



WHITE PAPER

# Texas Emerging Technology Fund

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## Texas Emerging Technology Fund

**Executive Summary** The Texas Emerging Technology Fund is a public-private partnership which allows the state of Texas to make strategic investments in key technologies and better leverage its public universities. The investments are intended to build the economy of the state by expediting the development and commercialization of new technologies.

Awards from the Fund are made in key industries in three main development arenas: Commercialization Awards (to take products to market), Matching Awards (to utilize universities and industry to maximize Federal and other grant opportunities) and Research Superiority Acquisition Awards (to bring world class research talent into the state). Each applicant is required to team with a state university to facilitate research and development.

Commercialization awards are made to for-profit entities and generally result in the Fund making a debt or equity investment, or both, with the investee. Matching awards may be made in a grant or loan to qualified non-profits or universities. Research Superiority Acquisition awards are made in the form of a grant.

The Emerging Technology Fund was originally seeded with \$200 million from the Texas State Legislature. Additional funding has been provided by the legislature each year. Funding can also be generated from the Commercialization Award investments. Since May 1, 2006, the Emerging Technology Fund has made awards totaling \$340 million. During that same period, the aggregate government, private and other sources of funding obtained in connection with those same awards was \$960 million.

**Background** The founders of the Texas Emerging Technology Fund (ETF or the Fund) felt that key ideas and technology jobs, as well as the state's best and brightest talent, were leaving the state due to a lack of venture capital and a lack of opportunities. As a result, the Fund was created by the Texas state legislature in 2005.

The key goal of the ETF is to develop the economy of the state by facilitating the development and commercialization of new technologies. The Fund helps attract and retain jobs in the technology field by providing much needed venture capital. Further, awards to start-up entities leverage the state's existing technology and knowledge infrastructure of universities and teaching hospitals.

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The ETF was initially funded through a \$200 million state grant. From 2007 to 2010, the ETF made awards totaling \$260 million. Awards are focused on three main areas:

- Commercialization Awards: takes ideas from concept, to development, and to the market
- Matching Awards: creates public-private partnerships to utilize state universities, federal government grant programs, and industry
- Research Superiority Acquisition Awards: recruits research talent into the state

Texas defined six target industry clusters in which investments would be made, including advanced technology, biotech and energy. Each cluster may be targeted in a specific region of Texas.

As of October 1, 2009, the ETF became the single largest pre-seed investor for emerging technology companies in the United States.

**Award Process** A company initiates an award request by completing the ETF's application. The applications are provided to regional centers who perform financial and operational due diligence. Once approved, the application is provided to a statewide advisory committee and then to the ETF leadership group. This leadership group consists of the Governor, Lt. Governor and Speaker. All three must unanimously approve any awards.

All entities receiving awards are required to team with a state university. The university assists with research, development, studies and trials, as appropriate. This teaming approach allows the entities receiving the awards access to state of the art technology and research. The universities receive the benefits of additional ideas and opportunities to work in new areas. The universities are also able to obtain further private sector investments, Federal funds and other contributions to further their research. Based upon the most recent ETF annual report, the ETF has made awards totaling \$340 million since May 1, 2006. During that same period, the aggregate government, private and other sources of funding obtained in connection with those same awards was \$960 million.

Each type of award includes specific requirements and performance criteria. The intent of commercialization awards is to provide venture capital to develop new and existing small businesses and to accelerate new products to market. Commercialization awards result in the ETF taking a debt or

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equity position, or both, with the company being given the award. These awards generally allow the state to earn a return on its investment. Debt positions generally require the repayment of the award with 8% interest, until the earlier of ten years and repayment of the principle amount through a defined equity event. The ETF's equity position allows them the right to purchase shares of the company at a discounted price. The equity awards include anti-dilutive measures to help ensure the ETF's ownership value remains stable in the event of other equity transactions.

Matching awards are made with the twin goals of drawing non-state grants to Texas and increasing the commercialization capacity of the state's public universities. These projects must be led by a consortium of at least three companies and state universities. The award requests are made by the university or qualified non-profit entity. Funds are only provided where state awards are required to obtain or leverage non-state grants, and only where the non-state match will be 1:1 or higher. These awards are intended to be used for such commercialization activities as process refinement, FDA approval, scale up and manufacturing, development of commercialization plan and marketing. The matching awards can be made in the form of a debt instrument or any other method the ETF believes is appropriate.

The goal of the research superiority acquisition fund is to bring world class research talent into the state. Any Texas Institution of Higher Learning may apply, provided that they are not recruiting talent from another Texas university. These awards are also made to consortiums of universities and companies, with two-thirds of the funding for the project required to be provided by the consortium. The research superiority acquisition funds are awarded in the form of grants and can be used for salaries, research staff, key infrastructure or any other resources needed to obtain the talent.

**Challenges** The ETF has resulted in significant investment in key technologies and in increased entrepreneurial efforts in the state. However, the funding of the ETF is continually reviewed as a result of state budget difficulties. The Fund itself has not yet become financially self-sustaining. Some of the decisions of the Fund have been questioned as being politically motivated.

**Opportunities** With ETF funding, Texas has been able to increase its concentration on developing high tech jobs within the state. Ideas generated by universities can be developed within Texas, allowing the state's best and brightest to remain living and working within the state. The ETF represents Texas' investment in their state's future.