



# **Economic Incentive Oversight Board 2021 Legislative Report**

**Reporting Period: January 2019 - December 2020**

Office of the Governor | Economic Development & Tourism

P.O. Box 12428 | Austin, TX 78711 | (p) 512.936.0100 | [gov.texas.gov/business](http://gov.texas.gov/business) |      @TexasEconDev

## **TABLE OF CONTENTS**

Overview of the Economic Incentive Oversight Board	3
Board Members	3
Board Meetings	4
Performance Review Matrix	4
Board Findings and Recommendations	4
1. Texas Leverage Fund	4
2. Capital Access	5
3. Product Development and Small Business Incubator Fund	6
4. Defense Economic Readjustment Zone	7
5. Spaceport Trust Fund	8
6. Defense Economic Adjustment Assistance Grant	8
7. Texas Military Value Revolving Loan Fund	9
Exhibit A – Performance Review Matrix	10

## **OVERVIEW OF THE ECONOMIC INCENTIVE OVERSIGHT BOARD**

The Economic Incentive Oversight Board (Board) was established by House Bill 26 during the 84th Legislative Session. The Board is composed of nine public members appointed by the Governor, Lieutenant Governor, Speaker of the House, and Comptroller of Public Accounts. At least one of the appointees of the Lieutenant Governor and Speaker of the House must be from a rural county. Each appointing officer shall appoint at least one member who has expertise in the area of economic development. Administration of the Board is the responsibility of the Texas Economic Development & Tourism (EDT) office, in the Office of the Governor.

The Board has been charged with examining the effectiveness and efficiency of programs and funds administered by the Economic Development Finance division of EDT in the Office of the Governor (OOG), the Comptroller of Public Accounts (CPA), and the Texas Department of Agriculture (TDA) that award to business entities and other persons state monetary or tax incentives for which the OOG, CPA, or TDA has discretion in determining whether or not to award the incentives. Monetary incentives may include grants, loans, or tax incentives paid from state revenues.

The Board is required to develop a performance matrix that clearly establishes the economic performance indicators, measures, and metrics that will guide the Board's evaluations of those programs and funds. The Board is also tasked with developing a schedule for the periodic review of each state incentive program or fund that meets the statutory requirement for review by the Board. For each review conducted, the Board is to make recommendations regarding whether to continue the program or improve the program's effectiveness and efficiency. The Board may also recommend to the Legislative Audit Committee that an audit of the program be conducted.

Finally, the Board is required to submit a Biennial Report to the Legislature containing findings and recommendations resulting from each review. The required report is contained within.

## **BOARD MEMBERS**

The following individuals have been appointed to serve as members of the Economic Incentive Oversight Board. The members of the Board serve at the pleasure of the appointing officer.

### **Appointed by the Governor:**

- Massey Villarreal, Presiding Officer – Sugar Land
- Adrian Cannady – Temple
- Trevor Pearlman – Dallas

### **Appointed by the Lieutenant Governor:**

- Anne Windfohr "Windi" Grimes – Houston

- Vacant

**Appointed by the Speaker of the House of Representatives:**

- Jim Goldsworthy – Gainesville
- Mike Rosa – Dallas

**Appointed by the Comptroller of Public Accounts:**

- Dale Fowler – Victoria
- Catherine Q. Morse – Austin

## **BOARD MEETINGS**

The Board held meetings during the preceding two calendar years on the following dates to review applicable economic incentive programs:

- December 3, 2019
- March 31, 2020
- September 8, 2020
- November 3, 2020

## **PERFORMANCE REVIEW MATRIX**

The Board is required to develop a performance review matrix that clearly establishes the economic performance indicators, measures, and metrics to guide the Board during its evaluation of each program. The Matrix shall determine the effectiveness and efficiency of the program while also being applicable to the variety of programs and funds. The Performance Review Matrix adopted by the Board and used for review of programs during the preceding two calendar years is contained in Exhibit A of this report.

## **BOARD FINDINGS AND RECOMMENDATIONS**

The Board is required to make recommendations regarding the effectiveness and efficiency of the programs and funds reviewed during the preceding two calendar years. All determinations made by the Board were based on public information available to the Board. The Board reviewed the following programs during the preceding two calendar years and made the following determinations.

### **1. Texas Leverage Fund**

Introduced in 1992, the Texas Leverage Fund (TLF) program is administered by the Texas Economic Development & Tourism Office (EDT), in the Office of the Governor through the Economic Development Bank (Bank) division and provides an additional

source of financing to communities that have adopted the Texas Economic Development Sales Tax (Type A/Type B). The program allows communities to leverage future sales tax revenues to expand economic development through business expansions, business recruitment, and exports.

In 2016, EDT requested to contract with a new Letter of Credit holder for the Texas Leverage Fund, which required an amendment to the Master Resolution. However, it was found that the current statute outlining the Bank's process to amend the Master Resolution is unclear. Accordingly, absent statutory authority, TLF has not issued new loans to qualifying communities since Fiscal Year 2015.

Upon its review of the Texas Leverage Fund program, the Board found the following:

- Sufficient resources are available to effectively administer the program.
- The program is a high-value incentive for the state to offer.

Many of the evaluation matrix categories were not applicable to this program as it is not currently active.

The Board recommended that the Legislature pass clear statutory authority for the program to continue to operate.

## **2. Capital Access**

The Capital Access (CAP) program is administered by the Texas Economic Development & Tourism (EDT) Office, in the Office of the Governor through the Economic Development Bank (Bank) division and was established in 1997 by SB 266, 75<sup>th</sup> Legislature. The program became inactive in 2007 and was revitalized in September 2015. CAP is a partnership between the State of Texas and selected non-profit lenders to increase access to financing for small- and medium-sized businesses and non-profit organizations facing barriers to accessing financing. The program facilitates loans, which are underwritten by participating non-profit lenders and supported by state contributions to a loan loss reserve fund.

Upon its review of the Capital Access program, the Board found the following:

- They could not determine if the program has an efficient application process since the Community Development Finance Institution (CDFI) conducts the application process.
- They could not determine that an adequate due diligence process for reviewing applications is in place as it is the CDFI that conducts the due diligence process.
- After approval of the application, an adequate process for reviewing the use of state funds is in place. There is a review in place before making a distribution from the Loan Loss Reserve.
- Awarded entities/approved applicants regularly fulfill their obligations under the program.

- Adequate procedures are in place to penalize awarded entities/approved applicants who do not fulfill obligations. There is a process for reviewing the claim before making a disbursement.
- Sufficient resources are available to effectively administer the program with the current level of use. With additional appropriation or increased activity there would not be sufficient resources.
- Information regarding the program, eligible entities, and the application process is clear and accessible, however the program is currently not being promoted.
- The program is a high-value incentive for the state to offer, and a valuable program, if sufficiently supported and promoted.
- The program meets its purpose and satisfies the intent of the Legislature.

Following its review of the Capital Access program, the Board made the following recommendations:

- The penalty would be not receiving that payment from the Loan Loss Reserve. There should be consequences if it is found that appropriate due diligence is not being conducted by a CDFI.
- There is not sufficient protection on the obligations of the CDFI.

### **3. Product Development and Small Business Incubator Fund**

The Product Development Fund and Small Business Incubator Fund (PDSBI) are revolving loan programs approved by the voters of the state in 1989 in a constitutional amendment (Article 16, Section 71) authorizing the issuance of \$25 million of bonds for Product Development and \$20 million of bonds for a Small Business Incubator program. These programs are administered by the Texas Economic Development & Tourism (EDT) Office in the Office of the Governor, through the Economic Development Bank (Bank) division. The fund was established through the issuance of \$45 million of General Obligation bonds in FY 2005.

The purpose of the Product Development Fund is to provide financing to aid in the development, production, and commercialization of new or improved products in the state, while the Small Business Incubator Fund provides financing to foster and stimulate the development of small businesses in the state. Per statute, in determining eligible products and businesses, special preference is given to products or businesses in the areas of semiconductors, nanotechnology, biotechnology, and biomedicine that have the greatest likelihood of commercial success, job creation, and job retention in the state.

The programs are designed to be self-supporting with capital and administrative costs paid for by the loan participants' repayments.

Upon its review of the Product Development and Small Business Incubator Fund, the Board found the following:

- The program is efficient and effective.
- Sufficient resources are available to effectively administer the program.
- Information about the program is clear and accessible.
- The program is a high-value incentive for the state to offer.

Following its review of the Product Development and Small Business Incubator Fund program, the Board made the following recommendations:

- With only three active loans, it may not be meeting the intent of the Legislature in regards to level of activity.
- Streamline or fast-forward the process to be more effective because an incubator may not have three years of financials.

*Both EIOB recommendations were reviewed by staff and changes have already been implemented. First, Credit Policy changes have been made to allow for Bank staff to approve loans below \$5 million. Secondly, more requests for loans have been received due to COVID-19 from small manufacturers interested in pivoting their operations to manufacture personal protective equipment (PPE).*

#### **4. Defense Economic Readjustment Zone**

The Defense Economic Readjustment Zone (DERZ) program was created in 1997 by the 75<sup>th</sup> Texas Legislature and is administered by the Texas Economic Development & Tourism (EDT) Office in the Office of the Governor, through the Economic Development Bank (Bank) division. The purpose of the program is to be utilized as a tool for business recruitment and job creation in adversely impacted military communities. It is designed to provide assistance to Texas communities, businesses, and workers impacted by, or vulnerable to, the closure or realignment of military installations and the reduction of federal defense contracting expenditures.

Upon its review of the Defense Economic Readjustment Zone program, the Board found the following:

- The program does not have an efficient application process, but an adequate due diligence process for reviewing applications is in place.
- Adequate processes for reviewing use of state funds are in place, and awarded entities regularly fulfill their obligations.
- Sufficient resources are available to effectively administer the program.
- Information about the program is clear and accessible.
- The program is not a high-value incentive for the state to offer.

Following its review of the Defense Economic Readjustment Zone program, the Board made the following recommendations:

- The Legislature should keep this program for future use in case there are further Defense Base Realignment and Closures.

## **5. Spaceport Trust Fund**

The Spaceport Trust Fund (STF) is administered by the Texas Economic Development & Tourism (EDT) Office in the Office of the Governor, through the Economic Development Bank (Bank) division and was established in 2001 by the 77<sup>th</sup> Texas Legislature. The purpose of the program is to serve as a financial tool to support the development of infrastructure necessary or useful for establishing a spaceport in the State of Texas. Fund proceeds are available to any spaceport development corporation which has secured a viable business entity, if that entity is capable of launching and landing a reusable launch vehicle or spacecraft and intends to locate its facilities at the development corporation's planned spaceport in the state.

Upon its review of the Spaceport Trust Fund, the Board found the following:

- The program is a high-value incentive for the state to offer.
- The program has an efficient application process.
- Awarded entities/approved applicants regularly fulfill their obligations under the program.
- Sufficient resources are available to effectively administer the program.
- The program meets its purpose and satisfies the intent of the Legislature.
- After approval of the application, an adequate process for reviewing the use of state funds is in place.

Following its review of the Spaceport Trust Fund program, the Board made the following recommendations:

- The Legislature should look at appropriating further funding to the program during future legislative sessions.

## **6. Defense Economic Adjustment Assistance Grant**

The Defense Economic Adjustment Assistance Grant (DEAAG) program is administered by the Texas Military Preparedness Commission within the Office of the Governor (OOG). The program was established in 1997 and came under the OOG in 2003. The purpose of DEAAG is to assist defense communities that have been positively or negatively impacted by a change or announced change from the Department of Defense. Funding from the program can also be used proactively to support installations.

Upon its review of the Defense Economic Adjustment Assistance Grant program, the Board found the following:



- The program has an efficient application process, and an adequate due diligence process for reviewing applications is in place.
- Adequate processes for reviewing the use of state funds are in place, awarded entities regularly fulfill their obligations, and adequate procedures are in place to penalize awardees who do not fulfill obligations.
- Sufficient resources are available to effectively administer the program.
- Information about the program is clear and accessible.
- The program is a high-value incentive for the state to offer, and the program meets its purpose and satisfies the intent of the Legislature.

Following its review of the Defense Economic Adjustment Assistance Grant program, the Board made no recommendations.

## **7. Texas Military Value Revolving Loan Fund**

The Texas Military Value Revolving Loan Fund (TMVRLF) program is administered by the Texas Military Preparedness Commission within the Office of the Governor (OOG). The program was established in 2003. The purpose of the program is to provide financial assistance to defense communities in Texas. The Loan Fund, financed through the sale of state general obligation bonds, is constitutionally approved at \$250 million. As a low cost source of funding to eligible communities, the TMVRLF offers financing to projects that will enhance the military value of area military bases and defense facilities; lessen the adverse impacts of BRAC 1995 or later; and, provide assistance to communities positively impacted by BRAC 1995 or later.

Upon its review of the Texas Military Value Revolving Loan Fund program, the Board found the following:

- The program has an efficient application process, and an adequate due diligence process for reviewing applications is in place.
- Adequate processes for reviewing the use of state funds are in place, awarded entities regularly fulfill their obligations, and adequate procedures are in place to penalize awardees who do not fulfill obligations.
- Sufficient resources are available to effectively administer the program.
- Information about the program is clear and accessible.
- The program is a high-value incentive for the state to offer, and the program meets its purpose and satisfies the intent of the Legislature.

Following its review of the Texas Military Value Revolving Loan Fund program, the Board made the following recommendations:

- The Board would like to see even more communities participating in this program.

# EXHIBIT A – PERFORMANCE REVIEW MATRIX

Program Name		Score					Comment
Administered by:		1	2	3	4	5	
What is the purpose of the program?							
Who are eligible applicants?							
Item of Evaluation		1	2	3	4	5	Comment
1	The program has an efficient application process.	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	N/A
2	An adequate due diligence process for reviewing applications is in place.	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	N/A
3	After approval of the application, an adequate process for reviewing the use of state funds is in place.	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	N/A
4	Awarded entities/Approved applicants regularly fulfill their obligations under the program.	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	N/A
5	Adequate procedures are in place to penalize awarded entities/approved applicants who do not fulfill obligations.	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	N/A
6	Sufficient resources are available to effectively administer the program.	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	N/A
7	Information regarding the program, eligible entities, and the application process is clear and accessible.	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	N/A
8	The program is a high value incentive for the state to offer.	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	N/A
9	The program meets its purpose and satisfies the intent of the Legislature.	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	N/A

**Score Total:** XX of XX

NOTE: All determinations are made based on public information available to the Economic Incentives Oversight Board



**Office of the Governor  
Economic Development & Tourism**

**P.O. Box 12428 | Austin, TX 78711  
(p) 512.936.0100**

**[gov.texas.gov/business](http://gov.texas.gov/business)**

** @TexasEconDev**

