Department of Planning and Budget
2011 Fiscal Impact Statement

1. **Bill Number:** HB2324

House of Origin	☒	Introduced	☐	Substitute	☐ Engrossed
Second House	☐	In Committee	☐	Substitute	☐ Enrolled

2. **Patron:** Lingamfelter

3. **Committee:** Appropriations

4. **Title:** Investment in research and technology in the Commonwealth.

5. **Summary:** Repeals the existing Code sections establishing the Commonwealth Research Commercialization Fund and the Biotechnology Commercialization Loan Fund, and creates the Virginia Research and Technology Investment Program (VRTIP), consisting of a reconstituted Commonwealth Research Commercialization Fund (CRCF) and the GAP Fund Program. The Innovation and Entrepreneurship Investment Authority (IEIA) will continue to administer the GAP Fund Program, into which twenty percent of any funds appropriated to VRTIP will be deposited. The remaining eighty percent of any funds appropriated to VRTIP will be deposited to the reconstituted CRCF. The reconstituted CRCF will consist of three subfunds: the Commercialization Subfund, the Research Match Subfund, and the Eminent Scholar Subfund. In addition, the bill establishes a process for the application, review, and award of funds from the reconstituted CRCF. Depending upon the type of project, an applicant may apply for an award from one of the three subfunds. A separate review and approval process is established for an award from each of the subfunds.

   Review Committee:
   The bill establishes a review committee, vetting committee, and approval committee to oversee the awarding of money from CRCF. The Commonwealth Research Commercialization Fund Review Committee will conduct the initial review of all applications for awards from CRCF. This committee will consist of five members: the secretaries of Commerce and Trade, Technology, and Education will each appoint one member from the executive branch; the President and CEO of the Virginia Economic Development Partnership (VEDP); and, the President of the Center for Innovative Technology (CIT), IEIA's non-profit operating company. Applications for awards from the Commercialization Subfund, forwarded for further review and approval, will be reviewed by the Commonwealth Research Commercialization Fund Vetting Committee. Applications for awards from the Research Match Subfund or the Eminent Scholar Subfund, forwarded for further review and approval, will be reviewed by the Commonwealth Research Commercialization Fund Approval Committee.

   Vetting Committee

The vetting committee will review applications for funding from the Commercialization Subfund forwarded by the review committee. This committee will consist of nine members: the presidents of the University of Virginia (UVA), Virginia Polytechnic Institute and State University (VT), and another state institution of higher education not already represented on the committee, or their designees; a representative from a research institution not located in the state; two representatives from venture capital firms or other capital market participants with experience in financing emerging technology businesses; a representative from an engineering firm with experience in the development of facilities for emerging technology companies; a representative from an independent or federal research facility located in the state; and, a representative from a technology company with significant operations in the state. With the exception of the presidents of UVA and VT, the approval committee will select the remaining seven members of the vetting committee from a slate of appointees recommended by the Governor. The vetting committee will forward its recommendations for awards from the Commercialization Subfund to the approval committee.

Approval Committee

The approval committee will review applications forwarded to it by both the vetting committee (awards from the Commercialization Subfund) and the review committee (awards from the Research Match Subfund or the Eminent Scholar Subfund). This committee will decide which applicants will receive awards from the three subfunds of CRCF. The approval committee will consist of seven members: the secretaries of Commerce and Trade, Education, and Technology; two members of the executive branch appointed by the Governor; one member of the House Delegates who is also a member of the MEI Project Approval Committee and is appointed by the Speaker; and, one member of the Senate who is also a member of the MEI committee and is appointed by the Senate Committee on Rules. Also, the approval committee will develop and publish guidelines for the administration of CRCF, and submit an annual report to the Governor and General Assembly on the performance and activity of CRCF.

Commercialization Subfund

Monies in the Commercialization Subfund will be used to help emerging technology companies bring products or services to market. To qualify for an award, a company must have operations in the Commonwealth and match, at least one-to one, the amount of the award with funds from other sources.

Research Match Subfund

The Research Match Subfund will be used to help Virginia's businesses and universities secure other research and development funding for emerging technology. Applications for an award from this subfund must be "consortium led" with at least one private sector partner and at least one Virginia institution of higher education, or at least Virginia institutions of higher education. The private sector partner must have operations in the Commonwealth, funded research must be conducted in Virginia, and any award from the Research Match Subfund must be matched, at least-one-to-one, with other funds.

Eminent Scholar Subfund

Awards from the Eminent Scholar Subfund will be used to attract professors in emerging technology areas to Virginia's state universities. Any Virginia institution of higher education can apply for an award from the Eminent Scholar Subfund. No funds will be awarded from CRCF until an agreement, setting forth terms and conditions of the award, is entered into with the intended recipient.

6. **Budget Amendment Necessary**: Yes. HB1500/SB800 includes an appropriation of $25 million in FY 2012, from the general fund, for this program. A language amendment is needed to HB1500/SB800 to make the language in the introduced budget bill consistent with the language establishing the program in the proposed legislation. The following amendment to HB1500/SB800 is recommended:

   Page 79, strike lines 1 through 3 and insert: "is provided to implement legislation enacted by the 2011 Session of the General Assembly establishing the Virginia Research and Technology Investment Program."

   Also, an amendment is recommended to HB2324 to clarify that the aggregate amount of an award from CRCF is limited to the amount of funding available in the fund. Line 105, after "Committee" insert ", and in an amount not to exceed the dollar amount contained in the Fund"

7. **Fiscal impact estimates are indeterminate.** See item 8, below.

8. **Fiscal Implications:** The fiscal impact of the proposed bill is indeterminate and scalable to within the amount of funding provided for the program, and expenditures will depend upon the number and amount of any awards and administrative costs related to the fund. HB1500/SB800 includes $25 million in FY 2012, from the general fund, to implement VRTIP. Based on the allocation formula in the bill, 20 percent, or $5 million, will be allocated to the Commonwealth GAP Fund Program administered by the Innovation and Entrepreneurship Investment Authority, and 80 percent, or $20 million, will be deposited to the reconstituted Commonwealth Research and Commercialization Fund and administered by the Commonwealth Research Commercialization Fund Approval Committee. If the approval committee determines that there is an urgent need to reallocate the funding split, the bill authorizes the Secretary of Finance to transfer funds between the GAP Fund and CRCF.

   The bill also establishes a formula for the allocation of monies within CRCF: 60 percent will be deposited to the Commercialization Subfund; 20 percent will be deposited to the Research Match Subfund; and, 20 percent will be deposited to the Eminent Scholar Subfund. If a majority of the approval committee votes to do so, funds may be reallocated among the three subfunds.

   Prior to the receipt of an award from CRCF, the recipient must enter into an agreement setting fourth the terms and conditions for the receipt of the award, this may include dates for the completion of certain acts by the recipient, provisions for the repayment of any award, provision for the sharing of any licensing, intellectual property rights, or royalties resulting

from the award, and the authorized uses for the award. While CRCF is established as a special nonreverting fund, the bill does not specifically provide for the repayment of any monies returned by a recipient or deposit of the Commonwealth's share revenues that may result from an award to CRCF.

In addition to grants and other financial awards to recipients, the bill allows for the use of balances in CRCF for administrative costs related to the fund, including salary costs of necessary staff and operating expenses of the review, vetting and approval committees. Therefore, if agencies incur additional costs related to CRCF, its costs may be reimbursed from the fund. The amount of any administrative costs will depend on the demand for the program.

9. **Specific Agency or Political Subdivisions Affected:** Public and private institutions of higher education in Virginia (specifically UVA and VT); the Virginia Economic Development Partnership; the Innovation and Entrepreneurship Investment Authority; the General Assembly; the secretaries of Education, Finance, Technology, and Commerce and Trade; Office of the Governor.

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** SB1322, in the Senate Committee on General Laws and Technology, also establishes VRTIP.

    Chapter 874 includes $500,000 in FY 2011 and $1 million in FY 2012 for the GAP Fund Program. It is anticipated that all of this funding will be committed prior to the end of the current fiscal year. The existing CRCF is part of the Higher Education Research Initiative. Although no additional funding is appropriated in Chapter 874 for the existing CRCF, there is a balance of $275,000 in the fund.

    This bill is a recommendation of the Governor's Commission on Economic Development and Job Creation.

Date: 1/21/11
Document: G:\2011 Session\Legislation\HB2324.Doc