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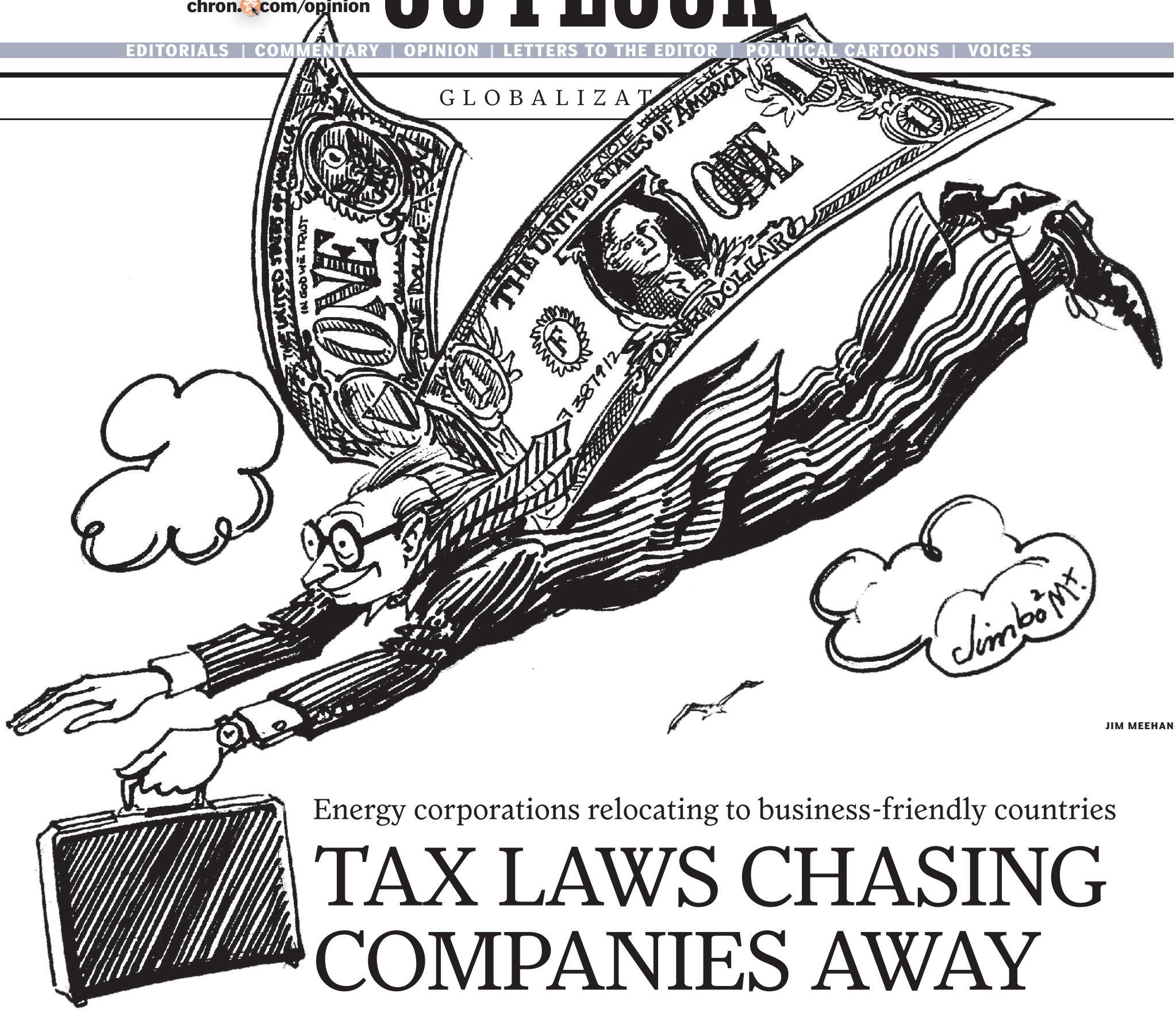
OUTLOOK

COMING MONDAY
■ The recent establishment of the first Veterans Court in the state of Texas is a positive development for Harris County's criminal justice system.

GLOBALIZAT



JIM MEEHAN

Energy corporations relocating to business-friendly countries

TAX LAWS CHASING COMPANIES AWAY

By ROBERT J. HERBOLD and SCOTT S. POWELL

IT'S easier than ever for corporations to move operations overseas. And if the federal government doesn't realize this soon, more and more companies may follow the example of Dallas-based Ensco International and reincorporate overseas. Ensco's decision, announced last month, subject to approval by the majority of its shareholders, is the latest in a series of moves by energy companies to leave the U.S. and relocate in Europe.

In the age of the Internet, with technology converging around the globe and engineering talent abundant in many nations, multinationals and even smaller companies can readily shift research and development, product-development, manufacturing and overall management out of the United States. Increasingly, executives are finding it tough to justify keeping major parts of their business here — and being incorporated in America is looking more and more like a bad bet.

A shocking thought for sure. A shrinking corporate tax base couldn't be happening at a worse time with the widening U.S. deficit and the difficulty of floating more debt. Recently, our largest creditors, notably China and the OPEC countries, signaled reluctance to add to their U.S. dollar holdings.

After Japan, America has the world's highest corporate-tax rate — and Washington shows no willingness to bring those rates down. Indeed, President Obama's administration recently proposed taxing the foreign profits of U.S.-based multinationals even when those profits aren't repatriated.

Yes, it backed away when executives threatened to move offshore. But Obama's aides openly plan to revisit the idea in a broader tax overhaul sometime next year.

This and other threats of new taxes from Washington — such as the billions of dollars in levies anticipated under the "cap-and-trade" scheme — have prompted a dozen major U.S. companies to move offshore in the last year.

Prior to Ensco, a number of Houston-based S&P 500 companies, such as Weatherford International, Nabors Industries, Noble Corp., Transocean International and Cooper Industries completed or were in the latter stage of changing their domicile of incorporation — with Switzerland and Ireland as the most popular relocation destinations.

One board member explained with a question: "What shareholder would ever vote to incorporate in a country that taxes your world-wide income?"

But it isn't just taxation that is chasing corporations out of the country. Another top problem is access to talent.

America now spends more per capita on public education than any other OECD country — but its students test in the bottom 10 percent in math and science. In the yearly "Nation's Report Card" (generated by the National Assessment of Educational Progress), fewer than 25 percent of U.S. high school seniors scored "proficient" in either math or

Please see **TAXES,** *Page B11*

SPACE

NASA in need of a major overhaul

■ Radical change is necessary for agency to thrive

By CHRIS BRONK and TORY GATTIS

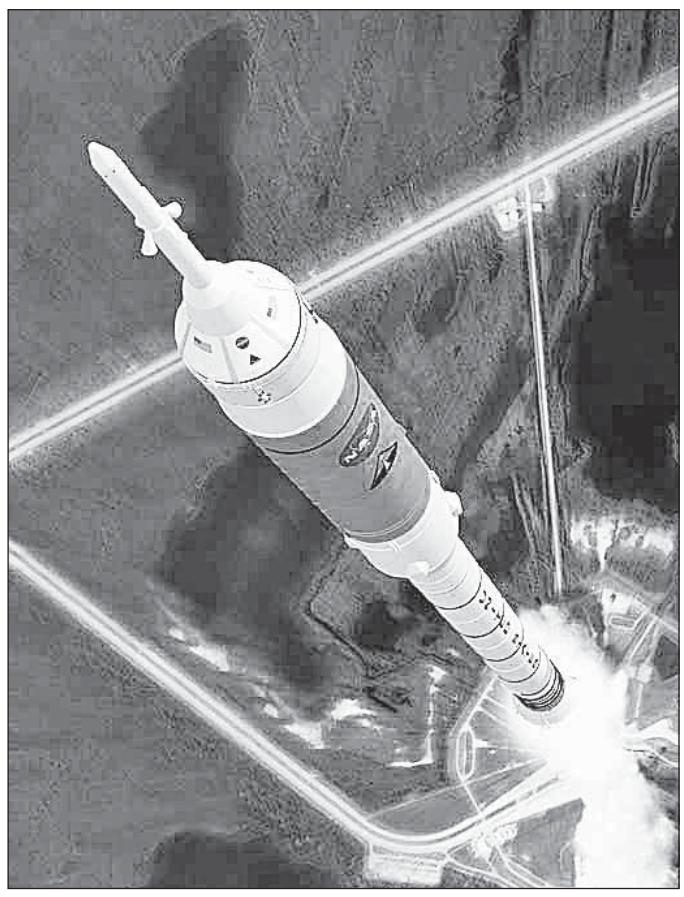
WITH the space shuttle Atlantis' safe return to Earth last month, there are only five missions left before the end of the shuttle program. After that, the United States will likely engage in a lengthy pause in manned missions originating from Cape Canaveral, Fla. Until the shuttle's replacement, Ares I, is available — probably between NASA's official estimate of 2014 and the recently concluded Augustine Commission's 2017 date — American astronauts will hitch rides on Russian Federal Space Agency Soyuz spacecraft perched atop R-7 rockets similar to the one that placed Sputnik in orbit in 1957.

Setting aside the views of critics who argue that human exploration in space is an economically unsound activity, it is our contention that it would be desirable to get the United States back in the manned launch-vehicle business as soon as possible. To do this, NASA must engage in a comprehensive overhaul of its processes and business culture for the challenges of the new decade. This is something that seems to make sense to NASA Administrator Charles Bolden, who has stated that the agency must "accelerate with a sense of urgency the development of a next-generation launch system and human carrier to enable America and other space-faring nations of the world to execute the mission of expanding our human exploration beyond low-Earth orbit."

To meet this urgent call for action means radically revamping the way the agency does business, in line with reform currently taking place at other federal agencies, not least the Pentagon. Changing a few regulations or coming up with a new feel-good marketing campaign won't cure the NASA culture. What's needed is a transformation that encourages an entrepreneurial, rather than bureaucratic, culture.

Compare Bolden's NASA with Robert Gates' Department of Defense, and you will see some guideposts for what is needed from the NASA leadership. Under the most difficult of political circumstances, Gates pushed for an unpopular surge of troops to Iraq, which has been largely successful in providing the window for a drawdown of U.S. forces there. He has also had the fortitude to dismiss subordinates when things go wrong; he asked for the resignations of his Air Force secretary and chief of staff after several nuclear warheads went missing. He also asked the secretary of the Army and the service's medi-

Please see **SPACE,** *Page B11*



NASA

THE NEXT STEP: A concept image shows NASA's next generation crew launch vehicle, the Ares I, during ascent. Ares I is a two-stage rocket configuration topped by the Orion crew exploration vehicle.

MUNICIPAL FINANCE

City budget shortfall may arrive a bit early

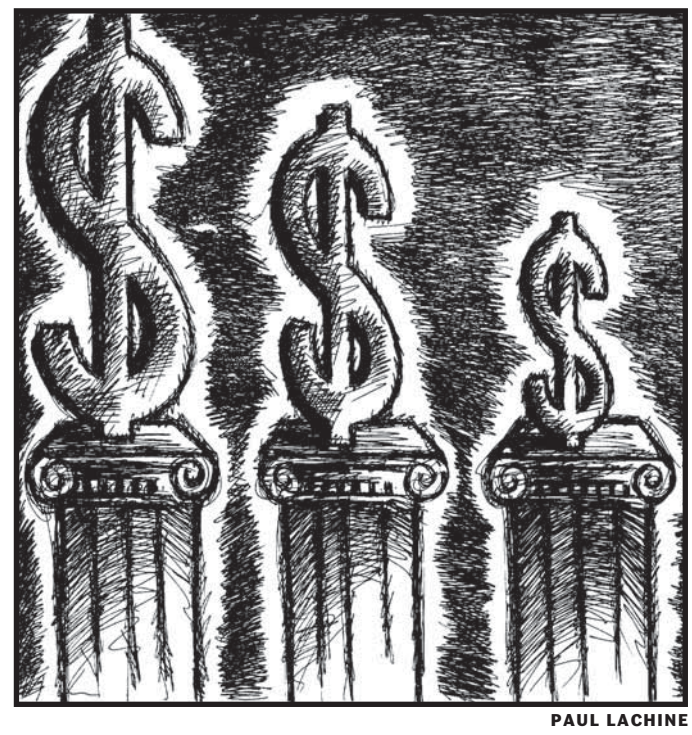
■ October sales taxes drop more than anticipated

By BILL KING

THE city of Houston is projecting a current activity deficit in its general fund of $131 million to $146 million for its fiscal year that ends June 30, 2010. The city is plugging this hole by transferring funds from other accounts, selling assets, borrowing money to make part of its pension payments and dipping into its reserves. The city is projecting that at the end of the year, its general fund reserves will be $127-175 million, depending on the final amounts for transfers and assets sales. At the low end of this range, the city's reserves would be only about $40 million above the minimum required by ordinance.

One of the challenges the city faces in budgeting is projecting sales tax collections. Property tax collections are

Please see **BUDGET,** *Page B11*



PAUL LACHINE

CHRIS VAN ES

TAXES: Laws chasing firms overseas

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science — for the last 10 years running.

This is a national disgrace.

Washington forms commission after commission to find solutions, but nothing much happens. Why? Because no one wants to take on the teachers unions, which are a major source of campaign cash.

Teacher quality is a key factor in academic success, and everyone knows it. But the unions don't want performance appraisals or merit pay. Many top-performing educators get frustrated and opt out — leaving behind the less competent who keep the bar low.

Our failing schools leave the nation short on technical talent, so many firms try to recruit foreign students. But with anti-immigrant regulations and sentiment coming from Washington, many corporations find it easier to hire abroad — moving the job overseas, or creating a new position that could have been a job here.

Then there's the growing "political risk" in this country. Executives now worry about the future threats associated with excessive (and rising) government activism and a hostile business culture. And this is particularly true for the oil and gas industry.

A culture that turns a blind eye to government failure, but is quick and unrelenting in blaming society's ills on business, will naturally and subliminally embrace socialist solutions. And when one intervention fails, the government tries to fix its errors with yet more intervention — a sort of creeping socialism that keeps on compounding waste and inefficiency.

So the nationalization of General Motors was followed by "Cash for Clunkers" and successive bailouts of GMAC, GM's financing arm. The TARP rescue of banks was followed by government micromanagement, wage controls, punitive salary caps for top talent and interference with hiring practices.

Such populist government meddling in our financial sector is sure to drive talent offshore. In fact, Deutsche Bank CEO Josef Ackerman recently commented, "We can't wait to get our hands on all that top talent."

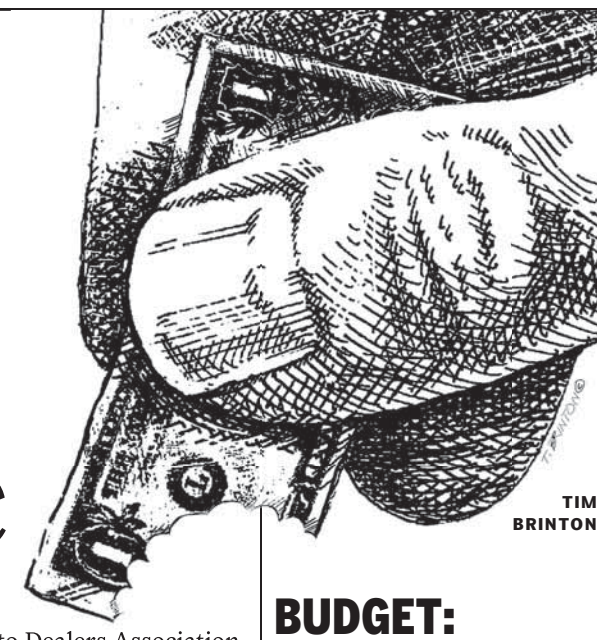
Americans must realize that the geese that lay the golden eggs can take flight. Most U.S.-born board members and executives of multinationals want their native country to be successful. But their fiduciary duty obliges them to face reality and respond to global competitors who increasingly have an edge in taxation, access to educated talent and a more supportive political and cultural climate. Taking no action, and losing out to the competition, breaches their duty to shareholders.

Washington needs to wake up and see the big picture. Now, more than ever, it's all about maintaining the tax base and creating jobs. We can't afford to chase corporations out of America.

Herbold is the retired COO of Microsoft and managing director of the Herbold Group. Powell is managing director of AlphaQuest and a visiting fellow at the Hoover Institution.

ATTENTION-GETTING DEVICES

Move to reduce visual blight will boost city's image



TIM BRINTON

Prohibition on inflatables and the like will make Houston more competitive

By TOMMY FRIEDLANDER and MAX WATSON

WHEN most people think of world class cities, they envision grand boulevards, gleaming architecture, appealing public spaces, walkable neighborhoods and the best in restaurants, shops, museums and theaters. Houston has all of that, and more.

On Jan. 1, a new city ordinance will take effect that will further enhance Houston's image. That ordinance will permanently ban the commercial use of inflatables, banners, streamers and the like, that are known as attention-getting devices, or AGDs. AGDs do nothing more than pose potential safety obstacles and create visual blight.

Houston City Council decided to institute this ban after careful review of the recommendations of an On-Premise Sign Task Force appointed by Mayor Bill White to study sign regulations. The task force was well-balanced, including individuals representing large and small business, restaurants, developers, the sign industry, nonprofit scenic organizations and city representatives.

The task force compared Houston with Austin, Dallas, Atlanta, St. Louis, Salt Lake City, Charlotte, Baltimore, Indianapolis, Oklahoma City and San Jose in their treatment of AGDs. The research showed that cities with which Houston competes for jobs have successfully removed visual clutter by banning AGDs, with no negative impact on economic development.

Accordingly, the task force recommended to City Council that it ban all AGDs, knowing that Houstonians care about the appearance of their city as much as the citizens of our competitor cities.

The task force did not make its recommendation in a vacuum. It met regularly with the City Council Quality of Life Committee, chaired by Council Member Sue Lovell. The task force sought and weighed the views of many business, civic, neighborhood, legal and professional groups as part of its deliberations. In addition, the task force recommendation was backed by letters of endorsement from the Houston Auto Dealers Association, the Houston Association of Realtors, the Greater Houston Sign Association, the Houston Real Estate Council, the Building Office Managers Association, the Institute of Real Estate Management, Scenic Houston, the Quality of Life Coalition, the West Houston Association, the Westchase Business District, the Westchase Community Associations, Inc., nine management districts and seven Super Neighborhoods.

City Council also did its homework on AGDs. The issue commanded a great deal of time, research and careful consideration on the part of council members and their staff. Council members met with many stakeholders on all sides of the issue. Council recognized that a total ban, applied across the city, would place everyone on a level playing field. Ultimately, a strong majority of Council made the decision that adopting the prohibition was a positive step for Houston, for all of its citizens and for its image.

Will this AGD ban cure Houston of its visual blight? No. But combined with other moves by our mayor and Council, it's an important step in the right direction. In the meantime, the ordinance that becomes law on Jan. 1 will go a long way toward helping Houston to be viewed in a positive light by residents, visitors and those looking to relocate businesses here.

Friedlander is president of RPI Management Company and served as chairman of the On-Premise Sign Task Force; Watson, a member of the task force, serves on the Executive Committee of Scenic Houston and is a member of the Steering Committee for The Quality of Life Coalition.

BUDGET: Receipts fall in October

CONTINUED FROM PAGE B10

fairly predictable because the city has some general parameters on what the tax roll will likely be for that year while it is drawing up the budget. But sales taxes, which make up almost 30 percent of the city's total general fund revenues, are tied to the vagaries of general economic conditions and therefore areless predictable.

Happily for the city, its sales tax receipts have been growing at a healthy pace for many years. Since 1992, sales tax increases have averaged 4.5 percent and declined in only one year during that period.

That was 2003, when collections fell by 5 percent. However, since 2004, the sales tax collections have been growing at nearly 8 percent. Even in its last fiscal year, ending June 30, 2009, the city saw a 4.5 percent increase as Houston was largely insulated from the national recession.

However, this year is shaping up to be a much different scenario. Last year the city collected $507 million in sales taxes. The budget adopted by City Council for last spring projected the same amount for this year. However, through Oct. (4 months), collections this year are $153 million compared to $165 million last year, an 8 percent decrease. Both the controller and the administration have recognized that the budgeted number will not be achieved this year and have lowered their projections to as much as $474 million, a 6.5 percent decrease.

However, earlier this month, the city received some sobering news from the state comptroller. Its November sales tax allocation (based on October sales) will be down 17 percent from last year ($36.5 million v. $44 million). This drop will bring the year-to-date decrease to more than 9 percent. Houston's decline was slightly higher than the state average of 14 percent.

The decline is somewhat perplexing because most data have shown a rebound in consumer spending nationally. Hopefully, we will begin to see some improvement in local sales over the next several months. But if that does not occur, the new mayor and council will be facing not only an incredibly difficult budget for next year, they may be scrambling to fill a larger than expected shortfall this year.

King is a frequent contributor to Outlook.

SPACE: NASA needs radical revamp to move forward

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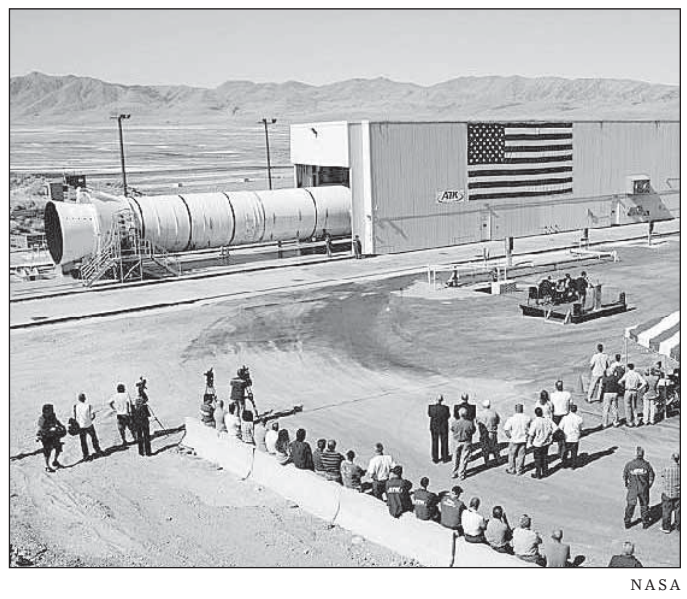
cal commander to step down after it was determined that the level of care at the Walter Reed Army Medical Center was substandard. In perhaps Gates' most important and controversial move affecting the future of the Pentagon, he halted further production of the F-22 fighter, a $350 million machine that has yet to contribute sortie one to the fighting in Afghanistan or Iraq.

What gives us hope is that the entrepreneurial spirit of Silicon Valley is deeply interested in the future of spaceflight, manned and unmanned. Google recently put some $30 million in award money on the table for teams able to land a robotic lunar rover on the moon as part of the X Prize Foundation's efforts to stimulate activity in spaceflight and exploration. Responding to the call have been nongovernment teams from Germany, Russia, China, Italy, Denmark, Romania, Canada and the U.S. This should stand as an indicator of where the NASA mission is headed.

NASA's brightest potential future is one where it serves as an enabler, standards-setter and coordinating body for the more entrepreneurial activity needed to bring the cost of spaceflight down. Still needed is a "Moore's Law of Space Travel" in which a clear trend for capability in spaceflight at constant cost may be projected out. The big idea here is to work toward a balance between agile, entrepreneurial models found in the technology sector with the requirements of NASA's future programs. This will mean a gross revision of how the agency does its business. As NASA transitions to a new, younger workforce in the next decade, let us hope it begins rewriting its rules to inspire these individuals to achieve the sort of successes the X Prize winners are achieving at a fraction of the cost of those working in government.

Bronk is the fellow in technology, society and public policy at Rice University's James A. Baker III Institute for Public Policy; Gattis is the CEO of Open Teams, a Web 2.0 collaboration software company, and blogs at Houston Strategies.



NASA

MORE THRUST: The Ares first stage five-segment motor is 154 feet long and generates a maximum of 3.6 million pounds of thrust, 24 percent more power than one twin shuttle solid rocket booster.