

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION**

**May 19, 2015**

**TO:** Honorable Troy Fraser, Chair, Senate Committee on Natural Resources & Economic Development

**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 certain programs administered by the Texas Economic Development Bank, and renaming the Major Events trust fund to the Major Events Reimbursement Program.), **As Engrossed**

The fiscal implications of the bill cannot be determined at this time primarily due to the lack of specificity with respect to the timing of the distribution of the unexpended balance from the Emerging Technology Fund; the balance is estimated to be \$102 million for the 2016-17 biennium but under the bill would not be available for appropriation on September 1, 2015. Administrative costs associated with the bill are not expected to be significant.

The bill amends Government Code to add University Research Development grants that receive matching funds from the institution and additional private funding, to the eligible uses for the Texas Enterprise Fund. The bill would amend Government Code to shorten the approval period for a proposal for a grant from the Texas Enterprise Fund and adds rule and reporting requirements to the program.

The bill would abolish the Emerging Technology Fund (ETF) and transfer management of the ETF portfolio to the Texas Treasury Safekeeping Trust Company (TTSTC). The bill directs the 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.

After certification of final liquidation, 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; the Governor's Research Initiative Fund; the Texas Enterprise Fund; and to the CPA for expenses incurred in managing the investment portfolio in connection with awards from the former ETF.

Due to the complexities of winding up the portfolio to provide the maximum return on the state's investment, including potential contract restrictions, market variations, and timing of liquidating assets, the unexpended balance distribution timing cannot be determined and may not be available for appropriation during the 2016-17 biennium.

Any interest, royalties, revenues, other financial benefits realized from a project undertaken with money from the ETF, as well as any money returned or repaid by an award recipient, would be deposited to the Texas Emerging Technology Fund to be used solely for the purposes of winding down the state's portfolio. Any realized proceeds or other earnings from the sale of stock or other investments in the state's emerging technology investment portfolio, less the amount permitted to be retained for payment of its costs for managing the portfolio would be deposited to General Revenue. Although the ETF would be abolished, agreements in place before that date would not be affected.

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.

The sale of the ETF portfolio is expected to result in revenue deposited into General Revenue. However, the amount and timing of the increase in General Revenue cannot be determined due to unknown contract and investment management factors.

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 annual 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 require the Department of Information Resources (DIR) to develop through the state electronic internet portal (currently administered as Texas.gov) a website for use by businesses that are considering relocating to or expanding in Texas to receive information relating to state monetary and tax incentives and to apply for those incentives. DIR estimates that there would be an indeterminate cost for the vendor operating Texas.gov to develop the economic development incentives interactive application system. DIR estimates a minimal impact to both state agencies that would use the system to receive applications and to the General Revenue Fund as a result of the current Texas.gov revenue-sharing arrangement between the state and Texas.gov.

The bill would abolish the Linked Deposit and the Texas Small Business Industrial Development Corporation programs. The bill would transfer all revenue or other money from the Texas Small Business Industrial Development Corporation to General Revenue. The Governor's office estimates these fees to be \$846,024.

The bill would amend Education Code to create the Governor's University Research Initiative administered by the Texas Economic Development and Tourism Office within the Office of the Governor to award matching grants to eligible institutions. The bill would define the program and grant process, direct the creation of an advisory board, and define the funding source and the uses of the Fund. The Office of the Governor reports that the administrative provisions of the bill would require 2.0 full time equivalents (FTE), the cost of which can be absorbed within existing resources. 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 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.

The bill would take effect September 1, 2015.

**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, 308 State Auditor's Office, 313 Department of Information Resources

**LBB Staff:** UP, SZ, EP, LBe, LCO