

Mixed success for ETF startups in El Paso

El Paso has seen little benefit from a controversial program that invests taxpayer money into high-tech startup companies in Texas, with only a trickle of funding dribbling into this West Texas corner of the state.

While there have been no high-profile failures of startups backed by the Emerging Technology Fund in El Paso as there have been in other Texas cities, neither have there been spectacular successes.

In part because of the bankruptcies, Texas Gov. Greg Abbot announced less than two weeks after taking office that he wanted to dismantle the ETF, one of his predecessor's signature economic development programs.

The state legislature created the Emerging Technology Fund in 2005 at Perry's request to provide funding to startup companies. Since then, the fund has backed more than 140 startups across the state with grants totaling \$205 million.

But less than 2 percent of the grants made statewide have been won by startups in El Paso, despite the city being the 6th largest in Texas by population, according to an analysis of data provided by the governor's office.

Abbott has proposed using the funds, instead, to recruit prestigious, nationally recognized researchers to Texas universities, a move that is welcomed by officials with the University of Texas at El Paso. The plan would have to be approved by the Legislature.

Of the 140 startups that have received ETF funding, four are in El Paso. At least three of those are still in business, but the future of one is murky. Roadblocks to

their success have included everything from plummeting oil prices to difficulties involving government agencies.

There are four El Paso startups that have received ETF grants totaling \$3.6 million: Hydrologic Industries, Mayan Pigments, Secure Origins and TXL Group.

They support a total of 12 jobs, according to data collected by the governor's office and interviews with company executives.

Most startups fail, and the path to success can involve any number of tweaks, pivots or reinventions. Others limp on for years, sustained by cash infusions from the founders or investors. Few make it big.

Energy from roads

El Paso-based TXL Group had to make one of those pivots in 2008, shortly after receiving a \$500,000 grant from the ETF.

TXL Group was founded by El Paso engineer David Nemir and businessman Alan Russell in 2007 to commercialize technology that harvests roadway energy.

“Texas has a lot of roadways and a lot of heat,” Nemir said.

Waste heat is everywhere. It drifts off of sunbaked roads and power plants – even the human body. But technologies to turn that heat into energy are generally inefficient and fragile.

“Our idea was to use nanotechnology to increase the efficiency and strength of the material,” Nemir said.

The price of natural gas and oil had been rising for years, and Nemir pitched the technology as a way for Texas to diversify its energy portfolio.

But then the domestic oil boom happened, causing the price of oil and natural gas to plummet. The startup's founders had to dig into their pockets to keep the company alive.

“We did have to do a lot of backpedaling, but I think we have found a market niche that is promising,” Nemir said.

Today, TXL Group sustains itself by selling thermoelectric generators, although it has not achieved the sort of explosive growth startups aim for. But Nemir thinks the startup's future may lie with another rapidly growing industry: driverless cars.

The acceleration of investments in driverless cars, driven in part by investments by companies like Google, means highways will also have to evolve as well, Nemir said.

The various instruments installed along highways will have to be powered somehow, and Nemir imagines a future where that power is supplied by the road itself, devices on the road turning heat into energy.

“What they were trying to do was very difficult,” Nemir said of the ETF. “When you talk about startups, there is always a big fallout – a lot of those technologies are not going to make it.”

Abbott's idea

In January, the Austin Business Journal reported that 14 startups, backed by \$17 million from the ETF, have failed or gone bankrupt since the fund's

inception.

Abbott's proposal would eliminate the fund and its remaining portfolio would be transferred to the comptroller's office, according to the governor's office.

The remainder of the unexpended funds, more than \$100 million, would be split between the Higher Education Coordinating Board to fund the governor's proposed University Research Initiative and the Texas Enterprise Fund – a “deal-closing” fund that is used to recruit business to Texas.

The governor's University Research Initiative would provide matching funds to Texas public universities for the recruitment of Nobel Laureates and National Academy members, particularly those in the fields of science, technology, engineering and math.

“We have been really successful in accessing those kinds of dollars and they have certainly helped,” UTEP executive vice president Richard Aduato said. “Any kind of program like the governor is pitching would be helpful as we move toward tier one.”

Momentum

El Paso is more than 500 miles from Austin, distant from the politics of the state capitol and the infrastructure – venture capital, accelerators and the like – that support its startup community.

That may explain why so few startups in El Paso have received ETF-funding, said Bob Gray, chief technology officer with El Paso-based Secure Origins, which received a \$2-million grant from the ETF in 2007.

“One thing I had always hoped would come out of the ETF is a greater

awareness by the state of Texas of the challenges we have here and of the value of the El Paso region,” said Gray. (He is not related to El Paso Inc. reporter Robert Gray.)

El Paso’s startup community is small. Venture capital is scarce – the region’s only angel investment group dissolved a number of years ago – and there is one incubator.

But that is changing quickly, with or without the ETF, said Al Di Rienzo, president of RedSky.

“We are creating that momentum and that whole ecosystem,” Rienzo said.

RedSky is a new spinoff of the Medical Center of the Americas Foundation, which is guiding the development of a biomedical research park encompassing the Paul L. Foster School of Medicine and University Medical Center in South Central El Paso.

RedSky recently launched a seed accelerator in El Paso – a kind of boot camp for startups – and will be an anchor tenant in the Cardwell Collaborative, a biomedical institute under construction in Central El Paso near Interstate 10.

“It will snowball,” Rienzo said.

Speeding trade

Gray with Secure Origins said the ETF grant was critical to their launching and the vetting process was tough.

“I’m a firm believer in it,” he said.

Secure Origins was founded by El Paso entrepreneur Hector Holguin in 2006 to use technology to speed trade across the U.S.-Mexico border.

Trade between the United States and Mexico exceeds \$500 billion a year, but “delays at border crossings have anywhere from a \$10-billion to a \$15-billion impact on that trade,” Gray said.

So Secure Origins developed a process that includes GPS tracking of trucks, devices to alert U.S. customs if trailer doors are tampered with and biometric identification. In exchange for providing the data to customs, the border crossing process would be expedited for logistics companies participating in the program.

The system has not been fully adopted, though, and is still being validated by Homeland Security, Gray said.

“One of the challenges is we’re working in an arena where we have to provide value to both the private sector and federal government,” Gray said.

That means Secure Origins has to make the crossing of commercial shipments both faster and more secure.

Executives with Hydrologic Industries and Mayan Pigments, the other two El Paso startups that received ETF grants, did not return phone calls.

Hydrologic Industries moved from San Diego to El Paso in 2013, lured by the drought and a grant of up to \$1 million from the Texas Emerging Technology Fund, CEO Chris Rowan told El Paso Inc. in an interview last year.

But since then, the company has entered into an agreement with the ETF, which required the company to return the award, plus interest, according to a

2014 legislative report on the ETF.

It did not say why Hydrologic Industries is returning the funding.

The company is developing a more cost-effective way of turning brackish water into fresh water. It is estimated that Texas sits on 2.7-billion acre-feet of brackish water, or about 150 times the volume of water used by the entire state last year.

Mayan Pigments was founded by a professor and a student at the University of Texas at El Paso who developed pigments based on those used by the Mayans.

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