



CITY OF HOUSTON

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Mayor

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The Honorable Morgan Meyer
Chairman, House Committee on Ways and Means
P.O. Box 2910
Capitol Station
Austin, TX 78768

Re: Testimony on HB 391 Relating to the repeal of the Franchise Tax

Dear Chairman Meyer,

I appreciate the opportunity to communicate the City of Houston's thoughts on House Bill 391 relating to the repeal of the state Franchise Tax. In my role as Chief Development Officer for the City of Houston, my office oversees the business recruitment and retention efforts for the City. We work on a daily basis with enterprises of all shapes and sizes to facilitate the capital investment and job creation and maintain the strong reputation of Houston and the State of Texas as great places to do business. As you are aware, the Franchise Tax is a key component of multiple incentive programs that our community regularly utilizes. While the wholesale repeal of Tax Code Chapter 171 is not an issue on which we wish to take a position, I would like to bring to your attention some possibly unintended impacts of such a bill on the City and State's economic development toolbox.

First, while the Texas Enterprise Zone (TEZ) Program is not primarily a Franchise Tax Credit program, qualified businesses can apply for a refund up to \$5,000 per privilege period with the creation of 10 or more new qualified jobs. In Houston, we regularly leverage our partnership with the State of Texas through the TEZ Program to bring major projects to the city. Any loss of functionality to this program would be unfortunate. Second, the Franchise Tax Credit for Qualified Research is intended to support research undertaken by businesses to create innovative technological processes which will result in improved functionality, performance, reliability, or quality. With an economy that is increasingly diverse and historically supported by innovation, the loss of this tool could very well hinder our efforts to ensure economic resiliency across the state. We recognize and appreciate that the program also allows for a sales tax credit option which would likely be unimpacted by the repeal of Chapter 171, though the flexibility for businesses to decide which credit is more applicable currently offered by this tool is greatly appreciated.

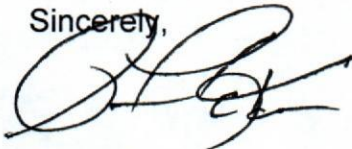
Finally, I would like to discuss the importance of the Franchise Tax Credit for Historic Preservation. This program supports the preservation of culturally and historically significant buildings, and it is a substantial tool for redevelopment within our community. Per the Texas Historical Commission's

2022 "Report on Historic Preservation Tax Credits in Texas," there have been 355 certified projects and are currently 190+ pending projects across the state. These projects have leveraged the credit on \$3.1 billion worth of Qualified Rehabilitation Expenses to spur over \$4.3 billion in total project costs. Given that the credit is only worth 25% of the QRE amounts, in real terms this means that the State's investment has been leveraged over 5.5 times just in construction expenses. This is certainly an understatement regarding the total project impact once the buildings have been put back into productive use (and contributing to local tax rolls).

Within the City of Houston, we saw 21 projects certified from 2017-2020. While the Texas Historical Commission has only made costs and tax credit data available on their website for seven of the projects, those projects alone generated nearly \$250 million in total project costs at the expense of less than \$50 million in franchise tax credits. On average, the buildings utilizing the program were over 100 years old, and the current uses of the rehabilitated buildings include residential, hotels, commercial office, food and beverage, event venues, and even religious/civic uses. The beauty of this program is that the credits can be easily packaged and transferred so that even non-profit organizations can gain project equity through preservation, unlike the Federal Historic Tax Credit Program. The bottom line is that this is a valuable tool for our community and our state. A total repeal of Tax Code Chapter 171 as proposed in HB 391 would also repeal this program in its entirety, as the program statute is enshrined under Subchapter S.

In closing, I would like to make clear that the City of Houston is not taking a position on the proposed repeal of Tax Code Chapter 171. Instead, my goal in this letter has been to highlight the utility of certain programs that would be impacted by HB 391. I encourage you to consider how best to continue these programs in the event of the bill's passage. The City of Houston appreciates the attention given by the Ways and Means Committee to these important issues. Please do not hesitate to contact me if I can be of any assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Andy Icken", with a stylized flourish at the end.

Andy Icken
Chief Development Officer