



INTERIM REPORT
to the 86th Texas Legislature



HOUSE SELECT COMMITTEE ON
ECONOMIC COMPETITIVENESS

March 2018

**HOUSE SELECT COMMITTEE ON
ECONOMIC COMPETITIVENESS
TEXAS HOUSE OF REPRESENTATIVES
INTERIM REPORT 2018**

**A REPORT TO THE
HOUSE OF REPRESENTATIVES
86TH TEXAS LEGISLATURE**

BYRON COOK
CHAIRMAN

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Select Committee on Economic Competitiveness

March 13, 2018

Byron Cook
Chairman

P.O. Box 2910
Austin, Texas 78768-2910

The Honorable Joe Straus
Speaker, Texas House of Representatives
Members of the Texas House of Representatives
Texas State Capitol, Rm. 2W.13
Austin, Texas 78701

Dear Mr. Speaker and Fellow Members:

The Select Committee on Economic Competitiveness of the Eighty-fifth Legislature hereby submits its interim report including recommendations for consideration by the Eighty-sixth Legislature.

Respectfully submitted,

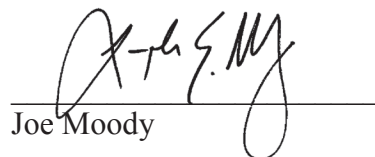

Byron Cook, Chairman

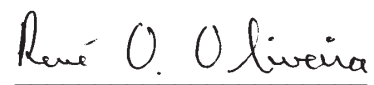

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House Select Committee on Economic Competitiveness Interim Report, 85th Legislature

Speaker Joe Straus Proclamation Excerpt

"Texas has long enjoyed a booming economy and staggering job growth. Our economic strength has been predicated on a number of factors: high oil prices, geography, the tax and regulatory environment within the state, and the can-do attitude of millions of Texans. However, there are forces, if left unchecked, that could derail the success our state has enjoyed.

In the last several months, two unique events, one positive and one negative, have presented themselves to Texans. First, Hurricane Harvey has caused billions of dollars in damage. Second, a major corporation has proposed a nationwide search for the location of a second headquarters, offering economic benefits equal to the losses caused by Harvey's damage. Multiple Texas cities are potentially participating in the competition for the headquarters.

Both events illustrate the importance of making sure that Texas continues to welcome and foster private-sector growth. In a global economy that is increasingly competitive, Texas needs to remain ahead of the pack. As other states grow more sophisticated and aggressive in their pursuit of job creators, Texas needs to make sure that our approach is appropriate for the private sector's changing needs and demands."

The purpose is to show businesses seeking to come to Texas or that are already located in Texas, the principles that the Texas House believes should guide the state's pursuit of long-term economic growth.

In developing these principles, the House Select Committee on Economic Competitiveness shall:

- Examine commitments by the state to education and workforce development to ensure Texans and their employers have access to high-paying skilled workers.
- Examine infrastructure -- including transportation, energy, water, and utility -- to ensure capacity to accommodate growing existing businesses and companies settling in Texas.
- Examine access to investment capital required to maintain healthy existing companies and newcomers to Texas.
- Examine investments in innovation, including barriers to innovation such as unnecessary regulations that would deter or impede the desire of a business to either remain in the state or choose to locate here.
- Examine existing and potential economic tools to compete for or retain jobs, including the appropriate use of those tools and the effectiveness of existing economic development programs.
- Examine the tools and authority of local governments to craft appropriate and specific responses to accommodate growing existing businesses and companies settling in Texas.

- Examine successful and unsuccessful attempts to lure economic development projects to the state or other states, including common themes reported by companies and employees in choosing to locate or not locate to a state.

“The world is watching, from CEOs to the best and brightest workers. They need to see that Texas welcomes them and is determined to stay at the front of the pack when it comes to economic development.”

-- Speaker Joe Straus

Public Hearings

The House Select Committee on Economic Competitiveness held two public hearings to address the seven components of this proclamation. They were held on November 15, 2017 and December 5, 2017 at the state capitol in Austin, Texas. The committee heard invited testimony from 42 distinguished witnesses who included some of the state's most renowned leaders, entrepreneurs, executives and academicians.

These two hearings are archived and may be viewed at www.capitol.state.tx.us.

Invited Testimony -- (Alphabetical Order)

- Art Acevedo, Chief of Police, Houston Police Department
- Chuck Allen, Managing Director of Government Affairs, American Airlines; Chairman, North Texas Commission
- James Bass, Executive Director, Texas Department of Transportation
- Laura Cagle-Hinojosa, Statewide Historically Underutilized Business Program Manager, Texas Comptroller of Public Accounts
- Katy Caldwell, Chief Executive Officer, Legacy Community Health
- Jeff Cheney, Mayor, City of Frisco
- Dale Craymer, President, Texas Taxpayers Research Association
- Mark Cuban, Entrepreneur; Owner, National Basketball Association's Dallas Mavericks
- Bryan Daniel, Executive Director, Governor's Office of Economic Development and Tourism
- Anna Eastman, Trustee, Houston Independent School District, District One
- Buck Gilcrease, Ph.D., Superintendent, Alvin Independent School District
- Roger Guenther, Executive Director, Port of Houston Authority
- Fred Humphries, Corporate Vice President of U.S. Government Affairs, Microsoft Corporation
- Andrew Keller, Ph.D., President and Chief Executive Officer, The Meadows Mental Health Policy Institute
- Linda LaMantia, Chair, Texas Cultural Trust

- Jim Lites, President and Chief Executive Officer, National Hockey League's Dallas Stars
- Brian Lloyd, Executive Director, Public Utility Commission of Texas
- Tom Luce, Business and Community Leader
- Stan Marek, President and Chief Executive Officer, Marek Companies/Marek Family of Companies; Board Member, Greater Houston Partnership
- Dee Margo, Mayor, City of El Paso
- Casandra Matej, President and Chief Executive Officer, Visit San Antonio
- Brian McCall, Ph.D., Chancellor, The Texas State University System
- William McRaven, Chancellor, The University of Texas System
- Robb Misso, President and Chief Executive Officer, Dynamic Manufacturing Solutions, LLC
- Senator John Montford, Former Chairman, State Parks Advisory Committee
- Charles O'Neal, President, Texas Association of African American Chambers of Commerce
- Pia M. Orrenius, Ph.D., Vice President and Senior Economist, Federal Reserve Bank of Dallas
- H. Ross Perot, Jr., Chairman, Perot Group
- Ray Perryman, Ph.D., President and Chief Executive Officer, The Perryman Group
- Lloyd Potter, Ph.D., State Demographer, Texas Demographic Center (resource only)
- Mike Reeser, Chancellor, Texas State Technical College System
- Richard Rhodes, Ph.D., President and Chief Executive Officer, Austin Community College
- Gilberto Salinas, Interim Executive Director, Greater Brownsville Incentives Corporation
- John Sharp, Chancellor, The Texas A&M University System
- Bryan Shaw, Ph.D., Chair, Texas Commission on Environmental Quality
- Jeff Shellebarger, President, Chevron North America Exploration and Production; Chair, Greater Houston Partnership
- Greg Sims, President and Chief Executive Officer, Greenville Economic Development Corporation
- Senator Todd Staples, President, Texas Oil and Gas Association
- Iain Vasey, President and Chief Executive Officer, Corpus Christi Regional Economic Development Corporation
- DeAnn Walker, Chair, Public Utility Commission of Texas
- Julie Weber, Vice President, People, Southwest Airlines
- David Zachry, Chief Executive Officer, Zachry Corporation

Introduction

Texas has succeeded with a resilient and thriving economy for decades through an economic model that has fostered growth by implementing a low cost of living, a diversified business base, low union involvement, high levels of domestic migration and a relatively low per capita tax burden. Our history as explorers, innovators and entrepreneurs points to a future full of opportunity.

However, in July 2017, Texas dropped to number four in the nation on the *America's Top States for Business* rankings.¹ This was the first time in 11 years that the Lone Star State finished outside the top two spots -- this should be alarming to all Texans.²

Dynamics that may have contributed to this drop in business rankings include: the increase in global competition, an emerging mismatch between available jobs and workers' skills, an increase in housing costs, outdated infrastructure, high property taxes and certain actions taken by the 85th Legislature.

In October 2017, Texas House Speaker Joe Straus appointed a new select committee for House leaders to study and highlight the most effective ways for Texas to compete for jobs, investments and highly skilled workers -- thus, the House Select Committee on Economic Competitiveness was formed.

The committee took a holistic approach to examine the considerations which led to the decline in business rankings and to reassert that Texas is fully committed to private-sector growth.

It was encouraging when, in November 2017, Texas rose up in the *Forbes' Best States for Business* overall rankings, landing the number two spot once again.³ Through the testimony of 42 influential and prominent individuals, the committee explored reasons for the decline and then the improvement in the same year.

These expert witnesses representing small and large business, law enforcement and local communities discussed matters including: 1) Barriers to Business Attraction, 2) Education and Workforce Development, 3) Infrastructure Maintenance and Improvement and 4) a Business-Friendly Climate. A common concern that was shared by many witnesses was the belief that certain social policies considered during the 2017 legislative session were not only superfluous, but also unenforceable and harmful to the state's economy.

Because Texas legislators are constitutionally required to meet for no more than 140 days every two years, they only have a short time to address issues important to taxpayers such as: property taxes, the state budget, education, public safety and infrastructure. Witnesses highlighted how unnecessary and divisive initiatives detract from legislative proposals that could actually make Texas the number one place for business to flourish and prosper. Testimony underscored that lawmakers should use those 140 days to focus on sensible policies and regulations that ensure a bright economic future.

This report exposes areas in which Texas needs to improve and reveals solutions and recommendations to the 86th Legislature.

Background

By taking a focused look at where we are now, we can better determine how Texas can reach and maintain the number one spot in business rankings. An accurate assessment is necessary to understand what must be done, and what must be avoided, to continue to be globally competitive and become the number one state in the U.S. for business to grow and thrive.

Barriers to Business Attraction

Although all Texans should be proud of what the people of this state have achieved, any barriers to business attraction threaten our remarkable economic growth and resilience. Therefore, the committee concentrated on potential threats to the state's economy, including: a labor shortage for middle-skilled jobs, inadequate funding for public education, outdated infrastructure and manufactured social issues considered by elected officials.

Legislative Actions: As well-known Dallas business and community leader, Tom Luce said, "The Texas Miracle wasn't a miracle." It was the result of intentional efforts on behalf of the business community and state leadership.⁴ This success was seriously threatened during the 85th Legislature when legislation known as the "bathroom bill" became a major priority for first the lieutenant governor and then the governor. By making this and other unnecessary social issues a priority, lawmakers were forced to divert their attention from critical topics like education, property taxes, the state's budget and infrastructure.

If enacted, the law would cost Texas an estimated \$3.3 billion in foregone economic activity and the loss of over 35,600 jobs per year.

--Ray Perryman, Ph.D.

Although this legislation was touted by its proponents as necessary for protecting the "privacy and safety" of women and children, law enforcement testified that there were already laws on the books to protect women and children from *any* crime that could possibly occur in *any* restroom. Moreover, the legislation only applied to government buildings. If the proposed law was so necessary to "protect women and children," why would it not also apply to all public restrooms? If passed, would that have meant that women and children were not safe using non-government restrooms and why would that be acceptable?

Leaders of the Texas House of Representatives took great notice of North Carolina's demise that was caused by passing similar legislation. The law cost North Carolina an estimated \$500 million in lost economic activity, per *Forbes*.⁵ Texas House leadership did defeat this bad proposal twice, which is likely why Texas moved up in the business rankings in November 2017. However, that may not be enough to entice companies such as Amazon to choose Texas for the location of its HQ2. When policymakers even contemplate ideas that put business viability at risk, it injects uncertainty in the economy.

It concerned many business leaders when the governor added the measure as a priority in the 30-day special session because it endangered the state's competitive edge. Ultimately small and large businesses engaged and had to devote an extraordinary amount of effort and resources on this needless legislation. Notable witnesses took valuable time out of their schedules to take a public stand, which will hopefully encourage future legislatures to refocus on the real matters important to taxpayers.

When states try to mandate social policy it not only interferes with matters best determined by local governments, but it also intrudes on individual liberties, such as privacy.

Countless witnesses concurred that it would be in the state's best interest if Texas state leaders acknowledge that such legislation should not have been pursued and publicly state that it will not be considered again. Unless and until this public commitment is made, we will likely lose out to other states for not only bids like Amazon's HQ2 and its \$5 billion investment and 50,000 new jobs, but other business opportunities as well.⁶ Texas House leaders hope this is not the case.

Education and Workforce Development

As Texas grows and diversifies economically, its education and workforce present both challenges and opportunities for future competitiveness. Texas is fortunate to have a young, growing population, yet it also has an aging population that will require the development of the current generation's skills to support it. There are also concerns regarding the disparity in education outcomes for many Texans. If Texas fails to maintain an environment that supports migration or fails to develop its talent pool, it will lose its competitive edge.

The Houston and Dallas metro areas have added an estimated 1 million domestic migrants since the year 2000.⁷ Looking at the upcoming bicentennial in 2036, in order to maintain a minimum rate of 4.3 percent unemployment, we must add 7.4 million jobs.⁸ Although current unemployment in the state is at an all-time record low, keeping it at low levels will require robust job growth.

Labor: Education and workforce development are fundamental to private-sector job expansion; and given the current trajectory, Texas is at risk for decreasing educational attainment.⁹ Businesses need workers to operate their enterprises, and want large, diverse sources of talent from which to select their workers.

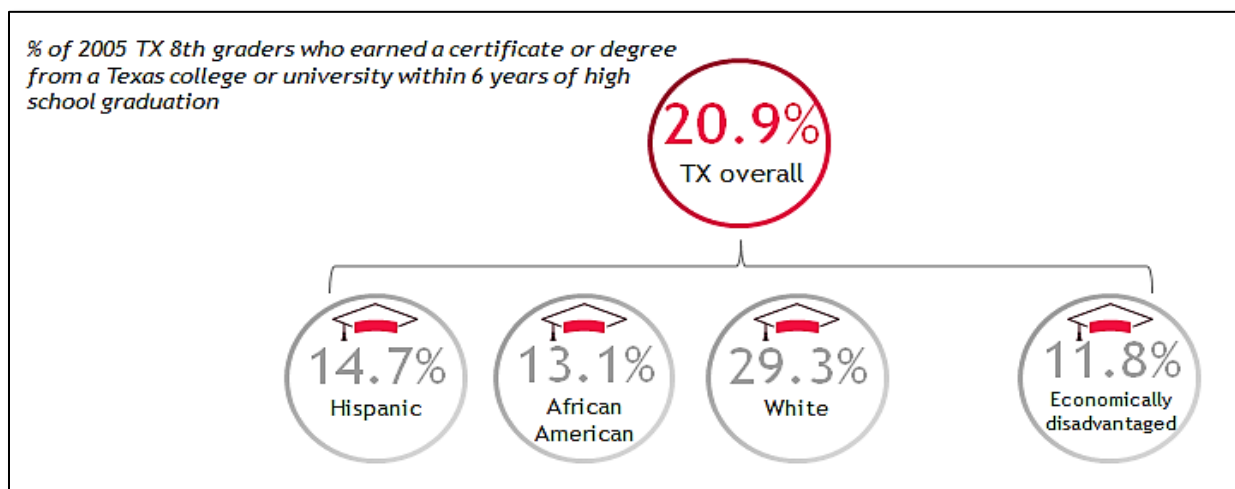
Testimony disclosed that companies are seeing the effects of a tightening labor market.¹⁰ Numerous witnesses elaborated about the need for a skilled and educated workforce, as there is a discrepancy between available jobs and a trained workforce to fill those jobs -- particularly for middle-skilled jobs.¹¹ Testimony indicated that according to the Texas Workforce Commission numbers in September 2017, the total number of job postings advertised was 300,260 vs. 543,637 unemployed, revealing that qualifications of job-seekers do not match requirements of open jobs. This mismatch of skills is more pronounced in the technical sector.¹² Jeff Shellebarger of Chevron and the Greater Houston Partnership reinforced the value of a skilled workforce when discussing factors that contribute to economic competitiveness stating, "None is

more important than a robust supply of workers armed with the skills needed to succeed in the jobs of tomorrow.”

Multiple witnesses cited the new "sanctuary cities" law as an excessive regulation that completely hinders development. Testimony by Stan Marek, president and CEO of Marek Construction, revealed that the law, parts of which are currently being litigated, has had a significant impact on the construction industry due to the industry's reliance on immigrants to meet labor needs. There was already an “extreme” shortage of workers in Southeast Texas prior to Hurricane Harvey, but after the disaster Marek observed, “Now that we have this terrible catastrophe, I don’t know where we’re going to get the workers to rebuild Houston.”¹³ Many workers, documented and undocumented, have refused to go to Texas construction sites following the passage of the law, fearing local police will detain them.¹⁴

Houston and surrounding areas along the Gulf Coast are not alone in experiencing a tight labor market -- in Dallas-Fort Worth tens of thousands of additional workers are needed to keep up with the demand for new homes throughout the area.¹⁵ The Dallas Builders Association estimates that roughly 20,000 new workers would need to enter the market to keep up with current demand.¹⁶

Higher Education: Many young Texans grow up in difficult circumstances, but that should not be an excuse not to educate them. Over the last 10 years, the number of students enrolled in Texas public schools that are classified as "economically disadvantaged" has increased by 24 percent.¹⁷ The Hispanic population is the fastest growing and currently has one of the lowest rates of educational attainment, so unless disparities across race are solved, Texans' educational attainment will decrease.¹⁸ High school graduation rates have increased for Hispanics and African Americans, but these groups have lower rates of completion of community college programs or four-year universities.¹⁹ According to the vice president and senior economist at the Federal Reserve Bank of Dallas, Pia M. Orrenius, Ph.D., "Texas is on the brink of squandering a demographic dividend by underinvesting in a pool of high school graduates."²⁰



Source: Luce, Tom, (Nov. 15, 2017), *Written Testimony presented to the House Select Committee on Economic Competitiveness.*

Decreasing attainment will exacerbate a current mismatch between Texans' skills and the requirements in our changing labor market. Currently, 35 percent of Texans, population age 25-34, hold an associate's degree or higher, compared to the national average of 44 percent...we must do better.²¹

Testimony indicated that a high school degree alone is insufficient for the state's workforce to remain competitive, which is especially distressing since Texas ranks in the bottom fifth of the nation for high school graduates that directly enroll in higher education programs.²² Approximately 29 percent of the forecasted jobs in Texas will require a four-year degree or higher, and half of the jobs will require a two-year degree or college certificate.²³ Community colleges and four-year universities will play a vital role in equipping youth with skills that lead to jobs and filling labor shortages in certain professions. Partnerships between these institutions and the business community are pivotal to determine where these shortages exist and how to address them through education.²⁴

From 2005 to 2015, the number of technical jobs increased by 45 percent, while technical degrees awarded only increased by 15 percent.²⁵ According to Chancellor Mike Reeser of Texas State Technical College, this rise in technical jobs is inconsistent with the current focus of two-year colleges in Texas, which have increasingly offered traditional academic studies at the expense of technical courses.²⁶ While technical courses are more expensive than traditional academic courses, providing more technical training is important to address the current skills gap.²⁷

Research at institutions of higher education is also a component of the state's economic advancement. Texas currently hosts eight Tier One research universities, according to the *Carnegie Classification of Institutions of Higher Education*.²⁸ Top research universities cultivate innovation and play a key role in the state's economic prosperity, but it is important to address all levels of higher education and improve graduation completion rates across the board.²⁹ The state must continue to build on previous legislative achievements, such as the 83rd Legislature's House Bill 5, which changed graduation requirements to help students better prepare for successful careers and promoted new collaboration among high schools, community colleges and industry. Providing more financial incentives for educational institutions to collaborate from the pre-K to university levels is one proposed solution.³⁰

The University of Texas System chancellor, William McRaven, highlighted the need to produce more college graduates to continue competing with other states, noting that Texas has the fastest growing population of 15-19 year olds, but its college graduation rate is below the national average. He underscored the importance of state funding, which has been declining and has required universities to rely more on tuition fees to meet costs, making a college education unaffordable for many students.

"We have a real education gap in Texas with a much smaller share of our young adults having college degrees than the national average."

***--Pia M. Orrenius,
Ph.D., Vice President
and Senior
Economist, Federal
Reserve Bank of
Dallas***

Public Education: Public education teaches students basic skills before entering the workforce and fosters innovation.³¹ Policymakers must deal with school finance, examining not just the amount of money allocated for education, but how we distribute it -- and how we can better incentivize public educators and institutions.³² The governor's recently proposed 2.5 percent cap on property tax revenue will be detrimental to school funding since school districts receive 40 to 60 percent of property taxes across the state.³³ The Texas House passed a 6 percent cap during the 85th Legislature, but the measure was killed by the Senate; this new proposal will severely reduce school resources unless more funding is appropriated by the legislature.

House Bill 21 of the 85th Legislature would have increased the state's share of school funding and reduced the need for higher property taxes -- easing the burden on homeowners -- but the legislation died after being altered by the Senate. After all, how can the challenges facing the future competitiveness of the state's workforce be addressed if Texas turns its back on its public school system, or does not address its method for allocating resources to public schools?

The importance of local control for school districts was stressed with the explanation that local control granted from the state is important for hiring staff and providing a safe campus for students.³⁴ Educators want their graduates to meet the specific needs of where their district is located, which makes local control imperative for creating curriculum and making decisions about how to meet those needs.³⁵ Testimony also demonstrated the need for presenting high school students with information about technical programs, rather than only promoting four-year universities.³⁶ Public schools must address the needs of students with disabilities, but programs to help them transition to the workplace and speech, occupational and physical therapies are consistently underfunded.³⁷

Infrastructure Maintenance and Improvement

Infrastructure is fundamental to competitiveness. Testimony revealed that the quantity and quality of roads, pipelines, electrical lines, water pipes and ports are crucial for determining where to place investment dollars.³⁸ The Texas Section of the American Society of Civil Engineers graded Texas' overall infrastructure a C-. Grades in specific categories include a B in bridges, B- in aviation, D+ in drinking water, and D's in highways and roads, dams, flood control and wastewater.³⁹ Despite recent efforts, current levels of infrastructure funding are inadequate to meet projected needs.

"If the legislature allows changes that thwart infrastructure projects, they will kill jobs and hurt the Texas economy."

*--Senator Todd Staples,
President, Texas Oil and
Gas Association*

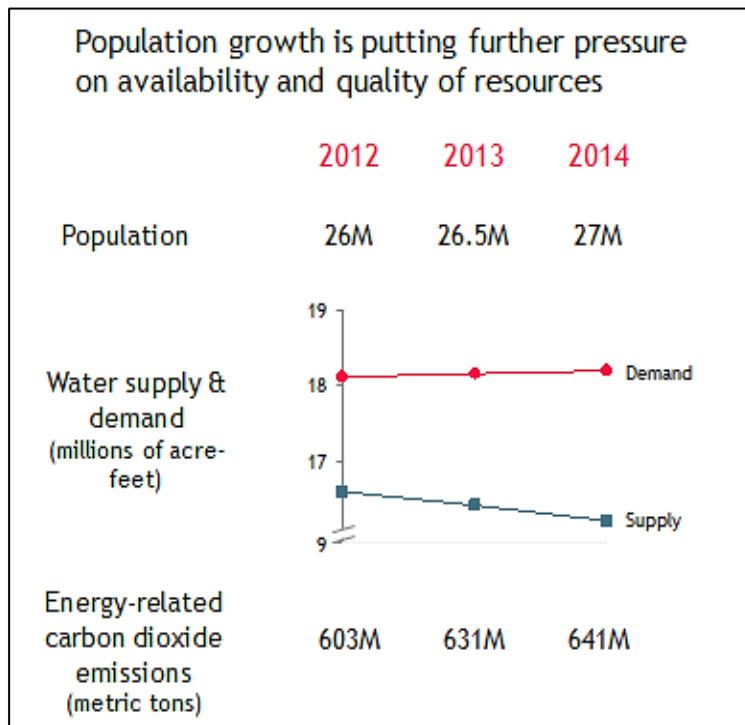
Transportation: With the increased population growth and 81 percent of our workers commuting by themselves, Texas is experiencing an increasing amount of congestion on its roads and highways.⁴⁰ Commuters in Texas' largest metropolitan areas are spending 52 hours of their year in traffic, costing Texans time and money; and affecting their quality of life.⁴¹ David Zachry, CEO of the Zachry Corporation, testified that investing in state transportation would lead to safer road conditions, improved traffic flows and better air quality.⁴²

Reliable and consistent revenue streams have been an issue for

the Texas Department of Transportation, according to the agency's executive director. He lauded constitutional amendments approved in 2014 and 2015 that allocate more money to the State Highway Fund. The motor fuel tax is the most reliable source of income for the agency, while the oil and gas severance taxes are the least predictable.⁴³ Discussion revealed the need for relieving businesses of high congestion areas and delayed construction projects, as well as ensuring rural areas receive adequate funding.

Texas ports are a fundamental component of the state's transportation system and a driving force of the state's economy. Ports along the Gulf Coast generate approximately \$368.7 billion in economic activity each year.⁴⁴ The Port of Houston, one of the world's busiest ports, not only creates \$265 billion annually in statewide economic activity, but also generates 1.2 million jobs in Texas.⁴⁵ The executive director of the Houston Port Authority testified that land infrastructure is crucial to the success of ports and expressed the need for investing in low-emissions technology that efficiently transports freight, since the competitive movement of freight is essential to the state's economic success.

Water: Unfortunately, testimony revealed that Texas trails the nation in the conservation of necessary resources, which is an essential consideration for modern business. Our state's decreasing water supply and increasing demand caused by population growth are straining the availability and quality of resources.⁴⁶ According to the Texas Water Development Board, the state's population is expected to increase by more than 70 percent from the year 2020 to 2070.⁴⁷ Water demand is projected to increase by 17 percent in all categories; the most significant increase will occur in water for municipal use, with smaller increases for manufacturing and steam-electric usage.⁴⁸



Source: Luce, Tom, (Nov. 15, 2017), *Written Testimony presented to the House Select Committee on Economic Competitiveness*.

House Bill 4 from the 83rd Legislature provided a one-time investment of \$2 billion from the Economic Stabilization Fund (ESF), establishing a revolving loan program to help communities address local water shortages. This type of creative problem-solving should be a model for future policy answers to infrastructure challenges. The need for innovative thinking is especially pronounced because of constraints that have recently been imposed on limited state resources.

Population growth has also led to increased development in risky areas, such as floodplains. This development reduces land capable of absorbing floodwaters, exacerbating natural disasters like 2017's Hurricane Harvey, which is estimated to cost \$180 billion.⁴⁹

To underscore this issue, there has been recent news coverage of a Fort Bend County assistant engineer's warning to county officials in 1992 that subdivisions around the Barker Reservoir were being built at levels lower than the water level the local dams were designed to hold, placing homeowners at risk for future flooding in areas known as 'flood pools.'⁵⁰ The warnings were ignored; and by 2017, 30,000 homes and businesses were located in flood pools in Fort Bend and Harris counties.⁵¹ In August 2017, 9,000 structures upstream of the Addicks and Barker dams were flooded due to the historic rainfall from Hurricane Harvey.⁵²

Digital Connectivity: Currently, 46 percent of the state's rural households and 5 percent of urban households lack access to fixed advanced broadband.⁵³ A lack of availability of high speed Internet service reduces the sales access of companies that sell merchandise and services over the Internet, such as Amazon. Without high speed Internet, residents cannot search for online job vacancies and their educational opportunities are greatly reduced.

Energy & Utility: Texas' energy affordability and accessibility are instrumental in attracting and retaining business.⁵⁴ Retail costs for electricity in Texas have declined by 20 percent over the past decade, while average costs across the U.S. have increased by 16 percent.⁵⁵ H. Ross Perot, Jr. noted the importance of Texas' abundance of energy sources for data centers, such as Facebook and Microsoft, since these centers require reliable sources of energy to operate. Wind and solar power are also important factors for many corporations located in Texas, with companies such as Walmart, Ikea and General Motors having wind and solar power purchasing agreements across the state.⁵⁶

Business-Friendly Climate

Maintaining a business-friendly climate has historically included the use of economic incentives, a favorable regulatory environment and competitive tax structures, but more recently high quality of life indicators have played a significant role. Current site selection processes, such as Amazon's search for its proposed HQ2 location, include a more comprehensive look at factors than those traditionally emphasized by companies.⁵⁷ Businesses recognize that operating in areas with high quality of life indicators, such as shorter commute times and proximity to good schools, is central to attracting talent.

Quality of Life: Although our state is a great place to live, work and raise a family, Texas communities have room for improvement in several measures of quality of life. As noted earlier in this report, Texans in metropolitan areas spend an estimated 52 hours a year in traffic.

Texas housing costs have risen dramatically in recent years, and according to a 2017 report by *Forbes*, the two most overvalued housing markets in the U.S. are in Texas.⁵⁸ The two cities topping this list are San Antonio and Austin, where housing prices are increasing at higher rates than income, leading to an overvaluation of 18.6 and 17 percent respectively.⁵⁹

Potential discriminatory legislation is another factor affecting quality of life assessments and was a major concern for witnesses representing the hospitality, transportation, technology and entertainment industries. The executive director of the Governor's Office of Economic Development and Tourism testified that the proposed "bathroom bill" legislation made his job more difficult to lure business to Texas.⁶⁰ Diversity and inclusion are priorities for many companies and any legislation that would affect these values and principles would deter businesses from locating to Texas.⁶¹ The bill caused three groups to cancel conventions in Texas at a loss of \$66 million in economic activity, according to the president and CEO of Visit San Antonio.⁶² If enacted, the law would initially cost Texas an estimated \$3.3 billion in foregone economic activity and would lead to the loss of over 35,600 jobs per year.⁶³

Public safety is also a key consideration for many employers and their employees. Houston Police Chief Art Acevedo testified that the "sanctuary cities" bill has had a negative impact on public safety in Texas because both documented and undocumented immigrants are more fearful of the police, resulting in reduced reporting of criminal activity. His testimony disclosed that reports of violent crime increased for every ethnic and racial group in Houston except for the Hispanic population, where reports dropped 42.8 percent for sexual assaults.⁶⁴ He cited this drop in reporting of crimes is because perception is reality, and due to the widespread media attention the bill received, many thought it took effect when the bill was passed by the legislature. Community trust and involvement are crucial to the police department's success; when legislation threatens these values, the whole state is endangered.

Current healthcare challenges in Texas have a significant impact on quality of life assessments. With 4.5 million people lacking health coverage, Texas has the highest uninsured rate of any state in the nation.⁶⁵ In state comparisons for other health outcomes, Texas ranks exceedingly low: it is 45th in the number of primary care physicians per capita, 40th in obesity rates, 43rd in maternal health outcomes and 33rd in mental health outcomes.⁶⁶ The state also has a complicated and lengthy licensure process for out of state physicians and nurses, which artificially lowers the supply of some healthcare workers.⁶⁷

According to the president and CEO of the Meadows Mental Health Policy Institute, Andrew Keller, Ph.D., an estimated 300,000 Texans with severe mental health needs are currently not receiving any care. This staggering statistic is especially alarming in regards to rates of depression and the workplace. Approximately 7.5 percent of the workforce has depression each year, costing U.S. employers \$187.8 billion annually in healthcare costs, absenteeism and lost productivity.⁶⁸

Modern companies also consider access to the arts and the prevalence of state parks when expanding their businesses. Young professionals want to live and work in areas with a vibrant arts and culture scene, which is concerning for Texas since the state ranks 47th in the nation for spending on the arts.⁶⁹ State parks are a source of employment and generate \$774 million in sales annually, but the Texas Parks and Wildlife Department lacks the consistent and predictable funding from the Texas Legislature needed to address challenges like flooding or capital improvements.⁷⁰

Economic Incentives: Economic incentives are crucial for bringing business to Texas. Tax abatements are especially important to offset the state's high property tax rate.⁷¹ These incentives have played a role in numerous projects, such as Corpus Christi's acquisition of a \$10 billion Exxon Mobil facility and Brownsville's attraction of the SpaceX facility.⁷² Under the right circumstances, incentives can help deliver high-quality jobs, capital investment and a broadened and diversified tax base; but, incentives need to be applied consistently and transparently and the legislature must ensure they are meeting all of these goals.

The successful use of economic incentives centers on local control. The mayor of Frisco explained how local control enabled the city to create an identity for its community and use economic tools to lure businesses that ascribe to that vision, such as sports teams, research centers and incubators that specialize in sports.⁷³

Regulatory Environment: Efficient issuing of licenses and permits by state agencies is essential to provide a regulatory environment that is friendly to business. The Texas Commission on Environmental Quality offers an expedited permitting process for certain wastewater and stormwater permits, in some cases reducing the processing time from 330 days to 110 days.⁷⁴ State agencies must reduce bureaucracy within the permitting and licensing process, and agencies and legislators need to ensure certainty in their policies as to not create unnecessary risks for businesses.

Outdated government information technology systems have led to inefficiencies within the state's government. Our lack of modernization makes it harder to get the data needed for informed policy decisions, yet one solution is to transfer operating systems to a cloud-based system.⁷⁵ A data- and cloud-driven operating system would make Texas government more effective, efficient and accountable, and would enable the state to adapt to the accelerating rate of change of technology.⁷⁶

Multiple witnesses testified that the North American Free Trade Agreement strongly benefits the Texas economy. Mexico and Canada are pivotal trading partners and the destination for 50 percent of Texas' exports.⁷⁷ Moreover, a majority of the land trade between the U.S. and Mexico travels through Texas. In 2015, approximately 75 percent of this trade went through Texas ports of entry, resulting in more than 380,000 jobs in Texas that are contingent on trade with Mexico.⁷⁸

Taxes: A pro-growth tax structure is necessary to attract new business to Texas. The Section 4A and 4B sales taxes have been instrumental in creating revenue for cities' economic development (the 4A sales tax is only for smaller cities, while any city is eligible for 4B).⁷⁹ However, concerns have been raised that the 4A/4B sales taxes have led to unequal development

across the state, as cities that elect to use the full additional sales tax for transit authorities are unable to use the local option sales tax related to economic development.⁸⁰

While Texas is a low tax state for individuals, and has no income tax, it is a high tax state for businesses -- particularly for those in capital-intensive industries.⁸¹ The state's high property taxes are the biggest hindrance to attracting new business; for an industrial facility, Texas has the 5th highest property taxes in the nation.⁸² This creates significant concern for large and small businesses since they carry the majority of the tax burden in the state. Texas cities have used Chapters 312 and 313 of the Tax Code to provide tax incentives on the local level, but this is often not enough to attract new investments.⁸³

Small Business: Small businesses often lack the access to capital afforded to medium and larger corporations. It is generally harder for them to obtain loans from traditional banks due to high credit score requirements.⁸⁴ Small business service provider grants from the Office of the Governor and the Texas Department of Agriculture's Jobs 4 Texas program are critical to ensuring small businesses receive access to capital.⁸⁵ Community Development Financial Institutions are also an important source of capital and have assisted businesses affected by natural disasters, such as Hurricane Harvey.⁸⁶

Texas agencies that contract with historically underutilized businesses (HUBs) are imperative to the state's economic improvement and by partnering with HUBs, these agencies and universities are creating more opportunities for small business owners belonging to groups that have previously been discriminated against.⁸⁷ Those currently eligible for HUB classification include women, minorities and service-disabled veterans, but the state should consider adding persons with disabilities to this category.⁸⁸ According to the Texas Comptroller of Public Accounts, statewide HUB utilization has decreased from 12.58 percent in fiscal year 2014 to 11.97 percent in fiscal year 2017.⁸⁹

The president of the Texas Association of African American Chambers of Commerce noted that Texas has the fastest growing population of African Americans in the U.S. and leads the nation in the rate of business formation among African Americans.⁹⁰ He expressed concern, however, that the Texas model focuses on attracting companies rather than promoting the retention and expansion of those businesses.



Conclusion and Recommendations

When policymakers and state leaders contemplate or work to advance policies that could harm the state's economy, Texas businesses should collectively challenge and vehemently resist those initiatives. If the business community does not have the courage to defy and work against counterproductive legislation because of fear of retribution, this state is at risk.

In order to ensure that Texas remains globally competitive and continues to promote private-sector advancement and long-term economic prosperity, all those participating in the legislative process would be better served by pursuing approaches that could actually improve our opportunities for success. Therefore, the House Select Committee on Economic Competitiveness offers the following recommendations:

Recommendation: The legislature must prioritize funding for public education that is regularly adjusted to account for growth in population and inflation. Policymakers should closely examine the effectiveness of public education expenditures to ensure that dollars are used to maximize student success, and ensure the state's academic accountability system increases the performance of schools and students.

- In response to declines in state tax revenue, the 82nd Legislature reduced entitlement funding for public education by \$5.4 billion.⁹¹ While subsequent legislatures have increased funding for public education, the majority of funds have been used only to cover costs created by the growth in the number of students.
- Adjusted for increases in population and inflation, state spending on public education has decreased by nearly 16 percent since 2008.⁹² At the same time, there has been an increase in the number of students who are classified as “economically disadvantaged” and are therefore more expensive to educate.
- As the majority of new funding provided by the legislature simply addresses population growth, there have been few opportunities to invest in programs that have proven to increase academic achievement -- such as technical career education, science, technology, engineering and mathematics or STEM courses, dual-credit offerings, and bilingual education.
- As the state's share of public education funding has declined, the burden on local property taxes and recapture payments has grown, eliminating any opportunity for local property tax rates to be reduced. About 54 percent of all property taxes paid in Texas are collected by school districts.⁹³ Therefore, the fastest and most effective way to reduce the property-tax burden is for the state to pay more of the cost of public education.
- Many of the school finance formula weights and allotments -- such as the Cost of Education Index or Transportation Allotment -- have not been updated or adjusted for the effects of population and inflation in more than two decades. Increases in state funding should be tied to regular adjustment of these weights, combined with the elimination of funding elements that are inefficient or no longer represent the diverse needs of Texas' public education system.

- The legislature must increase funding for special education programs and Early Childhood Intervention programs so that children with disabilities can successfully enter pre-kindergarten programs, while also providing more reliable funding for programs that help students with disabilities transition to the workplace.

Recommendation: The legislature should increase investment in formula funding, financial aid and workforce and technical training programs at community colleges and state technical colleges. The state should also partner with the business community to develop a comprehensive statewide workforce development plan.

- State formula funding for higher education has decreased by 16.2 percent since 2008, while tuition and fees for state universities have increased by 28.1 percent during the same period.⁹⁴
- While the state has made significant progress in higher education and skilled employment opportunities through the passage of House Bill 5 and the 60X30 Strategic Plan for higher education, the state still lacks a comprehensive skilled workforce plan. Developing and investing in such a plan will require incentives for the business community to partner with the state's community and technical colleges.
- The state should work closely with technical and community colleges to address the shortage of middle-skilled workers in the state, while working with universities to increase the number of students who earn a bachelor's degree within six years.

Recommendation: The state must continue to invest in improving and maintaining infrastructure. The devastating effects of Hurricane Harvey provide a rare opportunity to combine state and federal funding to make critical investments in flood control and mitigation projects that will reduce the impact of future storms.

- Passage of Proposition 1 in 2013 and Proposition 7 in 2015 provided, in theory, more than \$5 billion toward addressing the state's transportation needs. However, both constitutional amendments are redirecting portions of existing revenue streams away from general purpose spending. In addition, Proposition 1 is tied to a volatile revenue stream.
- Even if the most optimistic projections for these two amendments materialize, the additional money will barely cover the cost of maintaining current congestion levels. Neither will meet the significant transportation demands of our rapidly growing state.
- With continued opposition to alternative finance mechanisms -- such as toll roads, managed lanes, or comprehensive development agreements -- the Texas Department of Transportation will have to prioritize limited transportation dollars to projects that demonstrate the greatest demand and performance.
- In 2013, Texas voters approved accessing \$2 billion from the state's ESF to help capitalize nearly \$27 billion worth of water infrastructure and conservation projects through the State Water Implementation Fund for Texas.⁹⁵ The ESF could provide

significant capital to create similar models to fund other badly needed infrastructure projects, such as upgrading the state rail or port systems.

Recommendation: The legislature should maximize the impact of tax and economic development incentives by periodically reviewing their return on investment and making changes if necessary. Policymakers must also certify that incentives are being applied consistently across the state, and that they provide equal access for small, medium and large businesses.

- Exemptions available for Texas' sales, franchise, motor vehicle sales, and gasoline taxes totaled more than \$55.5 billion in 2017.⁹⁶ Many exemptions have existed for decades, with little review as to whether the exemptions are still serving their intended purpose.
- Since its inception in 2004, the Texas Enterprise Fund (TEF) has made award offers of approximately \$600 million in state funds.⁹⁷ While reforms were made to the program in 2015 to increase transparency, it is difficult to accurately gauge the competitiveness of some projects. In some cases, major rewards have been made to large corporations with a significant existing presence in Texas, and in some cases more than one award has been made to the same corporation in different locations. In addition, the majority of TEF awards have been made in North Texas -- more than South, Central and West Texas combined.
- While state programs exist to help foster small businesses, the emphasis on significant capital investment results in limited opportunities for small or medium-sized businesses to access the majority of economic development incentives.

Recommendation: The Texas economy has benefitted from a state government that consistently values a strong business climate based on low taxes, limited regulation and local control. Future legislatures should focus on these key areas to maintain a predictable and reliable business climate, avoiding legislation that distracts from critical priorities and is viewed by many as enabling discrimination against certain groups or classes of Texans. Texas policymakers must acknowledge warnings from leaders in the business community, academicians and law enforcement officials about the consequences of such discriminatory legislation to avoid endangering the state's successful economy.

- As noted by multiple witnesses, Texas's diverse population should be viewed as an asset and advantage in the competitive global markets of tomorrow.
- During the 85th regular and first called special sessions, legislation was offered that would have restricted access to bathrooms based on the gender appearing on an individual's birth certificate, similar to legislation passed in North Carolina in 2016.
 - Dozens of Texas corporate and business leaders -- including several witnesses testifying before this committee -- objected to the legislation, citing potential negative impacts to the Texas economy in the billions of dollars per year.
 - Consideration of the legislation alone resulted in the cancellation of \$66 million worth of convention business to Texas cities.⁹⁸

- During the 85th regular session, legislation was debated and passed that would prohibit local governments from enacting policies that prohibit the enforcement of state and federal immigration law. The House sponsor of the bill worked closely with law enforcement to ensure that the legislation would not make policing more difficult. However, the House bill was amended significantly during floor debate. The amended legislation was eventually signed into law over the objections of many law enforcement leaders. It will be important for future legislatures to work more collaboratively and closely with law enforcement and the business community so that legislation protects and promotes public safety, but does not send signals that will make it more difficult for law enforcement to investigate crimes. In addition, highly divisive legislation that appears hostile toward certain groups can hurt the state's ability to attract businesses and investment, as was noted in this committee's hearings.
- Given the seriousness of the challenges ahead in this fast-growing state, policymakers should prioritize issues that can directly and positively impact private-sector growth and economic competitiveness, such as workforce development, education, transportation and property-tax relief.

Appendix A

July 17, 2017

The Honorable Greg Abbott
Governor, State of Texas
P.O. Box 12428
Austin, Texas 78711-2428

Dear Governor Abbott,

For decades, Texas has been a magnet for business investment, job creation and a strong, diverse workforce because of the pro-growth environment created by state policy makers.

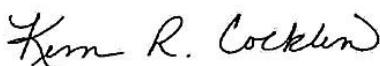
As CEOs of Dallas-based businesses, we're writing to express our concern that the so-called "bathroom bill" that the Texas legislature is considering would seriously hurt the state's ability to attract new businesses, investment and jobs. Our companies are competing every day to bring the best and brightest talent to Dallas. To that end, we strongly support diversity and inclusion. This legislation threatens our ability to attract and retain the best talent in Texas, as well as the greatest sporting and cultural attractions in the world.

We appreciate your leadership in ensuring that Texas continues to be a model for public policies that create a climate for economic growth and job creation that's second to none.

Respectfully,



Doug Parker
Chairman & CEO, American Airlines



Kim Cocklin
CEO, Atmos Energy Corporation



Randall Stephenson
Chairman & CEO, AT&T Inc.



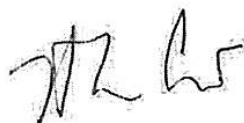
Fred Perpall
CEO, The Beck Group



Matthew K. Rose
Executive Chairman, BNSF Railway



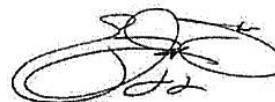
Mark Rohr
Chairman & CEO, Celanese



Harlan Crow
Chairman & CEO, Crow Holdings



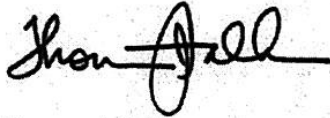
Sean Donohue
CEO, Dallas/Fort Worth
International Airport



Emmitt Smith
CEO, EJ Smith Enterprises



David T. Seaton
Chairman & CEO, Fluor



Thomas J. Falk
Chairman & CEO, Kimberly-Clark



Gary Kelly
Chairman & CEO, Southwest Airlines



Trevor Fetter
Chairman & CEO, Tenet Healthcare



Richard K. Templeton
Chairman, President & CEO,
Texas Instruments

Appendix B



July 31, 2017

The Honorable Greg Abbott
Governor of the State of Texas
State Capitol
Room 2S.1
1100 Congress Avenue
Austin, TX 78701

Dear Governor Abbott,

Texas has worked for decades to establish its reputation as a great place to do business. Through smart, pro-growth public policy, the state has succeeded, and our business environment is the envy of states across the country. In addition to our economic success, Texas has become well-known for its excellent quality of life and our welcoming, inclusive spirit – attributes that have helped draw talented individuals to the state from across the nation and around the globe.

As members of Houston’s business community, we write to express our concern with the proposed “bathroom bill” being considered in this special legislative session. We support diversity and inclusion, and we believe that any such bill risks harming Texas’ reputation and impacting the state’s economic growth and ability to create new jobs.

Innovative companies are driven by their people, and winning the talent recruitment battle is key. Any bill that harms our ability to attract top talent to Houston will inhibit our growth and continued success – and ultimately the success of our great state.

We appreciate your leadership in Texas and urge you avoid any actions, including the passage of any “bathroom bill,” that would threaten our continued growth.

Sincerely,

Houston Business Leaders

Jeff Shellebarger
President
Chevron North America E&P
Chair, Greater Houston Partnership

Marc Watts
Vice Chair
Greater Houston Partnership

Bob Harvey
President and CEO
Greater Houston Partnership

Blake Pounds
Managing Director, Houston
Accenture

Steve Stephens
CEO
Amegy Bank

Thomas Perich
Chairman
Andrews Kurth Kenyon LLP

Eduardo Aguirre
Chairman and CEO
Atlantic Partners Group LLC

Andrew Baker
Managing Partner
Baker Botts LLP

Manolo Sanchez
Chairman
BBVA Compass

Steve Pastor
President, Petroleum
BHP Billiton Petroleum

Alan Thomson
Senior Partner and Managing
Director
The Boston Consulting Group

John Mingé
Chairman and President
BP America

Patrick C. Oxford
Chairman
Bracewell LLP

Thad Hill
President and CEO
Calpine Corporation

Ric Campo
Chairman and CEO
Camden Property Trust

David McClanahan
Retired President and CEO
CenterPoint Energy

Tony Chase
Chairman and CEO
ChaseSource

Ryan Lance
Chairman and CEO
ConocoPhillips

George A. DeMontrond, III
President
DeMontrond Automotive Group

Earl Shipp
Vice President, Gulf Coast
Operations
The Dow Chemical Company

Deborah Byers
Houston Office Managing Partner
Ernst & Young LLP

Linda DuCharme
President
ExxonMobil Global Services
Company

Charles C. Foster
Chairman
Foster LLP

Paul Hobby
Founding Partner
Genesis Park LP

Daniel M. Gilbane
President – Gilbane Southwest
Gilbane Building Company

Deborah Cannon
Former Chair
Greater Houston Partnership

Earl Hesterberg
President and CEO
Group 1 Automotive

Welcome Wilson, Sr.
Chairman
GSL Welcome Group

Jeffery A. Miller
President and CEO
Halliburton

Lynne Liberato
Partner
Haynes and Boone LLP

Jim Postl
President
James Postl Interests

Dan Bellow
President – Houston
JLL

David Taylor
Managing Partner – Houston
Locke Lord

Gina Luna
CEO
Luna Strategies

Wayne McConnell
Managing Partner
McConnell & Jones LLP

Carrin Patman
Board Chair
METRO Board of Directors

Kenneth Guidry
President
PKF Texas

Massey Villarreal
President and CEO
Precision Task Group Inc

Duke Austin, Jr.
President, CEO and COO
Quanta Services

David Leebron
President
Rice University

Andy Waite
Co-President
SCF Partners

Tom Ryan
Chairman and CEO
Service Corporation International

Bruce Culpepper
President
Shell Oil Company

Lisa Davis
CEO Global Energy
Member of the Managing Board
Siemens AG

John Nau
President and CEO
Silver Eagle Distributors LP

Donna Sims-Wilson
President
Smith Graham & Company

Dave Dunlap
President and CEO
Superior Energy Services

Fernando Assing
President and CEO
Tesco Corporation

Fred Zeidman
Treasurer and CFO
Texas Heart Institute

Kevin Roberts
President, Southwest
Transwestern

Bobby Tudor
Chairman
Tudor, Pickering, Holt & Co.

Anna M. Babin
President and CEO
United Way of Greater Houston

Mark Kelly
Chairman
Vinson & Elkins LLP

Laura Bellows
President and Chairman
W. S. Bellows Construction
Corporation

Denis C. Braham
Attorney at Law
Winstead PC

Cc: Lieutenant Governor Dan Patrick
Speaker Joe Straus
Members of the Texas House of Representatives

Appendix C

August 4, 2017

The Honorable Governor Abbott
Governor of Texas
State of Texas
P.O. Box 12428
Austin, Texas 78711

The Honorable Joe Straus
Speaker of the House
Texas House of Representatives
P.O. Box 2910
Austin, Texas 78711-2428

The Honorable Dan Patrick
Lieutenant Governor of Texas
Lt. Governor's Office
P.O. Box 12068
Austin, Texas 78711

Dear Governor Abbott, Lieutenant Governor Patrick, and Speaker Straus:

During the 85th legislative session, San Antonio businesses stood together with the greater community in opposition to the discriminatory bathroom bills. As we enter a special session called by Governor Abbott, we write to reaffirm our opposition to discriminatory legislation such as SB 3, SB 91, HB 46 and HB 50.

As local business and community leaders, we oppose any law, statute, ordinance or rule that weakens our community's private and/or public sector's ability to attract talent and private investment or in any way limits San Antonio's identity as a welcoming destination to visit, live, and work. Policies that discriminate against individuals or groups based upon gender identity, sexual orientation, veteran status, race, color, religion, national origin, sex, age, or disability are not in keeping with the long history of inclusion that has been San Antonio's promise, and they hamper Texas' ability to compete in the global marketplace.

San Antonio's economy has grown in part through the investments made in the bioscience, cybersecurity and manufacturing industries. As we compete for talent, it is imperative that our leaders not hamper our ability to attract a skilled workforce by passing discriminatory bills, or other related companions or amendments.

An economic impact study by *The Perryman Group* estimates the initial impact of the bathroom bill on business activity in the San Antonio region to be a loss of \$411.8 million annually and nearly 4,650 jobs. At maturity, the losses could be expected to rise to \$689.2 million and nearly 7,780 jobs.

In total, 54 organizations issued an ultimatum to various Convention and Visitors Bureaus and Economic Developers throughout the state: Should discriminatory legislation similar to SB 3, SB 91, HB 46 or HB 50 pass, they will cancel their current projects and redirect them to alternate locations. In total, this represents \$1.04 billion in economic impact through 2026.

We believe our economy is stronger when Texas is open for business to everyone. Therefore, we strongly urge you to oppose any discriminatory legislation.

Respectfully,

Danny Anderson
President
Trinity University

Hope Andrade
Co-founder
Andrade Van de Putte

Rick Archer
Founding Principal
Overland Partners, Inc.

Wes Baerga
President & CEO
VuePoint Creative

Michael Beldon
Chairman
Beldon Roofing Company

Tami Benson
President
Benson Design Associates

Lisa Bombin
President
Unico Communications, Inc

Julissa Carielo
President & CEO
Tejas Premiere Building
Contractor, Inc.

Michelle Rojas Casillas
Attorney & Owner
Casillas Law Firm, PLLC

Dr. Alfonso Chiscano
Vice President
300 Centennial Commission

Arthur Coulombe
General Manger
JW Marriott Hill Country
Resort and Spa

Joe Eazor
Rackspace
Chief Executive Officer

Vincent Forlenza
Chairman & CEO
Becton, Dickinson & Company

Louis J. Fox
CEO
Urban Advisory Services

Jim and Lisa Fullerton
Co-Owners
A Novel Idea

Paula Gold-Williams
President & CEO
CPS Energy

Leo Gomez
President & CEO
Brooks

Dr. Erika Gonzalez-Reyes
President & CEO
South Texas Allergy and
Asthma Medical
Professionals, PLLC and
STAAMP Research, LLC

JJ Gorena II
Owner & CEO
The Trey Group, LLC and
Trey Group Promotions

Jim Goudge
Chairman
Broadway Bank

Maryanne Guido
CEO
Guido & Companies Inc.

Katie Harvey
CEO
KGBTexas Communications

Denise Hernandez
Vice President of
Development
True Flavors

Jorge Herrera
Attorney at Law
The Herrera Law Firm

Janet Holliday
President
The CE Group

Johnette Lee
VP of Sales and Marketing
San Antonio Lighthouse for
the Blind and Vision Impaired

Raul Lomeli-Azoubel
Chairman
SABEResPODER, Inc.

Tomas Martinez
Owner
Luxury Home Magazine San
Antonio and Austin

Lisa W. Morgan
President & CEO
TEAM Integrated
Engineering, Inc.

Dennis Nixon
CEO
International Bank of
Commerce

Mike Novak
CEO
Novak Group, LLC

Trip Pilgrim
CEO
Baptist Health System

Charles Poole
Business Development
Allbrite Constructors of
Texas, Inc.

Jim Reed
President
San Antonio Medical Foundation

Bianca Rhodes
President
Knight Aerospace Medical
Equipment

Steve Seidel
Senior Counsel
Jackson Walker LLP

Greg Seiler
CEO
Metropolitan Methodist

Jamie Smith
Vice-Chairman
Dykema Cox Smith

Maggie Thompson
Executive Director
San Antonio River Walk
Association

Jimmy Toubin
President
Toubin Insurance Agency

Charles "Marty" Wender
President
Charles Martin Wender Real
Estate & Investments

Graham Weston
CEO
Trout Capital, Ltd.

Tom Wright
President & CEO
GreenStar Products, Inc.

Bartell Zachry
Chairman of the Board
Zachry Interests

David Zachry
CEO
Zachry Corporation

Appendix D



GAY GADDIS
Chairman

JUSTIN YANCY
President

December 5, 2017

House Select Committee on Economic Competitiveness
Texas House of Representatives
State Capitol
Austin, Texas

Dear Chairman Cook and Members of the Committee:

The Texas Business Leadership Council (TBLC) supports and appreciates the work of the House Select Committee on Economic Competitiveness.

To remain on track as the best place in America for business, a framework for continued success is necessary. It is vital that we support our entrepreneurs and small businesses, to include a healthy ecosystem of capital to grow and keep our best companies here; promote quality and completion in public and higher education; and what is my primary message today, provide state and local incentives to compete for corporate expansions and re-locations that add jobs to our economy.

As former chairman of Texas One, I saw firsthand what can be accomplished with competitive incentives programs. Texas must continue to be involved in recruiting and promoting our state as the best place to do business. As an example, if you look at the highly publicized Amazon HQ2 decision, without tools in the toolbox, Texas wouldn't even be considered.

Texas' economic development tool box must be full. It is a fact that site selectors and most companies won't even look at a state without a full and competitive tool box. To unilaterally withdraw from having and using economic incentives would be disastrous for Texas and welcomed by every other state in the union.

The role of government in economic development is often debated, but jobs and the economy are consistently atop Texans priorities. All Texans want well-paying jobs, economic stability, and an improved standard of living for their families. To accomplish and maintain these core goals, Texas' elected leadership must remain vigilant to the high standards and innovative strategies that took us to the summit of economic development for much of the last two decades.

Again, the TBLC appreciates the work of the Committee and stands ready to assist as needed.

Sincerely,

A handwritten signature in black ink, appearing to read "Nick Serafy".

Nick Serafy
Chief Executive Officer, Proficiency Testing Service, Inc.
Chairman, TBLC Economic Development Task Force

Appendix E



November 22, 2017

The Honorable Joe Straus
Speaker of the Texas House of Representatives
P.O. Box 2911
Austin, TX 78767

The Honorable Byron Cook
Chair, House Select Committee on Economic Competitiveness
Texas House of Representatives
P. O. Box 2911
Austin, TX 78767

Dear Speaker Straus and Chairman Cook:

As the witnesses at the last meeting of your committee stated, the pillars of economic competitiveness in any nation or state are (1) an infrastructure network that provides for adequate supplies of clean water and mobility for goods and citizens, (2) an educational system that provides an educated citizenry and a capable workforce, and (3) sensible tax policy.

We will leave it to others to comment on the last two of these. But we are the business association of Texas engineering firms, and the engineering community lives in the world of infrastructure. We see its strengths and weaknesses and needs and vulnerabilities. We would like to share with you our observations about this basic foundation of Texas economic competitiveness.

Keeping up with water, transportation, and flood control infrastructure in a growing state like Texas requires constant attention. The Legislature and Texas voters have made great strides over the past half-decade, approving several constitutional amendments that created a fund for water investments and allocated a portion of oil and gas and sales taxes to mobility improvements.

So where are we now at the end of 2017?

Frankly, progress has stalled and new challenges have emerged.

Most notably, Hurricane Harvey exposed a significant under-investment in flood control mitigation. Harvey was a rainfall event of epic proportions and probably would have overwhelmed any economically feasible defenses. But this storm and others over the last three years have laid bare a pattern of long-delayed maintenance and construction of facilities that could have lessened the flood damage. As a consequence, companies such as BP have had a large workforce unable to use their offices for several months.

American Council of Engineering Companies

DESIGNING THE FUTURE OF TEXAS

1001 Congress Ave., Suite 200 • Austin, Texas 78701 • (512) 474-1474 • Fax (512) 474-1490 • www.acectx.org

Speaker Joe Straus & Chairman Byron Cook
November 17, 2017
Page Two

Investment in flood mitigation works. Even during Harvey, hospitals and other critical facilities that had invested in flood gates and relocation of emergency power survived better than in previous storms. Levees and modern development standards protected many areas. And had the Corps of Engineers detention reservoirs in Harris County been better maintained or supplemented, many homeowners along Buffalo Bayou would have been spared. But this takes money.

Frankly, the level of investment in flood control in our state has been shameful and short-sighted. Even Harris County's overall capital spending plan for flood control is only \$60 million per year, less than \$40 per household. And Harris County, which at least has a county-wide flood control authority, is head and shoulders above other areas. In other areas, storm water projects are held up by the fact that drainage problems seldom conform with the boundaries of political subdivisions. So comprehensive solutions fall between the cracks.

In Greater Houston, a number of business and economic development groups have come together behind a plan that would construct additional reservoirs, restore capacity in existing reservoirs, increase bayou conveyance capacity, and provide funds for strategic buy-outs of homes. This plan has an estimated cost of over \$30 billion, with at least 10% of that requiring local dollars.

Even with extensive federal contributions, a challenge remains for state and local governments in coming up with a matching share. We believe that the Legislature needs to consider a sizeable appropriation from the Rainy Day Fund that could first match local contributions for Hurricane Harvey response and second, create a fund similar to the State Water Implementation Fund for flood control projects around all of the state. Some mechanism to provide for funding flood control projects with resources other than property taxes is also needed.

In the area of transportation and mobility, several speakers at your last hearing discussed the importance of having resources to deal with major economic development projects. Unfortunately, in this area there is still work to do.

In 2010, a blue-ribbon panel of state leaders estimated that Texas needed \$5 billion (in 2010 dollars) in additional investment in roads – plus continued use of toll roads – in order to maintain the 2010 level of mobility and road conditions. Various actions such as the passage of Propositions 1 and 7 and ending diversions have supplied about \$3.5 billion, replacing prior debt financing and closing part of the shortfall.

But in 2017, the Legislature reversed progress by allocating a portion of the replacement money to pay off debt service on projects already constructed. More significantly, the Legislature limited various tolling strategies that have leveraged at least \$2 billion annually in highway construction and could do so in the future; the Governor and Lt. Governor have recently urged the Transportation Commission to limit toll roads even further. In 2017 we went backward.

Speaker Joe Straus and Chairman Byron Cook
November 17, 2017
Page Three

What the Legislature has really done over the last five years is to change the “color of money,” so to speak, replacing large quantities of debt, borrowed money and large CDA/public private partnerships that fueled the program 2003-2013 with more straightforward funding. This is constructive, but it should not disguise the fact that overall the program has not really increased. This can be seen in the chart below of construction lettings (including CDAs, local let projects, state let projects, and grant obligations) looking backward and forward.

FY10	\$ 7.266 B	FY15	\$ 6.693 B
FY11	\$ 4.399 B	FY16	\$ 5.522 B
FY12	\$ 3.855 B	FY17	\$ 6.225 B
FY13	\$ 9.475 B	FY18	\$ 6.663 B
FY14	\$ 7.034 B	FY19	\$ 5.649 B

Another way to look at this is through the lens of the state Unified Transportation Program (UTP). The UTP covering the past ten years included about \$70 billion of projects; the UTP for the next ten years includes about \$70 billion of projects.

Under this funding scenario, it is becoming increasingly clear that in the state’s major metropolitan areas, mobility mega-projects such as IH-35 in Austin and San Antonio, IH-45 in Houston, IH-635 in Dallas, and others will not get built or, in the best case, take decades to construct. We do not have to have toll roads in Texas, but if not, we will have to have significant amount of alternative revenue.

So as this committee digs into how to sustain the economic competitiveness of our state, these infrastructure issues must be front and center. It is far too easy to “check the box” and assume recent Legislatures have addressed these problems. A big and growing state must confront big and growing challenges. Let’s don’t let choking in traffic and washing away in flood waters be the picture of 21st century Texas.

Sincerely,



Steve Stagner
President

CC: Committee Members

Appendix F

January 26, 2018

The Honorable Byron Cook
Chair, House Select Committee on Economic Competiveness
Texas House of Representatives

Dear Chairman Cook:

Texas 2050 is an organization comprised of chambers of commerce and statewide business and civic associations that promotes the economic development and prosperity of Texas. Texas 2050 supports the work of the Committee and is pleased to offer comment on matters brought to the Committee's attention during the November and December hearings.

As Governor Abbott wrote to the Committee about our state's impressive economic achievements, "These accomplishments are not accidents. Texas has conscientiously adopted pro-growth policies." Texas 2050 endorses the model developed by state leadership and the Legislature that has made Texas the envy of the nation.

Texas 2050 believes that workforce development is key to the future of the Texas economy. The "Texas miracle" is not a miracle, but is rather the result of intentional policies of the state and its business community. Texas must continue to compete for a global mobile workforce, and education is critical toward this end.

In competing for capital investment, Texas' biggest sore thumb is our high rate and broad base of property taxation. Texas laws that allow new investment to be temporarily taxed at reduced rates can get Texas back into the game, without which we would simply be priced out of competitiveness. Economic development efforts and business incentives, properly deployed, create neither a cost to government nor a shift of tax burden. Rather, they are money-makers for state and local treasuries and thus generate a return to taxpayers generally. Rather than picking winners and losers, these incentives alleviate the disadvantage caused by our state's unusually heavy reliance on property taxes. Texas 2050 views business development as paying positive dividends for communities and for the state of Texas.

To pave the way for smart cities and a growing population, Texas' infrastructure capacity—roads, energy, water, and broadband, especially—is critical to our state's competitive edge in attracting capital investment. Economic output means little if goods and information are gridlocked at their points of origin. Supporting public-private partnerships, accelerating the deployment of smart infrastructure investments, and updating policies and practices that impede progress are high-value policy goals for Texas 2050.

Texas' success in economic development and job creation did not happen by accident. Texas lawmakers and leaders have created a policy and regulatory climate built for competition and growth. In turn, the entrepreneurial spirit of our innovators has

flourished. We encourage a continued commitment to policies that protect consumers and the environment without placing undue regulations on free enterprise. A working relationship between business and government will encourage innovation and investment and will promote the prosperity of all Texans.

Thank you for your time and consideration.

Sincerely,

The Texas 2050 Coalition

Abilene Chamber of Commerce
Arlington Chamber of Commerce
Brady/McCulloch County Chamber of Commerce
Cedar Park Chamber of Commerce
City of Kyle
Clear Lake Area Chamber of Commerce
Dallas Regional Chamber
Fort Bend Chamber of Commerce
Fort Worth Chamber of Commerce
Frisco Chamber of Commerce
Grapevine Chamber of Commerce
HEB Chamber of Commerce
Houston Northwest Chamber of Commerce
Irving-Las Colinas Chamber of Commerce
Kyle Area Chamber of Commerce and Visitor's Bureau
Lake Houston Area Chamber of Commerce
Longview Chamber of Commerce
Lubbock Chamber of Commerce
Mansfield Chamber of Commerce
McAllen Chamber of Commerce
Mineral Wells Chamber of Commerce
New Braunfels Chamber of Commerce
Plano Chamber of Commerce
Richardson Chamber of Commerce
San Antonio Chamber of Commerce
Sherman Chamber of Commerce
CompTIA
TechNet
Texas Association of Business
Texas Association of Counties
Texas Association of Manufacturers
Texas Business Leadership Council
Texas Chemical Council
Texas Economic Development Council
Texas Foundation for Innovative Communities

Texas Healthcare & Bioscience Institute
Texas Municipal League
Texas Taxpayers and Research Association

cc: Speaker Joe Straus
Representative Senfronia Thompson, Vice Chair, House Select Committee on Economic Competiveness
Representative Angie Chen Button
Representative Sarah Davis
Representative Charlie Geren
Representative Joe Moody
Representative René Oliveira

Appendix G



CITY OF SAN ANTONIO

**RON NIRENBERG
MAYOR**

December 4, 2017

The Honorable Byron Cook
Chairman, House Select Committee on Economic Competitiveness
Texas House of Representatives
P.O. Box 2910
Austin, TX 78768

Dear Chairman Cook and Members of the Committee:

It should come as no surprise that the nation's seventh-largest city and the state's second-largest, is an internationally-renowned cultural destination celebrated for its rich history and diverse arts community. As San Antonio approaches its 300th anniversary in 2018, this exciting time causes us to not only celebrate, but to also reflect on all that makes our city great and unique.

Our city's multicultural roots are evident in our local performing, visual, and literary arts. Whether you visit one of the hundreds of public art installations throughout the city, or attend a performance or exhibit – all of it is uniquely San Antonio. And, that is in large part due to our local artists and creatives who are not only the tellers of the "San Antonio Story," but also the guardians of it. They have dedicated their lives to preserving our city's arts and cultures so that the stories are not forgotten as San Antonio propels into the next 300 years and beyond.

The City of San Antonio has made a commitment to maintaining a sustainable environment for the arts to continue to flourish. Over and over, research has shown the role arts play in enriching the quality of life of a community. As we look to our future in San Antonio, we will continue to focus on initiatives and policies that continue to bring the San Antonio community together, and celebrate our diversity through the arts.

Together, as a city, we will create change and make a significant positive impact. I hope this inspires all Texas cities to come together to celebrate diversity and creativity, and make Texas the best state in the nation for supporting arts & culture initiatives.

With Regards,

A handwritten signature in black ink, appearing to read "Ron Nirenberg".

Ron Nirenberg
Mayor

Appendix H



TEXANS FOR THE ARTS
The Official Arts Advocacy Organization for Texas

Board of Directors

John Abodeely, *Houston*

Cory Baker, *Austin*

Lynn Barnett, *Abilene*

Secretary,

Amy W. Baskin, *Tyler*

Robert Benda, *Fort Worth*

Fiona Bond, *Waco*

Mary Grace Carroll, *Laredo*

Cissy Segall Davis, *Houston*

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John Smither, *Huntsville*

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Meghan Wells, *Austin*

Karen Wiley, *Fort Worth*

Kim Yelkin, *Austin*

Executive Director,

Ann S. Graham, *Austin*

December 1, 2017

The Honorable Byron Cook
Chairman
House Select Committee on Economic Competitiveness
Texas House of Representatives
PO Box 2910
Austin, TX 78768

Dear Chairman Cook, and members of the Committee:

Economic vitality is inspired by and achieved through a combination of positive business and economic conditions and broader quality of life issues.

As Speaker Straus said in creating this Committee, "...being pro-business isn't just about tax breaks and cash incentives. It's also about education, tolerance, empathy, and quality of life."

How do we ensure that our communities become beacons for corporate and business investment? Businesses today look for communities that offer a broad spectrum of creative and cultural amenities to give their employees a high quality of life.

A city that invests in arts and culture is a city that understands that a high quality of life is a beacon for economic vitality, enhanced tourism, increased community awareness and understanding of diverse cultures. It is a community where creativity sparks new development and new investments that beget future investments and enhanced economic competitiveness.

In the words of San Antonio Mayor Ron Nirenberg:

The types of employers we're trying to attract to San Antonio today are looking for young people who can do more than add strings of numbers or write coherent sentences. They are looking for a rich cultural environment to give their employees a quality of life that will enrich their off-hours and make them want to stay. And they want employees who can think critically, solve problems creatively, and be culturally literate.

A city energized by lively, diverse and well supported arts community, accessible to all, means more energy and more life in the community, more jobs, more tourists, more renovated buildings, more new development, and more people and businesses moving to an appealing place. And more people coming together to share experiences and ideas through the arts means diverse people finding new ways to understand each other and planting the seeds for increased understanding.

Strong public and private investments in arts and culture are a critical cornerstone of Texas's economic future.

Thank you!

Ann

Ann S. Graham
Executive Director

www.texansforthearts.com

Texans for the Arts is a 501(c)(4) corporation. Member dues are not deductible unless deemed a business expense.

PO Box 4549, Austin, TX 78765 (512) 914-8096 info@texansforthearts.com



TEXANS FOR THE ARTS
The Official Arts Advocacy Organization for Texas

Funding the Arts Promotes Economic Competitiveness

* **Business will go elsewhere without the arts!** In 2001, the lack of cultural amenities played a key role in Boeing's decision to choose Chicago over Dallas when relocating its headquarters from Seattle. That was a wakeup call for Dallas (and Texas), and the city, both with public and private investments, completed the Dallas Arts District, including the AT&T Performing Arts Center, Klyde Warren Park and the Perot Museum of Nature and Science. Mayor Mike Rawlings, September 2017: Dallas "GDP is at an all time high, we have created more jobs than we have ever had in the city of Dallas. We were able to, last year create over a billion dollars of new [construction] starts in just one year."

* **Arts spark creativity and innovation** The Conference Board reports that creativity is among the top 5 applied skills sought by business leaders—with 72 percent saying creativity is of high importance when hiring. The biggest creativity indicator? A college arts degree.

* **Arts strengthen the economy.** The U.S. Bureau of Economic Analysis reports that the arts and culture sector is a \$704 billion industry, which represents 4.2 percent of the nation's GDP—a larger share of the economy than transportation and agriculture. In the City of Dallas alone, the economic impact of the arts is **\$891M a year**, supporting **33,554 jobs** and delivering **\$97M in state and local tax revenues.**

* **Arts are good for local businesses** Locally owned and small businesses benefit from the arts! Attendees at nonprofit arts events spend \$24.60 per person, per event, beyond the cost of admission on items such as meals, parking, and babysitters. Attendees who live outside the county in which the arts event takes place spend twice as much as their local counterparts (\$39.96 vs. \$17.42).

* **Arts improve academic performance** Students with an education rich in the arts have higher GPAs and standardized test scores, and lower drop-out rates—benefits reaped by students regardless of socio-economic status. Employers recognize that the arts promote creative thinking and problem solving in employees.

* **Arts improve individual and community well being.** University of Pennsylvania researchers have demonstrated that a high concentration of the arts in a city leads to higher civic engagement and child welfare, and lower crime and poverty rates. The arts are used by the U.S. Military to promote troop force and family readiness and resilience, and for the successful reintegration of veterans into family and community life. Nearly one-half of the nation's healthcare institutions provide arts programming for patients, families, and even staff. 78% deliver these programs because of their healing benefits to patients—shorter hospital stays, better pain management, and less medication.

* **Arts drive tourism.** Arts travelers stay longer and spend more! The U.S. Department of Commerce reports that the percentage of international travelers including museum visits on their trip has grown steadily since 2002 (18 to 28 percent).

Sources: <https://tinyurl.com/ycbrg8un>; Texas Tribune Fest 2017; AFTA AEP 5, Dallas, Texas

Appendix I

Neiman Marcus|Group

November 6th, 2017

Honorable Members of the Texas House Select Committee on Economic Competitiveness
Room E2.108
State Capitol Building
Austin, Texas 78768-2910

Dear Honorable Members of the Texas House Select Committee on Economic Competitiveness,

We at Neiman Marcus, a company born and headquartered in Texas, remain very proud of our rich tradition of employing and serving Texas citizens of all types. Having been founded in Texas over 100 years ago, Neiman Marcus has grown from our original Dallas location to now employ Texans in several different locations all over the state. For the duration of our company's history, we've embraced a philosophy of diversity and inclusion, because we believe that is the optimal way to attract and employ the most talented workforce that Texas has to offer.

Neiman Marcus thus remains deeply concerned about the ongoing possibility of the enactment of any sort of "bathroom bill" by the Texas Legislature that would emulate the sort of legislation enacted in North Carolina. This sort of discriminatory legislation would severely hinder our ability to continue to hire and retain the top talent available in Texas. Such policy would negatively impact our ability to compete with other businesses in the retail sector and to expand our locations and investments in Texas. We are therefore deeply appreciative of the members of the Texas House for having halted the advancement of such discriminatory and economically harmful legislation during both the 85th regular legislative session and the ensuing special session this past summer.

As your Committee sets about the task of recommending the principles that should guide the Lone Star State's pursuit of long-term economic growth, Neiman Marcus stands in solidarity with more than 700 other Texas-based businesses and economic development corporations as well as education, law enforcement, faith and community leaders in urging you and the members of the Texas House to continue to refrain from recommending the enactment of any sort of discriminatory legislation. This includes recommendations for the enactment of any types of "bathroom bills." We believe that Texas laws should foster an open, business-friendly, and welcoming environment that will advance the state's long-term competitiveness and economic development. We thank you and your fellow members of the Texas House for your continued service to the State of Texas. We look forward to continuing to be a proud economic partner with our home state.

Sincerely,



President and
Chief Executive Officer

Appendix J



Scott M. Prochazka
President & CEO

December 5, 2017

The Honorable Byron Cook
Texas House of Representatives
P.O. Box 2910
Austin, TX 78768-2910

Chairman Cook and members of the House Select Committee on Economic Competitiveness:

My name is Scott M. Prochazka. I am the President and Chief Executive Officer of CenterPoint Energy, Inc. ("CenterPoint Energy"). I appreciate the opportunity to comment on this important charge.

CenterPoint Energy delivers electricity safely and reliably to 2.4 million metered customers in a 5,000-square-mile area in greater Houston-Galveston. We sell and deliver natural gas to 1.7 million metered customers in Texas from Laredo to Texarkana, including Houston, the "energy capital of the world." CenterPoint Energy Services, our non-regulated competitive natural gas supply and related energy services business serves approximately 33,000 customers in 33 states. We employ nearly 8,000 people, including more than 5,000 field and office workers in Texas, where we partner with organizations like the Texas Workforce Commission, the Texas Diversity Council, and academic institutions on workforce development and training. GI Jobs and U.S. Veterans magazine have recognized us as a top employer of military veterans, more than 500 of whom work for CenterPoint Energy.

We support the communities that we serve and in which we live as a good corporate citizen through economic and community development, environmental responsibility, corporate giving and community outreach. Just a few of the organizations we support in Texas are the United Way, March of Dimes, UNCF, Junior Achievement, Salvation Army, Gulf Coast Regional Blood Center, Rebuilding Together Houston and Trees for Houston.

As a regulated utility, we value our important relationships with state and local officials, the Public Utility Commission of Texas, and the Texas Railroad Commission. Many of our employees serve on chambers of commerce, economic development organizations and nonprofit boards, or in public office.

I am proud to work for a company with a 150-year heritage that delivers energy, service and value to help make the lives of our residential customers more comfortable, productive and enjoyable and to help the businesses of our commercial and industrial customers prosper. We have good customer growth, and we are investing in technology that enables new products and services to meet customers' needs, improves reliability, integrates renewable energy sources, and maintains a grid that is affordable, safe and secure.

The energy industry in Texas, the nation, and the world is undergoing rapid evolution and disruption like many industries, driven by technology and growing consumer needs and expectations. Businesses are no longer driving change; consumers are driving change. While there are uncertainties about the pace of adoption of emerging energy technology such as solar power, electric vehicles, battery storage and micro grids, I am confident that the electric grid will remain a crucial component of the energy system that powers our economy as it grows into an energy network rather than a one-way energy delivery system.

Maintaining a thriving energy industry and state economy that continues to attract businesses and workers from around the nation and globe requires continuing focus on several factors:

- education that develops new skillsets and creative thinking;
- embracing diversity and inclusion in our workforce, communities and suppliers;
- a reliable and sustainable energy supply which integrates diverse energy sources;
- technology, innovation and an awareness of and action regarding disruptive forces; and,
- policies, programs and a tax climate that remain business-friendly and pro-growth.

CenterPoint Energy, like other utilities and companies across sectors, faces workforce challenges and opportunities related to changing demographics, new technology, as well as the need to transfer and develop knowledge in a rapidly evolving, competitive environment. We will need new skillsets and a culture more responsive to competition and disruption than the traditional utility.

CenterPoint Energy and other utilities will continue to need engineers, accountants, linemen and other traditional roles. But, we also need more expertise in information technology, operations technology, and consumer technology. As we increasingly apply predictive analytics to energy solutions, we will need more data scientists.

Every business, large or small, depends on a reliable, sustainable, affordable and secure supply of energy. From our electric and natural gas businesses in Houston to our natural gas business in south and east Texas, CenterPoint Energy is proud to deliver the energy that helps power a state economy that is the 11th largest economy in the world. Texas has created a culture that promotes livability, fosters economic expansion, and provides an opportunity to prosper.

Thriving economies drive immigration, population growth and increasing demand for energy. Texas' population growth is one of the fastest in the nation. According to the U.S. Census Bureau, more than 550,000 people moved to Texas from July of 2015 to July of 2016. Five of the ten fastest growing large cities in the nation are found in our state: Houston, Austin, San Antonio, Dallas, and Fort Worth. To ensure the reliable and resilient delivery of energy to a growing population and economy, Texas' robust power infrastructure must continue to grow and Capital requirements to support our electric transmission and distribution business – and the residential, commercial and industrial customers it serves – will remain robust. Our electric operations story remains one of continuing strong growth and need for continued investment. Whether it is investment for residential growth, or commercial or industrial, the need for capital remains strong in all three of those areas. This year, we will invest upwards of \$1 billion in our electric system, and capital needs for growth, reliability and grid strengthening investments are, in fact, likely to increase.

We also anticipate an upward shift in our capital investment for our natural gas distribution business, in which we are investing about \$500 million this year, and over the next five years. These investments will help keep pace with industry norms and regulatory requirements, with safety and system integrity continuing to drive capital spending. Capital expenditure is going to stay at these levels for a lengthy period of time.

We are going to spend about \$1.5 billion in capital expenditures this year on our combined electric and gas utilities. Less than ten years ago, we were spending half that amount. So, we have significantly increased the expenditures in our utilities, and I absolutely expect that to continue to be the case for the foreseeable future.

We turn to investors and credit facilities to fund our capital expenditures programs. We generally rely on internally-generated cash, borrowings under our credit facilities, proceeds from commercial paper and issuances of debt and equity in the capital markets to satisfy those capital needs. We strive to maintain investment grade ratings for our securities to access the capital markets to satisfy these capital needs.

We are not alone in the need for access to investment capital. Every new and growing business needs access to capital. It's a good problem for us to have. It means we are a growing utility, but it also means we need fresh capital so that we can address the needs of our service territory from a standpoint of growth, safety and reliability.

CenterPoint Energy operates in businesses that require sophisticated data collection, processing systems, software and other technology. Some of the technologies supporting the industries we serve are changing rapidly. We expect that new technologies will emerge or grow that may be superior to, or may not be compatible with, some of our existing technologies and may require us to make significant expenditures so that we can continue to provide cost-effective and reliable methods of energy delivery.

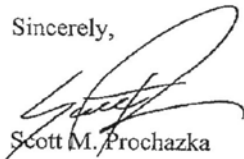
Among such technological advances are alternative fuel vehicles (electric or natural gas), distributed generation (DG) resources (e.g. rooftop solar, wind power), energy storage devices and more energy-efficient buildings and products designed to reduce consumption. Our future success will depend, in part, on our ability to anticipate and adapt to these technological changes in a cost-effective manner and to offer, on a timely basis, reliable services that meet customer demands and evolving industry standards.

We are constrained from some opportunities, however, by regulatory limitations on our role in the market. As the regulated wires company in the restructured Texas electric market, we cannot own power generation. We can support the growth areas mentioned above, but some may argue we are not, under our regulatory structure, enabled to be investment leaders in micro grids, storage, and so-called Smart Cities. Our investment in smart meters and the Intelligent Grid enables CenterPoint Energy to detect distributed generation so we can understand what lines are loaded and from where to improve safety conditions for our crews. We can also identify electric vehicles and work with competitive retailers to allow them to install electric charging stations and provide unique rate structures including "free nights and weekends" and "green energy programs."

Restructuring of the Texas electric market, which unbundled CenterPoint Energy's transmission and distribution utility function from power generation and retail sales, did create some distance between us and end consumers – commercial and industrial as well as residential. But we are re-engaging customers so that they know and understand our role and believe we are their trusted energy advisor and reliability partner. Some cost of service regulatory policies, however, may limit our and other utilities' ability to respond to large customer requests for customized products and services.

In conclusion, the economy in Houston and Texas is vibrant and growing. CenterPoint Energy is proud to support that growth through an ongoing focus on our communities' economic development, which is why we work closely with economic development agencies and businesses to address their energy-related development needs. It is also why we are investing in leading-edge electric grid technology and natural gas infrastructure to help ensure the safe and reliable delivery of energy to Texas homes and businesses. Texas has a strong, entrepreneurial, can-do spirit of innovation. Houston is not only the energy capital of the world, but also the mission control location from which NASA put a man on the moon, and the destination of pioneers like Daniel Boone and Davy Crockett. In some ways, Texas is the America of America, a land of opportunity with a net migration from mid-2015 to mid-2016 of nearly 200,000 people moving to Texas from around the nation and the globe to pursue their dreams. CenterPoint Energy is proud to help power those dreams.

Sincerely,



Scott M. Prochazka

Appendix K



HOUSE OF REPRESENTATIVES
JOE STRAUS
SPEAKER

December 12, 2017

The Honorable Byron Cook
Chair, House Select Committee on Economic Competitiveness
Capitol Building
Room GW.7
Austin, TX 78701

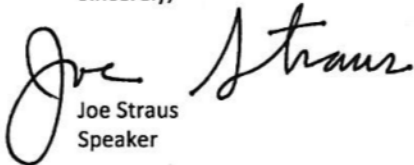
Dear Chairman Cook:

I want to thank you for your leadership of the House Select Committee on Economic Competitiveness, and I want to thank all of the members of your committee for your work and dedication. This committee has put a needed spotlight on the challenges and opportunities facing the Texas private sector, and your upcoming report will provide critical guidance going forward.

I know that the committee has held a couple of extensive hearings and heard from dozens of witnesses. Information has also been submitted to you outside of the hearing process. It's important that you have the time necessary to channel the data you have gathered into a report that is useful and comprehensive. Please take the time that you need to produce a report that suits this committee's mission, even if it takes a few weeks longer than originally anticipated. We always knew that the timeline for this committee's work was ambitious, and the quality of the report is most important.

Thank you again for your work. I hope that you and the members of your committee enjoy the holidays, and I look forward to reading your findings and recommendations about how to best keep our private sector competitive.

Sincerely,


Joe Straus
Speaker

Endnotes

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- ¹⁶ *Ibid.*
- ¹⁷ Texas Education Agency, "Enrollment in Texas Public Schools 2016-2017," June 2017, https://tea.texas.gov/acctres/enroll_index.html.
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