

"Texas Legislature Technology Calendar"

**Nanotechnology Colloquium
February 5, 2007**

Presented by:

Janis Carter, Managing Director, Winstead Consulting Group

&

Jerry Keys, Shareholder, Corporate/IP/Technology, Winstead PC

How Much Money Is Available? 2008-09 Biennium (\$ millions)

	General Revenue	Property Tax Relief Fund	Total Discretionary Funds
Beginning Balance	\$6,987.30	\$512.20	\$7,499.50
Revenues	\$77,487.20	\$7,565.80	\$85,052.90
Less: Rainy Day Set Aside	<u>(\$2,008.60)</u>	<u>\$0.00</u>	<u>(\$2,008.60)</u>
Total Net Revenues	\$82,465.90	\$8,078.00	\$90,543.80
Baseline Spending	\$70,140.20	\$0.00	\$70,140.20
Property Tax Relief	<u>\$0.00</u>	<u>\$14,191.10</u>	<u>\$14,191.10</u>
Total Spending	\$70,140.20	\$14,191.10	\$84,331.30
Net Balance	\$12,325.70	(\$6,113.10)	\$6,212.50
Projected Rainy Day Fund Balance at end of 2009:			\$4,265.40

Items The State Is Required To Find Spending Demands: 2008-09

Education..... **\$4.3**

- TEA - Roll forward Equalized Debt Allotment (EDA); Foundation School Program (FSP); two-year funding of HB 1 non-FSP programs
- TRS - Health insurance cost growth and retirement contribution at 6 percent
- Higher Education - Enrollment growth at all institutions and a statutory increase to the Higher Education Fund (HEF)
- Tuition Revenue Bonds - Existing debt service and debt service tied to HB 153 from Special Session

Items The State Is Required To Find Spending Demands: 2008-09 (Continued)

Property Tax Relief.....\$2.7

- Incremental amount above 2007 - \$11,371M less expected revenues in the Property Tax Relief Fund, estimated to be \$8,704M; provides for school district M&O tax rate compression from \$1.33 to \$1.00

Health and Human Services.....\$1.9

- Caseload growth, maintain 2007 rates/costs, cost growth for 08-09 and less favorable FMAP for Acute and Long-term Care; two-year funding for Medicare Clawback; foster care caseload growth and lower FMAP; maintain CPS/APS FTEs

Public Safety & Criminal Justice..... \$0.2

- Additional contracted capacity and correctional managed health care

Employer Costs.....\$0.6

- Two-year funding of 2007 employee pay raise and ERS/Higher Education Group Insurance cost and payroll growth

.....**Total (in billions)- \$9.7**

Gov. Rick Perry's Higher Education Reform Proposal 80th Texas Legislature

- Gov. Perry proposes an ambitious higher education reform plan that will increase higher education funding by \$711 million in general revenue (\$1.7 billion all funds), increase financial aid by 60 percent or \$362 million, fully fund higher education formulas and substantially change the funding mechanism by eliminating “special items,” or earmarks, so money increasingly follows students instead of schools. These reforms will be achieved by implementing the following:
 - Innovative incentive-based performance funding system to prepare students for the 21st century marketplace.
 - Need-based and performance-driven increase in financial aid.
 - Create alternative programs to address nursing shortages
 - 100 percent funding support of the higher education *operations formula*.
 - Understandable and responsible funding patterns for distributing tax dollars to our schools.

Texas Technology Grant

- A new Texas Technology Grant is created with \$43.7 million to increase the number of electrical engineering, engineering technology and computer science graduates from about 5,500 to 11,000 per year. To be eligible, students must have completed the recommended high school program and be enrolled in a public or private two-, four- or five-year degree program. If enrolled in a baccalaureate program, students must have completed at least 30 hours, including two calculus and two science courses with an overall GPA of at least 2.5. Continued eligibility requires completion of 75 percent of hours attempted, 24 hours per year and maintaining a 2.5 GPA or higher. Students may receive the award for up to 120 hours beyond the initial 30 hours needed for entry until they can earn a bachelor's degree, or for four years beyond the entry requirements. *Students not graduating within the specified time or not maintaining eligibility requirements must repay the grant, with exceptions for hardships.*

Funding Emerging Technology

- In 2005, the 79th Legislature approved HB1765 which established the Texas Emerging Technology Fund effective September 1, 2005
- Emerging Technology Fund (ETF) appropriations for FY 2006-2007
 - \$100 million from General Revenue - available September 1, 2005
 - \$100 million from Rainy Day fund surplus - estimated to be available September 1, 2006

Funding Emerging Technology

- The Emerging Technology Fund (ETF) shall be allocated as follows:
 - Fiscal Year 2006 beginning September 1, 2005
 - \$50million was reserved to Regional Centers of Innovation and Commercialization project activity. \$25 million was reserved for emerging technology research matching grant activity. \$25 million was reserved for acquisition of research superiority grant activity.
 - Fiscal Year 2007 beginning September 1, 2006 (dependent on available rainy day funds)
 - \$50million was reserved to Regional Centers of Innovation and Commercialization project activity. \$25 million was reserved for emerging technology research matching grant activity. \$25 million was reserved for acquisition of research superiority grant activity.
- The Governor may reallocate money from one component of the fund to another component subject to the prior approval of the Lt. Governor and Speaker of the House.

Funding Emerging Technology

- The ETF has 3 components:
 - Subchapter D - Regional Centers of Innovation and Commercialization project grants
 - Subchapter E - Matching emerging technology research grants
 - Subchapter F - Acquisition of research superiority grants
- Texas has only spent \$130 million of the funds appropriated

Funding Emerging Technology in 2007 by the 80th Texas Legislature

- Changes To and Funding for the Texas Emerging Technology Fund
 - Increase Funding to \$300 million
 - Decrease component to RCICs for funding startup companies through the “Valley of Death”
- A “second” emerging technology fund for cancer research potentially funded at \$3 billion
 - New funding to be found

Funding Emerging Technology (Continued)

- **HB 271**

- Rep. Anchia (D- Dallas) Establishes a tax on coal with the revenue to be put in the Emerging Technology Fund for NEW ENERGY TECHNOLOGY. New energy technology is a process of providing energy that the committee determines significantly reduces greenhouse gas emissions, has minimal risk to public health and the environment, and is sustainable and efficient. ENTITIES ELIGIBLE FOR AWARD include a private industry, nonprofit organization, or academic institution that seeks to research and develop new energy technology or promote the use or implementation of a new energy technology.
- The tax imposed by this bill is 7.5 percent of the total price paid for the coal, without regard to where the purchase occurs, delivered at the site at which the coal will be used, including transportation costs to that site. The rate of the taxes imposed on coal used in this state by a producer of coal who owns the coal in place and who produces the coal for the producer's own use is 7.5 percent of the fair market value of the coal, including transportation costs to the site at which the coal is used.



Funding Emerging Technology (Continued)

- Surprising proposals are likely



Supporting A 3rd First Tier Research University

- Create a Commission composed of members from various university systems to investigate how to create a 3rd first tier research university
- Local communities potentially to bid and provide partial funding for next flagship research university



Improving Utilization of Transportation Infrastructure

- More funding to be proposed for technology solutions
- Returning “local government contributions” for “new transportation projects” to local communities for use in creating “smart” transportation systems

Tax Relief

- Increase Deductions for New “Gross Margin” Franchise Tax for Emerging Companies
- Sales Tax Exemptions for R&D Expenditures
- Deduction For Flow Through Payments



Questions?

Thank You.

Jerry M. Keys
Shareholder
Corporate/IP/Technology
Winstead PC

jkeys@winstead.com
512.370.2892

Janis Carter
Managing Director
Winstead Consulting Group

jlcarter@winstead.com
512.370.2871