximum return on the state's investment. The bill would require the TTSTC to notify the Comptroller of Public Accounts (CPA) when the final liquidation of the ETF investment portfolio has been completed for the CPA to verify and certify to the Governor. The bill would abolish the ETF upon certification by the CPA of final liquidation. All realized proceeds and other earnings from the sale of stock or other investments and associated assets, and any balance remaining at final liquidation of the ETF would be deposited to General Revenue, less the amount permitted to be retained by TTSTC for costs for managing the portfolio.

On the effective date of this Act, the bill would allow the unencumbered balances of the ETF to be appropriated only to: the Texas Research Incentive Program (TRIP); the Texas Research University Fund; Governor's University Research Initiative (GURI); the Texas Enterprise Fund; and to the Comptroller for expenses incurred in managing the investment portfolio in connection with awards from the former ETF. The bill would abolish Regional Centers of Innovation and Commercialization.

The bill would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in the bill would be subject to funds consolidation review by the current Legislature. The bill would take effect September 1, 2015.

The bill would create the Economic Incentive Oversight Board that, for certain incentive awards, would be required to: review the effectiveness of certain programs and funds to business entities and other persons; evaluate the benefits and costs to the state, local governments and residents of the state from the economic development activity; develop a schedule for periodic review of

certain state incentive programs; and make recommendations for audits to the Legislative Audit Committee. The bill would require an biennial report from the Board. The Board would be entitled to reimbursements for certain expenses. The Governor's office would be required to provide administrative support and staff to the Board.

The bill would shorten the approval period for a proposal for a grant from the Texas Enterprise Fund.

The bill would amend Vernon's Texas Civil Statutes, to change the name of the Major Events Trust Fund (METF) to the Major Events Reimbursement Program (MERP) and would base the reimbursement amount on the prevailing state sales tax. According to the CPA, the fiscal impact of changing the state portion of the MERP reimbursement to be based on the sales tax rate is unknown as the size and number of events that would become eligible and held in the state is unknown.

Methodology

Using the Office of the Governor's most recent estimate, \$102.0 million in unexpended balances in General Revenue - Dedicated Emerging Technology Fund Account No. 5124 would be available for appropriation to the Texas Research Incentive Program (TRIP); the Texas Research University Fund; Governor's University Research Initiative(GURI); the Texas Enterprise Fund; and to the Comptroller for expenses incurred in managing the investment portfolio in connection with awards from the former ETF. As the bill does not require certain percentages of distribution, it is assumed the balances would be transferred to General Revenue for appropriation by the legislature to the Texas Research Incentive Program (TRIP); the Texas Research University Fund appropriated, and the CPA, and an undetermined amount would be appropriated to the General Revenue - Dedicated Texas Enterprise Fund and to the new General Revenue - Dedicated Governor's University Research Initiative Fund.

The Office of the Governor reports that the administrative provisions of the bill would require 2.0 FTEs, the cost of which can be absorbed within existing resources. The ETF currently is administered by 7.0 FTEs, for a net reduction of 5.0 FTEs.

The total ongoing portfolio management costs cannot be determined, as the portfolio wind up timeline is unknown at this time. The Office of the Governor estimates there would be a cost for the management of the ETF portfolio of approximately 2 percent of funds under management. Currently, the Office of the Governor estimates the portfolio's size to be \$455 million, and prior to the wind up of the ETF investment portfolio; the management cost is estimated to be approximately \$9.1 million per fiscal year. As the size of the portfolio decreases, the associated management costs would also decrease.

While the bill directs the Texas Treasury Safekeeping Trust Company to wind down the Emerging Technology Fund, the Office of the Governor indicates the fiscal impact cannot be determined at this time. The sale proceeds and other earnings from investments in the state's portfolio, and the required portfolio management fees are unidentified due to the unpredictability of the stock market and the unknown liquidity status of the investments.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 301 Office of the Governor, 304 Comptroller of Public Accounts
LBB Staff: UP, SD, EP, LBe